



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

FINANCIAL AUDIT REPORT

on the

**ANGAT WATER DISTRICT
Angat, Bulacan**

For the Years Ended December 31, 2017 and 2016

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

Very truly yours,


for **LYNN S.F. SICANGCO**
Regional Director

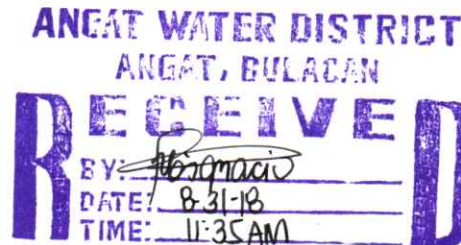


Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. III
City of San Fernando, Pampanga

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

August 27, 2018

Mr. ARTURO S. TORRES
General Manager
Angat Water District
Angat, Bulacan



Dear **Manager Torres**:

We are pleased to transmit the Financial Audit Report on the audit of the Angat Water District, Angat, Bulacan for the Calendar Years 2017 and 2016 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445). The audit was conducted in accordance with Philippine Standards on Auditing 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 years' audit recommendations.

We rendered a qualified opinion on the fairness of presentation of the financial statements because the effect of the deviations from the prescribed procedures affected the account balances.

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

The audit observations and recommendations were discussed with concerned officials of the District in the exit conference held on August 22, 2018. 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 88 of the General Provisions of the General Appropriations Act for FY 2017.

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



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August 24, 2018

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 Angat Water District, Angat, Bulacan for the Calendar Years 2017 and 2016 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 years' 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 Years' Unimplemented Audit Recommendations.

We conducted our audit in accordance with Philippine Standards on Auditing and we believe that it provided a reasonable basis for the audit results. We rendered a qualified 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



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

August 24, 2018

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

Madam:

We are pleased to submit herewith the Financial Audit Report on the audit of the Angat Water District, Angat, Bulacan for the Calendar Years 2017 and 2016 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 years' unimplemented 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 Years' Unimplemented Audit Recommendations. The audit observations and recommendations were discussed with the officials concerned in the exit conference held on August 22, 2018.

We conducted our audit in accordance with Philippine Standards on Auditing 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,


MAURA D. CASTILLO
Audit Team Leader

EXECUTIVE SUMMARY

A. Introduction

Pursuant to Presidential Decree (PD) No. 198, otherwise known as the “Local Water Utilities Administration Act of 1973” as amended by PD Nos. 768 and 1479, and by virtue of the Sangguniang Bayan Resolution, the District was created in 1987. On June 11, 1987, the Conditional Certificate of Conformance No. 292 was issued by Local Water Utilities Administration (LWUA) to a newly-formed water district to operate under the standard specification.

As at December 31, 2017, the District has 12 pumping stations, five elevated steel tanks, two steel bolted tanks, and one concrete tank which serve 14 barangays with 9,319 total active service connections. The District is categorized as “Category C” water district pursuant to the Revised Local Water District Manual on Categorization, Re-Categorization and Other Related Matters (LWD-MaCRO) in March 2012.

Its mission is to develop more water sources and maintain highest level of operations. It envisioned itself to have one hundred percent coverage and full satisfaction among its consumers. Its primary goal is to provide sewage services and continuous supply of water by 2020 and beyond.

The District’s Board of Directors is composed of the following:

Name	Position/Designation	Sector
Engr. Francisco G. Vicente	Chairperson	Professional
Ms. Mauricia T. Santiago	Vice-Chairperson	Business
Mrs. Priscilla P. Rigoroso	Secretary	Education
Mrs. Erlinda V. Carpio	Member	Women

The District has 29 permanent employees and three job orders, headed by General Manager Arturo S. Torres.

B. Financial Highlights

The comparative analysis of the District’s Financial Position and Results of Operation for CYs 2017 and 2016 are shown below.

	2017	2016
Financial Position		
Assets	₱ 95,408,064.86	₱ 86,526,577.50
Liabilities	16,889,053.49	18,439,577.38
Equity	78,519,011.37	68,087,000.12

	2017	2016
Results of Operations		
Income	51,192,282.45	46,573,250.05
Expenses	40,846,268.96	34,930,614.39
Net Income	₱ 10,346,013.49	₱ 11,642,635.66

C. Scope of Audit

We conducted an audit of the financial transactions and operations of the Angat Water District for the years ended December 31, 2017 and 2016 on a sampling basis in accordance with the Philippine Standards on Auditing and Corporate Government Sector Memorandum dated October 3, 2017 prescribing the General Audit Instructions on the 2017 Audit of Water Districts and Preparation of the Annual Audit Reports. 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 years' audit recommendations.

D. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the District for the years ended December 31, 2017 and 2016 due to accounting errors and deficiencies that significantly misstated the assets, liabilities and equity accounts, as follows: (a) net understatement of PPE of ₱611,520.00 and Accumulated Depreciation accounts of ₱262,002.24 and overstatement of Intangible Assets, Accumulated Amortization and Retained Earnings accounts by ₱716,672.00, ₱313,562.11 and ₱53,592.13, respectively, due to misclassifications of accounts amounting to ₱1,136,289.00; (b) net understatement of Cash – Collecting Officer and Retained Earnings accounts by ₱142,048.00 because of several erroneous recording of collections; (c) overstatement of Retained Earnings in the amount of ₱133,432.81 and understatement of Due to BIR and Due to GSIS accounts by ₱54,990.60 and ₱78,442.21, respectively, as at year-end due to the failure to book up the accrued 2% franchise tax and government's share in premiums contribution to Government Service Insurance System (GSIS) and to the Employees' Compensation Commission (ECC); (d) overstatement of Land and Retained Earnings accounts by ₱61,265.00 because of bookkeeping deficiencies on some of the recorded transactions; and (e) understatement of the Due to NGAs and overstatement of Retained Earnings accounts both by ₱606,120.64 due to failure to record fees payable to the Commission on Audit (COA).

We recommended that the General Manager require the Senior Corporate Accountant to:

- (a) For PPE accounts, prepare the necessary adjusting entries to reclassify the intangible items below ₱15,000.00 threshold and erroneous classification to proper

accounts totaling ₱1,136,289.00 in accordance with the provision of COA Circular No. 2015-010 dated December 01, 2015;

(b) For Cash – Collecting Officer account, prepare the necessary adjusting entries on the erroneous recording of collections to present fairly the Cash – Collecting Officer account in the financial statements;

(c) For Inter – Agency Payable accounts, set-up the (i) Due to BIR account for the accrued amount of franchise tax; and (ii) Due to GSIS account for the Retirement and Life Insurance Premiums and ECC premiums contribution in compliance with Item 27 of PAS 1 and Annex A of COA Circular No. 2015-010 dated December 01, 2015;

(d) For Land account, prepare necessary adjusting entries on the erroneous recording of cost of RPT and cost of lease contract of land amounting to ₱10,265.00 and ₱51,000.00, respectively; and

(e) For Due to NGAs account, record immediately the amount due to COA Region III.

E. Summary of Other Significant Audit Observations and Recommendations

The other significant audit observations noted during the audit and the corresponding recommendations are the following:

1. The District continuously availed the services of two private or commercial banks as depository in violation of DOF-Department Circular No. 001-2017 dated May 11, 2017, thus, the District's funds were exposed to possible loss in case of insolvency/bankruptcy of these private/commercial banks, and deprived the government banks of the income which it could have realized. (*Observation No. 7*)

We recommended that the General Manager (a) strictly implement the revised guidelines on authorized government depository banks pursuant to Sections 2 of DOF-Department Circular No. 01-2017 dated May 11, 2017; and (b) make representation with the authorized depository banks such as: LBP – Baliwag or Sta. Maria Branch or PVB, Baliwag Branch for a Memorandum of Agreement for the daily pick-up of deposits of the District's collections.

We also recommended that Management obtain a Certification from the Philippine National Provincial Police evidencing that security and safety risks exist, if there is any, and submit the same to the DOF together with the other documentary requirements enumerated in Section 4 of the same Circular.

2. The collectability of inactive accounts totaling ₱2,050,169.30 which constituted 55.93 per cent of the account balance as of December 31, 2017 was remote due to inadequate demand letters sent to delinquent concessionaires contrary to Section 64 of the

Government Accounting and Auditing Manual (GAAM), Volume I. Despite some actions taken by the District to collect, the inactive accounts still accumulated to an alarming level. **(Observation No. 8)**

We recommended that the General Manager instruct the Division Manager - Commercial to (a) continuously send confirmation/demand letters to verify the existence of the concessionaires with inactive accounts in their indicated addresses; and (b) continuously monitor the status of trade accounts and improve collection strategies on delinquent accounts which may include appropriate legal action, if necessary.

3. Collections amounting to ₱42,643.85 were covered by temporary or provisional receipts contrary to Section 68 of Presidential Decree No. 1445; thus, the District's funds were exposed to possible misuse or risk of being misappropriated. **(Observation No. 12)**

We recommended that Management strengthen internal controls on the Billing and Collection System and adopt the following remedial measures: (a) provide funds for the enhancement of the Billing and Collection Module to allow the receipt of payment regardless of the amount and to generate official receipt to the extent of the amount received; and (b) abide strictly with the provisions of Presidential Decree No. 1445 regarding the use of prescribed accountable forms, such as AF No. 51, in lieu of the improvised or temporary receipts of the Commercial Division to ensure that all collections of the District are properly receipted.

F. Summary of Audit Suspensions, Disallowances and Charges

Prior years' audit disallowances issued for CYs 2009 to 2015 transactions totaled ₱10,935,957.45 with settlements made in the total amount of ₱417,520.00; leaving a balance of ₱10,518,437.45. There were no audit suspensions, disallowances and charges for the audit of CYs 2016-2017 transactions.

F. Status of Implementation of Prior Years' Unimplemented Audit Recommendations

Of the 37 audit recommendations embodied in the CYs 2014-2015 Financial Audit Report, 19 were fully implemented, 13 were partially implemented and five 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
Angat Water District
Angat, Bulacan

We have audited the accompanying financial statements of Angat Water District, which comprise the Statement of Financial Position as at December 31, 2017 and 2016, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the years then ended, and the summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Likewise, we were guided by Philippine Standards on Auditing and Corporate Government Sector Memorandum dated October 3, 2017, prescribing the General Audit Instructions on the 2017 Audit of Water Districts and the Preparation of the Annual Audit

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

Bases for Qualified Opinion

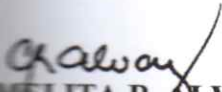
As stated in Part II of the report, accounting errors and deficiencies on the assets, liabilities and equity accounts significantly misstated the financial statements taken as a whole, as follows: (a) net understatement of PPE of ₱611,520.00 and Accumulated Depreciation accounts of ₱262,002.24 and overstatement of Intangible Assets, Accumulated Amortization and Retained Earnings accounts by ₱716,672.00, ₱313,562.11 and ₱53,592.13, respectively, due to misclassifications of accounts amounting to ₱1,136,289.00; (b) net understatement of Cash – Collecting Officer and Retained Earnings accounts by ₱142,048.00 because of several erroneous recording of collections; (c) overstatement of Retained Earnings in the amount of ₱133,432.81 and understatement of Due to BIR and Due to GSIS accounts by ₱54,990.60 and ₱78,442.21, respectively, as at year-end due to the failure to book up the accrued 2% franchise tax and government's share in premiums contribution to Government Service Insurance System (GSIS) and to the Employees' Compensation Commission (ECC); (d) overstatement of Land and Retained Earnings accounts by ₱61,265.00 because of bookkeeping deficiencies on some of the recorded transactions; and (e) understatement of the Due to NGAs and overstatement of Retained Earnings accounts both by ₱606,120.64 due to failure to record fees payable to the Commission on Audit (COA).

Qualified Opinion

In our opinion, except for the effects and the possible effects of the matters discussed in the *Bases for Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of Angat Water District as at December 31, 2017 and 2016, and its financial performance, changes in equity and its cash flows for the years then ended in accordance with State accounting principles.

COMMISSION ON AUDIT

By:


CARMELITA R. ALVAREZ
Supervising Auditor

August 22, 2018



ANGAT WATER DISTRICT

269 M.A. Fernando St. Sta. Cruz
Angat, Bulacan, Philippines
Tel. No. (044)671-1204 Fax No. (044)769-1529

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Angat Water District is responsible for the preparation of the financial statements as at December 31, 2017 and 2016, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material 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 Angat Water District in accordance with the Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

ENGR. FRANCISCO G. VICENTE

Chairman

Date Signed: aug. 20, 2018

JOSE SARICA S. IGNACIO
Sr. Corporate Accountant
Date Signed: 8-20-18

ARTURO S. TORRES
General Manager

Date Signed: Aug. 20, 2018

ANGAT WATER DISTRICT
Angat, Bulacan
STATEMENT OF FINANCIAL POSITION
As at December 31, 2017, 2016 and January 1, 2016 as restated

	Note	2017	2016	January 1, 2016 as Restated
ASSETS				
Current Assets				
Cash and Cash Equivalents	5	₱ 12,189,115.49	₱ 11,775,981.71	₱ 6,799,600.79
Receivables, Net	6	4,215,399.24	4,525,387.01	2,787,680.19
Inventories	7	3,439,908.93	3,382,073.44	1,217,658.86
Total Current Assets		19,844,423.66	19,683,442.16	10,804,939.84
Non-Current Assets				
Other Investments	8	0.00	0.00	840,233.43
Property, Plant and Equipment, Net	9	70,739,419.11	62,310,159.87	59,632,005.58
Intangible Assets, Net		637,309.89	524,903.27	120,287.40
Other Non Current Assets	10	4,186,912.20	4,008,072.20	3,252,997.86
Total Non-Current Assets		75,563,641.20	66,843,135.34	63,845,524.27
TOTAL ASSETS		₱ 95,408,064.86	₱ 86,526,577.50	₱ 74,650,464.11
LIABILITIES AND EQUITY				
LIABILITIES				
Current Liabilities				
Financial Liabilities	11	₱ 4,461,757.11	₱ 3,841,383.97	₱ 3,093,772.56
Inter-Agency Payables	12	212,033.97	155,658.91	173,217.03
Total Current Liabilities		4,673,791.08	3,997,042.88	3,266,989.59
Non-Current Liabilities				
Financial Liabilities	11	8,051,940.98	10,823,137.98	13,376,878.98
Trust Liabilities	13	57,410.00	57,410.00	57,410.00
Other Payables		4,105,911.43	3,561,986.52	3,052,641.74
Total Non-Current Liabilities		12,215,262.41	14,442,534.50	16,486,930.72
TOTAL LIABILITIES		16,889,053.49	18,439,577.38	19,753,920.31
EQUITY				
Government Equity	14	217,052.24	217,052.24	217,052.24
Retained Earnings		78,301,959.13	67,869,947.88	54,679,491.56
TOTAL EQUITY		78,519,011.37	68,087,000.12	54,896,543.80
TOTAL LIABILITIES AND EQUITY		₱ 95,408,064.86	₱ 86,526,577.50	₱ 74,650,464.11

Continued on pages 8 to 35 form part of these statements.

ANGAT WATER DISTRICT
Angat, Bulacan
STATEMENT OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017 and 2016

	Note	2017	2016
INCOME			
Service and Business Income	15	P 51,026,702.50	P 45,299,386.70
Income form Grants and Donations in Cash		0.00	1,000,000.00
Other Non-Operating Income	16	165,579.95	273,863.35
TOTAL INCOME		51,192,282.45	46,573,250.05
EXPENSES			
Personnel Services	17	15,991,631.54	14,137,282.76
Maintenance and Other Operating Expenses	18	19,845,600.54	15,020,464.34
Financial Expenses	19	1,025,069.18	1,222,605.84
Non-Cash Expenses	20	3,983,967.70	4,550,261.45
TOTAL EXPENSES		40,846,268.96	34,930,614.39
NET INCOME		P 10,346,013.49	P 11,642,635.66

Disclosures on pages 8 to 35 form part of these statements.

ANGAT WATER DISTRICT
Angat, Bulacan
STATEMENT OF CHANGES IN EQUITY
For the Years Ended December 31, 2017 and 2016

	GOVERNMENT EQUITY	RETAINED EARNINGS	TOTAL
BALANCE AT JANUARY 1, 2016	₱ 217,052.24	₱ 54,345,375.56	₱ 54,562,427.80
ADJUSTMENTS:			
Add(Deduct):			
Other Adjustments	0.00	334,116.00	334,116.00
RESTATED BALANCE AT JANUARY 1, 2016	217,052.24	54,679,491.56	54,896,543.80
Add(Deduct):			
Net Income for the year	0.00	11,642,635.66	11,642,635.66
Other Adjustments	0.00	1,547,820.66	1,547,820.66
BALANCE AT DECEMBER 31, 2016	217,052.24	67,869,947.88	68,087,000.12
Add(Deduct):			
Net Income for the year	0.00	10,346,013.49	10,346,013.49
Other Adjustments	0.00	85,997.76	85,997.76
BALANCE AT DECEMBER 31, 2017	₱ 217,052.24	₱ 78,301,959.13	₱ 78,519,011.37

Annexes on pages 8 to 35 form part of these statements.

ANGAT WATER DISTRICT
Angat, Bulacan
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	Note	2017	2016
Cash Flows from Operating Activities			
Cash Inflows			
Proceeds from Sale of Goods and Services	P	445,620.50	P 285,677.00
Collection of service and business income		2,056,046.75	1,646,620.00
Collection of Receivables		49,040,673.14	43,087,860.18
Receipt of customers' deposits		14,884.00	22,725.25
Receipt of refund of cash advances		48,492.91	0.00
Other Adjustments		668,401.43	68,537.86
Total Cash Inflows		52,274,118.73	45,111,420.29
Cash Outflows			
Payment of personnel services		12,401,462.90	10,679,138.83
Payment of maintenance and other operating expenses		12,792,162.53	10,070,484.99
Purchase of inventory held for consumption		454,986.68	512,141.51
Advances to officers and employees		664,400.00	170,000.00
Payments of Accounts Payable		9,724,596.59	8,140,168.71
Remittance of taxes withheld		2,432,550.40	1,860,918.36
Remittance to GSIS/Pag-IBIG/PhilHealth/SSS		2,200,718.30	1,918,008.49
Other disbursements		1,656,928.92	1,336,471.38
Other Adjustments		24,897.91	23,603.00
Total Cash Outflows		42,352,704.23	34,710,935.27
Net Cash Provided by/(Used in) Operating Activities		9,921,414.50	10,400,485.02
Cash Flows from Investing Activities			
Cash Inflows			
Receipt of Interest Earned		20,596.59	14,008.16
Receipt of Cash Dividends		0.00	840,903.25
Total Cash Inflows		20,596.59	854,911.41
Cash Outflows			
Purchase/Construction of Property, Plant and Equipment		6,045,183.31	3,889,996.53
Total Cash Outflows		6,045,183.31	3,889,996.53
Net Cash Provided by/(Used in) Investing Activities		(6,024,586.72)	(3,035,085.12)
Cash Flows from Financing Activities			
Cash Inflows			
Receipt of Government Subsidy/Contributed Capital		0.00	1,000,000.00
Adjustments		72,386.00	167,061.02
Total Cash Inflows		72,386.00	1,167,061.02
Cash Outflows			
Payment of domestic loans		3,556,080.00	3,556,080.00
Total Cash Outflows		3,556,080.00	3,556,080.00
Net Cash Provided by/(Used in) Financing Activities		(3,483,694.00)	(2,389,018.98)
INCREASE/(DECREASE) IN CASH AND			
CASH EQUIVALENTS			
		413,133.78	4,976,380.92
CASH AND CASH EQUIVALENTS, JANUARY 1		11,775,981.71	6,799,600.79
CASH AND CASH EQUIVALENTS, DECEMBER 31	5 P	12,189,115.49	P 11,775,981.71

Continued on pages 8 to 35 form part of these statements.

NOTES TO FINANCIAL STATEMENTS

I. Agency Information and Authorization for Issue of the Financial Statements

Pursuant to Presidential Decree (PD) No. 198, otherwise known as the "Local Water Utilities Administration Act of 1973" as amended by PD Nos. 768 and 1479, and by virtue of the Sangguniang Bayan Resolution, the District was created in 1987. On June 10, 1987, the Conditional Certificate of Conformance No. 292 was issued by Local Water Utilities Administration (LWUA) to a newly-formed water district to operate under the standard specification.

As at December 31, 2017, the District has 12 pumping stations, five elevated steel tanks, two steel bolted tanks, and one concrete tank which serve 14 barangays with 9,319 total active service connections. The District is categorized as "Category C" water district pursuant to the Revised Local Water District Manual on Categorization, Re-Categorization and Other Related Matters (LWD-MaCRO) in March 2012.

Its mission is to develop more water sources and maintain highest level of operations. It envisioned itself to have one hundred percent coverage and full satisfaction among its consumers. Its primary goal is to provide sewage services and continuous supply of water by 2020 and beyond.

The District's Board of Directors is composed of the following:

Name	Position/Designation	Sector
Engr. Francisco G. Vicente	Chairperson	Professional
Mrs. Mauricia T. Santiago	Vice-Chairperson	Business
Mrs. Priscilla P. Rigoroso	Secretary	Education
Mrs. Erlinda V. Carpio	Member	Women

The District has 29 permanent employees and three job orders, headed by General Manager Arturo S. Torres.

II. Authorization for Issue of the 2017 Financial Statements

The financial statements of the District for the year ended December 31, 2017 were authorized for issue by the Board of Directors on August 20, 2018 as reflected in the Statement of Management's Responsibility for Financial Statements signed by the BOD Chairperson.

2. Changes in Accounting Policies

2.1 First-time adoption of Philippine Financial Reporting Standards (PFRS)

These financial statements, for the year ended December 31, 2017, are prepared as the first time adoption of PFRS. For periods up to and including the year ended December 31, 2016, the District prepared its financial statements in accordance with generally accepted accounting principles in the Philippines and New Government Accounting System (NGAS).

Accordingly, the District has prepared financial statements that comply with PFRS applicable as at December 31, 2017, together with the comparative period data for the year ended December 31, 2016. In preparing the financial statements, the District's opening statement of financial position was prepared as at January 1, 2016, the District's date of transition to PFRS. This note explains the principal adjustments made by the District in restating its GAAP and NGAS financial statements, including the statement of financial position as at January 1, 2016 and the financial statements for the year ended December 31, 2016.

2.1.1 Effects of transition from GAAP to PFRS

On December 31, 2017, the District prepared its first PFRS compliant financial statements as per COA Circular No. 2015-003 dated April 16, 2015 on which Water Districts is classified as Government Business Entities (GBEs) and adoption of PFRS as financial reporting framework in the preparation of FS and COA Circular No. 2015-010 dated December 1, 2015 prescribing the Revised Chart of Accounts for Government Corporations including Water Districts.

2.1.1.1 Presentation of Financial Statements, provides framework of financial statements presentation. It requires more specific statement of financial position line items as applicable to the entity. The standard requires presentation of comparative financial statements and information.

2.1.1.2 Inventories, Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined using the moving average method. Per COA Circular No. 2015-010 dated December 1, 2015 (adoption of the Revised Chart of Accounts for GCs), inventory and equipment with cost below ₱15,000.00 are classified as Semi Expendable inventory.

2.1.1.3 Statement of Cash Flows, prescribes the provision of information about historical changes in cash equivalents of an entity by means of a cash flow statement which identifies cash flow during the period from operating, investing and financing.

2.1.1.4 Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and the allowed alternative to retrospective application of necessary changes in accounting policies and prospective restatement to correct prior

period errors. It defines material omissions or misstatements, and describes how to apply the concepts of materiality when applying accounting policies and correcting errors.

PAS 10, Events after the Reporting Period, prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the financial statements, principally the date of authorization for release of the financial statements.

PAS 16, Property, Plant and Equipment, provides additional guidelines and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item, property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

PAS 18, Revenue, prescribe the accounting treatment for revenue arising from certain types of transaction and events and the criteria to recognize revenue.

PAS 19, Employees Benefits, the objective of this standard is to prescribe the accounting and disclosure of employee benefits (that is all forms of consideration given by an entity in exchange for service rendered by employees). This standard requires an entity to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

PAS 36, Impairment of Assets, provides that an asset is impaired when its carrying amount exceeds its recoverable amount. Indications of impairments are the following: obsolescence or physical damage; asset is held for disposal and there is evidence that the economic performance of an asset is, or will be, worse than expected.

The District's reconciliation of equity as at January 1, 2016 (date of transition), is as follows:

	Philippine GAAP	Remeasurements	PFRS as at January 1, 2016
ASSETS			
Current Assets			
Bank and Cash Equivalents	P 6,799,600.79	P 0.00	P 6,799,600.79
Receivables, Net	2,787,680.19	0.00	2,787,680.19
Inventory	1,217,658.86	0.00	1,217,658.86
Total Current Assets	10,804,939.84	0.00	10,804,939.84
Non-Current Assets			
Other Investments	840,233.43	0.00	840,233.43
Property, Plant and Equipment	90,490,095.82	0.00	90,490,095.82
Accumulated Depreciation	(30,858,090.24)	0.00	(30,858,090.24)
Intangible Assets, Net	120,287.40	0.00	120,287.40
Other Non-Current Assets	3,252,997.86	0.00	3,252,997.86
Total Non-Current Assets	63,845,524.27	0.00	63,845,524.27
TOTAL ASSETS	P74,650,464.11	P 0.00	P74,650,464.11

	Philippine GAAP	Remeasurements	PFRS as at January 1, 2016
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities			
Financial Liabilities	₱ 3,093,772.56	₱ 0.00	₱ 3,093,772.56
Inter-Agency Payables	173,217.03	0.00	173,217.03
Total Current Liabilities	3,266,989.59	0.00	3,266,989.59
Non-Current Liabilities			
Financial Liabilities	13,376,878.98	0.00	13,376,878.98
Trust Liabilities	57,410.00	0.00	57,410.00
Other Payables	3,052,641.74	0.00	3,052,641.74
Total Non-Current Liabilities	16,486,930.72	0.00	16,486,930.72
TOTAL LIABILITIES	19,753,920.31	0.00	19,753,920.31
EQUITY			
Government Equity	217,052.24	0.00	217,052.24
Retained Earnings	54,679,491.56	0.00	54,679,491.56
TOTAL EQUITY	54,896,543.80	0.00	54,896,543.80
TOTAL LIABILITIES AND EQUITY	₱74,650,464.11	₱ 0.00	₱74,650,464.11

On the other hand, the District's reconciliation of equity as at December 31, 2016 is as follows:

	Philippine GAAP	Remeasurements	December 31, 2016
ASSETS			
Current Assets			
Cash and Cash Equivalents	₱ 11,775,981.71	₱ 0.00	₱ 11,775,981.71
Receivables, Net	4,525,387.01	0.00	4,525,387.01
Inventories	3,382,073.44	0.00	3,382,073.44
Total Current Assets	19,683,442.16	0.00	19,683,442.16
Non-Current Assets			
Property, Plant and Equipment	96,575,090.40	0.00	96,575,090.40
Accumulated Depreciation	(34,264,930.53)	0.00	(34,264,930.53)
Intangible Assets, Net	524,903.27		524,903.27
Other Non-Current Assets	4,008,072.20	0.00	4,008,072.20
Total Non-Current Assets	66,843,135.34	0.00	66,843,135.34
TOTAL ASSETS	₱86,526,577.50	₱ 0.00	₱86,526,577.50
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities			
Financial Liabilities	₱ 3,841,383.97	₱ 0.00	₱ 3,841,383.97
Inter-Agency Payables	155,658.91	0.00	155,658.91
Total Current Liabilities	3,997,042.88	0.00	3,997,042.88

	Philippine GAAP	Remeasurements	December 31, 2016
Non-Current Liabilities			
Financial Liabilities	10,823,137.98	0.00	10,823,137.98
Trust Liabilities	57,410.00	0.00	57,410.00
Other Payables	3,561,986.52	0.00	3,561,986.52
Total Non-Current Liabilities	14,442,534.50	0.00	14,442,534.50
TOTAL LIABILITIES	18,439,577.38	0.00	18,439,577.38
EQUITY			
Government Equity	217,052.24	0.00	217,052.24
Retained Earnings	67,869,947.88	0.00	67,869,947.88
TOTAL EQUITY	68,087,000.12	0.00	68,087,000.12
TOTAL LIABILITIES AND EQUITY	₱86,526,577.50	₱ 0.00	₱86,526,577.50

3. Summary of Significant Accounting Systems and Policies

3.1 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, 2017, District prepared its financial statements (FS) in accordance with generally accepted accounting principle in the Philippines and New Government Accounting System (NGAS) prescribed by the Commission on Audit on January 1, 2005 and prepared as first-time adopter of Philippine Financial Reporting Standards (PFRS).

3.2 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.

3.3 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.

3.3.1 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 sold 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 equivalent 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 defer the settlement of the liability for at least twelve months after the reporting period.

The District classifies all other liabilities as noncurrent.

3.3.2 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 Group 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.

3.3.3 Cash and Cash Equivalents

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.

3.3.4 Financial Instruments

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.

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 losses arising from impairment of such receivables are recognized as "doubtful accounts" in profit or loss.

Financial Liabilities Measured at Amortized Cost

These are the financial liabilities which are not designated at FVPL. Financial liabilities not designated as FVPL are measured at amortized cost after initial measurement 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.

Included in this category are the District's accounts payable, accrued expenses, inter-agency payables, loans payable, other payables and guarantee deposits payable to customers.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. The amortization is included in the interest expense in the District's Statement of Comprehensive Income.

3.3.5 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 asset 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; or
- 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 risks and rewards of the asset but has transferred the control of the asset.

When 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.

When 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.

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.

3.3.6 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 include non-collection of water bills despite of sending series of demand letters to delinquent concessionaires.

As at December 31, 2017 and 2016, the District has no impaired financial assets.

3.3.7 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.

<u>Category</u>	<u>Number of years</u>
Machinery and equipment	10 years
Building and other structures	30 years

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.

Recognition

An item is recognized as 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 the entity;
- The cost or fair value of the item can be measured reliably; and
- The cost is at least ₱15,000.00.

Measurement at recognition

An item recognized as PPE is measured at cost. Cost includes the following:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- Expenditure that is directly attributable to the acquisition of the items; and
- Initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, the District recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use.

Depreciation method

Depreciation is computed on a straight-line method less 10% residual value over the estimated useful lives of the property, and commences on the month subsequent to acquisition

Estimated useful life

The District uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experience.

Residual value

The District uses a residual value equivalent to at least ten percent (10%) of the cost of the PPE.

3.3.14 Income from Waterworks System

Sales 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, 2017 and 2016, Income from Waterworks System was classified under Business Income in the Statement of Comprehensive Income.

3.3.15 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, 2017 and 2016, Fines and Penalties were classified under Business Income in the Statement of Comprehensive Income.

3.3.16 Other Business Income

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

3.3.17 Interest Income

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

3.3.18 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 arisen 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.

As of December 31, 2017 and 2016, cost of services and operating expenses includes personnel services, maintenance and other operating expenses, financial expenses and non-cash expenses.

3.3.19 Income 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 carry forward when it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. (PAS12.24)

Pursuant to Presidential Decree 198, under section 14 - Department of Justice ruling under case no. OSJ-2005-03 states that the Water Districts are exempted from Income tax and only liable to two percent (2%) Franchise Tax on its gross receipts. Recognition of deferred tax is not applicable as stated above.

3.3.20 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. When 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.

3.3.21 Employee Benefits

The employees of the District are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

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.

4. 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.

4.1 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.

Determination of impairment of non-financial asset

The District assesses the impairment of non-financial assets (property, plant and equipment, 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 2017 and 2016, the District has not identified any impairment indicator, thus, no impairment was recognized.

4.2 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 PPE

would increase the recorded depreciation expense and decrease the carrying value of PPE.

5. Cash and Cash Equivalents

This account pertains to cash collecting officer, 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, breakdown as follows:

	2017	2016	Jan. 1, 2016 as restated
Cash - Collecting Officers	P (30,773.55)	P 62,856.32	P 2,222.95
Petty Cash Fund	10,000.00	5,000.00	5,000.00
Cash in Bank – Local Currency, Current Account			
FARMERS#5753	1,547,422.84	1,205,066.56	21,804.28
FARMERS#6254	331,115.47	757,047.49	361,669.15
FARMERS#11-2-89	10,000.00	10,000.00	10,000.00
CBB#21-00175-7	759,057.23	1,053,410.11	585,946.41
LBP#1882-1035-24	1,089,070.75	2,183,515.31	1,181,139.65
LBP#0101-1089-30	3,686,032.57	1,717,050.18	1,714,925.57
LBP#0101-2623-40	862,070.21	861,199.22	0.00
Cash in Bank – Local Currency, Time Deposits			
VB#000622-1	1,527,032.41	1,525,370.45	1,523,565.75
VB#000872-3	393,548.44	393,120.53	392,691.90
VB#000928-4	2,004,539.12	2,002,345.54	1,000,635.13
Total Cash and Cash Equivalents	P12,189,115.49	P 11,775,981.71	P 6,799,600.79

6. Receivables, Net

This includes all amounts due on open accounts arising from services rendered to the customers for water sales and incidental services.

	2017	2016	Jan. 1, 2016 as restated
Accounts Receivable	P 3,665,313.70	P 3,808,278.55	P 3,303,023.00
Allowance for Impairment	(902,084.09)	(902,472.69)	(894,433.59)
Due From Officers and Employees	0.00	0.00	53,974.04
Other Receivables	1,452,169.63	1,619,581.15	325,116.74
Receivables, Net	P 4,215,399.24	P 4,525,387.01	P 2,787,680.19

Other Receivables account pertains to the balance of materials purchased by concessionaires.

Below is the aging/analysis of Accounts Receivable (AR):

Status of AR	2017	2016
Non Past Due Accounts	₱ 1,120,968.35	₱ 1,207,646.50
Past Due Accounts		
31 - 60 days	370,193.95	395,108.15
61 - 90 days	88,784.70	120,934.90
91 - 120 days	52,773.00	98,696.05
121 - 180 days	2,032,593.70	1,985,892.95
Total AR	₱ 3,665,313.70	₱ 3,808,278.55

7. Inventories

This account pertains to unissued materials and supplies, which are kept in stock and held for future use.

	2017	2016	Jan. 1, 2016 as restated
Chemical Supplies Inventory	₱ 365,950.00	₱ 393,530.36	₱ 62,831.00
Other Supplies Inventory	878,446.98	722,114.03	679,926.67
Construction Materials Inventory	1,482,971.95	1,529,439.05	474,901.19
Others	712,540.00	736,990.00	0.00
Total Inventories	₱ 3,439,908.93	₱ 3,382,073.44	₱ 1,217,658.86

8. Other Investments

This pertains to cash or other assets set apart in reserve for specific long-term purposes. It includes, among others, a debt service reserve which will be used for loan repayments; an operation and maintenance reserve for repairs of damaged District's facilities due to natural calamities, public disorders and the like and a capital reserve for expansion of the District's facilities.

	2017	2016	Jan. 1, 2016 as restated
Sinking Fund	₱ 0.00	₱ 0.00	₱ 840,233.43
Total Other Investments	₱ 0.00	₱ 0.00	₱ 840,233.43

9. Property, Plant and Equipment, Net

This includes all properties of relatively permanent character that are used in normal operations of the District. The breakdown of this account is shown on the next page.

2017				
	Sub-Total Forwarded	Construction in Progress	Other PPE	Grand Total
Balance, Dec. 31	37,967,186.94	0.00	0.00	37,967,186.94
PPE, Net	₱69,736,723.13	₱981,117.98	₱21,578.00	₱70,739,419.11

2016				
	Land	Land Improvements	Infrastructure Assets	Sub-Total
<i>Cost</i>				
Carrying Value, Jan. 1	₱2,008,390.00	₱280,950.00	₱45,047,157.77	₱47,336,497.77
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Restated balance, Jan. 1	2,008,390.00	280,950.00	45,047,157.77	47,336,497.77
Additions	0.00	448,145.50	8,392,015.29	8,840,160.79
Disposals/reclassification	0.00	0.00	0.00	0.00
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Balance, Dec. 31	2,008,390.00	729,095.50	53,439,173.06	56,176,658.56
<i>Accumulated depreciation</i>				
Balance at beginning of year	0.00	60,600.98	18,581,963.75	18,642,564.73
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Restated balance, Jan. 1	0.00	60,600.98	18,581,963.75	18,642,564.73
Depreciation	0.00	36,888.92	1,178,049.00	1,214,937.92
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Balance, Dec. 31	0.00	97,489.90	19,760,012.75	19,857,502.65
PPE, Net	₱2,008,390.00	₱631,605.60	₱33,679,160.31	₱36,319,155.91

2016				
	Sub-Total Forwarded	Buildings and Other Structures	Machinery and Equipment	Sub-Total
<i>Cost</i>				
Carrying Value, Jan. 1	₱47,336,497.77	₱8,755,980.28	₱20,981,659.45	₱77,074,137.50
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Restated balance, Jan. 1	47,336,497.77	8,755,980.28	20,981,659.45	77,074,137.50
Additions	8,840,160.79	558,000.00	4,719,011.46	14,117,172.25
Disposals/reclassification	0.00	0.00	(1,647,054.00)	(1,647,054.00)
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Balance, Dec. 31	56,176,658.56	9,313,980.28	24,053,616.91	89,544,255.75
<i>Accumulated depreciation</i>				
Balance at beginning of year	18,642,564.73	2,715,832.83	7,733,408.06	29,091,805.62
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Restated balance, Jan. 1	18,642,564.73	2,715,832.83	7,733,408.06	29,091,805.62
Depreciation	1,214,937.92	186,074.64	1,381,259.17	2,782,271.73
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Balance, Dec. 31	19,857,502.65	2,901,907.47	9,114,667.23	31,874,077.35
PPE, Net	₱36,319,155.91	₱6,412,072.81	₱14,938,949.68	₱57,670,178.40

2016				
	Sub-Total Forwarded	Transportation Equipment	Furniture, Fixtures and Books	Sub-Total
<i>Cost</i>				
Carrying Value, Jan. 1	₱77,074,137.50	₱4,943,725.12	₱384,792.50	₱82,402,655.12
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Restated balance, Jan. 1	77,074,137.50	4,943,725.12	384,792.50	82,402,655.12
Additions	14,117,172.25	70,422.00	0.00	14,187,594.25
Disposals/reclassification	(1,647,054.00)	0.00	0.00	(1,647,054.00)
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Balance, Dec. 31	89,544,255.75	5,014,147.12	384,792.50	94,943,195.37

2016				
	Sub-Total Forwarded	Transportation Equipment	Furniture, Fixtures and Books	Sub-Total
<i>Accumulated depreciation</i>				
Balance at beginning of year	29,091,805.62	1,559,226.93	207,057.69	30,858,090.24
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Restated balance, Jan. 1	29,091,805.62	1,559,226.93	207,057.69	30,858,090.24
Depreciation	2,782,271.73	589,937.28	34,631.28	3,406,840.29
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Balance, Dec. 31	31,874,077.35	2,149,164.21	241,688.97	34,264,930.53
PPE, Net	₱57,670,178.40	₱2,864,982.91	₱143,103.53	₱60,678,264.84

2016				
	Sub-Total Forwarded	Construction in Progress	Other PPE	Grand Total
<i>Cost</i>				
Carrying Value, Jan. 1	₱82,402,655.12	₱8,065,862.70	₱21,578.00	₱90,490,095.82
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Restated balance, Jan. 1	82,402,655.12	8,065,862.70	21,578.00	90,490,095.82
Additions	14,187,594.25	1,018,611.96	0.00	15,206,206.21
Disposals/reclassification	(1,647,054.00)	(7,474,157.63)	0.00	(9,121,211.63)
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Balance, Dec. 31	94,943,195.37	1,610,317.03	21,578.00	96,575,090.40
<i>Accumulated depreciation</i>				
Balance at beginning of year	30,858,090.24	0.00	0.00	30,858,090.24
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Restated balance, Jan. 1	30,858,090.24	0.00	0.00	30,858,090.24
Depreciation	3,406,840.29	0.00	0.00	3,406,840.29
Effects of transition to PFRS	0.00	0.00	0.00	0.00
Balance, Dec. 31	34,264,930.53	0.00	0.00	34,264,930.53
PPE, Net	₱60,678,264.84	₱1,610,317.03	₱21,578.00	₱62,310,159.87

The Land account as of CY 2017 under the possession of the District pertained to the following:

Land	Qty.	Lot Area	Acquisition Cost		Total
			Through Purchase	Through Donation	
Acquired through Purchase:					
With Transfer Certificate of Title (TCT)	6	1,693	₱ 647,790.00	₱ 0.00	₱ 647,790.00
Without TCT	11	2,331	1,360,600.00	0.00	1,360,600.00
Sub-total	17	4,024	2,008,390.00	0.00	2,008,390.00
Acquired through Donation:					
Without TCT	3	205.8	0.00	0.00	0.00
Sub-total	3	205.8	0.00	0.00	0.00
Total Land	20	4,229.80	₱ 2,008,390.00	₱ 0.00	₱ 2,008,390.00

The following information pertains to the 14 parcels of land which have no Transfer Certificate of Title yet:

- Tugatog Lot – the original copy of the mother title was burned in 1987 and the owner of the lot already died.
- Office Lot, Laog, Paltoc and Illescas lot were under Presidential Decree 705, otherwise known as Forestry Reform Code of the Philippines. Only Tax Declaration for these lots were available but already under the name of Angat Water District.
- Donated lots – the lots were too small, thus, not enough to have it titled.
- Marungko P.S. 1 – the District had been looking for another lot that can be a source of water with a better quality so we can abandon the area because the water quality produced by the well is not that good anymore.
- All untitled lots have a Tax Declaration Certificate named after the District as proof of ownership.

The Management exerts effort to secure the covering TCTs on the above parcels of land to protect the District's interest and in order to document the absolute ownership thereon.

10. Other Non-Current Assets

This represents amount of meter and bill deposits to Meralco and unserviceable properties.

	2017	2016	Jan. 1, 2016 as restated
Other Assets	₱ 4,186,912.20	₱ 4,008,072.20	₱ 3,252,997.86
Total Other Non-Current Assets	₱ 4,186,912.20	₱ 4,008,072.20	₱ 3,252,997.86

11. Financial Liabilities

This account includes long-term obligations of the District, amounts payable to the suppliers and advances to officers and employees, as follows:

	2017	2016	Jan. 1, 2016 as restated
Current			
Accounts Payable	₱ 1,684,608.80	₱ 1,287,363.35	₱ 733,937.50
Due to Officers and Employees	5,951.31	279.62	6,490.06
Loans Payable - LWUA	2,771,197.00	2,553,741.00	2,353,345.00
Total Financial Liabilities-Current	4,461,757.11	3,841,383.97	3,093,772.56
Non - Current			
Loans Payable - LWUA	8,051,940.98	10,823,137.98	13,376,878.98
Total Financial Liabilities – Non - Current	8,051,940.98	10,823,137.98	13,376,878.98
Total Financial Liabilities	₱ 12,513,698.09	₱ 14,664,521.95	₱16,470,651.54

Loans Payable – LWUA represents the long-term obligations of the District from LWUA, the proceeds of which were used to finance various infrastructures and permanent improvements in order to meet the demands of the growing clientele. Repayments are made monthly based on the agreed terms and schedule provided in the loan agreement.

12. Inter-Agency Payables

This represents contributions due, collections received, amounts withheld for remittance to the following government agencies.

	2017	2016	Jan. 1, 2016 as restated
Due to BIR	₱ 101,242.57	₱ 65,073.18	₱ 92,041.67
Due to GSIS	93,534.89	78,175.97	67,397.13
Due to Pag-IBIG	10,369.01	7,009.76	8,765.73
Due to Philhealth	6,887.50	5,400.00	5,012.50
Total Inter-Agency Payables	₱ 212,033.97	₱ 155,658.91	₱ 173,217.03

13. Trust Liabilities

These are meter deposits and payment of service connection materials from concessionaires.

	2017	2016	Jan. 1, 2016 as restated
Bail Bonds Payable	₱ 57,410.00	₱ 57,410.00	₱ 57,410.00
Total Trust Liabilities	₱ 57,410.00	₱ 57,410.00	₱ 57,410.00

14. Government Equity

These are contributions by government agencies which became part of the District's equity.

15. Service and Business Income

These are the water sales, penalty charges for late payments and violation and new connection fees generated by the District from its concessionaires net of Senior Citizen's Discounts.

	2017	2016
Sales Revenue, net	₱ 47,558,192.95	₱ 42,275,823.98
Other Business Income	1,966,389.61	1,625,138.50

	2017	2016
Fines and Penalties-Business Income	1,451,740.95	1,357,480.45
Interest Income	50,378.99	40,943.77
Total Service and Business Income	₱ 51,026,702.50	₱ 45,299,386.70

16. Other Non – Operating Income

These are proceeds from sale of materials to the concessionaires of the District.

	2017	2016
Miscellaneous Income	₱ 165,579.95	₱ 273,863.35
Total Other Non – Operating Income	₱ 165,579.95	₱ 273,863.35

17. Personnel Services

	2017	2016
Salaries and Wages	₱ 7,558,969.48	₱ 6,318,011.50
Other Compensation	6,495,828.18	5,689,931.67
Life and Retirement Insurance	871,745.84	706,246.72
Pag-IBIG Contributions	30,500.00	27,800.00
PhiHealth Contributions	71,760.00	63,212.50
Employees Compensation	30,489.43	27,800.00
Terminal Leave Benefits	928,828.61	796,435.37
Other Personnel Benefits	3,510.00	507,845.00
Total Personnel Services	₱ 15,991,631.54	₱ 14,137,282.76

18. Maintenance and Other Operating Expenses (MOOE)

	2017	2016
Travelling Expenses	₱ 407,606.41	₱ 45,628.00
Training and Scholarship Expenses	610,480.00	256,860.00
Supplies and Materials Expenses	1,175,736.88	781,804.68
Utility Expenses	7,912,126.85	7,071,617.24
Communication Expenses	113,552.24	97,431.25
Awards/Rewards	132,000.00	135,930.00
Generation, Transmission and Distribution	6,409,863.26	3,056,115.54
Confidential, Intelligence, Extraordinary	94,000.00	0.00
Professional Services	49,143.05	220,676.30
Repairs and Maintenance Expenses	537,041.07	366,209.58
Taxes, Insurance Premiums and Other Fees	758,270.32	624,045.27
Other Maintenance and Operating Expenses	1,645,780.46	2,364,146.48
Total MOOE	₱ 19,845,600.54	₱ 15,020,464.34

19. Financial Expenses

	2017	2016
Interest Expenses	₱ 1,002,339.00	₱ 1,202,735.00
Bank Charges	22,730.18	19,870.84
Total Financial Expenses	₱ 1,025,069.18	₱ 1,222,605.84

20. Non – Cash Expenses

	2017	2016
Depreciation Expenses		
Land Improvements	₱ 64,423.47	₱ 36,888.92
Plant	1,292,283.04	1,178,049.00
Buildings and Other Structures	194,543.61	186,074.64
Office Equipment	27,530.32	30,064.80
Transportation Equipment	594,464.40	589,937.28
Furniture, Fixtures and Books	34,631.28	34,631.28
Other Property, Plant and Equipment	1,602,568.05	1,756,438.23
Amortization – Intangible Assets	117,268.38	51,034.13
Impairment Loss		
Receivables	(388.60)	8,039.10
Property, Plant and Equipment	56,643.75	0.00
Loss of Asset	0.00	679,104.07
Total Non – Cash Expenses	₱ 3,983,967.70	₱ 4,550,261.45