

For the Year Ended December 31, 2020

NORZAGARAY WATER DISTRICT Norzagaray, Bulacan

on the

FINANCIAL AUDIT REPORT

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



Republic of the Philippines
COMMISSION ON AUDIT

Regional Office No. III
City of San Fernando, Pampanga



Tel. Nos. (045) 455-4269 to 73 * Fax No. (045) 455-4273 * Website: www.coa.gov.ph

May 18, 2021

NORAGARAY WATER DISTRICT
OFFICE OF THE BOARD OF DIRECTORS
RECEIVED

BY: *M. L. L.*

DATE: 5/26/21 TIME: 9:53 AM

Dir. MARISSA C. TOLentino
Chairperson, Board of Directors
Noragabay Water District
Noragabay, Bulacan

Dear Chairperson Tolentino:

We are pleased to transmit the Financial Audit Report on the audit of the Noragabay Water District, Noragabay, Bulacan for the Calendar Year 2020 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 a qualified 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 that was held on May 12, 2021. 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 89 of the General Provisions of the General Appropriations Act for FY 2020.

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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,

M. Corazon S. Gomez
MA. CORAZON S. GOMEZ
Regional Director

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



Tel. Nos. (045) 455-4269 to 73 * Fax No. (045) 455-4273 * Website: www.coa.gov.ph

May 18, 2021

NORZAGARAY WATER DISTRICT
RECEIVED

BY: *[Signature]*
DATE: *May 18, 2021*
TIME: *9:10 AM*

Engr. AIMER B. CRUZ
General Manager
Norzagaray Water District
Norzagaray, Bulacan
Dear Engr. Cruz:

We are pleased to transmit the Financial Audit Report on the audit of the Norzagaray Water District, Norzagaray, Bulacan for the Calendar Year 2020 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.

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Very truly yours,

MA. CORAZON S. GOMEZ
Regional Director

Republic of the Philippines
COMMISSION ON AUDIT

Regional Office No. III
City of San Fernando, Pampanga



Tel. Nos. (045) 455-4269 to 73 * Fax No. (045) 455-4273 * Website: www.coa.gov.ph

May 17, 2021

Ms. MA. CORAZON S. GOMEZ

Regional Director

COA Regional Office No. III

City of San Fernando, Pampanga

Dear Director Gomez:

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

Very truly yours,

PRISCILLA R. ESCUERRA
OIC-Supervising Auditor



May 14, 2021

Ms. PRISCILA R. ESGUERRA
State Auditor IV
OIC-Supervising Auditor
Water Districts Audit Group
This Region
Madam:

We are pleased to submit herewith the Financial Audit Report on the audit of the Norzagaray Water District, Norzagaray, Bulacan for the Calendar Year 2020 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445).

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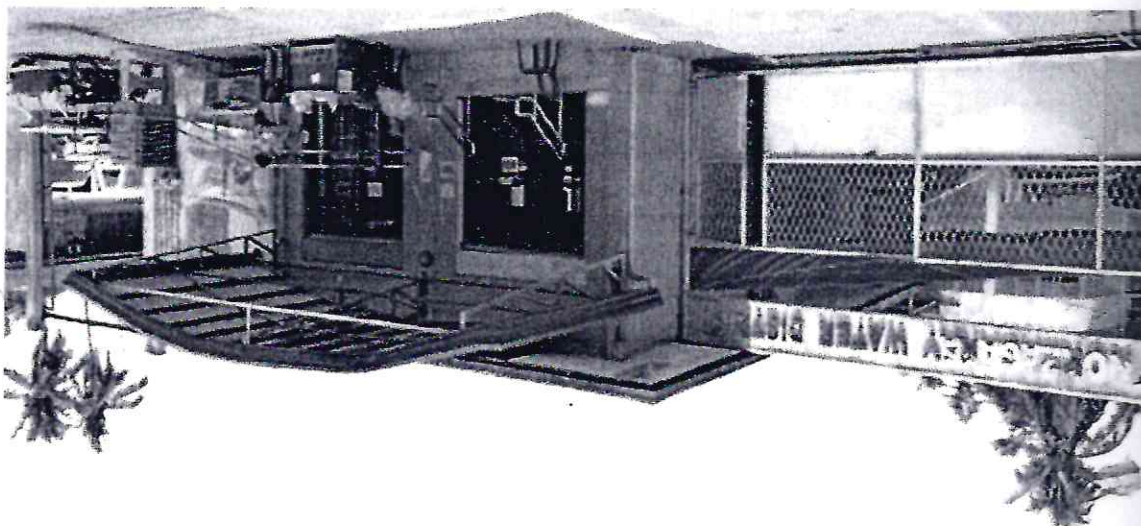
Very truly yours,

for
LORDA M. SALENGA
Audit Team Leader

EXECUTIVE SUMMARY

A. INTRODUCTION

The Norzagaray Water District is a government-owned and/or controlled corporation created pursuant to Sangguniang Bayan Resolution No. 86-10-48 dated October 1, 1986. The Local Water Utilities Administration (LWUA) issued the District's Certificate of Conditional Conformance No. 261 on October 24, 1986 and the latter commenced its operations on the said date.



The District is chartered under Presidential Decree No. 198 known as the "Provincial Water Utilities Act of 1973". It is mandated to deliver safe, potable and quality water to the people of Norzagaray.

At present, the district has 19,281 service connections, nine pumping stations and with bulk water service agreement with Philhydro. The District supplies treated water which covers nine barangays and portion of three barangays in nearby areas.

Presently, the District is under the management of Engr. Aimer B. Cruz and the Board of Directors (BOD) which serves as the policy-making body of the District. The BOD is composed of:

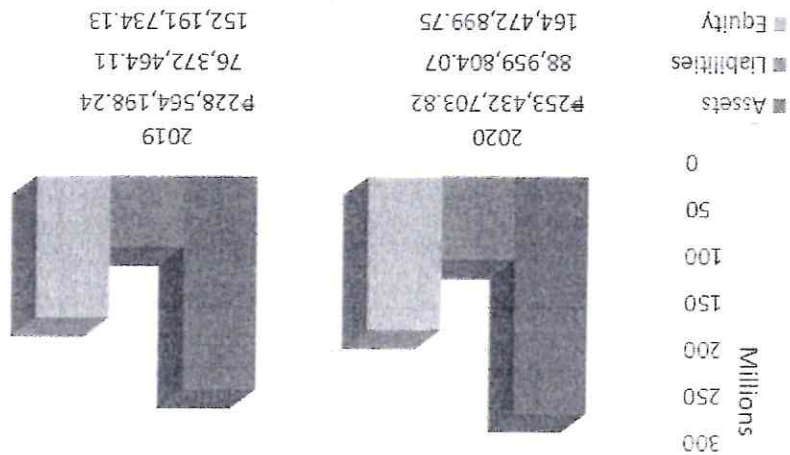
<u>Name</u>	<u>Position</u>
Dir. Marissa C. Tolentino	Chairperson
Engr. Tarcilla S. Cruz	Vice - Chairperson
Engr. Rodelio C. Dela Merced	Secretary
Dir. Danilo S. Leonardo	Member
Engr. Noli E. Palad	Member

The District has a total of 83 personnel consisting of 53 permanent and 30 job order/contract of services employees.

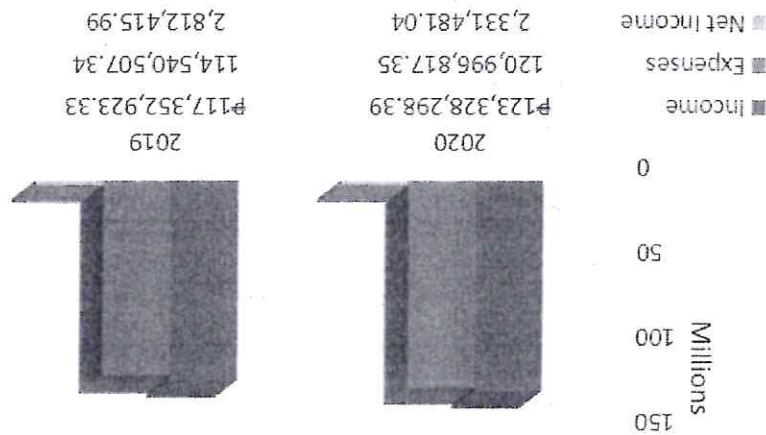
B. FINANCIAL HIGHLIGHTS

The comparative analysis of the District's Financial Condition and Results of Operation for CYs 2020 and 2019 are shown below:

Financial Condition



Results of Operation



C. SCOPE OF AUDIT

We conducted an audit of the financial transactions and operations of the District for the year ended December 31, 2020, on a sampling basis in accordance with the International Standards of Supreme Audit Institutions and Corporate Government Sector Memorandum dated October 4, 2019, prescribing the General Audit Instructions for the conduct of CY 2020 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 a qualified opinion on the fairness of presentation of the financial statements of the District for the year ended December 31, 2020 because of the significant accounting errors and deficiencies that materially misstated the assets, liabilities and equity accounts in the financial statements, taken as a whole, as follows: (a) doubtful accuracy of Accounts Receivable balance due to unresolved discrepancy of ₱781,311.95 between the balances per General Ledger (GL) and Schedule of Aging of Accounts Receivable (SAAR); (b) unreliable Inventory account balance due to discrepancy of ₱2,908,816.37 between the balances per General Ledger (GL) and per Inventory Schedule; (c) understatement of Land and Payable account by ₱15,600,000.00 due to recognition of cost of land based on amount of installment paid instead of the actual contract cost of ₱30,600,000.00; and (d) doubtful accuracy of Property, Plant and Equipment (PPE) accounts amounting to ₱203,032,453.87 due to absence of necessary supporting documents to prove ownership and recognition in the books of assets acquired from the San Jose Del Monte City Water District costing ₱7,499,046.43.

For the above deficiencies, we recommended that the General Manager and/or the responsible personnel perform the following actions:

- (a) For Accounts Receivable account, require the Finance Section of the Administrative Division and the Commercial Division (a) exert efforts to reconcile the discrepancy of the reported balance between the GL and SAAR; (b) conduct monthly reconciliation of accounting and billing records to continuously monitor the status of AR; and (c) assess the Billing and Collection system if it still conforms to the District's needs and requirements and consider upgrading or replacing the system to facilitate capturing and generating more reliable data.

- (b) For Inventory account, instruct the Financial Planning Specialist B to prepare adjusting entry to reclassify the inventories used for water system operations to the Supplies and Materials for Water Systems Operations account and we reiterated our previous year's recommendation to reconcile the balances between the GL and the Inventory Schedules of the aforementioned inventory account for its fair presentation in the financial statements.

- (c) For Land and Payable account, require the Financial Planning Specialist B to prepare adjusting entry to fully recognize the cost of acquired lot thru installment payment for the fair presentation of the PPE and Payable accounts in the financial statements.

(d) For Property, Plant and Equipment account, we reiterated our previous year's recommendation that Management (a) exert more effort to locate the records/documents pertaining to the unrecorded assets to support absolute ownership thereof; (b) coordinate with San Jose Del Monte City Water District and make a written request for documents regarding the transfer of ownership of said assets to Norzagaray Water District; (c) upon availability of the necessary documents, instruct the Financial Planning Specialist B to prepare the journal entries to recognize the acquired assets for the fair presentation of the affected accounts in the financial statements.

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. There were no covering Transfer Certificates of Title (TCT) on nine lots acquired by the District through purchase totaling ₱3,083,750.00 contrary to Section 39(2) of PD No. 1445 and Sections 51 and 52 of PD No. 1529. Moreover, this information was not disclosed in the Notes to Financial Statements which was not in consonance with paragraph 125 of the Philippine Accounting Standards 1; thus, the users thereof may be misled. .
(Observation No. 5)

We recommended that the General Manager require the (a) Division Manager - Administrative to exert efforts in securing the covering TCTs on the parcels of land to protect the District's interest and in order to possess absolute ownership thereto; (b) Financial Planning Specialist B to make the necessary disclosures of the land not yet covered with TCTs in the Notes to Financial Statements.

2. The Customers' Deposits Payable of ₱4,194,014.00 as of December 31, 2020 showed a difference of ₱33,514.00 between the balances per General Ledger and Schedule of Customers' Deposit contrary to Paragraph 15 of the Philippine Accounting Standards (PAS) 1 and PFRS Framework. (Observation No. 6)

We reiterated our previous year's recommendation that the General Manager (a) require the Finance Section of the Administrative Division and the Commercial Division to exert diligent efforts to reconcile the discrepancy between the balances of Customers' Deposit Payable and the Meter/Customers' Deposits Report; and (b) instruct the Financial Planning Specialist B to prepare adjusting entry to correct the balance of Customers' Deposit Payable for its fair presentation in the financial statements.

3. The Accountable Officers were not properly bonded contrary to Section 101 of PD No. 1445 and Treasury Circular No. 02-2009 dated August 6, 2009, thus the District may not be indemnified in case of loss thru theft and unforeseen fortuitous event. (Observation No. 7)

We recommended that the Manager, Administrative Division (a) renew the fidelity bond of the Accountable Officers; (b) regularly monitor the expiration dates; and (c) comply with the provisions of PD No. 1445 and Treasury Circular No. 02-2009 dated August 6, 2009.

F. SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

There were no disallowable expenditures in the audit of transactions for CY 2020. The balance of the Statement of Audit Suspensions, Disallowances and Charges amounted to ₱0.00 as of December 31, 2020.

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

Of the 24 recommendations embodied in the CY 2019 Financial Audit Report, eight were fully implemented, 14 were partially implemented and two were not implemented.

PART I - AUDITED FINANCIAL STATEMENTS



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Norzagaray Water District
Norzagaray, Bulacan

Qualified Opinion

We have audited the financial statements of Norzagaray Water District which comprise the Statement of Financial Position as at December 31, 2020, 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, except for the effects of the matter described in the *Bases for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Norzagaray Water District as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Bases for Qualified Opinion

As presented in Part II of the Report, significant accounting errors and deficiencies on the assets, liabilities and equity accounts may cause misstatement in the financial statements taken as a whole, as follows: (a) doubtful accuracy of Accounts Receivable balance due to unresolved discrepancy of ₱781,311.95 between the balances per General Ledger (GL) and Schedule of Aging of Accounts Receivable (SAR); (b) unreliable Inventory account balance due to discrepancy of ₱2,908,816.37 between the balances per General Ledger (GL) and per Inventory Schedule; (c) understatement of Land and Payable account by ₱15,600,000.00 due to recognition of cost of land based on amount of installment paid instead of the actual contract cost of ₱30,600,000.00; and (d) doubtful accuracy of Property, Plant and Equipment (PPE) accounts amounting to ₱203,032,453.87 due to absence of necessary supporting documents to prove ownership and recognition in the books of assets acquired from the San Jose Del Monte City Water District costing ₱7,499,046.43.

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 bases for our opinion.

Key Audit Matters

Except for the matters described in the Bases for Qualified Opinion section, we have determined that there are no other key audit matters to communicate in our report.

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

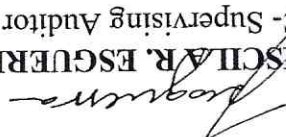
Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud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


PRISCILLA R. ESGUERRA
Off - Supervising Auditor
May 14, 2021

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Norzagaray Water District is responsible for the preparation of the financial statements as at December 31, 2020, 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 Norzagaray Water District in accordance with 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.

M. Tolentino
Dir. MARISSA C. TOLENTINO
 Chairperson
 Board of Director
 Date Signed 2/9/2021

Vilma S. Paculayan
VILMA S. PACULAYAN
 Admin and Finance Head
 Date Signed 2/9/2021

Eng. Aimer B. Cruz
ENG. AIMER B. CRUZ
 General Manager
 Date Signed 2/9/2021

NORZAGARAY WATER DISTRICT

Norzagaray, Bulacan

Statement of Financial Position

As at December 31, 2020

(With Comparative Figures for CY 2019)



	Note	2020	2019
Assets			
Current Assets			
Cash and Cash Equivalents	2.3.3; 5	₱10,322,627.24	₱4,659,384.10
Receivables, Net	2.3.4; 6	25,064,640.07	7,359,417.25
Inventories	2.3.9; 7	9,014,146.45	12,233,286.11
Prepayments	8	21,934.00	0.00
Total Current Assets		44,423,347.76	24,252,087.46
Non-Current Assets			
Other Investments	9	1,000,000.00	1,000,000.00
Property, Plant and Equipment, Net	2.3.11; 10	203,032,453.87	198,557,271.02
Deposits	11	1,708,558.44	1,480,568.45
Intangible Assets	2.3.12; 12	1,111,499.45	1,117,427.01
Other Assets	13	2,156,844.30	2,156,844.30
Total Non-Current Assets		209,009,356.06	204,312,110.78
Total Assets		₱253,432,703.82	₱228,564,198.24
Liabilities and Equity			
Liabilities			
Current Liabilities			
Financial Liabilities	2.3.4; 14	₱42,750,808.76	₱26,641,705.46
Inter-Agency Payables	15	2,003,631.31	1,505,903.42
Other Loans Payable	16	89,152.14	89,152.14
Total Current Liabilities		44,843,592.21	28,236,761.02
Non-Current Liabilities			
Financial Liabilities	2.3.4; 14	31,829,790.24	37,483,293.82
Trust Liabilities	17	4,484,014.00	3,619,514.00
Provisions	2.3.21; 18	7,742,455.85	6,972,943.50
Deferred Credits	19	59,951.77	59,951.77
Total Non-Current Liabilities		44,116,211.86	48,135,703.09
Total Liabilities		88,959,804.07	76,372,464.11
Equity			
Government Equity		61,568,818.55	61,568,818.55
Retained Earnings		102,904,081.20	90,622,915.58
Total Equity		164,472,899.75	152,191,734.13
Total Liabilities and Equity		₱253,432,703.82	₱228,564,198.24

The notes on pages 8 to 30 form part of these statements.

NORZAGARAY WATER DISTRICT
Norzagaray, Bulacan
Statement of Comprehensive Income
For the Year Ended December 31, 2020
(With Comparative Figures for CY 2019)



	Note	2020	2019
Income			
Service and Business Income	2.3.14, 20	₱121,728,298.39	₱114,552,923.33
Shares, Grants and Donations	2.3.16	1,600,000.00	2,800,000.00
Total Income		123,328,298.39	117,352,923.33
Expenses			
Personnel Services	21	25,052,002.21	21,605,876.80
Maintenance and Other Operating Expenses	22	83,880,827.35	84,056,328.98
Financial Expenses	23	2,404,964.13	2,464,508.86
Non-Cash Expenses	24	9,659,023.66	6,413,792.70
Total Expenses		120,996,817.35	114,540,507.34
Net Income		₱2,331,481.04	₱2,812,415.99

The notes on pages 8 to 30 form part of these statements.

NORZAGARAY WATER DISTRICT
Norzagaray, Bulacan
Statement of Changes in Equity
For the Year Ended December 31, 2020



	2020	2019
Government Equity		
Government Equity	₱61,568,818.55	₱61,568,818.55
Retained Earnings		
Balance at beginning of the Year	90,622,915.58	102,744,645.29
Add (Deduct):		
Net Income for the year	2,331,481.04	2,812,415.99
Prior Period Adjustments	25	(14,934,145.70)
Balance at the end of the Year	102,904,081.20	90,622,915.58
TOTAL EQUITY	₱164,472,899.75	₱152,191,734.13

The notes on pages 8 to 30 form part of these statements.

NORZAGARAY WATER DISTRICT
Norzagaray, Bulacan
Statement of Cash Flows
For the Year Ended December 31, 2020
(With Comparative Figures for CY 2019)

	2020	2019
Cash Flows From Operating Activities		
Cash Inflows		
Proceeds from Sale of Goods and Services	₱103,778,562.83	₱106,384,351.75
Collection of Income/Revenue	11,643,694.74	12,801,561.73
Other Receipts	115,422,257.57	119,185,913.48
Total Cash Inflows	230,845,515.14	238,371,826.96
Cash Outflows		
Payment of Expenses	22,731,156.39	21,376,743.06
Purchase of Inventories	2,171,230.05	5,175,611.29
Payments of Accounts Payable	56,772,158.54	66,242,862.84
Advances for Operating Expenses	621,500.00	1,435,484.92
Advances for special purpose/time-bound undertaking	3,626,721.30	3,595,911.56
Advances to Officers and Employees	10,000.00	362,871.04
Remittance of Personnel Benefits Contributions	5,081,614.85	5,160,382.36
and Mandatory Deductions		
Remittance of Franchise Tax/Other Taxes	7,002,076.44	7,478,738.60
Purchase of Semi-Expendable Furniture, Fixtures, Books	8,196.00	0.00
Other Disbursement/Refund of Deposits	17,015.71	84,847.46
Total Cash Outflows	100,380,988.29	110,913,453.13
Net Cash Provided by/(Used in) Operating Activities	130,464,526.85	127,458,373.83
Cash Flows From Investing Activities		
Cash Outflows		
Purchase/Construction of Property, Plant and Equipment	5,667,806.74	12,828,058.65
Purchase of Intangible Assets	13,440.00	-
Total Cash Outflows	5,681,246.74	12,828,058.65
Net Cash Provided by/(Used in) Investing Activities	(5,681,246.74)	(12,828,058.65)
Cash Flows From Financing Activities		
Cash Outflows		
Payment of Long-Term Liabilities	2,424,964.13	3,649,943.28
Payment of Interest on Loans and Other Financial Charges	3,611,134.28	2,464,358.86
Total Cash Outflows	6,036,098.41	6,114,302.14
Net Cash Provided by/(Used in) Financing Activities	(6,036,098.41)	(6,114,302.14)
Increase/(Decrease) In Cash And Cash Equivalents	118,747,181.70	108,572,063.04
Cash And Cash Equivalents, January 1	4,659,384.10	15,329,284.54
Cash And Cash Equivalents, December 31	10,328,565.80	11,901,347.58

The notes on pages 8 to 30 form part of these statements.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1 Agency Background

The Norzagaray Water District is a government-owned and/or controlled corporation created pursuant to Sangguniang Bayan Resolution No. 86-10-48 dated October 1, 1986. The Local Water Utilities Administration (LWUA) issued the District's Certificate of Conditional Conformance No. 261 on October 24, 1986 and the latter commenced its operations on the said date.

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Presently, the District is under the management of Engr. Aimer B. Cruz and the Board of Directors (BOD) which serves as the policy-making body of the District. The BOD is composed of:

<u>Name</u>	<u>Position</u>
Dir. Marissa C. Tolentino	Chairperson
Engr. Tarcilla S. Cruz	Vice - Chairperson
Engr. Rodelio C. Dela Merced	Secretary
Dir. Danilo S. Leonardo	Member
Engr. Noli E. Palad	Member

The District has a total of 83 personnel consisting of 53 regular and 30 job order/contract of services employees.

1.2 Authorization to Issue the 2020 Financial Statements

The financial statements of Water District for the year ended December 31, 2020 was authorized for issue by the Board of Directors on February 9, 2021 thru Board Resolution No. 17 dated February 9, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Financial Statements Preparation

The financial statements of the District have been prepared using historical cost basis. The financial statements are presented in Philippine Peso (P), which is the District's functional

and presentation currency. All values are rounded off to two (2) decimal places, except when otherwise indicated.

For all periods up to and including the year ended December 31, 2016, the District prepared its financial statements 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. The financial statements for the year ended December 31, 2020 is in accordance with 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.

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 below.

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 be 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.

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 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.

2.3.4 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.

As at December 31, 2020 and 2019, the District does not have financial assets and financial liabilities at FVPL, HTM investments, and AFS financial assets.

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.

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 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.

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 include non-collection of water bills.

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.

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
 - exchange 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 FIFO 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 Prepaid expenses

Prepaid expenses are carried at cost less the amortized portion. These typically include prepayments for business taxes, insurance, and rental.

2.3.11 Property, Plant 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

Unserviceable assets no longer used in operation shall be classified as Other Assets and shall not be subject to depreciation.

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 property, plant and equipment.

Category	Number of years
Infrastructure Assets	6-50 years
Office furniture and fixtures	2-10 years
Transportation equipment	6-12 years
Machinery and equipment	2-5 years
Building and other structures	10-50 years
Leased Assets Improvement	50 years

Depreciation of property, plant and equipment commences once the property and equipment are available for use and are calculated on a straight-line basis over the estimated useful lives (EUL) of the property, plant and equipment after deducting 5% salvage value applied prospectively, as follows:

Expenditures incurred after the property, plant and equipment 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 property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the related property, plant and equipment.

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

Property, plant and equipment, 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.

- 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.

When property, plant and equipment 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.

2.3.12 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.

Intangible assets are amortized using the straight line method without any salvage value, for computer software 5 years or per estimate of MIS.

The FUL and amortization method are reviewed periodically to ensure that the period and method of amortization are consistent with the expected pattern of economic benefits from items of intangible assets.

When an intangible asset is retired or otherwise disposed of, the cost and the related accumulated amortization and accumulated impairment, if any, are removed from the accounts.

2.3.13 Impairment of Non-Financial Assets

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.

2.3.14 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.

2.3.15 Income from Waterworks System

Water revenue are recognized when the related water services are rendered to customers. Water is billed every month according to the bill cycles of the customers.

2.3.16 Fines and Penalties not related to taxes

The District recognizes revenue for fines and penalties charge 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 grace period.

2.3.17 Other Business Income

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

2.3.18 Interest Income

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

2.3.19 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.

2.3.20 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)

Pursuant to Presidential Decree No. 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.

2.3.21 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.

2.3.22 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.

2. 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,

The District reviews its receivables quarterly 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

Determination of impairment of receivables

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:

3.2 Estimates and Assumptions

In 2020 and 2019, the District has not identified any impairment indicator, thus, no impairment was recognized.

- 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.

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:

Determination of impairment of non-financial asset

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 Judgments

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.

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 objective of the amendment is to provide lessees that have been granted COVID-19 related rent concessions by lessors with practical relief, while still providing useful information about leases to users of the financial statements.

The practical expedient only applies to lessees' rent concessions occurring as a direct consequence of the COVID-19 pandemic, and only if all of the following conditions are met:

a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

PFRS 16 COVID-19-Related Rent Concessions Amendment

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The useful life of each of the District's item of property, plant and equipment 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 property, plant and equipment.

Determination of estimated useful lives of property, plant and equipment

Age of Accounts	Percentage
Active: 1-30 days	1%
Active: 31-60 days	1%
Active: 61-90 days	2%
Active: 91-120 days	3%
Active: Over 120 days	3%
Inactive accounts	50%

The following is the basis of the District in computing the Allowance for Impairment-Accounts Receivable, to wit:

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.

	2020	2019
Accounts Receivable	₱21,946,724.63	₱4,837,450.78
Allowance for Impairment - Accounts Receivable	(2,186,039.78)	(1,575,693.77)
Accounts Receivable, Net	19,760,684.85	3,261,757.01

This account consists of the following:

6. RECEIVABLES, Net

Cash in banks earn interest at the respective bank deposit rates, 1% for Landbank accounts, 0.25% for Country Bank and Farmer's Bank based on average daily balance. The District maintains bank account with private banks due to unavailability of government banks in the area.

Cash - Collecting Officer pertains to collections of collecting officer not yet deposited in the District's current account as of the end of the reporting period.

	2020	2019
Cash - Collecting Officer	₱235,455.32	₱239,189.11
Cash in Bank LBP Current	6,695,690.24	664,800.28
Cash in Bank FSLB Current	20,000.00	20,000.00
Cash in Bank FSLB Savings	41,579.51	335,863.96
Cash in Bank CRBTI Savings	40,483.92	112,235.13
Cash in Bank LBP Savings - Customer Deposits	283,291.47	283,108.67
Cash in Bank LBP Savings - Reserves	3,006,126.78	3,004,186.95
Total Cash and Cash Equivalents	₱10,322,627.24	₱4,659,384.10

Cash and cash equivalents consist of:

5. CASH AND CASH EQUIVALENTS

PFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. PFRS 17 supersedes PFRS 4 Insurance Contracts as of 1 January 2023.

PFRS 17 Insurance Contracts

4.1 Interpretation with Deferred Effective Date

The amendments are not expected to have any significant impact on the District's financial statements.

- b. any reduction in lease payments affects only payments due on or before 30 June 2021; and
- c. there is no substantive change to other terms and conditions of the lease

	2020	2019
Due from Officers and Employees	655.56	0.00
Other Receivables	5,303,299.66	4,097,660.24
Receivables, Net	₱25,064,640.07	₱7,359,417.25

This account represents balances of amount due from consumers for water service, which has been billed to the concessionaires, net of Allowance for Impairment. It also includes penalty charges imposed on delinquent accounts.

Other Receivables are the amount due from customers for new service connection fee and claims for royalty fee coming from Philhydro, Inc.

The assessed impairment of the District are for accounts receivable based on Management prescribed policy on allowance for impairment–accounts receivable.

Below is the aging/analysis of receivables:

Age of Accounts Receivable		
	2020	2019
Active Accounts		
1 to 30 days	₱2,650,107.74	₱2,132,975.75
31 to 60 days	2,324,395.74	411,175.20
61 to 90 days	1,251,861.31	24,957.62
91 to 120 days	1,081,959.62	133,323.46
Over 120 days	2,618,133.06	956,618.89
Sub-total	9,926,457.47	3,659,050.92
Inactive Accounts		
	2020	2019
1 to 30 days	73,005.15	76,212.43
31 to 60 days	124,442.89	70,653.16
61 to 90 days	138,354.51	80,785.01
91 to 120 days	198,925.50	84,503.82
Over 120 days	3,465,781.42	2,721,955.26
Sub-total	4,000,509.47	3,034,109.68
Total Aging of A/R	13,926,966.94	6,693,160.60
JEV Adjustments	8,801,069.64	(1,690,191.54)
Unreconciled Amount vs. GL	(781,311.95)	(165,518.28)
Total Accounts Receivable	₱21,946,724.63	₱4,837,450.78

The material increase in uncollectible may be attributed to the recent Covid-19 pandemic which greatly affected NORWD customers' paying capacity. An unreconciled amount between GL and aging of accounts receivable amounting to ₱781,311.95 for 2020 needs further analysis on a per customer account basis.

7. INVENTORIES

This account consists of un-issued materials and supplies, which are kept in the stock room and available for future use by the District in its operations. Breakdown is as follows:

2020				
Semi-Expendable Inventory Held for Consumption	Furniture, Fixtures and Books	Total	Balance, Jan. 1	
			Cost	
			P12,208,532.11	P24,754.00
			11,204,391.81	0.00
Acquisitions during the year			(14,401,747.47)	(21,784.00)
Expensed during the year except write-down			0.00	(14,423,531.47)
Write-down during the year			0.00	0.00
Reversal of write-down during the year			P9,011,176.45	P2,970.00
Balance, Dec. 31			P9,011,176.45	P9,014,146.45

2019				
Semi-Expendable Inventory Held for Consumption	Furniture, Fixtures and Books	Total	Balance, Jan. 1	
			Cost	
			P10,586,378.15	P0.00
			15,663,488.62	24,754.00
Acquisitions during the year			(14,041,334.66)	0.00
Expensed during the year except write-down			0.00	(P14,041,334.66)
Write-down during the year			0.00	P0.00
Reversal of write-down during the year			0.00	P0.00
Balance, Dec. 31			P12,208,532.11	P24,754.00
			P12,233,286.11	P12,233,286.11

8. PREPAYMENTS

Prepayments pertains to rental charges for the district's facilities.

9. OTHER INVESTMENTS

Sinking Fund pertains to cash or others asset 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 damage district's facilities due to natural calamities, public disorders, and the like and a capital reserve for expansion of the district's facilities.

This account represents the unserviceable assets and fully depreciated serviceable equipment.

13. OTHER ASSETS

The account pertains to computer software programs which is being amortized based on a finite useful life.

12. INTANGIBLES

This account consists of Meralco meter deposit in compliance with the requirements of service connection application which is subject to refund upon termination of contract.

11. DEPOSITS

2019					
PPE Account	Balance at January 1	Additions/ Acquisitions	Deductions/ Disposals	Accumulated Depreciation	PPE, Net
Land	P15,774,871.00	P7,500,000.00	P0.00	P0.00	P23,274,871.00
Infrastructure Assets	192,816,211.54	11,142,048.27	11,800.01	48,735,804.87	155,210,654.93
Building and Other Structures	7,352,620.53	1,241,718.21	0.00	2,781,407.19	5,812,931.55
Other Land Improvements	2,052,451.03	342,881.50	0.00	29,638.28	2,365,694.25
Leased Assets Improvements	845,234.00	0.00	0.00	129,835.82	715,398.18
Machinery and Equipment	1,293,122.29	672,384.20	0.00	868,646.75	1,096,859.74
Furniture, Fixtures and Books	3,703,596.96	518,019.52	87,471.92	2,075,452.84	2,058,691.72
Transportation Equipment	7,193,919.55	90,000.00	0.00	2,899,388.96	4,384,530.59
Construction in Progress	3,043,621.79	11,032,514.08	10,438,496.81	0.00	3,637,639.06
Total	P234,075,648.69	P32,539,565.78	P10,537,768.74	P57,520,174.71	P198,557,271.02

2020					
PPE Account	Balance at 1-Jan	Additions/ Acquisitions	Deductions/ Disposals	Accumulated Depreciation	PPE, Net
Land	P23,274,871.00	P0.00	P0.00	P0.00	P23,274,871.00
Infrastructure Assets	203,946,459.80	4,963,387.87	43,780.00	55,963,455.92	152,902,611.75
Building and Other Structures	8,594,338.74	58,579.00	0.00	3,016,009.02	5,636,908.72
Other Land Improvements	2,395,332.53	0.00	0.00	63,463.33	2,331,869.20
Leased Assets Improvements	845,234.00	0.00	0.00	157,306.26	687,927.74
Machinery and Equipment	1,965,506.49	445,330.00	17080	1,316,422.24	1,077,334.25
Furniture, Fixtures and Books	4,134,144.56	430,080.00	385,155.00	2,546,924.80	1,632,144.76
Transportation Equipment	7,283,919.55	93,625.00	0.00	3,539,933.20	3,837,611.35
Construction in Progress	3,637,639.06	11,412,617.75	3,399,081.71	0.00	11,651,175.10
Total	P256,077,445.73	P17,403,619.62	P3,845,096.71	P66,603,514.77	P203,032,453.87

The breakdown of this account is as follows:

This account includes properties of relatively permanent character that are used in normal utility operations.

10. PROPERTY, PLANT AND EQUIPMENT (PPE), Net

The amount pertains to Guaranty/Security Deposits Payable used to recognize the incurrence of liability arising from the receipt of cash or cash equivalents to guaranty the

17. TRUST LIABILITIES

This accounts represent the balance of the account on the transfer of water system at barangay FVR by San Jose Water District to NOR-WD per memorandum of agreement executed in March 10, 2010.

16. OTHER LOANS PAYABLE

Due to BIR refers to the withheld taxes on compensation of employees, expanded taxes on suppliers and franchise tax, which are due for remittance while Due to GSIS, Pag-IBIG and Philhealth are the premiums and loans withheld for remittance.

<u>Total Inter-Agency Payables</u>	
Due to BIR	P1,079,087.54
Due to GSIS	841,798.86
Due to PAG-IBIG	42,999.99
Due to PHILHEALTH	39,744.92
	31,546.21
2020	P2,003,631.31
2019	P1,505,903.42

The amount consists of taxes and mandatory personnel deductions to be remitted to the government. Such dues would be remitted in accordance with the prescribed periods set by those agencies. Breakdown is as follows:

15. INTER-AGENCY PAYABLES

This account pertains to short-term unpaid obligations of the District to its suppliers and officers and employees.

<u>Total Financial Liabilities</u>	
<i>Current</i>	
Accounts Payable	P37,078,150.79
Due to Officer and Employees	19,154.39
Long Term Loans Payable	5,653,503.58
Total Financial Liabilities - Current	42,750,808.76
<i>Non-current</i>	
Long Term Loans Payable	31,829,790.24
Total Financial Liabilities - Non-Current	31,829,790.24
2020	P74,580,599.00
2019	P64,124,999.28

This account consists of the following:

14. FINANCIAL LIABILITIES

performance by the winning bidder or by the contractor to follow terms of the contract. This account is subject for refund after the fulfillment of the purpose of the bond or forfeiture upon failure to comply with the purpose of the bond. The account also includes Customers' Deposits Payable used to recognize the incurrence of liability arising from the receipt of cash from customers as deposit for possible future obligations. The amount is subject for refund to customer upon permanent termination of service connection.

18. PROVISIONS

Leave Benefits Payable is used to recognize accrual of money value of the earned leave credits of government personnel. Debit this account for monetization of earned leave and payment of terminal leave benefits.

19. DEFERRED CREDITS

This account includes deferred credits not covered by other liability accounts, including advance billings and the amounts that cannot be entirely liquidated or classified until additional information is received.

20. SERVICE AND BUSINESS INCOME

This account consists of the following:

	2020	2019
Service Income		
Waterworks System Fees	₱113,143,012.66	₱105,888,862.24
Sales Discounts	(205,179.91)	(183,781.81)
Net - Waterworks System Fees	112,937,832.75	105,705,080.43
Other Business Income	5,182,903.96	4,614,555.51
Fines and Penalties - Bus Income	2,895,422.28	3,540,243.43
Total Service Income	121,016,158.99	113,859,879.37
Business Income		
Royalty Fees	700,456.82	680,184.40
Interest Income	11,682.58	12,859.56
Total Business Income	712,139.40	693,043.96
Total Service and Business Income	₱121,728,298.39	₱114,552,923.33

Service Income includes metered sales to general concessionaires such as the billings for water deliveries to residential and commercial customers net of senior citizen discount. Also included are the penalties on billing for delinquent consumers, reconnection fee, installation of meters, and other services rendered by the district to its consumers.

Business Income includes royalty fee for giving rights to Philhydro, Inc. for utilizing NORWD's water resources. It also includes Interest Income on bank deposits.

21. PERSONNEL SERVICES

Breakdown of this account is as follows:

	2020	2019
Salaries and Wages	₱14,841,853.11	₱13,197,137.61
Other Compensation	6,448,513.25	5,019,853.31
Personnel Benefit Contributions	2,111,127.98	3,388,885.88
Other Personnel Benefit	1,650,507.87	0.00
Total Personnel Services	₱25,052,002.21	₱21,605,876.80

22. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

This account consists of the following expenses necessary for the District's operation.

	2020	2019
Travelling Expenses - Local	₱68,889.00	₱138,635.45
Training Expenses	322,220.61	854,579.02
Supplies and Materials Expenses	5,572,011.37	6,315,303.23
Generation, Transmission and Distribution Expenses	57,067,347.36	55,222,769.71
Utility Expenses	6,158,384.89	5,372,517.72
Communications Expenses	273,347.22	309,479.84
Membership Dues and Contribution to Organization	18,652.00	66,733.00
Advertising, Promotion and Marketing Expenses	185,290.00	507,006.75
Printing and Publication Expenses	8,765.00	5,630.00
Rent/Lease Expenses	391,907.00	266,410.00
Representation Expenses	749,698.44	1,400,506.47
Donations	90,000.00	113,003.00
Directors and Committee Members Fees	752,544.00	1,002,685.50
Awards/Rewards Expenses	5,000.00	0.00
Professional Services	419,731.04	586,132.97
General Services	5,507,427.78	5,444,480.43
Repairs and Maintenance Expenses	3,989,807.45	4,098,402.98
Extraordinary and Miscellaneous Expenses	131,631.16	108,242.78
Taxes, Insurance Premiums and Other Fees	2,168,173.03	2,243,810.13
Total MOOE	₱83,880,827.35	₱84,056,328.98

23. FINANCIAL EXPENSES

Details of financial expenses are shown below:

	2020	2018
Bank Charges	₱76,901.60	₱96,214.60
Interest Expenses	2,328,062.53	2,368,294.26
Total Financial Expenses	₱2,404,964.13	₱2,464,508.86

24. NON-CASH EXPENSES

This account pertains to allowance for impairment of uncollectible accounts, depreciation of agency's property, plant and equipment and amortization of intangible assets. It also includes loss of assets for the unaccounted cash on hand transaction of previous years.

	2020	2019
Impairment Loss-Loans and Receivables	₱610,346.01	₱141,310.56
Depreciation Expenses	9,027,728.55	6,226,689.08
Amortization for Intangible Assets	19,927.56	16,560.98
Loss of Assets	1,021.54	29,232.08
Total Non-Cash Expenses	₱9,659,023.66	₱6,413,792.70

25. PRIOR PERIOD ADJUSTMENTS

Details of the prior period adjustments are as follows:

	2020
Prior Period Adjustments:	
Correcting entry to reclassify Other Supplies and Materials from expense to inventory	₱102,940.00
Correcting entry to reclassify Chemicals and Filtering Supplies from inventory to expense	(83,457.45)
Correcting entry to reclassify Office Supplies from inventory to expense	(9,780.00)
Adjustment for over accrual of Philhydro charges from September to December 2019	1,180,074.34
To correct beginning balance of Accountable Forms Inventory as of December 31, 2019	90,070.30
Correction on estimated useful life for NHV project	4,604.71
Correction on reversal of charges for Roadside view project	224.16
Various depreciation charges for prior period	(39,388.27)
To reclassify previous year's income accrual	861,063.12
Over accrual of Converge charges	(4,312.55)
Various depreciation charges for prior period	(21,052.12)
2019 Purchases from Salvaflix	(150,658.75)
Accrual of income from water service for December 2020ember billed in January 2021	8,019,357.09
Total	₱9,949,684.58
	2019
Prior year expenses for repair and maintenance of service vehicle	(₱30,335.00)
Correcting entry to reflect correct computation of Leave Benefits Payable using new salary rate as of December 31, 2018	(610,038.20)
Payment for website hosting subscription for CY 2018	(12,887.72)

2019	Conversion from Grant to Loan from LWUA NLIF-9-0246. NLIF-PSF to LWUA ICG Soft Loan Payable in 25 years @ 2% interest rate per annum. Reconciliation of various prior period adjustments in AP as of December 31, 2017. Over-accrual of expenses in 2018 not used in 2019 Total Prior Period Adjustments
	(11,317,797.50)
	(3,377,232.76)
	414,145.48
	(P14,934,145.70)

26. FAIR VALUE MEASUREMENT

The carrying amounts approximate fair values for the District's financial assets and liabilities are shown below.

	Fair Value Significant unobservable inputs (Level 3)	Fair Value Significant unobservable inputs (Level 3)	Fair Value Significant unobservable inputs (Level 3)	Fair Value Significant unobservable inputs (Level 3)
2020	2019	2020	2019	2020
<i>Financial Assets</i>				
Accounts Receivable	P19,760,684.85	P19,760,684.85	P3,261,757.01	P3,261,757.01
<i>Financial Liabilities</i>				
Loans Payable	P37,483,293.82	P37,483,293.82	P41,094,428.10	P41,094,428.10

Fair Value Hierarchy

There were no financial assets measured at fair value as of December 31, 2020 and 2019. During the periods ended December 31, 2020 and 2019, 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.