



Republic of the Philippines
COMMISSION ON AUDIT

Regional Office No. III
City of San Fernando, Pampanga

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June 23, 2017

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 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 reasonable basis for the results of our audit.

The financial 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 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 Year's Unimplemented Audit Recommendations.

The audit observations and recommendations were discussed with concerned officials of the Water District in the exit conference that was held on June 09, 2017. 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 96 of the General Provisions of the General Appropriations Act for FY 2016.

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

Very truly yours,


LYNN S.F. SICANGCO
Regional Director



NORZAGARAY WATER DISTRICT
NORZAGARAY, BULACAN
STATEMENT OF FINANCIAL POSITION
As of December 31, 2016
(With Comparative Figures for CY 2015)

	2016	2015
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 3)	P 16,509,859.76	P 15,351,186.32
Receivables, net (Note 4)	5,339,548.81	6,065,860.86
Inventories (Note 5)	11,894,484.15	10,155,791.52
Other Current Assets (Note 6)	615,672.18	601,382.18
Total Current Assets	34,359,564.90	32,174,220.88
Non-Current Assets		
Sinking Fund (Note 7)	1,000,000.00	1,000,000.00
Property, Plant and Equipment, net (Note 8)	147,034,144.76	139,340,761.69
Other Assets (Note 9)	2,764,438.64	2,764,438.64
Total Non-Current Assets	150,798,583.40	143,105,200.33
TOTAL ASSETS	P185,158,148.30	P 175,279,421.21
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities		
Payable Accounts (Note 10)	P 7,354,225.53	P 10,701,851.00
Other Current Liabilities (Note 11)	2,156,166.14	1,696,666.14
Total Current Liabilities	9,510,391.67	12,398,517.14
Non-Current Liabilities		
Loans Payable-Domestic (Note 12)	40,899,470.45	40,899,470.45
Deferred Credits (Note 13)	59,951.77	59,951.77
Total Non-Current Liabilities	40,959,422.22	40,959,422.22
TOTAL LIABILITIES	50,469,813.89	53,357,939.36
EQUITY		
Government Equity	61,568,818.55	61,568,818.55
Retained Earnings	73,119,515.86	60,352,663.30
TOTAL EQUITY	134,688,334.41	121,921,481.85
TOTAL LIABILITIES AND EQUITY	P185,158,148.30	P 175,279,421.21

See accompanying Notes to Financial Statements.



NORZAGARAY WATER DISTRICT
NORZAGARAY, BULACAN
STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME

For the Year Ended December 31, 2016
(With Comparative Figures for CY 2015)

	2016	2015
INCOME		
Income from Waterworks System	P 86,302,309.47	P 79,395,308.96
Other Business Income	3,679,496.32	3,750,664.73
Income from Grants and Donations	800,000.00	1,200,000.00
Fines and Penalties - Business Income	2,963,237.28	3,046,913.11
Interest Income	40,449.08	21,290.33
GROSS INCOME	93,785,492.15	87,414,177.13
EXPENSES		
Personal Services (Note 14)	14,200,263.22	13,180,538.27
Maintenance and Other Operating Expenses (Note 15)	63,623,115.48	55,152,941.10
Financial Expenses (Note 16)	2,779,111.02	2,957,182.04
TOTAL EXPENSES	80,602,489.72	71,290,661.41
NET INCOME (LOSS) BEFORE INCOME TAX	P 13,183,002.43	P 16,123,515.72

See accompanying Notes to Financial Statements.



NORZAGARAY WATER DISTRICT
NORZAGARAY, BULACAN
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2016
(With Comparative Figures for CY 2015)

	2016	2015
GOVERNMENT EQUITY, End	₱ 61,568,818.55	₱ 61,568,818.55
RETAINED EARNINGS		
Retained Earnings, Beginning	60,352,663.30	45,105,636.57
Prior Years Adjustments	(416,149.87)	(876,488.99)
Net Income for the period	13,183,002.43	16,123,515.72
Retained Earnings, End	73,119,515.86	60,352,663.30
TOTAL EQUITY	₱134,688,334.41	₱121,921,481.85

See accompanying Notes to Financial Statements.



NORZAGARAY WATER DISTRICT
NORZAGARAY, BULACAN
STATEMENT OF CASH FLOWS
 For the Year Ended December 31, 2016
 (With Comparative Figures for CY 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Cash Receipts From Concessionaires	P84,775,708.37	P79,714,973.24
Collection of Interest Income	40,449.08	22,513.48
Collection of Other Business Income	4,237,736.89	4,399,105.42
Collection of Fines and Penalties	3,567,992.48	2,451,727.37
Refund of Advances	405,028.50	277,951.77
Receipts from Grants and Donations	800,000.00	1,200,000.00
Other Receipts	1,132.78	2,359.57
Other Refunds	25,617.80	26,481.79
Total Cash Inflows	93,853,665.90	88,095,112.64
Cash Outflows		
Payment of Operating Expenses	27,916,959.10	23,689,356.66
Payment of Payables	47,770,722.86	38,951,162.35
Remittance of Taxes	4,361,330.96	1,549,525.12
Purchase of Office Supplies	54,900.50	125,858.60
Remittance of Inter-agency Payables	5,059,668.25	5,749,015.00
Total Cash Outflows	85,163,581.67	70,064,917.73
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,690,084.23	18,030,194.91
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflows		
Purchase of Property, Plant and Equipment	1,381,095.11	7,683,372.70
Total Cash Outflows	1,381,095.11	7,683,372.70
NET CASH USED IN INVESTING ACTIVITIES	(1,381,095.11)	(7,683,372.70)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows		
Proceeds from Borrowings	0.00	5,273,500.00
Cash Outflows		
Loan Amortization -Domestic and Foreign	3,370,913.66	3,248,868.04
Financial Expenses	2,779,402.02	2,946,994.04
Total Cash Outflows	6,150,315.68	6,195,862.08
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(6,150,315.68)	(922,362.08)
CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES	1,158,673.44	9,424,460.13
CASH AND CASH EQUIVALENTS - BEGINNING	15,351,186.32	5,926,726.19
CASH AND CASH EQUIVALENTS - ENDING (Note 3)	P16,509,859.76	P15,351,186.32

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. AGENCY PROFILE

Norzagaray Water District (District) was formally organized and formed on October 1, 1986 by virtue of Sangguniang Bayan Resolution No. 86-10-48 through the initiative of then Mayor Jorge Esguerra and members of the town's Sangguniang Bayan. Subsequently, Conditional Certificate of Conformance (CCC) No. 261 was issued on October 24, 1986 by the Local Water Utilities Administration (LWUA). The CCC is the accreditation of LWUA to a newly-formed water district to operate under the standards specification. The District became operational in 1997.

On November 12, 2002, LWUA Board of Trustees approved Resolution No. 257, series of 2002 for the takeover of the District. In this regard, Mr. Ricardo B. Abaño was designated as the Interim General Manager of the District and five Interim Board of Directors were also selected.

The District is under the management of Engr. Aimer B. Cruz. The Board of Directors is the policy-making body of the District composed of the following:

Engr. Arsenio DM. Legaspi	-	Chairman
Dr. Jose P. Payumo	-	Vice Chairman
Ernestina A. Palad	-	Secretary
Rosalie N. Legaspi	-	Member
Danilo S. Leonardo	-	Member

The District has 15,233 service connections and nine pumping stations operating 24/7, covering ten barangays of Norzagaray, Bulacan.

The District has a total of 67 personnel consisting of 35 regular and 32 job order employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING SYSTEMS AND POLICIES

The modified accrual basis of accounting is implemented. Under this method, all expenses shall be recognized when incurred and reported in the financial statements in the period to which they relate. Income shall be on accrual basis except for transactions where accrual basis is impractical or when other methods are required by law.

Cost of issued supplies and materials to end-users shall be treated as expense in the period to which it relates.

The cost of property, plant and equipment (PPE) acquired thru purchase shall include the purchase cost plus the incidental cost in bringing the asset to its location including installation and testing costs, until it becomes fully operational. PPE are carried at cost less accumulated depreciation. Depreciation is computed on a straight-line method over the estimated useful life of the property and commences on the month subsequent to the acquisition.

Interest on loans secured to finance the construction shall be classified as financial charges.

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

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2016	2015
Cash - Collecting Officers	P 127,478.50	P 142,178.58
Cash in Bank – Current Account		
Land Bank of the Philippines (LBP)	14,341,393.57	13,440,337.12
Farmer Savings and Loan Bank (FSLB)	20,000.00	20,000.00
Cash in Bank – Savings Account		
FLSB	252,460.80	610,415.04
Country Rural Bank of Taguig (CRBT)	38,357.61	11,123.50
LBP	1,730,169.28	1,127,132.08
Total	P16,509,859.76	P15,351,186.32

4. RECEIVABLES, NET

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

	2016	2015
Accounts Receivable	P 4,607,098.78	P 4,366,767.38
Allowance for Impairment – Accounts Receivable	(1,206,290.70)	(100,840.97)
Other Receivables	1,938,740.73	1,768,534.45
Due from Officers and Employees	0.00	31,400.00
Net	P 5,339,548.81	P 6,065,860.86

Other Receivables are the amount due from customers for new service connection fee.

5. INVENTORIES

This account consists of unissued materials and supplies which are kept in stock for future use by the District in its operations.

	2016	2015
Office Supplies Inventory	₱ 9,780.00	₱ 0.00
Accountable Forms, Plates and Stickers Inventory	35,930.13	316,770.00
Other Supplies Inventory	11,848,774.02	9,839,021.52
Total	₱11,894,484.15	₱10,155,791.52

6. OTHER CURRENT ASSETS

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

7. SINKING FUND

The Sinking Fund pertains to cash or other assets set apart 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.

8. PROPERTY, PLANT AND EQUIPMENT, NET

This account includes all properties of the District of relatively permanent character that are used in normal utility operations. Construction in Progress – Infrastructure Assets account consists of appraised value of the District's assets which are still under construction. The breakdown is as follows:

	2016	2015
Land	₱ 6,374,871.00	₱ 6,374,871.00
Power Supply Systems	3,556,034.17	3,556,034.17
Buildings	7,053,004.31	7,856,548.31
Leased Assets Improvements - Land	823,234.00	0.00
Office Equipment	128,196.60	70,610.00
Furniture and Fixtures	1,360,000.85	1,220,240.85
Information and Communication Technology Equipment	1,138,030.51	983,380.51
Machinery	810,510.00	271,000.00
Communication Equipment	26,105.00	26,105.00
Technical and Scientific Equipment	362,398.25	362,398.25

	2016	2015
Motor Vehicles	3,230,274.55	3,183,374.55
Other Property, Plant and Equipment	143,541,122.00	143,381,122.00
Construction in Progress - Agency Assets	21,133,576.71	10,368,756.98
Total	189,537,357.95	177,654,441.62
Accumulated Depreciation	(42,503,213.19)	(38,313,679.93)
PPE, net	₱147,034,144.76	₱139,340,761.69

9. OTHER ASSETS

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

10. PAYABLE ACCOUNTS

This account consists of the following:

	2016	2015
Accounts Payable	₱6,321,924.23	₱ 6,590,896.92
Due to Officers and Employees	17,829.67	14,733.97
Inter-agency Payables	1,014,471.63	724,865.45
Current Portion of Long-term Debt	0.00	3,371,354.66
Total	₱7,354,225.53	₱10,701,851.00

Accounts Payable consists of all unpaid obligation on open account of the District's payable within one year from the balance sheet date.

Due to Officers and Employees account consists of liabilities to officers and employees of the District.

11. OTHER CURRENT LIABILITIES

This account represents the balance of the account on the transfer of water system at barangay FVR by San Jose Water District to the District per memorandum of agreement executed on March 10, 2010.

12. LOANS PAYABLE - DOMESTIC

Loans payable consists of loans contracted by the District, including advances from the Government and/or its agencies, to finance the various long term projects of the District or to meet fund shortfalls in its operations. The breakdown is on the next page.

	2016	2015
Loan Account No.		
3-801	P 4,005,354.35	P 4,005,354.35
4 -2407	1,569,726.00	1,569,726.00
LBP Loan Account No.		
0499979	5,096,153.84	5,096,153.84
462937 (Refinancing)	28,689,774.72	28,689,774.72
460300 (Project)	1,538,461.54	1,538,461.54
Total	P40,899,470.45	P40,899,470.45

13. 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.

14. PERSONAL SERVICES

This account consists of the following expenses incurred by the District.

	2016	2015
Salaries and Wages	P 8,325,832.61	P 7,788,014.96
Personal Economic Relief Allowance	821,600.46	819,222.76
Representation Allowance	222,000.00	222,000.00
Transportation Allowance	222,000.00	222,000.00
Clothing/Uniform Allowance	175,000.00	175,000.00
Productivity Incentive Allowance	0.00	661,622.00
Other Bonuses and Allowance	420,000.00	183,000.00
Honoraria	761,648.00	735,870.00
Cash Gift	175,000.00	174,000.00
Year End Bonus	1,415,280.00	665,432.00
Life and Retirement Insurance	1,006,855.52	933,064.77
Pag-IBIG Contributions	42,000.00	41,100.00
PhilHealth Contributions	91,250.00	87,562.50
ECC Contributions	42,000.00	41,400.00
Other Personnel Benefits	479,796.63	431,249.28
Total	P14,200,263.22	P13,180,538.27

15. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following.

	2016	2015
Travelling Expenses	P 163,473.00	P 159,627.75
Training Expenses	1,167,435.99	911,216.73

	2016	2015
Office Supplies Expenses	268,638.50	203,407.25
Accountable Forms Expenses	217,400.00	265,245.00
Gasoline, Oil and Lubricants Expenses	644,754.42	663,361.49
Other Supplies Expenses	2,261,123.39	1,868,406.28
Water Expenses	35,919,258.07	29,953,641.46
Electricity Expenses	5,090,918.32	5,389,610.82
Postage and Deliveries	170.00	1,690.00
Telephone Expenses - Landline	60,409.54	61,304.71
Telephone Expenses - Mobile	177,249.85	185,137.98
Internet Expenses	53,760.00	32,300.00
Cable, Satellite, Telegraph and Radio	5,400.00	310.00
Membership Dues and Contributions to Organizations	55,018.00	71,014.00
Advertising Expenses	170,828.85	170,331.40
Printing and Binding Expenses	57,851.40	6,081.20
Rent Expenses	133,800.00	131,900.00
Representation Expenses	892,442.53	1,074,603.33
Rewards and Other Claims	27,000.00	6,000.00
Legal Services	83,500.00	70,100.00
Auditing Services	300,000.00	0.00
Consultant Services	547,500.00	4,286.25
Environment/Sanitary Services	231,788.00	237,212.00
General Services	3,873,042.33	2,740,891.19
Security Services	437,400.00	491,671.47
Repairs and Maintenance -		
Power and Energy Supply	192,549.00	64,475.80
Other Structures	48,913.00	289,749.30
Other Leased Assets Improvements	72,775.00	0.00
Office Equipment	46,119.75	300.00
Furniture and Fixtures	8,170.00	11,709.50
IT Equipment and Software	105,500.00	139,735.00
Machinery	36,610.00	17,530.00
Communication and Equipment	10,900.00	1,078.75
Scientific Equipment	0.00	536.00
Motor Vehicles	359,572.10	397,679.76
Other Property, Plant and Equipment	2,701,774.62	3,491,909.25
Donations	15,595.00	17,977.00
Extraordinary Expenses	58,865.28	58,745.51
Miscellaneous Expenses	58,865.28	58,745.51
Taxes, Duties and Licenses	1,744,838.23	1,614,120.92
Insurance Expenses	26,923.03	24,278.23
Bad Debts Expenses	1,105,449.74	15,591.66
Depreciation Expenses	4,189,533.26	4,249,428.60
Total	P63,623,115.48	P55,152,941.10

16. FINANCIAL EXPENSES

This account consists of the following:

	2016	2015
Bank Charges	P 88,580.00	P 76,550.00
Interest Expenses	2,690,531.02	2,854,132.04
Other Financial Charges	0.00	26,500.00
Total	P2,779,111.02	P2,957,182.04