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|  | Republic of the Philippines**COMMISSION ON AUDIT****Regional Office No. 10****Carmen, Cagayan de Oro City** |
|  |  |

**ANNUAL AUDIT REPORT**

**ON THE**

**BACOLOD WATER DISTRICT**

**Bacolod, Lanao del Norte**

**For the Year Ended December 31, 2016**

Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. 10

J.V. Seriña Street, Carmen, Cagayan de Oro City

**OFFICE OF THE REGIONAL DIRECTOR**

 February 24, 2017



**ENGR. NOEL L. RESABAL**

General Manager

Bacolod Water District

Bacolod, Lanao del Norte

Dear Manager Resabal:

 We are pleased to transmit the Financial Audit Report on the audit of the **Bacolod Water District**, Bacolod, Lanao del Norte for the year ended December 31, 2016, in compliance with Section 43 of Presidential Decree No. 1445 otherwise known as the Government Auditing Code of the Philippines.

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

 The attached report consists of Part I- Audited Financial Statements, Part II-Observations and Recommendations, Part III- Status of Implementation of Prior Year’s Audit Recommendations, which were discussed with the officials concerned, and Part IV- Appendices.

 We conducted our audit in accordance with the Philippine Public Sector Standards on Auditing and we believe that these standards provided a reasonable basis for the audit results.

 The Auditor rendered an Unqualified Opinion on the fairness of presentation of the financial statements. The audit observations and recommendations were discussed with the concerned officials and employees of the District during the exit conference conducted on February 14, 2017, whose comments were incorporated in the report, where appropriate.

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



We request that a status report, by accomplishing the attached Agency Action Plan and Status of Implementation 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 FY 2016.

 Very truly yours,

 **CELSO L. VOCAL**

Director IV

 Regional Director

*Copy furnished:*

*The President of the Philippines*

*Malacañang Palace, Manila*

*The Vice-President of the Philippines*

*Coconut Palace, F. Maria Guerrero St.*

*CCP Complex, Pasay City*

*The President of the Senate*

*Senate of the Philippines*

*Roxas Boulevard, Pasay City*

*The Chairman-Senate Fiance Committee*

*Senate of the Philippines*

*Roxas Boulevard, Pasay City*

*The Speaker of the House of Representatives*

*HOR Complex, Constitution Hills, Quezon City*

*The Chairman-Appropriations Committee*

*House of Representatives*

*HOR Complex, Constitution Hills, Quezon City*

*The Secretary of the Budget and Management*

*Department of Budget and Management*

*Ge. Solano St., San Miguel, Manila*

*The Administrator*

*Local Water Utilities Administration (LWUA)*

*MWSS-LWUA Complex, Katipunan Avenue*

*Balara, Quezon City*

*The Director*

*National Library of the Philippines*

*T.M. Kalaw, Ermita, Manila*

*The Chief of Office*

*UP Law Center, UP, Diliman, Quezon City*

*File*

Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. 10

J.V. Seriña Street, Carmen, Cagayan de Oro City

**OFFICE OF THE REGIONAL DIRECTOR**

 February 24, 2017



**MS. ELSA P. PANORIL**

Chairperson of the Board of Directors

Bacolod Water District

Bacolod, Lanao del Norte

Dear Board Chairman Panoril:

 We are pleased to transmit the Financial Audit Report on the audit of the **Bacolod Water District**, Bacolod, Lanao del Norte for the year ended December 31, 2016, in compliance with Section 43 of Presidential Decree No. 1445 otherwise known as the Government Auditing Code of the Philippines.

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 The Auditor rendered an Unqualified Opinion on the fairness of presentation of the financial statements. The audit observations and recommendations were discussed with the concerned officials and employees of the District during the exit conference conducted on February 14, 2017, whose comments were incorporated in the report, where appropriate.

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

We request that a status report, by accomplishing the attached Agency Action Plan and Status of Implementation 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 FY 2016.

 Very truly yours,

 **CELSO L. VOCAL**

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Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. 10

Cagayan de Oro City

**OFFICE OF THE SUPERVISING AUDITOR**

Audit Group CGS - Water Districts and Other CGS Stand-Alone Agencies

 February 15, 2017

**ATTY. CELSO L. VOCAL**

Regional Director

Commission on Audit - Regional Office No. 10

Cagayan de Oro City

Sir:

 In compliance with Section 2, Article IX-D of the Philippines Constitution and pertinent provisions of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we audited the accounts and operations of the **Bacolod Water District**, Bacolod, Lanao del Norte for the year ended December 31, 2016.

 The audit was conducted to (a) verify the level of assurance 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.

 Our report consists of four parts, namely: Part I - Audited Financial Statements; Part II – Observations and Recommendations; Part III - Status of Implementation of Prior Year’s Audit Recommendations and Part IV – the Appendices. The observations and recommendations were communicated to Management thru Audit Observation Memorandum and discussed with management officials and staff. Their comments are included in the appropriate portion of this report.

There is reasonable assurance that the financial statements/records/reports are free of material misstatements and are prepared in accordance with Philippine Financial Reporting Standards (PFRS)/accounting principles generally accepted in the Philippines.

Our audit was conducted in accordance with the Philippine Public Sector Standards on Auditing (PPSSA) and we believe that the audit evidence we have obtained provides reasonable basis for our audit opinion/report.

Very truly yours,



**CECILIA A. PONTILLAS**

 State Auditor IV

 Acting Supervising Auditor

Republic of the Philippines

**COMMISSION ON AUDIT**

Philippines Satellite Auditing Office

Iligan City

**OFFICE OF THE AUDIT TEAM LEADER**

Team R10-05, Audit Group CGS - Water Districts

February 15, 2017

**Ms. CECILIA A. PONTILLAS**

Acting Supervising Auditor

CGS – Water Districts and Other CGS Stand-Alone Agencies

COA Regional Office No. 10

Cagayan de Oro City

Madam:

In compliance with Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of Presidential Decree No. 1445, we conducted a financial audit on the accounts and operations of the **Bacolod Water District (BWD)**, Bacolod, Lanao del Norte for the year ended December 31, 2016.

The audit was conducted to ascertain the propriety of the financial transactions and determine the extent of compliance of the agency to prescribed rules and regulations. It was also made to ascertain the accuracy of the financial records and reports, as well as the fairness of the presentations of the financial statements.

The audit report consists of four parts, Part I - Audited Financial Statements, Part II - details of our significant Observations and Recommendations, Part III - Status of Implementation of Prior Year’s Audit Recommendations, which were discussed with concerned management officials and staff during the exit conference held on February 14, 2017, and Part IV - Appendices.

There is reason to believe that the financial statements are not free of misstatements which, however, are not material enough to conclude that the financial position of the BWD as of December 31, 2016 and the results of its operations are not fairly presented.

Our audit was conducted in accordance with the Philippine Public Sector Standards on Auditing (PPSSA) and we believe these standards provide reasonable basis for the results of the audit.

 Very truly yours,

****

 **AMADO PETER A. GARBANZOS**

 State Auditor III

 Acting Audit Team Leader

**EXECUTIVE SUMMARY**

1. **INTRODUCTION**

The Bacolod Water District (BWD), a government-owned and controlled corporation was created on May 23, 1994 by the Sangguniang Bayan of Bacolod, Lanao del Norte by virtue of Sangguniang Bayan Resolution No. 225. It inherited the water system from the Local Government of Bacolod which was constructed by NAWASA in 1976. On December 6, 1994, the Local Water Utilities Administration (LWUA) issued a Certificate of Conditional Conformance (CCC) No. 543.

Some of the major functions of the BWD include the following:

1. Acquiring, installing, improving, maintaining and operating water supply and distribution systems for domestic, industrial, municipal and agricultural uses for residents and lands within the boundaries of such districts;
2. Providing, maintaining and operating waste water collection, treatment and disposal facilities; and
3. Conducting such other functions and operations incidental to water resource development, utilization and disposal within such districts, as are necessary or incidental to said purpose.

As of December 31, 2016, the governing board of BWD is composed of directors representing the different sectors and organization within the municipality of Bacolod, who were appointed by the Local Chief Executive. They exercise corporate powers and determine policies for the operations of the BWD. They are as follows:

Chairperson : Ms. Elsa P. Panoril - Business Sector

Members : Dra. Lerma C. Daraman - Professional Sector

Ms. Leah A. Marcera - Women’s Sector

Ms. Godilla V. Lao - Civic Sector

 Mr. Alejandro Q. Visitacion - Education Sector

1. **HIGHLIGHTS OF FINANCIAL OPERATIONS**

The financial position and the results of operation of BWD for the year ended December 31, 2016, with the comparative figures for CY 2015, are presented below:

**Financial Position**

As of December 31, 2016, there was an increase of 9.93% in assets, decrease of 2.02% in liabilities and an increase of 40.78% in government equity, summarized as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ***2016*** | ***2015*** | ***Increase/ (Decrease)*** | ***Percentage*** |
| Assets | 34,992,028.61 | ~~P~~ 31,832,496.99 | 3,159,531.62 | 9.93% |
| Liabilities | 22,485,633.06 | 22,948,880.36 | (463,247.30) | (2.02%) |
| Government Equity | 12,506,395.55 | 8,883,616.63 | 3,622,778.92 | 40.78% |

**Financial Operations**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ***2016*** | ***2015*** | ***Increase/ (Decrease)*** | ***Percentage*** |
| Income | 14,064,514.97 | ~~P~~ 12,849,967.00 | 1,214,547.97 | 9.45% |
| Expenditures | 10,540,041.18 | 9,742,865.14 | 797,176.04 | 8.18% |
| Net Income  | 3,524,473.79 | 3,107,101.86 | 417,371.93 | 13.43% |

1. **SCOPE OF AUDIT**

The audit covered the examination of the accounts and financial transactions and operations of Bacolod Water District, Bacolod, Lanao del Norte as of December 31, 2016.

The audit consisted of review of operating procedures, inspection of programs and projects, testing the adequacy of the related systems and controls set by the agency, verification of the accuracy, legality and completeness of its financial transactions, interview with concerned officials and employees, and the application of other audit procedures considered necessary under the circumstances.

It was also made to determine whether the District’s financial statements present fairly its financial position and the results of its operations and its cash flows, and whether prescribed laws, rules and regulations were followed.

1. **INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS**

 An Unqualified Opinion was rendered on the financial position of the Bacolod Water District as of December 31, 2016, and the results of its operations and cash flows for the year then ended, as presented in the financial statements accompanying this report.

1. **SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS**

**1.** **Procurement of various supplies and equipment thru shopping or small-value procurement totaling ~~P~~23,816.60 for the period January to June 2016 were not awarded to the lowest quotation, thus, defeating the purpose of promoting competitiveness, economy and efficiency in the government procurement.**

We have recommended that Management strictly comply with the provisions of R.A. 9184 and with GPPB Resolution No. 09-2009 which prescribes the guidelines for shopping and small-value procurement. Submit justification from the BAC why the award was not made to the lowest quotation.

**2. Expenditures for the month of December 2015 totaling ~~P~~21,931.64 which were paid on January 2016 were not recognized as Accounts Payable in the District’s books of accounts in CY 2015, contrary to Sections 112 and 119 of P.D. 1445, Section 4(a), Chapter 2, Volume I of the NGAS Manual, and Philippine Accounting Standards 1 (PAS 1).**

We have recommended that Management use accrual basis in recording assets, liabilities, income and expenses in compliance with the above rules and regulations. Instruct the Accounting Processor to ensure that all expenses or payables at the end of every calendar year shall be obligated in order to fairly present the financial statements as at year end.

**3. The accrual of liability for the earned leave benefits of employees was not provided by the district contrary to PAS 19 on the accounting for employee benefits.**

We have recommended that the management shall provide annual budget for the earned leave benefits of the employees, and require the Human Resource Officer to furnish the Accounting Section with a copy of the schedule of earned leave credits of District personnel with the corresponding money value as basis in accounting of the accrued liability.

1. **SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR END**

The table below shows the status of suspensions, disallowances and charges as of December 31, 2016 recorded after the effectivity of the COA Circular 2009-006 dated September 15, 2009 prescribing the use of the Rules and Regulations on the Settlement of Accounts.

| **Particulars** | **Balance as of Dec. 31, 2015** | **Issued in CY 2016** | **Settled in CY 2016** | **Balance as of Dec. 31, 2016** |
| --- | --- | --- | --- | --- |
| Notice of Suspensions | - | 23,816.60 | 23,816.60 | - |
| Notice of Disallowances | - | 33,000.00 | 9,200.00 | 23,800.00 |
| Notice of Charges | - | - | - | - |
| **Total** |  | **56,816.60** | **33,016.60** | **23,800.00** |

1. **STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS**

Of the ten (10) audit recommendations contained in the Annual Audit Report of the Water District for the calendar year 2015, eight (8) were fully implemented and two (2) were partially implemented.

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**PART – I**

**AUDITED FINANCIAL STATEMENTS**

Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. 10

Cagayan de Oro City

**OFFICE OF THE SUPERVISING AUDITOR**

Audit Group CGS -Water Districts and Other CGS Stand-Alone Agencies

**INDEPENDENT AUDITOR’S REPORT**

**ENGR. NOEL L. RESABAL**

General Manager

Bacolod Water District

Bacolod, Lanao del Norte

We have audited the accompanying financial statements of the **Bacolod Water District (BWD)**, Bacolod, Lanao del Norte which comprise the Statement of Financial Position as of December 31, 2016 and the Statements of Profit or Loss & Other Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management’s Responsibility for the Financial Statements*

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements and 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.

*Auditor’s Responsibility*

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

The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis of our unqualified opinion.

*Unqualified Opinion*

In our opinion, the financial statements referred to above, present fairly in all material respects, the financial position of the BWD as of December 31, 2016 and of its financial performance and its cash flows for the year then ended in accordance with state accounting principles.

*Other Matters*

The exit conference for the results of the financial and compliance audit of the calendar year 2016 operations was conducted on February 14, 2017.

**COMMISSION ON AUDIT**

By:



**CECILIA A. PONTILLAS**

 State Auditor IV

Acting Supervising Auditor

February 15, 2017

Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. X

Cagayan de Oro City

**OFFICE OF THE SUPERVISING AUDITOR**

Audit Group CGS -Water Districts and Other CGS Stand-Alone Agencies

**INDEPENDENT AUDITOR’S REPORT**

**MS. ELSA P. PANORIL**

Chairperson

Board of Directors

Bacolod Water District

Bacolod, Lanao del Norte

We have audited the accompanying financial statements of the **Bacolod Water District (BWD)**, Bacolod, Lanao del Norte which comprise the Balance Sheet as of December 31, 2016 and the Statements of Income and Expenses and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management’s Responsibility for the Financial Statements*

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements and 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.

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The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis of our unqualified opinion.

*Unqualified Opinion*

In our opinion, the financial statements referred to above, present fairly in all material respects, the financial position of the BWD as of December 31, 2016 and of its financial performance and its cash flows for the year then ended in accordance with state accounting principles.

*Other Matters*

The exit conference for the results of the financial and compliance audit of the calendar year 2016 operations was conducted on February 14, 2017.

**COMMISSION ON AUDIT**

By:



**CECILIA A. PONTILLAS**

 State Auditor IV

Acting Supervising Auditor

February 28, 2017

Republic of the Philippines

**BACOLOD WATER DISTRICT**

Bacolod, Lanao del Norte

TIN 004-367-022

CCC No. 543

**STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR**

**FINANCIAL STATEMENTS**

The Management of **Bacolod Water District (BWD)**, Bacolod, Lanao del Norte is responsible for all the information and representations contained in the accompanying Balance Sheet as of December 31, 2016 and the related Statement of Income and Expenses and Cash Flows for the year then ended. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on best estimates and informed judgment of the management with an appropriate consideration to materiality.

In this regard, Management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.





**MS. ALMA S. MAGLANA** **ENGR. NOEL L. RESABAL**

 Corporate Accounts Analyst General Manager

**BACOLOD WATER DISTRICT**

**Condensed Statement of Financial Position**

As of December 31, 2016

*(With comparative figures for CY 2015)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **NOTE** |  | **2016** |  | **2015** |
| **ASSETS** |  |  |  |  |  |
| **Current Assets** |  |  |  |  |  |
|  Cash and Cash Equivalents | 1 | ₱ | 10,010,830.77 | ₱ | 6,136,680.70 |
|  Receivables | 2 |  | 1,346,374.42 |  | 1,242,712.60 |
|  Inventories | 3 |  | 433,492.29 |  | 424,818.39 |
|  Other Current Assets | 4 |  | 4,122.00 |  | 4,174.00 |
|  **Total Current Assets** |  | ₱ | **11,794,819.48** | ₱ | **7,808,385.69** |
| **Non-Current Assets** |  |  |  |  |  |
|  Property,Plant and Equipment | 5 |  | 23,197,209.13 |  | 24,024,111.30 |
|  **Total Non- Current Assets** |  | ₱ | **23,197,209.13** | ₱ | **24,024,111.30** |
| **TOTAL ASSETS** |  | ₱ | **34,992,028.61** | ₱ | **31,832,496.99** |
|  |  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |  |
|  |  |  |  |  |  |
| **Current Liabilities** |  |  |  |  |  |
|  Financial Liabilities | 6 | ₱ | 218,255.00 | ₱ | 104,570.00 |
|  Inter-Agency Payables | 7 |  | 364,049.16 |  | 275,276.34 |
|  Other Payables | 8 |  | 2,684.08 |  | 11,063.72 |
|  **Total Current Liabilities** |  | ₱ | **584,988.24** | ₱ | **390,910.06** |
|  |  |  |  |  |  |
| **Non-Current Liabilities** |  |  |  |  |  |
|  Finacial Liabilities | 9 | ₱ | 21,862,545.82 | ₱ | 22,519,871.30 |
|  Trust Liabilities | 10 |  | 38,099.00 |  | 38,099.00 |
|  **Total Non-Current Liabilities** |  | ₱ | **21,900,644.82** | ₱ | **22,557,970.30** |
|  |  |  |  |  |  |
| **Total Liabilities** |  | ₱ | **22,485,633.06** | ₱ | **22,948,880.36** |
| **EQUITY** |  |  |  |  |  |
|  Government Equity | 11 | ₱ | 325,542.96 | ₱ | 325,542.96 |
|  Retained Earnings/(Deficit) | 12 |  | 12,180,852.59 |  | 8,558,073.67 |
|  **Total Equity** |  | ₱ | **12,506,395.55** | ₱ | **8,883,616.63** |
|  |  |  |  |  |  |
| **TOTAL LIABILITIES AND EQUITY** |  | ₱ | **34,992,028.61** | ₱ | **31,832,496.99** |

*(See accompanying Notes to Financial Statements)*

**BACOLOD WATER DISTRICT**

**CONDENSED STATEMENT OF PROFIT AND LOSS**

**AND OTHER COMPREHENSIVE INCOME**

For the Year Ended December 31, 2016

*(With comparative figures for CY 2015)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **NOTE** |  | **2016** |  | **2015** |
| **INCOME** |  |  |  |  |  |
| Service and Business Income | 13 | ₱ | 13,717,732.23 | ₱ |  12,576,871.77  |
| Other Non-Operating Income | 14 |  | 346,782.74 |  |  273,095.23  |
|  |  |  |  |  |  |
| **TOTAL INCOME** |  | ₱ | **14,064,514.97** | ₱ | **12,849,967.00**  |
|  |  |  |  |  |  |
| **EXPENSES** |  |  |  |  |  |
| Personnel Services | 15 | ₱ | 4,426,297.84 | ₱ |  3,964,726.12  |
| Maintenance. and Other Operating Expenses | 16 |  | 3,890,584.47 |  |  3,450,379.51  |
| Financial Expenses | 17 |  | 1,115,788.63 |  |  1,184,883.48  |
| Non-Cash Expenses | 18 |  | 1,107,370.24 |  |  1,142,876.03  |
|  |  |  |  |  |  |
| **TOTAL EXPENSES** |  | ₱ | **10,540,041.18** | ₱ |  **9,742,865.14**  |
|  |  |  |  |  |  |
| Profit/(Loss) Befor Tax |  | ₱ | 3,524,473.79 | ₱ |  3,107,101.86  |
| Income Tax Expense |  |  | - |  |  -  |
| Net Income/(Loss) |  |  | 3,524,473.79 |  |  3,107,101.86  |
|  |  |  |  |  |  |
| **COMPREHENSIVE INCOME/(LOSS)** |  | ₱ | **3,524,473.79** | ₱ |  **3,107,101.86**  |

*(See accompanying Notes to Financial Statements)*

**BACOLOD WATER DISTRICT**

**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:** |  |  |  |  |
|  | Collection of Income/Revenue | ₱ | 13,155,547.40  | ₱ | 11,882,721.90  |
|  | Other Receipts |  | 1,524,448.08  |  | 1,417,547.28  |
|  | **Total cash inflows** | ₱ | **14,679,995.48**  | ₱ | **13,300,269.18**  |
|  |  |  |  |  |  |
|  | **Cash outflows:** |  |  |  |  |
|  | Payment of Expenses | ₱ | 7,428,421.98  | ₱ | 6,729,111.03  |
|  | Purchase of inventories |  | 887,315.55  |  | 717,156.38  |
|  | Grant of Cash Advances |  | 294,782.92  |  | 191,876.16  |
|  | Prepayments |  | 7,746.93  |  | 7,825.05  |
|  | Payments of Accounts Payable |  | 69,200.00  |  | 214,504.00  |
|  | Remittance of Personnel Benefit Contributions and Mandatory Deductions |  | 350,151.40  |  | 328,482.24  |
|  | Other Disbursements |  | 31,300.00  |  | - |
|  | **Total cash outflows** | ₱ | **9,068,918.78**  | ₱ | **8,188,954.86**  |
|  | ***Net cash Provided by (Used in) Operating Activities*** | ₱ | **5,611,076.70**  | ₱ | **5,111,314.32**  |
|  |  |  |  |  |  |
| **CASH FLOWS FROM INVESTING ACTIVITIES** |  |  |  |  |
|  | **Cash inflows:** | ₱ |  -  | ₱ |  -  |
|  |  |  |  |  |  |
|  | **Cash outflows:** |  |  |  |  |
|  | Purchase/Construction of Property, Plant and Equipment | ₱ | 16,500.00  | ₱ | 34,425.40  |
|  | **Total cash outflows** | ₱ | **16,500.00**  | ₱ | **34,425.40**  |
|  | ***Net cash Provided By (Used In)Investing Activities*** | ₱ | **(16,500.00)** | ₱ | **(34,425.40)** |
|  |  |  |  |  |  |
| **CASH FLOWS FROM FINANCING ACTIVITIES** |  |  |  |  |
|  | **Cash inflows:** |  |  |  |  |
|  | Proceeds from Domestic and Foreign Loans | ₱ | 525,000.00  | ₱ |  -  |
|  | **Total cash inflows** | ₱ | **525,000.00**  | ₱ |  **-**  |
|  |  |  |  |  |  |
|  | **Cash outflows:** |  |  |  |  |
|  | Payment of Long-Term Liabilities | ₱ | 1,112,138.00  | ₱ | 952,892.52  |
|  | Payment of Interest on Loans and Other Financial Charges |  | 1,133,288.63  |  | 1,184,883.48  |
|  | **Total cash outflows** |  | 2,245,426.63  |  | 2,137,776.00  |
|  | ***Net cash Provided By (Used In) Financing Activities*** | ₱ | **(1,720,426.63)** | ₱ | **(2,137,776.00)** |
|  |  |  |  |  |  |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | ₱ | **3,874,150.07**  | ₱ | **2,939,112.92**  |
| **CASH AND CASH EQUIVALENTS, JANUARY 1** | ₱ | **6,136,680.70**  | ₱ | **3,197,567.78**  |
|  |  |  |  |  |  |
| **CASH AND CASH EQUIVALENTS,DECEMBER 31** | ₱ | **10,010,830.77**  | ₱ | **6,136,680.70**  |

**BACOLOD WATER DISTRICT**

**Statement of Changes in Government Equity**

**For the Year Ended December 31, 2016**

*(With comparative figures for CY 2015)*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Contributed Capital** |  | **Retained Earnings/ (Deficit)** |  | **TOTAL** |
| **BALANCE AT JANUARY 1, 2015** | ₱ | **325,542.96**  | ₱ | **5,386,382.85**  | ₱ | **5,711,925.81**  |
|  |  |  |  |  |  |  |  |  |
| **ADJUSTMENTS:** |  |  |  |  |  |  |
|  | Add/(Deduct): |  |  |  |  |  |  |
|  |  | Changes in Accounting Policy |  |  -  |  |  -  |  |  -  |
|  |  | Prior Period Errors |  |  -  |  |  -  |  |  -  |
|  |  | Other Adjustments |  |  -  |  |  -  |  |  -  |
| **Restated Balance At January 1, 2015** | ₱ | **325,542.96**  | ₱ | **5,386,382.85**  | ₱ | **5,711,925.81**  |
|  |  |  |  |  |  |  |  |  |
| **CHANGES IN EQUITY FOR 2015** |  |  |  |  |  |  |
|  | Add/(Deduct): |  |  |  |  |  |  |
|  |  | Comprehensive Income for the year | ₱ | - | ₱ |  3,107,101.86  | ₱ | 3,107,101.86 |
|  |  | Other Adjustments |  | - |  |  64,588.96  |  | 64,588.96 |
| **Total Changes In Equity December 31, 2015** | ₱ | **-**  | ₱ | **3,171,690.82**  | ₱ |  **3,171,690.82** |
|  |  |  |  |  |  |  |  |  |
| **CHANGES IN EQUITY FOR 2016** |  |  |  |  |  |  |
|  | Add/(Deduct): |  |  |  |  |  |  |
|  |  | Comprehensive Income for the year | ₱ | - | ₱ |  3,524,473.79  | ₱ | 3,524,473.79 |
|  |  | Other Adjustments |  | - |  |  98,305.13  | ₱ | 98,305.13 |
| **Total Changes In Equity December 31, 2016** | ₱ | - | ₱ | **3,622,778.92** | ₱ | **3,3622,778.92** |
|  |  |  |  |  |  |  |
| **BALANCE AT DECEMBER 31, 2016** | ₱ | **325,542.96**  | ₱ | **12,180,852.59**  | ₱ | **12,506,395.55**  |

**NOTES TO FINANCIAL STATEMENTS**

**Brief Historical Background**

The Bacolod Water District (BWD), a government-owned and controlled corporation was created on May 23, 1994 by virtue of Sangguniang Bayan Resolution No. 225. It inherited the water system from the Local Government of Bacolod which was constructed by NAWASA in 1976. On December 6, 1994, the Local Water Utilities Administration (LWUA) issued a Certificate of Conditional Conformance (CCC) No. 543.

All Local Water Districts in the Philippines were declared as Government-Owned and Controlled Corporations (GOCCs) with original charter (PD No. 198), in a case decided by the Supreme Court on September 13, 1991 docketed as GR No. 95237-38 entitled “*Davao City Water District, et al. vs. Civil Service Commission, et al.”*

**Basis of Financial Statement Presentation**

The financial statements have been prepared in accordance with the Generally Accepted State Accounting Principles and Standards, and in compliance with COA Circular Nos. 2015-010 and 2016-006 dated December 1, 2015 and December 29, 2016, respectively, which prescribe the chart of accounts under the Philippine Financial Reporting Standards (PFRS) for government-owned and/or controlled corporations.

**Summary of Significant Accounting Policies:**

* The Bacolod Water District adopted significant accounting policies which are in accordance with the Philippine Financial Reporting Standards (PFRS) for government-owned and/or controlled corporations.
* Revenue and Expense - The accrual method of accounting is adopted for both income and expense.
* Property, Plant and Equipment (PPE)

Property, Plant and Equipment is recorded at acquisition costs less estimated accumulated depreciation. Straight-line method of accounting over the estimated life of the assets is being adopted in the computation of depreciation.

* Liabilities are recognized only when goods are delivered and/or services are rendered or when suppliers’ bills are received.

**NOTE 1. CASH AND CASH EQUIVALENTS**

1. **Cash - Collecting Officer** - represents collections after the cut-off.

|  |  |  |
| --- | --- | --- |
|  | ***2016*** | ***2015*** |
| Cash - Collecting Officer | ~~P~~ 86,054.60 | ~~P~~ 28,620.65 |

1. **Cash in Bank** - consists of the following:

|  |  |  |
| --- | --- | --- |
|  | ***2016*** | ***2015*** |
| General Fund C/A#0322106653 | ~~P~~ 6,382,022  | ~~P~~ 6,697,573.99  |
| Reserve Fund S/A#0321116515 | 2,389,166.00  | 1,964,740.21  |
| Time Deposit S/A#0321223303  |  686,897.33  | 445,745.85  |
| Building Fund C/A # 0322117108 | 466,690.37 | - |
| **TOTAL CASH AND CASH EQUIVALENTS** | **~~P~~ 10,010,830.77** | **~~P~~ 6,136,680.70** |

**NOTE 2. RECEIVABLES -** This account includes all amounts due on open accounts arising from the services rendered to customers for water sales and incidental services.

|  |  |  |
| --- | --- | --- |
|  | ***2016*** | ***2015*** |
| Accounts Receivable |  ~~P~~ 1,172,453.11 |  ~~P~~ 1,146,176.81  |
| Installment Sales Receivable | 272,973.90 |  219,578.85  |
| Other Receivables | 89,632.23 | 32,171.63  |
| Allowance for Bad Debts | (188,684.82) | (155,214.69) |
| **TOTAL RECEIVABLES** | ~~P~~ **1,346,374.42** | **~~P~~ 1,242,712.60** |

**NOTE 3. INVENTORIES**

These include the following:

|  |  |  |
| --- | --- | --- |
|  | ***2016*** | ***2015*** |
| Office Supplies Inventory |  ~~P~~ 371,012.59  |  ~~P~~ 28,716.80  |
| Accountable Forms Inventory |  43,579.70  | 21,650.00 |
| Other Supplies Inventory |  18,900.00  |  374,451.59  |
| **TOTAL INVENTORIES** | ~~P~~ **433,492.29**  | **~~P~~ 424,818.39** |

**NOTE 4. OTHER CURRENT ASSETS**

This account consist of:

|  |  |  |
| --- | --- | --- |
|  | ***2016*** | ***2015*** |
| Prepaid Insurance | ₱ 4,122.00 | ₱ 4,174.00 |

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT**

This account includes the following:

|  |  |  |  |
| --- | --- | --- | --- |
| **ACCOUNT** | **COST** | **ACCUM. DEPR.** | **BOOK VALUE** |
| **LAND**  |  |  |  |
|  | LOT-Esperanza  |  61,021.00  |  -  |  61,021.00  |
|  | LOT-Poblacion  |  432,900.00  |  -  |  432,900.00  |
|  |  | **Total**  |  **493,921.00**  |  -  | **493,921.00**  |
| **BUILDINGS AND OTHER STRUCTURES**  |  |  |  |
|  | Water Plant,Structures & Improvements  |  |  |  |
|  | Reservoirs & Tanks  | 10,130,235.46  |  864,509.62  |  9,265,725.84  |
|  | Structures & Improvements  |  652,625.58  | 121,924.59  |  530,700.99  |
|  | Source of Supply S& I  | 1,513,249.72  |  381,523.01  |  1,131,726.71  |
|  |  | **Total**  | **12,296,110.76**  | **1,367,957.22**  |  **10,928,153.54**  |
| **MACHINERY AND EQUIPMENT**  |  |  |  |
|  | Machinery  | 1,301,075.11  | 790,963.14  |  510,111.97  |
|  | Office Equipment  |  419,573.97  |  214,352.53  |  205,221.44  |
|  | Communication Equipment  |  63,991.50  | 43,231.07  |  20,760.43  |
|  |  | Sub-total  | 1,784,640.58  | 1,048,546.74  | 736,093.84  |
|  |  Other Equipment  |  |  |  |
|  |  | Pumping Equipment  | 1,164,460.70  | 706,475.71  |  457,984.99  |
|  |  | Water Treatment  | 222,500.00  |  2,250.00  |  220,250.00  |
|  |  | Tools  | 158,277.84  | 118,347.23  |  39,930.61  |
|  |  | Sub-total  | 1,545,238.54  |  827,072.94  | 718,165.60  |
|  |  | **Total**  |  **3,329,879.12**  | **1,875,619.68**  |  **1,454,259.44**  |
| **TRANSPORTATION EQUIPMENT**  |  **539,939.34**  |  **328,588.21**  | **211,351.13**  |
| **OTHER PROPERTY, PLANT AND EQUIPT.**  |  |  |  |
|  | Transmission & Distribution  | 14,543,040.79  | 4,451,148.83  |  10,091,891.96  |
|  | Hydrants  | 14,230.00  | 4,589.58  | 9,640.42  |
|  | Services  | 474,595.62  | 466,603.98  | 7,991.64  |
|  |  | **Total**  | **15,031,866.41**  | **4,922,342.39**  |  **10,109,524.02**  |
| **GRAND TOTAL**  | **31,691,716.63**  | **8,494,507.50**  | **23,197,209.13**  |

**NOTE 6. FINANCIAL LIABILITIES**

These consist of the following:

|  |  |  |
| --- | --- | --- |
|  | ***2016*** | ***2015*** |
| CQ Printing Press | 74,950.00 |  69,200.00  |
| MIE Oro Plast Corp. | 39,870.00 |  35,370.00  |
| Flosystems Import & Export Inc. |  91,740.00  |  |
| Karl-Gelson Industrial Sales |  9,750.00  |  |
| Crown Paper & Stationer |  1,945.00  |  |
| **TOTAL CURRENT LIABILITES** |  **218,255.00** | **104,570.00** |

**NOTE 7. Inter-Agency Payables**

This consist of :

|  |  |  |
| --- | --- | --- |
|  | 2016 | *2015* |
| Due to B I R | 38,368.23 |  24,280.30 |
|  Due to GSIS | 87,193.08  |  80,847.42  |
| Due to PAG-IBIG | 25,088.90  |  20,645.27  |
| Due to PHILHEALTH |  4,475.00  |  4,275.00  |
| Due to Other NGAs-COA |  208,923.95  | 145,228.35  |
|  **Total** |  **364,049.16**  |  **275,276.34**  |

**NOTE 8. Other Payables**

This consist of:

|  |  |  |
| --- | --- | --- |
|  | **2016** | **2015** |
| Celestina Y. Palomaria |  | 6,500.00  |
| PLDT | 2,684.08  | 2,667.50  |
| BIR |  | 1,896.22  |
| **TOTAL** | **2,684.08** |  **11,063.72**  |

**NOTE 9. Financial Liabilities**

This consists of Loans Payable to Local Water Utilities Administration (LWUA). The loans were availed by the District to finance its various water system projects.

| Loan Type | Interest Rate | **2016** | **2015** |
| --- | --- | --- | --- |
| 3-766 | 8.50% | 1,720,160.08  |  1,836,404.56  |
| 4-2258A | 12.50% | 6,816,223.00  | 7,295,887.00  |
| 4-2258B | 12.50% | 1,109,574.00  | 1,187,659.00  |
| 9-0488 | 2% | 11,691,588.74  |   |
| **SUB-TOTAL** |  | **21,337,545.82**  | **10,319,950.56**  |
| LBP -Office bldg | 6% | 525,000.00  |  |
| NLIF | 2% |  | 12,199,920.74  |
| **TOTAL** |   | **21,862,545.82**  | **22,519,871.30**  |

**NOTE 10. Trust Liabilities** consist of:

|  |  |  |
| --- | --- | --- |
|  | **2016** | **2015** |
| Customers’ Deposits Payable | 38,099.00 | 38,099.00 |

**NOTE 11. GOVERNMENT EQUITY**

This account consists of the following:

|  |  |
| --- | --- |
| LGU's piping system installed at Upper Demologan in CY 2000 | 200,000.00  |
| Distribution pipes donated by Barangay Binuni | 15,978.16  |
| Pipes donated by Senator Loren Legarda | 94,564.80  |
| LCD TV with Cable donated by contractor | 15,000.00  |
| **Total** | 325,542.96 |

**NOTE 12. RETAINED EARNINGS** is composed of the following:

|  |  |
| --- | --- |
| Particulars |  Balance  |
| Balance at beginning of period | 8,558,073.67  |
| Changes during the period |  |
| Prior years amortization adjustment |  69,833.48  |
| Reversal of Impairment Loss |  4,671.65  |
| Receivable-Disallowances | 33,000.00  |
| Settlement of disallowances |  (9,200.00) |
| Net Income/(Loss) | 3,524,473.79  |
| Balance at end of period | **2,180,852.59**  |

**NOTE 13. SERVICE AND BUSINESS INCOME** is composed of the following:

|  |  | **2016** | **2015** |
| --- | --- | --- | --- |
| Income from Waterworks System | 40202090 | 13,017,011.70  | 11,939,713.90  |
| Fine & Penalties-Business Income | 40202230 | 466,457.40  |  431,248.40  |
| Interest Income | 40202210 | 16,128.13  |  9,089.47  |
| Other Business Income | 40202990 | 218,135.00  | 196,820.00  |
|  Total |  | 13,717,732.23  | 12,576,871.77  |

**NOTE 14. OTHER NON-OPERATING INCOME** consist of the following:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | ***2016*** | ***2015*** |
| Miscellaneous Income | 40603990 | 346,782.74  | 273,095.23  |

**NOTE 15. PERSONNEL SERVICES** consist of the following:

|  |  |  |
| --- | --- | --- |
| **Salaries & Wages** | ***2016*** | ***2015*** |
| Salaries & Wages- Regular | 2,455,584.96  |  2,305,512.00  |
| **Other Compensation** |  |  |
| Personnel Economic Relief Allowance (PERA) |  264,000.00  |  264,000.00  |
| Representation Allowance | 60,000.00  |  60,000.00  |
| Transportation Allowance |  60,000.00  |  60,000.00  |
| Clothing Allowance |  55,000.00  | 55,000.00  |
| Honoraria |  254,160.00  | 164,160.00  |
| Longevity Pay | 10,000.00  | 5,000.00  |
| Overtime & Holiday Pay | 159,015.56  | 155,051.16  |
| Year-end Bonus |  409,670.00  | 247,126.00  |
| Cash Gift | 55,000.00  |  -  |
| Other Bonuses & Allowances |  22,000.00  | 55,000.00  |
| **Personnel Benefit Contribution** |  |  |
| Retirement and Life InsurancePremiums | 297,174.00  |  276,661.44  |
| PAGIBIG Contributions | 13,200.00  | 13,200.00  |
| Philhealth Contribution |  26,650.00  |  25,650.00  |
| Employees Compensation Insurance Premiums |  13,127.40  | 12,970.80  |
| **Other Personnel Benefits** |  |  -  |
| Terminal Leave Benefits |  98,715.92  |  -  |
| Other Personnel Benefits |  173,000.00  | 265,394.72  |
| **TOTAL PERSONNEL SERVICES** |  **4,426,297.84**  | **3,964,726.12**  |

**NOTE 16. MAINTENANCE AND OTHER OPERATING EXPENSES**

This account consist of the following:

| **Maintenance and Other Operating Expenses** | ***2016*** | ***2015*** |
| --- | --- | --- |
| Travel Expenses-Local | 229,076.59  |  150,003.16  |
| Training Expenses |  91,903.50  | 129,800.00  |
| Office Supplies Expenses | 70,650.35  |  66,980.95  |
| Accountable Forms Expenses | 39,151.00  | 12,600.00  |
| Fuel, oil & lubricant Expenses | 132,293.52  | 124,791.83  |
| Chemical and Filtering Supplies Expenses | 8,200.00  | 12,000.00  |
| Water Expenses | 4,643.00  | 4,377.00  |
| Electricity Expenses | 1,646,946.58  | 1,515,066.75  |
| Postage and Courier Services | 2,895.00  | 4,585.00  |
| Telephone Expenses | 41,875.58  | 43,547.48  |
| Internet Subscription Expenses | 38,156.25  | 38,156.25  |
| Cable, Satellite, Telegraph & Radio Expenses | 3,750.00  | 4,430.00  |
| Legal Services | 2,850.00  |  7,225.00  |
| Auditing Services |  171,140.80  | 188,942.20  |
| Security Services | 168,000.00  | 166,000.00  |
| Consultancy Services |  | 47,000.00  |
| Repairs & Maintenance-Building and Other Structures | 201,547.97  |  |
| Repairs & Maintenance-Machinery and Equipment | 6,588.00  |  50,224.43  |
| Repairs & Maintenance-Transportation Equipment | 40,146.18  | 35,854.40  |
| Repairs & Maintenance-Other Property,Plant & Equipment |  68,206.97  |  138,542.41  |
| Taxes, Duties & Licenses | 285,855.51  |  250,213.03  |
| Fidelity Bond Premiums | 5,625.00  |  |
| Insurance Expenses |  7,798.93  |  7,687.59  |
| Advertising, Promotional & Marketing Expenses | 128,724.40  | 123,074.20  |
| Printing and Publication Expenses |  4,409.00  | 5,465.50  |
| Representation Expenses | 132,846.50  | 82,989.00  |
| Transportation & Delivery Expenses | 1,891.57  | 2,547.58  |
| Rent/Lease Expenses |  78,000.00  | 78,000.00  |
| Membership Dues & Contribution to Organization |  400.00  | 8,792.00  |
| Documentary Stamp Expenses |  17,500.00  |  |
| Donations |  | 18,500.00  |
| Other Maintenance & Operating Expense |  | 132,983.75  |
|  Total | 3,890,584.47  | 3,450,379.51  |

**NOTE 17. FINANCIAL EXPENSES** consist of the following:

|  | ***2016*** | ***2015*** |
| --- | --- | --- |
| Interest Expenses | 1,057,479.00  | 1,184,883.48  |
| Bank Charges |  58,309.63  |  -  |
|  | 1,115,788.63  | 1,184,883.48  |

**NOTE 18. NON-CASH EXPENSES** consist of the following:

|  |  |  |
| --- | --- | --- |
|  | ***2016*** | ***2015*** |
| Depreciation -Building and Other Structures | 360,330.96  | 360,330.92  |
| Depreciation - Machinery and Equipment | 218,745.48  | 244,485.19  |
| Depreciation - Transportation Equipment | 68,708.29  | 83,031.36  |
| Depreciation - Other Property, Plant and Equipment | 421,443.73  | 419,449.49  |
| Impairment Loss-Loans and Receivables | 38,141.78  | 35,579.07  |
|  **TOTAL** | **1,107,370.24**  | **1,142,876.03**  |

**PART – II**

**AUDIT OBSERVATIONS AND RECOMMENDATIONS**

**PART II – DETAILED OBSERVATIONS AND RECOMMENDATIONS**

1. **FINANCIAL AND COMPLIANCE AUDIT**

*Compliance with RA 9184*

**1. Procurement of various supplies and equipment thru shopping or small-value procurement totaling ~~P~~23,816.60 for the period January to June 2016 were not awarded to the lowest quotation, thus, defeating the purpose of promoting competitiveness, economy and efficiency in the government procurement.**

Section 10 of the Revised IRR of R.A. 9184 provides that all procurements shall be done through competitive bidding, except as provided in Rule XVI of this IRR.

Section 48 further provides that subject to the prior approval of the Head of the Procuring Entity, and whenever justified by the conditions provided in this Act, the procuring entity may, in order to promote economy and efficiency, resort to any of the alternative methods of procurement provided in this Rule. In all instances, the procuring entity shall ensure that the most advantageous price for the Government is obtained. Alternative methods shall be resorted to only in the highly exceptional cases provided for in this Rule.

Section 3 (h) of GPPB Resolution No. 09-2009, prescribing the guidelines for shopping and small-value procurement, states that **the award of contract shall be made to the lowest quotation (for goods or infrastructure projects)** or, after successful negotiations, the highest rated offer (for consulting services) which complies with the specifications and other terms and conditions stated in the RFQ.

Records disclosed that for the period January to June 2016, the District procured various supplies and equipment totaling ~~P~~23,816.60 thru shopping and/or small-value procurement. See illustration below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| ***DV No.*** | ***Check/ No.*** | ***Payee*** | ***Particulars*** | ***Amount Suspended*** | ***Per RFQ/ Abstract of Quotation*** | ***Reasons*** |
| 2016-06-314 dated 6/21/16 | 1243231 dated 6/21/16 | **AVK Philippines, Inc.** | Payment of 1 unit AVK Gate Valve 6" dia. | **15,341.60** | **1. AVK Phils. -- ~~P~~15,341.60****2. Agusan Metro Plumbers --- ~~P~~14,675.00****3. FloSystems Import and Export --- ~~P~~14,200.00** | Per RFQ and Abstract of Quotation, the lowest is **FLOSYSTEMS IMPORT and EXPORT**. Pls Submit Justification for the award to AVK Phils., Inc. instead of FLOSYSTEMS. |
| 16-06-289 dated 6/6/16 | 1243204 dated 6/6/16 | **Trendline Center** | Payment of 3 units Wall Fan 18" | **8,475.00** | **1. Trendline Center -- ~~P~~8,475.00****2. Lian Guan -- ~~P~~7,950.00****3. JLS Ambassador -- ~~P~~8,625.00** | Per RFQ and Abstract of Quotation, the lowest is **LIAN GUAN**. Pls Submit Justification for the award to TRENDLINE CENTER instead of LIAN GUAN. |
| **GRAND TOTAL** | **23,816.60** |  |   |

Perusal of the documents related to the procurement revealed that the award of contract was not made to the lowest quotation which complies with the specifications and other terms and conditions stated in the RFQ. Thus, defeating the purpose of promoting competitiveness, economy and efficiency in the government procurement.

Such conditions may have occurred due to failure of the BAC to properly evaluate the price quotations submitted including compliance with the specifications and other terms and conditions as stipulated in the RFQ.

A Notice of Suspension No. 16-001-101-(16)-BacWD dated August 31, 2016 has been issued suspending in audit the said transactions pending submission by the BAC of the justification as to why the award was not made to the lowest quotation.

We have recommended that Management strictly comply with the provisions of R.A. 9184 and with GPPB Resolution No. 09-2009 which prescribes the guidelines for shopping and small-value procurement. Submit justification from the BAC why the award was not made to the lowest quotation.

The Management commented and we quote:

*“Relative to the procurement of 1 unit AVK Gate Valve 6”Φ as per RFQ and Abstract of Quotation the lowest in Flosystems Import and Export. However it is awarded to AVK Philippines amounting P15,341.60 considering the quality of the product and a warranty period of ten years. Although AVK Philippines has the highest offer and the product is of good quality since it is made in Denmark we can assure of its durability. As we experienced on previous procurement of the same product at Flosystems Import and Export it has poor quality. It was easily destroyed/damaged since it is made in China. That’s the reason why the BAC awarded it to AVK Philippines considering the quality and durability of their product.”*

 *Accrual of Expenses*

**2. Expenditures for the month of December 2015 totaling ~~P~~21,931.64 which were paid on January 2016 were not recognized as Accounts Payable in the District’s books of accounts in CY 2015, contrary to Sections 112 and 119 of P.D. 1445, Section 4(a), Chapter 2, Volume I of the NGAS Manual, and Philippine Accounting Standards 1 (PAS 1).**

Section 112 of P.D. 1445 states that each government agency shall record its financial transactions and operations conformably with generally accepted accounting principles and in accordance with pertinent laws and regulations.

Section 119 of the above P.D. further states that all lawful expenditures and obligations incurred during the year shall be taken up in the accounts of that year.

Section 4(a), Chapter 2, Volume I of the NGAS Manual provides for the use of the modified accrual basis of accounting. 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.

Paragraph No. 27 of Philippine Accounting Standards (PAS) 1 (*Presentation of Financial Statements)* requires that an entity should prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

When the accrual basis of accounting is used, an entity recognizes items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.

Also under the matching principle, the payable account for all expenses shall be recognized at the end of the period when expenses are already incurred although not yet paid.

Audit of the disbursements made for CY 2016 disclosed that Telephone and Internet Expenses and Franchise Tax for the month of December 2015 amounting to ~~P~~3,042.97 and ~~P~~18,888.67, respectively, were paid in CY 2016 under DV No. 2016-01-001 and thru LBP Debit facility (for BIR payment of franchise tax). ***(Pls. see APPENDIX A)***.

Verification showed that the expenditures were not initially recognized as accounts payable in CY 2015 and were directly charged to the current year’s Corporate Operating Budget.

Unobligated disbursements and expenses should not be charged against the current year’s operating budget as government agencies can only pay expenses or payables that have been properly recorded and obligated. The unpaid expenditures should have been obligated and recorded as accounts payable in the corresponding year to which they were incurred to comply with the matching principle in accordance with the accrual method of accounting.

The non-accrual of Franchise Tax and Telephone & Internet Expenses for the month of December 2015 resulted to overstatement of expenses and understatement of income in CY 2016 while understating expenses and overstating income of the prior year.

We have recommended that Management use accrual basis in recording assets, liabilities, income and expenses in compliance with the above rules and regulations. Instruct the Accounting Processor to ensure that all expenses or payables at the end of every calendar year shall be obligated in order to fairly present the financial statements as at year end.

The Management commented and we quote:

*“The Accounting Processor noted to obligate all expenses or payables at the end of every calendar year in order to present the financial statements as at year end.”*

 *Recognition of liability*

**3. The accrual of liability for the earned leave benefits of employees was not provided by the district contrary to PAS 19 on the accounting for employee benefits.**

Philippine Accounting Standards (PAS) No. 19 states in its objective to prescribe the accounting and disclosure for employee benefits. The standard requires an entity to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future.

The Manual on the New Government Accounting System provides that in view of the preparation of the Statement of Income and Expenses, there is a need for a proper matching of revenues and expenses. Under the matching principle, adjustment should be made for economic activities that have taken place but are not yet recorded at the time the financial statements are prepared. Adjustments are of two main types: accrued items and deferred items.

Verification and review of the financial statements disclosed that there was no provision for the monetary value of unused earned leaves of the District’s employees. The said provision should be treated and recorded as liability in the books.

Based on the balances of accumulated leave credits of employees as of December 31, 2016, the estimated accrued payable for terminal leave benefits should have been set up. Leave credits or balances are tantamount to monetary obligation which is due for settlement in due time.

The non-recognition of the peso value of earned leave credits of District personnel understates the total liabilities and consequently overstates the income and government equity accounts.

We have recommended that the management shall provide annual budget for the earned leave benefits of the employees, and require the Human Resource Officer to furnish the Accounting Section with a copy of the schedule of earned leave credits of District personnel with the corresponding money value as basis in accounting of the accrued liability.

The management commented and we quote:

*“The water district has provided a separate account deposited at Landbank every month. The office regularly allocated P30,000.00 a month.”*

**COMPLIANCE WITH TAX LAWS AND REGULATIONS**

The Management as a withholding agent of the Bureau of Internal Revenue fully complied with BIR Regulations on withholding of taxes.

1. **STATUS OF SUSPENSIONS, DISALLOWANCES AND CHARGES**

| **Particulars** | **Balance as of Dec. 31, 2015** | **Issued in CY 2016** | **Settled in CY 2016** | **Balance as of Dec. 31, 2016** |
| --- | --- | --- | --- | --- |
| Notice of Suspensions | - | 23,816.60 | 23,816.60 | - |
| Notice of Disallowances | - | 33,000.00 | 9,200.00 | 23,800.00 |
| Notice of Charges | - | - | - | - |
| **Total** |  | **56,816.60** | **33,016.60** | **23,800.00** |

**PART – III**

**STATUS OF IMPLEMENTATION**

**OF PRIOR YEARS’ AUDIT RECOMMENDATIONS**

**PART III – STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS**

 We made a follow-up on the action taken by the District to implement the recommendations of CY 2015 AAR and noted the following:

|  |  |
| --- | --- |
| ***Status of Implementation*** | ***No. of Recommendations*** |
| Fully Implemented | 9 |
| Partially Implemented | 1 |
| On-going |  |
| Not Implemented |  |

| ***OBSERVATIONS AND RECOMMENDATIONS*** | ***REF*** | ***MANAGEMENT ACTION*** | ***STATUS OF IMPLEMENTATION(Full, Partial, Ongoing, Non-implementation)*** | ***RESULTS OF AUDITOR’S VALIDATION***  |
| --- | --- | --- | --- | --- |
| **CY 2015 AAR**1. **The accuracy and reliability of the year-end balance of Loans Payable - Domestic cannot be ascertained due to the unreconciled variances aggregating ~~P~~69,833.48 between the balance per books and balance per LWUA schedule of amortization.**

We recommended that Management require the Accounting Unit to reconcile the noted variances between the recorded balances of Loans Payable-Domestic against the amount per LWUA in its schedule of amortization, and to effect the necessary adjusting entries, if any, to reflect the correct balances of the account. | 2015 AAR | Complied with the audit recommendation | Fully Implemented | Verified with JEV No. 016 dated Jannuary 29, /2017 |
| 1. **Purchases of office supplies amounting to ~~P~~18,628.74 were improperly recorded as outright expense instead of inventory upon delivery, contrary to Section 43, Volume 1 of the New Government Accounting Systems Manual, thus, affecting the accuracy of the balances of Inventory accounts.**

We recommended and Management agreed to record purchases of office supplies as inventory upon delivery and only those that are actually utilized should be taken up as expense based on the Monthly Report of Supplies and Materials Issued (MRSMI) duly supported with the RIS.We also recommended to stop recording purchases of accountable forms as Office Supplies Inventory (Account Code 155) and instead record it as Accountable Forms Inventory (Account Code 156). |  | Management promised to comply with the audit recommendation | Fully Implemented | Verified by JEV No. 166 dated Oct. 31, 2016. |
| 1. **Annual Physical and Chemical Water Quality Analysis of Pumping Stations I & II and monthly water analysis were recorded as Other Supplies Expense contrary to COA Circular No. 2004-008 dated September 20, 2004, which resulted to overstatement of the said account.**

We recommended and Management agreed to use the account Other Maintenance and Operating Expenses (Account Code 969) to record payments of water analysis. |  | Management promised to comply with the audit recommendation | Fully Implemented  | Verified by JEV No. 148 dated September 30, 2016. |
| 1. **The District** **paid an excess amount of ~~P~~33,000.00 in registration fees for conventions conducted by PAWD and for seminars conducted by MAWD, contrary to National Budget Circular (NBC) No. 486 dated March 26, 2003.**

We recommended that Management discontinue payment of registration fees to seminars, conventions and conferences in excess of ~~P~~1,200.00 per day per participant in compliance with NBC No. 486. |  | Management promised to comply with the audit recommendation | Fully Implemented | The excess amount was recomputed at 23,800.00 only and concerned officials have fully paid the amount at 200 to 500 pesos per month as evidenced by the following Official Receipts:6597570 , 65975856597571 , 65976036597572 , 65976066597573 , 65976056597574 , 65976046597557 , 65976076597558 , 65976236597560 , 65976296597559 , 65976306597561 , 65976316597652 , 65976326597653 , 65976336597654 , 65976946597655 , 65976956597656 , 65976966597678 , 65976976597670 , 65976986597671 , 65977316597672 , 65977216597673 , 65977226597674 , 65977236597778 , 65977246597779, 65977256597780 , 65978006597781 , 65978016597782 , 65978026597810 , 65978036597811 , 65978046597812 , 65978286597813 , 65978296597814 , 65978306597862 , 65978316597863 , 65978326597864 , 65978786597865 , 65978796597866 , 65978806597893 , 65978816597894 , 65978826597988 , 65979896598025 , 65979906598026 , 65979916598027 , 65980446598028 , 65980456598029 , 65980466598085 , 65980476598086 , 65980486598087 , 65981036598088 , 65981046598089 , 65981056598138 , 65981066598139 , 65981076598140 , 65981586598141 , 65981596598142 , 65981606598161, 6598162 |
| 1. **District funds totaling ~~P~~7,892.00 were used to pay for membership fees and annual dues to Philippine Association of Water Districts (PAWD) and Northern Mindanao-Natural Resources Management Council (NORMIN-NRMC) which were considered to be irregular and unnecessary expenditures contrary to P.D. No. 1445 and COA Circular No. 2012-003 dated October 29, 2012.**

We recommended and Management agreed to exercise prudence and to strictly adhere to the provisions of the P.D. No. 1445 and COA Circular No. 2012-003 in the payment of membership fees and annual dues. |  | Management promised to comply with the audit recommendation | Fully Implemented | The former auditor have settled the amount as this disbursement concerns a recognized government organization or association and not a private association. |
| 1. **District funds totaling ~~P~~18,000.00 were used to pay for donations and financial assistance to various beneficiaries contrary to COA Circular No. 2012-003 dated October 29, 2012 and Administrative Order No. 103 dated August 31, 2004.**

We recommended and Management agreed to exercise prudence and to strictly adhere to the provisions of the COA Circular No. 2012-003 and A.O. No. 103 in the grant of donations and financial assistance. |  | Management promised to comply with the audit recommendation | Fully Implemented | For the year 2016, the District did not disbursed expenses relating to donations. |
| 1. **Request For Price Quotations and the Notice of Award for various procurement of supplies and materials under alternative methods were not posted in the PhilGEPs website and in any conspicuous place at the premises of the District contrary to Section 54.2 and 54.3 of the Revised IRR of R.A. 9184 and Section 3 (d) and (i) of GPPB Resolution No. 09-2009.**

We recommended that Management strictly comply with Section 54.2 and 54.3 of the Revised IRR of R.A. No. 9184 and Section 3 (d) and (i) of GPPB Resolution No. 09-2009 on the posting of the request for submission of Price Quotations and the Notice of Award in the PhilGEPs for procurement with ABCs of over ~~P~~50,000.00. |  | Complied with the audit recommendation | Fully Implemented | The District is now posting request for quotations and notice of awards in the PhilGEPS. |
| 1. **The District’s procurements of various goods were made with reference to brand names contrary to Section 18 of the Revised IRR of R.A. 9184.**

We recommended and Management agreed to strictly comply with Section 18 of the Revised IRR of R.A. 9184 that specification for the procurement of goods shall be based on relevant characteristics and/or performance requirements and that reference to brand names shall not be allowed. |  | Complied with the audit recommendation | Fully Implemented | Purchase Request for CY 2016 do not state brand names and only relevant characteristics and/or performance requirements are stated. |
| 1. **The District entered into contract with a private entity for the design and development of its official website including web hosting contrary to Administrative Order No. 39 dated July 12, 2013 and DOST-ICTO Memorandum Circular No. 2015-001 dated April 27, 2015.**

We recommended that Management completely migrate their website to the GWHS. The existing contract with Nathaniel Internet Café and Web Services for web hosting service should not be renewed and that Management coordinate with the ICT Office, in compliance with Section 7.2 of M.C. No. 2015-001 dated April 27, 2015 of issued by DOST-ICT Office. |  | Complied with the audit recommendation | Fully Implemented | Verified. Contract with web designer was not renewed. |

**PART – IV**

**APPENDICES**

Appendix A

AAR Finding No. 2

**BACOLOD WATER DISTRICT**

**Bacolod, Lanao del Norte**

**Summary of CY 2015 Expenses Recognized/Recorded and Paid in CY 2016**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Check No.*** | ***Date*** | ***D.V. No.*** | ***Date*** | ***Payee*** | ***Particulars*** |  ***Gross Amount***  |  ***VAT***  |  ***Net Amount***  |  ***Remarks***  |
| 1176110 | 1/4/2016 | 2016-01-001 | 1/4/2016 | PLDT-Maratel | Telephone and Internet Expenses for November 11 – Dec. 2, 2015 | 3,042.97 | 169.81 | 2,873.16 | CY2015 Expenses recognized and paid in CY2016 |
| LBP DM | 1/5/2016 | - | 1/5/2016 | BIR | Franchise Tax for December 2015 | 18,888.67 | - | 18,888.67 | CY2015 Expenses recognized and paid in CY2016 |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **TOTAL** | **21,931.64** | **169.81** | **21,761.83** |  |

****

*Prepared by:*

 REMY U. PAHUYO

 State Auditor III

 OIC – Audit Team Leader