METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

The Metropolitan Waterworks and Sewerage System (MWSS) or the System is a government-owned and controlled corporation created under Republic Act No. 6234 which was approved on June 19, 1971 replacing the National Waterworks and Sewerage Authority. The System is an attached agency to the Department of Public Works and Highways. Its main objective is to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes to its consumers at just and equitable rates. It also aims to provide sewerage and sanitation services to the public. MWSS owns and has jurisdiction over all waterworks and sewerage system of all the cities and municipalities of Metro Manila, and some municipalities of Cavite and Bulacan.

The MWSS registered office and place of business is at Katipunan Road, Balara, Quezon City.

Because of the felt need for the government to adopt urgent and effective measures and to address the nationwide water crisis which adversely affected the health and well-being of the public, legislators passed into law Republic Act No. 8041, otherwise known as the National Water Crisis Act of 1995, implemented under Executive Order No. 286 dated December 6, 1995, which reorganized the MWSS. The passage of Executive Order No. 311 on March 20, 1996 encouraged the private sector's participation in the operation of the facilities of MWSS and paved the way for its privatization.

Pursuant to a process of a competitive public bidding and selection, MWSS' operations were privatized. Thus, on February 21, 1997, MWSS entered into a Concession Agreement (CA) with two private companies (Concessionaires), namely, the Manila Water Company Incorporated (MWCI) and the Maynilad Water Services Incorporated (MWSI), granting them the rights to manage, operate, repair, decommission and refurbish the Facilities in the Service Area, including the right to bill and collect for water and sewerage services supplied in the Service Area. MWCI operates on the east zone while MWSI services the west zone. The two concessionaires formally took over the operations of MWSS on August 1, 1997. In addition to the performance of the service obligations, the concessionaires are required, under the CA, to pay MWSS concession fees in consideration for such right.

As a result of the privatization in 1997, MWSS is now divided into two Offices, the MWSS-Corporate Office and the MWSS-Regulatory Office.

On March 8, 2001, due to financial difficulties, Maynilad suspended payment of concession fees. From March 2001 to July 2001, MWSS used its own funds to meet the maturing obligations of Maynilad. Thereafter, from July 2001 to 2006, MWSS had to obtain a number of loans from various banks and financial institutions to meet its maturing obligations and expenses which the (unpaid) concession fees from Maynilad were supposed to cover.

Despite continuous negotiations, several disputes between Maynilad and MWSS led the former to issue a "Notice of Early Termination of the Concession" on December 9, 2002. On January 7, 2003, MWSS arbitration proceedings were commenced and on November 7, 2003, the Appeals Panel for Major Disputes ruled that (1) there was no MWSS or Concessionaire Event of Termination under Article 10 of the CA, (2) the parties should continue to perform their obligations under the CA until the expiration thereof, (3) MWSS may draw on the USD120M Performance Bond. The Arbitration Order became final on November 22, 2003.

During the pendency of the corporate rehabilitation proceedings, and prior to the drawing on the USD120M Performance Bond, MWSS had to seek funding from other sources to meet its maturing obligations and operating expenses. As a result, on March 16, 2004, MWSS with the Republic as Guarantor, and BNP Paribas, entered into a Subscription Agreement wherein BNP Paribas agreed to subscribe to the MWSS-BNP Notes.

On April 29, 2005, Maynilad submitted to the Rehabilitation Court its 2005 Rehabilitation Plan incorporating the terms and conditions of the Debt and Capital Restructuring Agreement (DCRA) executed between Maynilad, MWSS, Benpress Holdings Corporation, the Suez Group and other lenders. On June 1, 2005, the Rehabilitation Court approved the 2005 Rehabilitation Plan, including the DCRA.

Under Clause 2.6 of the DCRA, MWSS was given the right to subscribe to 83.97% of the shares of Maynilad. On September 8, 2005, the MWSS Board of Trustees resolved to assign the MWSS Subscription Rights pursuant to Clause 24 of the DCRA. After going through the process of competitive public bidding, DMCI-MPIC Water Company, Inc. (DWCI) was awarded the MWSS Subscription Rights and the right to acquire receivables of MWSS, subject to the conditions imposed under the DCRA. On December 27, 2006, MWSS and DWCI entered into an Assignment and Assumption Agreement (AAA) to formalize the award.

In accordance with the AAA, DWCI, decided to effect the early exit of Maynilad from rehabilitation proceeding by contributing cash to the latter and enabling the latter to prepay, among others, its obligations to MWSS under the DCRA. To implement this, DWCI entered into a Prepayment and Settlement Agreement (PSA) with Maynilad, MWSS, the Suez Group and other lenders on August 9, 2007.

Thereafter, MWSS, the Suez Group, and other creditors of Maynilad filed a Joint Omnibus Motion dated August 14, 2007. Acting on the Joint Omnibus Motion, the Rehabilitation Court issued an order dated December 19, 2007 immediately approving the PSA, declaring that Maynilad had successfully implemented the 2005 Rehabilitation Plan subject to the fulfillment of certain conditions, and disallowing the disputed or unresolved claims of MWSS and the Suez Group. On February 6, 2008, the Rehabilitation Court issued another order confirming the December 19, 2007 Order, declaring that the conditions in its previous order have been met, and releasing Maynilad from the corporate rehabilitation proceedings.

During the 11th year of the implementation of the Concession Agreement, the Parties, MWSS and MWCI and Maynilad (under a new Sponsor, DMCI) identified and discussed the option of renewing/extending the Concession Agreement pursuant to the following government policies:

a. To increase investments in water and wastewater improvement projects, to pursue the mandate of the government to accelerate waste water projects, to comply with the Clean Water Act and the recent Supreme Court decision for the clean up and preservation of Manila Bay, and sufficient concession fees to support the implementation of new water source projects as enumerated in the Final Business Plan;

b. To mitigate the impact on tariff increases through the renewal/extension of the Concession Agreement.

On October 19, 2009, the DOF transmitted to the MWSS, the signed letter of Consent and Undertaking in behalf of the Republic the approval of extension of the Concession Agreement of MWCI to an additional of 15 years from May 7, 2022 to May 6, 2037.

On March 17, 2010, the DOF thru the MWSS, again transmitted the signed Letter of Undertaking in behalf of the Republic another approval of 15 years extension of the Concession Agreement of the Maynilad from May 6, 2022 to May 6, 2037.

The Term Extension committed the Concessionaires to increase by 100% the concession fees (Corporate Operating Budget or COB) of the MWSS Corporate Office and the Regulatory Office.

CY 2013 Rate Rebasing Exercise

The Third Rate Rebasing (RR) Exercise was performed to review the performance of the Concessionaires as well as to evaluate the new business plans of MWCI and MWSI. The Exercise sets the rates for water and sewerage services provided by the Concessionaires at a level that will permit them to recover, over the term of the Concession, (net of any grants from third parties and any Expiration Payment) the operating, capital maintenance and investment expenditures efficiently and prudently incurred, Philippine business taxes and payments corresponding to debt service on the MWSS Loans and Concessionaire Loans incurred to finance such expenditures, and to earn a rate of return (referred to as "Appropriate Discount Rate") on these expenditures for the remaining term of the Concession, in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession agreements in other countries having a credit standing similar to that of the Philippines.

Manila Water Company, Inc. (MWCI)

On March 30, 2012, the Concessionaire filed a petition for the determination of its "R: factor for the 3rd Rate Rebasing (RR), proposing an upward adjustment of 22.79% of its average basic water charge or P5.83 per cubic meter beginning January 1, 2013.

However, on September 12, 2013, the MWSS Board of Trustees resolved and adopted the recommendation of the RO to:

- Deny MWCI's petition for an upward adjustment of 22.79% of its average basic water charge or P5.83 per cu.m. beginning January 1, 2013; and
- Approve and effect a negative adjustment of 29.47% of its 2012 average basic water charge of P24.57 per cu.m. to be implemented in five equal tranches of negative 5.894% per Charging Year.

MWCI objected to MWSS' RR determination and commenced arbitration under the 1976 United National Commission on International Trade Law Arbitration Rules, in a case entitled *Manila Water Company, Inc. vs MWSS and the Regulatory Office* which was subsequently docketed with the International Chamber of Commerce (ICC) as Case No. UNC 136/CYK.

On February 27, 2015, the RO received a copy of the Partial Award in ICC Case No. UNC136/CYK. The dispositive portion reads:

a.) Corporate Income Tax (CIT) is not an allowed Expenditures under the CA;

b.) The Appropriate Discount Rate should not be computed fully pre-tax; and c.) Each Party is to bear its own legal and other costs. The cost of the arbitration including the fees and expenses of the Appeals Panel are to be borne equally by MWSS and MWCI.

On April 21, 2015, the RO received a copy of the Final Award in ICC Case No. UNC136/CYK. The Appeals Panel resolved to:

a.) Affirm that the parties have reached agreement on the Rate Rebasing Adjustment after taking to account the Partial Award dated February 26, 2015;

b.) Order that the Rate Rebasing Adjustment for the period 2013 to 2017 be set as a negative adjustment of 11.05% of MWCI's 2012 average basic charge of P25.07 per cu.m. or negative P2.77 per cu.m. to be implemented in 5 equal tranches of negative 2.21% per charging year, pursuant to Article 9.4.3 (ii) of the CA; and

c.) Order that each party is to bear its own legal and other costs.

On April 30, 2015, the RO transmitted its Resolution No. 2015-0905-CA to the MWSS Board of Trustees containing the determination of MWCI's 2015 Rate Adjustment Limit (RAL) as follows:

a.) To set the 2015 RAL of MWCI at negative 2.42% to be applied on the prevailing basic charge; and

b.) To recommend the publication of the 2015 Table of Standard Rates for MWCI pursuant to the requirement under Section 12 of the MWSS Charter that such "rates and fees shall be effective and enforceable fifteen (15) days after publication in a newspaper of general circulation."

Board Resolution No. 2015-058-RO dated May 8, 2015 resolved, approved and confirmed the above recommendation. The Rate Adjustment of MWCI took effect June 1, 2015.

Maynilad Water Services Inc. (MWSI)

On March 30, 2012, the MWSIfiled a petition for the determination of its "R" factor for the 3rd Rate Rebasing, proposing an upward adjustment of 24.69% of its average basic water charge or P7.41 per cubic meter beginning January 1, 2013.

On September 14, 2012, MWSI revised their proposed rate adjustment to 34.06% of its average basic charge – or an equivalent increase of P10.31 per cu.m.

Pending the final determination of the "R", MWSI, in a letter dated November 26, 2012, sought an interim rate increase of at least 20% of P2.06 per cu.m. of the anticipated "R" based on its September 2012 Business Plan. The MWSS Board of Trustees, upon the recommendation of the RO in Resolution No. 2012-010-CA dated December 3, 2012, declined MWSI proposed interim rate increase, but allowed the "C" factor of 3.2%.

On September 12, 2013, the MWSS Board of Trustees resolved and adopted the recommendation of the RO to:

- Deny MWSI's petition for an upward adjustment of its 2012 average basic water charge; and
- Approve and effect a negative adjustment of 4.82% of its 2012 average basic water charge of P30.28 per cu.m. to be implemented in five equal tranches of negative 0.964% per Charging year; and

- Discontinue the implementation of the Currency Exchange Rate Adjustment.

MWSI objected to MWSS RR determination and commenced arbitration under the 1976 United National Commission on International Trade Law Arbitration Rules, in the case entitled *Maynilad Water Services, Inc. vs MWSS and the Regulatory Office* which was subsequently docketed with the ICC as Case No. UNC 141/CYK.

MWSI argued that the RO erred in the Rate Rebasing Determination and enumerated the following grounds for its objection to and disagreement with the same:

1. Unauthorized disallowance of corporate income tax;
2. Incorrect estimate of the ADR for Future Cash Flows;
3. Unauthorized adjustments to the Opening Cash Position set during the last Rate Rebasing;
4. Improper addition of Guaranty Deposits to Maynilad's historical and future receipts;
5. Unreasonable and improper disallowances in other expenditures in the Opening Cash Position; and
6. Unreasonable and improper adjustment to other expenditures in the Future Cash Flows.

On December 29, 2014, the Appeals Panel in the MWSI dispute promulgated its Final Award as follows:

1. By majority, finds that MWSI is entitled to include its Corporate Income Tax (CIT) in its Future Cash Flows for each year of operation;
2. By majority, upholds MWSI's alternative Rebasing Adjustment for the 4th Rate Rebasing Period of 13.41%, which means an average basic water charge of P30.28 per cu.m. resulting in an adjusted rate of P34.34 per cu.m for every charging year of the 4th Rate Rebasing Period;
3. Unanimously decides that each Party shall bear its own legal costs and that the costs of the arbitration shall be borne by the Parties equally;
4. Unanimously orders MWSS to reimburse to MWSI the sums of USD15,012.50, Php540,502.81 and HKD179.73, representing MWSS' share of the costs of the arbitration that were advanced by the MWSI; and
5. Dismiss all other claims.

Finding the conclusion reached by the Appeals Panel in the MWSI Dispute as directly in contrast to the conclusions reached in the MWCI Dispute, particularly as regards the treatment of Corporate Income Tax (CIT) as a recoverable expense, the MWSS Board of Trustees, in its Resolution No. 2015-039-RO dated March 31, 2015, approved the recommendation of the RO for the partial implementation of the Arbitral Award with respect to items not related to CIT.

In its letter dated April 24, 2015, MWSI maintained that it is not amenable to the partial implementation of the Final Award and stated that:

1. It will not implement the partial "R" as directed;
2. It will implement the annual "C" factor which has never been in dispute; and
3. It will continue to collect CERA;

MWSI proposed to limit any adjustment on the 2013 average basic charge to the “C” factors for Charging Years 2014 and 2015.

Upon careful review and thorough deliberations, the RO resolved to grant the request of MWSI, for the following reasons:

1. Consistent with the RO Resolution No. 2012-010-CA dated December 3, 2012 and MWSS Board Resolution No. 2012-165 dated December 7, 2012, MWSI shall receive the “C” factor of the RAL pending the final resolution of the “R”;
2. Consistent with RO Resolution No. 13-008-CA dated September 6, 2013 and MWSS Board Resolution No. 2013-100-RO dated 2013-100-RO dated September 12, 2013, MWSI shall no longer collect CERA;
3. Consistent with RO Resolution No. 2015-004-CA dated March 25, 2015 and MWSS Board Resolution No. 2015-039-RO dated March 31, 2015, MWSI will not charge the CIT component of its alternative “R: pending a more definite ruling by a court of justice on the CIT issue; and
4. Consistent with RO Resolution No. 2014-002-CA dated December 17, 2014 and MWSS Board Resolution No. 2013-129-RO dated December 12, 2014, which restored the FCDA adjustments, the proposal will bring regularity to the rate adjustment mechanism under the CA.

On May 14, 2015, the MWSS Board Resolution No. 2015-060-RO resolved, approved and confirmed the resolutions of the RO as follows:

a.) To set the 2015 RAL for MWSI at 7.52% to be applied on the prevailing basic charge;

b.) To implement the discontinuance of the charging the CERA; and

c.) To recommend the publication of the 2015 Table of Standard Rates for MWSI pursuant to the requirement under Section 12 of the MWSS Charter that such “rates and fees shall be effective and enforceable fifteen (15) days after publication in a newspaper of general circulation.”

The Rate Adjustment of MWSI took effect on June 1, 2015.

The recoverability of the Corporate Income Tax is strictly a legal issue, which can only be resolved with finality by a court of law, in this case, by the Supreme Court. To this end, on April 24, 2015, the Office of the Government Corporate Counsel, the statutory counsel of the MWSS, has filed a Manifestation informing the Supreme Court of the Final Awards rendered in the two (2) arbitration cases and the legal dilemma created by them. This is the initial step towards obtaining a final resolution of this issue.

MWCI and MWSI invoked the Undertaking Letter of the Republic under the Concession Agreement. The Concessionaires commenced arbitration with the Republic, as represented by the Department of Finance.

On July 25, 2015, MWSI filed with the Regional Trial Court (RTC) of Quezon City a Petition for Confirmation and Execution of Arbitral Award with Civil Case No. R-QZN-15-06702-CV entitled *Maynilad Water Services, Inc. vs. Metropolitan Waterworks and Sewerage System*. The case is still pending with the RTC.

MWSS Corporate Office Early Retirement Incentive Package (ERIP)

The Office of the President approved on December 21, 2015 the MWSS ERIP chargeable against the MWSS corporate fund with an approved budget of P140 million.

Years of Service	ERIP
Less than 21 years	1.00 x Basic Monthly Pay (BMP) x No. of years
21 to less than 31 years	1.25 x BMP x No. of years
31 years and above	1.50 x BMP x No. of years

Sources of Funds

The following are the sources of funds of MWSS:

- Concession fees collected
- Rentals on leased properties
- Interest income on investments
- Loan availments from foreign and domestic financial institutions
- Collection of raw water and accounts receivable
- Other incidental revenues

Strategic Initiatives and Water Security Legacy Bubble

Water Security Legacy (WSL) Roadmap – MWSS is driven by the Water Security Legacy Roadmap and is composed of seven legacies to help ensure a more holistic, long-term and sustainable approach to water service for Metro Manila and its outskirts. These legacies are:

a) Legacy 1 – Water Resources and Infrastructure Management, Development and Protection

b) Legacy 2 – Water Distribution Efficiency

c) Legacy 3 – Sewerage and Sanitation Compliance

d) Legacy 4 – Water Rates Reviews and Rationalization

e) Legacy 5 – Organization Excellence

f) Legacy 6 – Partnership Development

g) Legacy 7 – Communication and Knowledge Management

Strategic Initiatives – MWSS – CO hereby commits to undertaking the following key programs and/or projects identified as having a significant impact on its Performance Scorecard:

a) Strategic Initiative 1 – New Centennial Water Supply Source Project (NCWSP) - Kaliwa Dam Project (P18.72 billion)

   - Fund Source : Private Proponent under PPP scheme

- involves the financing, design and construction of a raw water supply source with a capacity of 600 MLD, through the commissioning of the Kaliwa Dam, including intake facilities and other pertinent facilities.
- part of the Project is a water conveyance tunnel intended to supply 2,400 MLD of raw water for Metro Manila, thereby reducing heavy dependence on the Angat Dam reservoir.
- Status: Two (2) bidders submitted their prequalification documents on October 16, 2014, and these two (2) bidders were evaluated as pre-qualified to proceed with the bidding proper. Preparation of bidding documents for issuance to the two (2) pre-qualified bidders is ongoing. There is also an ongoing coordination with the LGUs relative to their endorsements of the Project and coordination with DPWH as co-implementor of the Project, as approved by NEDA Board on September 4, 2015. As per latest indicative timeline, the target bid submission date is April 10, 2016; Notice of Award is May 22, 2016; contract signing is June 19, 2016; DED & Financial close is June 2016 – September 2017 and Notice to Commence construction is September 2017.

b) Strategic Initiative 2 –Bulacan Bulk Water Supply Project (BBWSP) (P24.22 billion)

- Funding Source : Private Proponent under PPP scheme
- Aims to provide clean and affordable treated water, will be implemented in three (3) stages, covering 24 water service providers (WSPs) serving 21 municipalities and three cities in Bulacan.
- Will involve the development of surface water source facilities and new groundwater sources; provision of water treatment facilities and lift and booster pump stations; and the installation of new conveyance/transmission lines, among others.

c) Status: Three (3) out of five (5) pre-qualified Bidders submitted their respective bids on October 30, 2015. These three (3) Bidders passed the technical valuation hence their respective financial bid were opened on November 24, 2015; Notice of Award was issued to the winning Bidder, San Miguel & K-Water Consortium on December 7, 2015; compliance by the winning Bidder on the post-award requirements is on-going; There is also continuing coordination with the water districts. The Latest indicative timeline: DED & Financial Close – January – July 2016; Notice to Commence Construction is July 2016 and target completion is July 2018.

d) Strategic Initiative 3 – Angat Water Transmission Improvement Project (AWTIP) (P5.78 billion)

- Funding Source: Loan and GOP counterpart funded by Concession Fees
- Aims to improve the reliability and security of the Angat raw water transmission system through the rehabilitation of existing conveyance and appurtenances from Ipo Dam to the La Mesa Treatment Plant.
- Involves the construction of an additional tunnel, which will allow the alternate closing of older tunnels and aqueducts in the conveyance system. This will enable the conduct of necessary inspection and rehabilitation of portions of the systems without interrupting the transmission of water.

- Status: Eight (8) Bidders submitted their respective bid for the First Stage on June 5, 2015; Bid Evaluation Report (BER) for the First Stage was submitted to ADB on December 16, 2015 for their review and approval; Latest Indicative timeline: Date of start is May 2016 and target completion date is August 2020.

e) Strategic Initiative 4 – Sumag Diversion Project

- Funding Source: Concessionaire' Fund through the Common Purpose Facility (CPF)
- Aims to provide additional raw water (188 MLD) from Sumag River in Gen Nakar, Quezon which will be diverted to Umiray Tunnel to augment water supply in Angat Dam.
- The proposed project involves the construction of appurtence structures of Tyrolean Type Weir, Intake, Desilting Basis with Sluice Way, Transition Channel, Cut and Cover, Tunnel (600 linear meters with 2.70 meters diameter), Open Channel and Intrasite Access connecting to the UATP.
- Status: On-going construction works at 50.073% actual physical accomplishment as against the planned accomplishment of 68.394% or 818.32% negative slippage. Latest indicative timeline: Expected completion date by the Concessionaire, July 2016.

f) Angat Dam and Dykes Strengthening Project (ADDSP)

- National Government released P553M on April 2015
- Involves the strengthening of the dam/dyke & auxiliary spillway, installation of flood forecasting and warning system on dam operation and flood protection works to ensure structural integrity of the dam and dyke and to increase dam storage capacity.
- Aims to mitigate risks as a result of the dam being on the West Valley Fault. It will include the installation of flow forecasting and warning systems beneficial to downstream towns and cities.
- Status: Instead of MWSS, the strengthening works of the dam and dyke will be implemented and funded by K-Water, now known as Angat Hydropower Corporation or AHC pursuant to their contract obligation to undertake mandatory rehabilitation of Angat Dam. Detailed engineering was already completed but the construction works could not commence yet due to the absence of ECC (Environmental Compliance Certificate) which is still in process. Indicative Timeline: Target start of construction is 1st Quarter of 2016 and completion date is 4th Quarter of 2017.

g) Rehabilitation, Operation and Maintenance of Auxiliary turbines 4 and 5 of the Angat Hydro-Electric Power Plant

- Funding Source: Private Proponent under PPP Scheme
- The proposed project involves the rehabilitation and modernization (R & M) of AN4 and AN5 that intends to increase the plant load factor (PLF) from the annual average of 21 percent and 19 percent, respectively, to 60 percent each.

MWSS will enter into a rehabilitation, operation and maintenance with the private sector of the Auxilliary 4 and 5.

- Status: On-going coordination with NEDA relative to the MWSS request for NEDA Board's approval to negotiate directly with the new owner/operator of the Angat Hydro-Electric Power Plant (AHEPP), which is the Angat Hydropower Corp (AHC), and an exemption from the 2013 NEDA Joint Venture Guidelines. Latest discussion was held last December 14, 2015 during the NEDA-ICC-Technical Board meeting.

h) Acquisition of 7.5 cms from National Irrigation Administration (NIA)

- In the collective desire of both MWSS and NIA to properly manage the water supply from the Angat Reservoir, the Parties agreed to settle pending issued regarding water allocation and use of water from the Angat Reservoir which includes, NIA's claim for compensation for (i) opportunity losses due to reallocation of water supply from 2000 to 2010 as set out in NIA's letter dated June 14, 2011; and (ii) the reduction of NIA's water rights allocation from 15 cms to 7.5 cms.
- In the process, the MWSS agreed to deliver to NIA the amount of P52M Financial Assistance as and by way of final settlement of NIA's claim for compensation for NIA's Opportunity Losses.
- MWSS shall also deliver to NIA the amount of P1B (Compensation) to be sourced from MWSS' Concessionaires the same being part of 2013 Approved Business Plans of the Concessionaires, as and by way of full and final settlement of NIA's claim for Compensation for the 7.5 cms out of the 15 cms granted to MWSS as Additional allocation under NWRB Resolution and MWSS Water Permit.
- Status: MOA between MWSS and NIA was signed on May 11 2015; Joint Petition letter of MWSS and NIA to NWRB requesting the latter to effect the corresponding amendments to NIA and MWSS' water permits forwarded to NWRB on May 12 2015; Invitation to Bid for the Bustos Dam Rehabilitation Project (main works) is expected to be published by July 2015, and the project is expected to start December 2015 and completed by May 2017.

i) Strategic Initiative 5 – MWSS Reorganization

MWSS Corporate Office has an approved Reorganization based on GCG MC 2013-17.

j) Strategic Initiative 6 – Customer Satisfaction Survey

The ultimate customers of both MWSS and Concessionaires are the general public to whom it serves potable water and sewerage and sanitation services in its service area. This is a system for obtaining feedback from our direct customers.

2. Basis of Financial Statement Preparation and Presentation

Basis of Preparation of Financial Statements

The accompanying financial statements have been prepared on a historical cost basis which is generally based on the fair value of the consideration given in exchange of assets. The financial statements of the MWSS Corporate Office and the Regulatory Office are consolidated in this report.

Statement of Compliance

The financial statements have been prepared in conformity with the state accounting principles generally accepted in the Philippines. The System has adopted most of the applicable Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRS/PASs) as aligned with the provisions of the International Financial Reporting Standards (IFRSs).

Functional and Presentation Currency

The financial statements are presented in Philippine pesos, the currency in which the System operates and all values are rounded to the nearest peso unless otherwise indicated.

3. Adoption of Philippine Accounting Standards

3.1 The following accounting standards published by the International Accounting Standards Board (IASB) and issued by the Philippine Financial Reporting Council (PFRSC) were adopted by the System:

- PAS 1, *Presentation of Financial Statements*, (a) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; (b) provides the base criteria for classifying liabilities as current or non-current; (c) prohibits the presentation of income from operating activities and extraordinary items in the statement of income; and (d) specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the company's policies.

- PAS 7, *Statement of Cash Flows,* provides information about the cash flows of an entity which is useful in providing users of financial statements with basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows.

- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, (a) removes the concept of the fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors; (b) updates the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of standards and interpretations that specifically apply; (c) defines material omission or misstatements; and (d) describes how to apply the concept of materiality when applying accounting policies and correcting errors.

- PAS 10*.* *Events after the Balance Sheet Date,* provides a limited clarification of the accounting for dividends declared after the balance sheet date.

- PAS 12, *Income Taxes*, implements a so called ‘comprehensive balance sheet method’ of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a ‘probable profits’ test.

- PAS 16, *Property, Plant and Equipment*, (a) provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment (b) requires the capitalization of the costs of asset dismantling, removal or restoration as a result of either acquiring or having used the asset for purposes other than to produce inventories during the period; and (c) requires measurement of an item of property , plant and equipment acquired in exchange for a non-monetary asset or a combination of monetary and non-monetary assets at fair value, unless the exchange transaction lacks commercial substance. Under the previous version of the standard, an entity measured such an acquired asset at fair value unless the exchanged assets were similar.

- PAS 17, *Leases,* prescribes for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases.

- PAS 18, *Revenue*, prescribes the accounting treatment of revenue arising from certain types of transaction and events. The primary issue in accounting for revenue is determining when to recognize revenue.

- PAS 19, *Employee Benefits*, prescribes the accounting and disclosure for employee benefits. It requires an entity to recognize: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates,* eliminates the deferral/capitalization of foreign exchange differentials. The adoption of the standard resulted in the recognition of gain or loss on foreign exchange transactions.

- PAS 23 (Revised), *Borrowing Costs,* prescribes that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying assets shall form part of the cost of that asset. Other borrowing costs are recognized as an expense. The main change is the removal of the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or productivity of a qualifying asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. An entity is therefore required to capitalize such borrowing costs as part of the cost of the asset. The standard does not require the capitalization of borrowing costs relating to assets measured at fair value, and inventories, even if they take a substantial period of time to get ready for use or sale. The standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009.

- PAS 36, *Impairment of Asset*, establishes frequency of impairment testing for certain intangibles and provides additional guidance on the measurement of an asset's value in use.

- PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, ensures that appropriate recognition criteria and measurements bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the note to enable users to understand their nature, timing and amount.

- PAS 38, *Intangible Assets* outlines the accounting requirements for intangible assets, which are non-monetary assets which are without physical substance and identifiable (either being separable or arising from contractual or other legal rights). Intangible assets meeting the relevant recognition criteria are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortized on a systematic basis over their useful lives (unless the asset has an indefinite useful life, in which case it is not amortized). If recognition criteria of these intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, PAS 38 requires the expenditure on this items to be recognized as an expense when it is incurred.

- PAS 39, *Financial Instruments*: Recognition and Measurement, outlines the requirements for the recognition and measurement of financial assets, financial liabilities and some contract to buy or sell non financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instruments (typically amortized cost or fair value).

- PAS 40, *Investment Property*, applies to the accounting for property (land and/or buildings) held to earn rentals or for capital appreciation (or both). Investment properties are initially measured at cost and, with some exceptions, may be subsequently measured using a cost model or fair value model, with changes in the fair value under the fair value model being recognized in profit or loss.

3.2 Standards and amendments to published standards

MWSS was classified as a Non-Government Business Enterprise pursuant to COA Circular N0. 2015-003 dated April 16, 2015 and shall accordingly adopt the PPSAS in the preparation of the financial statements. Full adoption of the PPSAS will be implemented for the reporting period ending December 31, 2016 after the proper conversion of the financial statements and reconciliation of the accounts.

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash in bank earns interest at the respective authorized government depository bank rates. Cash equivalents are short term, high 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 changes in values. Cash equivalents are for varying period of up to three months depending on the immediate cash requirements of the System, and earn interest at the respective investment rates. Due to the short term nature of the transaction, the fair value of cash and cash equivalents and short term investment approximates the amount at the time of initial recognition.

Receivables

Receivables are recognized and carried at original billed amount. Provision for doubtful accounts on water/sewer accounts receivable prior to privatization is maintained at a level considered adequate to provide for potential losses on receivables. The level of this provision or allowance is based on management's evaluation of collection experience and other factors that may affect collectability.

Property, plant and equipment

Property, plant and equipment (PPE) were either Retained Assets which are those assets that are retained by MWSS at the start of the Concession, Allocated Assets which are those assets assigned to the two Concessionaires, the MWSI and MWCI, and the Common Purpose Facility (CPF) assets.

Property, plant and equipment (PPE), except those fully depreciated and those classified as administration equipment, are stated at appraised value based on the Concessionaire's Asset Condition Report (CACR) of 2010 of the Regulatory Office.

Depreciation of PPE commences once the properties become operational and available for use, and are calculated on a straight-line basis over the estimated useful lives of the property, plant and equipment.

Minor repairs and maintenance costs are expensed when incurred, while major repairs and/or those repairs that will prolong the useful lives of the assets are capitalized.

When property and equipment are retired or disposed of, the cost and the related accumulated depreciation, amortization and accumulated provision for impairment losses, as the case may be, are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

The useful lives and the depreciation and amortization methods are reviewed periodically to ensure that they are consistent with the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Construction in-progress

Construction in-progress is stated at cost. While the construction is in progress, project costs are accrued based on the contractors' accomplishment reports and billings. These represent costs incurred for technical services and capital works program contracted by the System to facilitate the implementation of the project. While the construction of the project is in progress, no provision for depreciation is recognized.

Construction in-progress is transferred to the related Property, Plant and Equipment account when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for service.

Heritage Assets

An oil painting by H.R. Ocampo "Abstract in Red and Black" and the water color painting "Rooster" by Kiukok, both declared National Artists of the Philippines are listed in the PPE. These have yet to be registered in the Philippine Registry of Cultural Property of the National Museum per IRR of RA 10066 otherwise known as The Cultural Heritage Act of 2009.

Long-term foreign loans

Long-term foreign loans are recorded in peso based on the exchange rate at the time of withdrawal and are revalued at the end of each reporting date.

Impairment of financial assets

An assessment is made at each reporting date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the year in which it arises.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to 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.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. In 2004, an impairment loss was recognized by MWSS for the Umiray-Angat Transbasin due to damages caused by typhoons. Since said impairment was effected in the books only in 2005, it was charged directly to Retained Earnings of that year.

Leases

A lease where the lessor retains substantially all the risk and benefits of ownership of the asset is classified as an operating lease.

Revenue recognition

All Concession fees billed/collected/received from the Concessionaires are treated as operating revenue.

Concession fees – Debt Service and Progress Billings are concession fees received from the Concessionaires that are intended for MWSS loan amortization and payments to contractors/suppliers, respectively. These are pass-on payment without any margin in favor of MWSS. Concession Fee – COB is the annual Current Operating Budget being paid by the concessionaires to MWSS for administrative expenditures subject to annual Consumer Price Index adjustment.

Foreign currency-denominated transactions

Foreign currency-denominated transactions are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at reporting date. Foreign exchange gains and losses arising from foreign currency fluctuations are recognized in profit or loss for the period.

Subsequent events

All post year-end events up to the date the financial statements are authorized for issue that provide additional information about the System's position at reporting date (adjusting events) are reflected in the financial statements. Any post year-end event that is material and not an adjusting event is disclosed in the notes to the financial statements.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of fixed assets (including costs incurred in connection with rehabilitation works) are capitalized as part of the cost of the asset. The capitalization commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all activities necessary in preparing the related assets for their intended use are complete.

Judgments and use of estimates

The preparation of the accompanying financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Use of estimates

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

Estimating allowance for doubtful accounts

The System maintains allowances for doubtful accounts at a level considered adequate to provide for potential losses on receivables. The level of this allowance is based on management's evaluation of collection experience and other factors that may affect collectability. The amount and timing of recorded expenses for any period would, therefore, differ depending on the judgments and estimates made for the year.

Estimated useful lives of property, plant and equipment

The System estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The System reviews annually the estimated useful lives of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in the System's estimates brought about by changes in the factors mentioned.

Contingencies

Contingent Liabilities are not recognized in the financial statements.

They 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 are disclosed when an inflow of economic benefits is probable. Contingent assets are not recognized unless virtually certain.

5. Cash and cash equivalents

	2015	2014
Cash on Hand	**459,878**	543,880
Cash in Bank – Local Currency, Current Account	**329,989,879**	96,303,416
Cash in Bank – Local Currency, Savings Account	**8,088,008**	24,553,640
Cash in Bank – Local Currency, Time Deposits	**2,647,259,811**	2,298,665,500
Cash in Bank – Foreign Currency, Savings Accounts	**381,227**	101,091
Cash in Bank – Foreign Currency, Time Deposits	**16,690,582**	27,800,876
	3,002,869,385	2,447,968,403

a. Cash on Hand - This consists of the amount of collection with the Cash Collecting Officers, amount of cash advances granted to designated Regular/Special Disbursing Officers for payment of authorized official expenditures subject to liquidation, and cash granted to Petty Cash Custodians for payment of authorized petty and miscellaneous expenses which cannot be conveniently paid thru check.

b. Cash in Bank - Local Currency, Current Account - This consists of cash in local currency deposited in current account with the Land Bank of the Philippines (LBP) and Philippine National Bank (PNB) which earn interest at respective bank deposit rates.

c. Cash in Bank - Local Currency, Savings Account - This consists of cash in local currency deposited in savings account with the Development Bank of the Philippines (DBP), LBP and PNB which earn interest at respective bank deposit rates.

   The increase in cash is attributed to the receipt of P553 Million from the Department of Budget and Management (DBM) thru the Bureau of the Treasury (BTR) chargeable against NCA No. BMB-F-12-0025139. Such funds shall be used to cover partly the cash requirements of SARO No. F-12-01369 dated 20 December 2012 for the implementation of Strengthening of Angat Dam and Dyke of MWSS particularly for packages for: Instrumentation (Flood Forecasting and Warning System on Dam Operation); and Flow Control Protection Works.

   Said amount shall be transferred to NPC and the Province of Bulacan who will implement the packages to be monitored by MWSS.

d. Cash in Bank – Local Currency, Time Deposits - This consists of placements in local currency time deposits with DBP and LBP.

e. Cash in Bank – Foreign Currency, Savings Account - This represents balances of cash in foreign currency, deposited in savings account with the Bureau of the Treasury and LBP.

f. Cash in Bank – Foreign Currency, Time Deposit - This consists of placements in foreign currency time deposit with LBP.

6. Accounts receivables, net

This account consists of:

	2015	2014 As restated
Trade/business		
Receivables from customers-water, sewer, including raw water accounts	**1,122,932,215**	1,123,078,284
Receivables from concessionaires	**392,780,044**	299,705,759
	1,515,712,259	1,422,784,043
Allowance for doubtful accounts	**(1,117,001,777)**	(1,117,001,777)
	398,710,482	305,782,266

Non-trade receivables		
Intra-agency receivables	**142,555,778**	158,989,806
Inter-agency receivables	**16,154,942**	15,486,300
Due from officers and employees	**36,516,911**	39,359,839
Loans receivables	**49,933,867**	51,753,058
Interest receivables	**3,938,369**	2,476,210
	249,099,867	268,065,213
Total	**647,810,349**	573,847,479

The *Receivables from customers-water, sewer, including raw water* accounts represent the balance of accounts receivables prior to the privatization of MWSS in the amount of P1.117B, the collection of which is highly improbable. Thus, Management set-up the provision for bad debts account for the same amount. Meanwhile, Management is presently considering the process of writing-off the account in accordance with the required procedures.

The *Receivables from concessionaires* represents concession fees for Current Operating Budget, Debt Service and Progress Billing that are outstanding as of balance sheet date.

Intra-agency receivables represents the share of the MWSS-Regulatory Office in the concession fee received from the concessionaires for their current operating budget as provided in the Concession Agreement (CA) and also includes charges for electricity and telephone expenses. The account should have a zero balance after elimination of the reciprocal accounts in the consolidation of the Financial Statements with the MWSS Regulatory Office.

Inter-agency receivables represents collectibles from other government agencies such as the Department of Public Works and Highways (DPWH), Office of the Government Corporate Counsel (OGCC), Supreme Court, Manila International Airport Authority (MIAA), Local Water Utilities Administration (LWUA) and the City of Manila for office rental, electric and water bills. Some of these accounts are classified as dormant. The Management created a task force to work out on all inactive and dormant accounts to be written –off in the books of account.

7. Other receivables

This account consists of the following:

	2015	2014 As restated
Receivables from MWSI	**5,755,194,814**	5,693,588,174
Receivables from MWCI	**190,685,158**	124,599,749
Others	**14,124,923**	13,876,685
	5,960,004,895	5,832,064,608

Details of the *Receivables from MWSI and MWCI* are as follows:

	2015	2014 As restated
MWSI		
Cost of borrowings	**4,238,402,624**	4,201,438,338
Penalty on delayed remittance of Concession fees	**1,118,315,274**	1,118,315,274
Inventory held in trust	**158,479,798**	158,479,798
Penalty for non-payment of borrowing costs	**95,246,566**	95,246,566
Guarantee deposits	**94,996,518**	94,996,518
Mabuhay Vinyl	**4,993,546**	4,993,546
LMG Chemphil	**4,627,025**	4,627,025
Other receivables	**40,133,463**	15,491,109
	5,755,194,814	5,693,588,174
MWCI		
Guarantee deposits	**65,583,130**	65,583,130
Property held in trust	**82,438,411**	43,747,434
Penalty on delayed remittance of Concession fees	**-**	-
LMG Chemphil	**7,730,290**	7,730,290
La Vista	**591,347**	591,347
Other receivables	**34,341,980**	6,947,548
	190,685,158	124,599,749

Cost of borrowings includes the principal, interest and finance charges such as bank conversions, documentary stamps, cable charges and penalties. MWSS is still pursuing the disputed claims on cost of borrowings from Maynilad Water Co., Inc. relative to the BNP Paribas loan. Should MWSS be able to collect additional cost of borrowings, the said amount will represent recovery of the amount loaned under the LBP/DBP Bonds Facility.

Penalty on delayed remittance of Concession fee is disputed by MWSI. On December 19, 2007, the Rehabilitation Court issued an order, Special Proceeding No. Q-03-071 disallowing the penalty and the Order was confirmed on February 6, 2008. MWSS has requested the Commission on Audit in a letter dated February 13, 2012 requesting approval for the dropping from the books of the subject account based on the order of the rehabilitation court.

Property held in trust represents costs of inventories turned-over to the concessionaires upon commencement of the Concession Agreement. Under Sec.16.12 of the Concession Agreement, upon the expiration of the Concession, the Concessionaires shall *transfer to MWSS the inventory having a value* (adjusted for CPI) at least equal to the Inventory made available to the Concessionaire on the Commencement Date.

Guarantee deposits are customer deposits prior to the privatization of MWSS. The amounts were withheld by the two concessionaires from the collection of accounts receivable from water and sewer services of MWSS on the onset of the privatization where the two concessionaires were authorized to collect. Management and the two concessionaires went into reconciliation to arrive at the amount of guarantee deposit to be refunded to MWSS, and

MWCI refunded the amount of P6.6M in 2011. The said amount is being contested by MWSS. The amount to be refunded by MWSI was also established, however to date, MWSI has not remitted the amount due from them.

Other Receivables includes charges to both Concessionaires for National Irrigation Administration's (NIA) compensation billing for opportunity losses amounting to P52 Million in accordance with Addendum to Memorandum of Agreement (MOA) dated June 17, 2015 between MWSS, MWCI and MWSI.

8. Prepayments

This account consists of the following:

	2015	2014 As restated
Advances to suppliers/contractors	**284,369,896**	284,369,896
Prepaid expenses	**16,271,375**	27,608,084
	300,641,271	311,977,980

Advances to suppliers/contractors includes the balance of the 15 percent mobilization costs paid to the contractors/suppliers/consultants of civil works/goods/consultancy services, subject to periodic recoupment during the billing period and project implementation.

9. Property, plant and equipment, net

The details of property, plant and equipment (PPE) are as follows:

	Building, Plant Equipment and Transmission Lines	**Office Furniture and Other Equipment**	**Transportation Equipment**	**Land & Land Improvements**	**TOTAL**
Cost					
January 1, 2015	67,504,541,051	806,046,300	516,976,772	19,226,484,649	88,054,048,772
Additions/ Capitalization		1,667,310	600,000	792,230	685,699,312
Reclassification/ Transfer	2,212,502	25,295,124	18,273,683	682,639,772	45,781,309
Disposal/ Retirement			(1,735,694)		(1,735,694)
December 31, 2015	**67,506,753,553**	**833,008,734**	**534,114,761**	**19,909,916,651**	**88,783,793,699**
Acc. Depreciation					
January 1, 2015	40,211,604,418	689,201,641	377,405,217		41,278,211,276
Depreciation Expense	1,186,714,295	3,932,597	22,834,479		1,216,508,306
Adjustments	2,212,502	22,765,612	15,785,529		37,736,708
December 31, 2015	**41,400,531,215**	**715,899,850**	**416,025,225**		**42,532,456,290**
Carrying Amount December 31, 2015	**26,106,222,338**	**117,108,884**	**118,089,536**	**19,909,916,651**	**46,251,337,409**

	Building, Plant Equipment and Transmission Lines	Office Furniture and Other Equipment	Transportation Equipment	Land & Land Improvements	TOTAL
Cost					
January 1, 2014, as restated	61,206,476,638	665,468,996	462,031,985	12,444,447,118	74,778,424,737
Additions/ Capitalization	6,298,174,081	551,664	21,872,583	6,821,069,146	13,141,667,474
Reclassification/ Transfer	(109,668)	148,373,302	61,797,177		210,060,811
Disposal/ Retirement		(8,347,662)	(28,724,973)	(39,031,615)	(76,104,250)
December 31, 2014	67,504,541,051	806,046,300	516,976,772	19,226,484,649	88,054,048,772
Acc. Depreciation					
January 1, 2014	38,774,804,454	542,943,644	320,427,304		39,638,175,402
Depreciation Expense	1,436,909,632	21,515,086	22,338,994		1,480,763,712
Adjustments	(109,668)	124,742,911	34,638,919		159,272,162
December 31, 2014	40,211,604,418	689,201,641	377,405,217		41,278,211,276
Carrying Amount December 31, 2014	**27,292,936,633**	**116,844,659**	**139,571,555**	**19,226,484,649**	**46,775,837,496**

The increase in the Land account amounting to P683.432 million represents adjustments and appraisal made to record the difference in land area and increase in the land value based on the Concessionaire’s Asset Condition Report (CACR) of 2010 of the Regulatory Office and corrections reflected in the Physical Inventory Committee Report.

10. Construction in-progress

The movements in this account are as follows:

	2015	2014
Balance, beginning	**157,496,267**	6,401,373,994
Additions/New Project	**3,681,544**	109,709,664
Transfers/capitalization	**(959,146)**	(6,353,587,391)
Balance, end	**160,218,665**	157,496,267

The increase in *Construction in Progress* was due to variation order of Sewerage Treatment Plant – 01 (STP-01), while the decrease in the beginning balance of the account was due to the capitalization of five (5) units portable hypochlorination assemblies under contract No. ELN-003 Water Treatment Plane – El Niño Project.

11. Investments

This account consists of the following:

	2015	2014
Held to maturity/Special reserve fund	**379,538,835**	369,457,921
Sinking fund	**29,510,407**	29,510,407
	409,049,242	398,968,328
Stocks and bonds		
MERALCO stocks	**2,151,518**	2,151,518
PLDT investment plan	**372,650**	372,650
	2,524,168	2,524,168
Total	**411,573,410**	401,492,496

Held to maturity/special reserve funds are investments in Fixed Rate Treasury Bonds with varying yield to maturity/interest rates and coupon rates, which will mature from CY 2016 to 2037 with settlement amount ranging from P100,000 to P29,430,649.50.

The special reserve fund with the Bureau of the Treasury, which is intended as guarantee for the financial obligations of MWSS during the concession period, was established in pursuance to Article 2.1 of the Memorandum of Agreement (MOA) between the Department of Finance (DOF) and MWSS.

12. Other assets, net

This account consists of the following:

	2015	2014 As restated
Unserviceable assets	**715,156,452**	715,156,452
Research and development	**6,212,055**	6,212,055
MWSS Share in Angat Dam construction	**14,283,669**	22,406,271
Garnished accounts	**10,613,512**	10,613,512
Guarantee deposits	**10,728,425**	25,452,189
Dormant accounts	**688,359,479**	688,359,479
Total	**1,445,353,592**	1,468,199,958

Unserviceable assets are the costs of land, construction materials and supplies that can no longer be used in projects due to obsolescence or assets which are no longer operational.

13. Payable accounts

This account consists of:

	2015	2014 As restated
Accounts payable	**54,762,536**	87,946,989
Interest payable	**111,479,076**	115,496,526
Dividends Payable	**362,089,381**	508,607,849
Due to officers and employees	**46,822,884**	49,307,702
	575,153,877	761,359,066

Accounts payable includes accrued maintenance and other operating expenses and local counterpart of loans payable.

Due to officers and employees refers to accrued personal services to be paid the following year.

Dividends payable is amount due for CY 2015 which is equivalent to 50% of annual net income in accordance with RA 7656.

14. Inter-agency payables

This account consists of the following:

	2015	2014 As restated
Bureau of Treasury	**87,348,614**	111,300,046
Bureau of Internal Revenue	**4,275,590**	6,704,700
GSIS	**1,220,000**	1,327,550
Pag-IBIG	**84,545**	115,407
Other GOCCs	**51,419**	64,943
	92,980,168	119,512,646

Payable to the Bureau of Treasury pertains to the guarantee fee on existing loans.

Other GOCCs include Philhealth, National Home Mortgage and Financing Corporation.

15. Intra-agency payable

This account represents the share of the MWSS-Regulatory Office in the concession fee received from the concessionaires for their current operating budget as provided in the CA and also includes charges for electricity and telephone expenses. The account should have a zero balance after elimination of the reciprocal accounts in the consolidation of the Financial Statements with the MWSS Regulatory Office.

16. Other liability accounts

This account consists of the following:

	2015	2014 As restated
Guaranty Deposits Payable	**98,252**	99,252
Performance/Bidders/Bail Bonds Payable	**2,513,813**	2,513,813
Trust Liabilities	**595,226,889**	41,638,468
Other Liability Accounts	**107,316,766**	107,914,869
	705,155,720	152,166,402

This account includes 10% retention from contractors' claims, unreturned borrowed materials, cost of flushing, attorneys' fees, guaranty deposits and depository liabilities. It also includes liabilities with existing law suits and money claims.

The increase in trust liabilities is attributed to the receipt of P553 million from the DBM as discussed in Note 5.

17. Long-term liabilities/current portion

This account consists of domestic and foreign borrowing, as follows:

Source	**Maturity Date**	**Currency**	**Annual Interest Rate**	**2015**	2014
Domestic					
DBP/LBP	12/31/18	P	4.50%	**723,214,286**	1,044,642,857
SPIAL	05-15-26	$	9.65%	**188,124,748**	189,706,350
ADB 1746-PHI	02-01-22	P	floating	**208,331,612**	197,072,712
NHA		P	floating	**98,795,399**	98,795,399
IBRD 1272/1282	07-15-20	$	8.50%	**68,118,422**	64,437,087
				1,286,584,467	1,594,654,405

Source	Maturity Date	Currency	Annual Interest Rate	2015	2014
Foreign					
ADB 1379-PHI	07-15-20	$	floating	**1,829,634,133**	1,986,611,096
JBIC (OECF)	02-20-20	Y	2.70%	**1,348,880,777**	1,275,242,898
IBRD 4019-PH	07-01-16	$	floating	**81,990,555**	225,326,568
China Eximbank					
AWUAIP II	01-21-30	$	libor rate	**5,258,345,281**	5,145,690,673
ADB 1150-PHI	10-15-16	$	floating	**48,095,927**	86,656,987
French Protocol	12-31-18	FF	3%-6.8%	**10,713,930**	28,300,046
IBRD 4227 PHI	09-15-17	$	floating	**17,227,724**	23,863,727
				8,594,888,327	8,771,691,995
Total				**9,881,472,794**	10,366,346,400

Current Portion -			
Asian Development bank (ADB)			
1379	270,473,427		
1150	43,564,999	**314,038,426**	269,430,309
Int'l. Bank for Reconstruction & Development (IBRD)			
4019	156,209,075		
4227	8,395,548	**164,604,623**	146,325,913
French Protocol		**16,233,115**	22,065,118
Special Project Implementation Assistance Loan (SPIAL)		**12,419,657**	11,748,459
Total Current Portion		**507,295,821**	449,569,799
Non-Current Portion		**9,374,176,973**	9,916,776,601

On February 10, 2011, the MWSS Board of Trustees unanimously passed Board Resolution No. 2011-017 approving the *P2.250 Billion floating rate Bond Issuance under the DBP-LBP Club deal Arrangement.* The bond issuance was guaranteed by the National Government. The proceeds were used to partly finance the MWSS' maturing 7-year USD 150M 9.25% Fixed rate Bond with the BNP Paribas which matured last March 14, 2011.The bond was drawn in full on March 30, 2011 and payable in seven (7) years with pre-termination option. Interest rate was based on the higher of the BSP Reverse Repurchase (RRP) Facility or BSP Overnight Borrowing Rate.

The *Special Project Implementation Assistance Loan* (SPIAL) is a portion of the National Government's multi-currency loans from the ADB under Loan Nos. 779 & 780. This was relent to MWSS to partly finance the following projects: Manila Water Supply Rehabilitation Project I (MWSRP I), Manila Water Supply Project II (MWSP II), and Metro Manila Sewerage Project (MMSP).

ADB Loan No. 1746 PHI is a sub-loan agreement entered into by and between the Department of Finance and the MWSS on October 13, 2003 for the implementation of the Pasig River Environmental Management and Rehabilitation Sector, a sanitation component of the loan.

NHA Loan was transferred by NHA to MWSS before the privatization that financed the transfer of water and sewer systems of Tondo Foreshore, Dagat-Dagatan and Kapitbahayan. The validity of the account is still subject to confirmation and subsequent preparation of MOA between MWSS, NHA and the two concessionaires.

International Bank for Reconstruction and Development (IBRD) Loan No. 1272/1282- Manila Urban Development Project – are likewise a national government loan relent to MWSS on October 1, 1976. Per subsidiary loan agreement dated October 1, 1976, MWSS shall repay the principal of the subsidiary loan that started on November 15, 1981.

ADB Loan No. 1379 PHI was obtained on November 27, 1995. The primary objectives of the project were to divert an average annual flow of about 15.7 cubic meters per second from the Umiray river basin to the Angat reservoir and to augment the treated water supply capacity of MWSS by about nine cubic meters per second by 1999. The secondary objective of the project was to reduce Non Revenue Water (NRW) by providing support for leak detection and repair activities. It is a twenty (20) year loan with a grace period of five (5) years which will mature on July 15, 2020.

JBIC Loan PH 110 – contracted by Japan and the national government of the Republic of the Philippines in 1990 intended for Angat Water Supply Optimization Project. The proceeds of the loan were treated by MWSS as government equity.

IBRD Loan No. 4019 PH - Manila Second Sewerage Project - was obtained on June 19, 1996. The objectives of the project were to assist the Borrower to a) reduce the pollution of Metro Manila waterways and Manila Bay; b) reduce the health hazards associated with human exposure to sewerage in Metro Manila; and c) establish a gradual low-cost improvement of sewerage services in Metro Manila by expanding the Borrower's septage management program. It is a fifteen (15) year loan with a grace period of five (5) years which will mature on July 1, 2016.

China Eximbank - Angat Water Utilization and Aqueduct Improvement Project Phase II (AWUAIP-II) is being financed through a loan from the Export-Import Bank of China on May 7, 2010 in the amount of US$116,602,000. The Angat Water Utilization and Aqueduct Improvement Project Phase 2 is an offshoot of the Angat Water Utilization and Aqueduct Improvement Project (AWUAIP). To be implemented by the MWSS, the AWUAIP is targeted to maintain and optimize the water conveyance from Angat Dam to the Water Treatment Plants via the Ipo Dam-Bicti-La Mesa Portal system. The project involves the rehabilitation of AQ-5, which supplies half of the raw water for Metro Manila, as well as the construction of AQ-6 in order to recover around 394 million liters of raw water lost to leakages. AWUAIP Phase 2 on the other hand involves the construction of the remaining 9.9km section of AQ-6, and the rehabilitation of AQ-5. The AQ-6 extension aims to completely recover the lost water due to leakages in AQ-5.Repayment period is fifteen (15) years on a semi-annual basis starting January 21, 2015 and will mature on January 21, 2030.

ADB Loan No. 1150 PHI – Manila South Water Distribution Project – was obtained on January 23, 1992. The primary objective of the project was to improve the water supply services of MWSS in the project area. The secondary objective was to reduce the use of ground water, to prevent saline intrusion and land subsidence, as the main source of water for the remaining population not served by MWSS in the project area. It is a twenty (20) year loan with a grace period of five (5) years which will mature on October 15, 2016.

The French Protocol is a French Treasury Credit Facility from the French Republic intended to finance the implementation of the Rizal Province Water Supply Improvement Project (RPWSIP) payable within a period of ten (10) years that started December 2002.

IBRD 4227 PHI was part of the Water Districts Development Project funded by a loan from the World Bank-IBRD. MWSS entered into a subsidiary loan agreement with the Republic of the Philippines through the Department of Finance for a $2.3 Million from said IBRD loan. Repayment period is 15 years on a semi-annual basis starting March 15, 2003 and ending on September 15, 2017 per Schedule 3 of the Loan Agreement between the Republic of the Philippines and the International Bank for Reconstruction and Development dated May 15, 1999.

18. Deferred credits

This account consists of:

	2015	2014
Deferred credits to income - COB	**516,153,382**	725,843,193
Deferred credits to Income – Penalty/Interest on delayed payment of Concession Fee & borrowing costs	**1,213,561,850**	1,213,561,850
Others	**97,095,052**	97,660,254
	1,826,810,284	2,037,065,297

Deferred credits to income- COB account represents annual income concession fee – corporate operating budget received in advance from concessionaires pursuant to the concession agreement. Said account is allocated equally over a period of twelve months to the appropriate income account.

Deferred credits to Income – Penalty/Interest on delayed payment of Concession Fee is the penalty previously charged to MWSI computed based on 364 T-bills rate. The amount was disallowed by the Rehabilitation Court in Court Order approving the Prepayment and Settlement Agreement (PSA) dated December 19, 2007 and Court Order confirming the termination of the corporate rehabilitation proceedings on account of successful implementations of the 2005 Revised Rehab Plan dated February 6, 2008.

The Other Deferred Credits included the following:

Deferred Credits to Income – Others	Received from IBRD as “Grant” intended for Consultancy Services of the Manila Third Sewerage Project (MTSP) in 2005.	P50,821,287
Disposal/Public Auction	Sale from Disposal of Assets which needs to be reconciled with the various subsidiary accounts for identification of assets, its depreciation and gain or loss on sale of assets.	31,419,664
Cost of Lot Housing	Collection from employees for Cost of	13,019,098

	Lot payment (MWSS Housing).	
Miscellaneous – Others	Pasig River Environmental Mgt. & Rehab Sector Dev. Program (PREMSDP)	1,752,679
Miscellaneous – Cash Bond and Others	Cash deposits intended to cover up expenses in cases of breakage, damage to property and cleanliness of renting MWSS facilities which are refundable.	42,100
Amount withheld for liquidated damages	Amount withheld from contractors under dispute	25,705
Deferred VAT Payable – M. Quizon	Subject for adjustment	14,519
Total		97,095,052

19. Capital Stock

MWSS has an authorized capital stock of P8 billion corresponding to 80 million shares at P100 par value, of which P6,095,486,784 were issued and outstanding equivalent to 60,954,867.84 shares.

20. Donated capital

This account represents the costs of waterworks facilities turned-over by private subdivisions by way of a Deed of Donation. It also includes the grant from the Japan International Cooperation Agency (JICA) for the rehabilitation of Balara Water Treatment Plant.

21. Appraisal Capital Stock

The Appraisal Capital Stock is used to record changes in the carrying amount of items of PPE as a result of revaluation. The Revaluation Surplus account has an ending balance of P36.383 billion as shown below:

	2015	2014 As restated
Land	**20,160,080,854**	19,476,648,852
Structures and Improvements	**292,485,820**	292,485,820
Collecting and Impounding Reservoirs	**1,111,404,830**	1,111,404,830
Supply Mains	**3,097,555,968**	3,097,555,968
Distribution Reservoirs and Booster Station	**2,432,331,004**	2,432,331,004
Buildings and Improvements	**485,838,406**	485,838,406

	2015	2014 As restated
Wells and Facilities	**76,762,346**	76,762,346
Water Treatment Equipment	**103,483,461**	103,483,461
Sewer Treatment Equipment	**4,192,576**	4,192,576
Water Treatment Plant	**126,236,850**	126,236,850
Transmission and Distribution Mains	**7,730,461,901**	7,730,461,901
Water Meters	**98,315,762**	98,315,762
Transmission and Discharge Mains	**482,090,989**	482,090,989
Public Faucets/Sanitary Facilities	**15,954,953**	15,954,953
Sewer Treatment Plant and Pumping Stations	**82,942,888**	82,942,888
Hydrants	**9,799,181**	9,799,181
Manholes and Accessories	**13,968,231**	13,968,231
House Water Connection	**8,177,985**	8,177,985
House Sewer Connection	**38,709,103**	38,709,103
Electrical Installation and Lighting System	**12,096,251**	12,096,251
	36,382,889,359	35,699,457,357

The increase amounting to P683.432 million represents adjustments and appraisal made in the Land account as discussed in Note 9.

22. Revenue

This account consists of:

	2015	2014 As restated
Concession Income	**1,194,999,130**	927,773,137
Concession Fee		
Debt Service	**1,066,359,789**	1,273,084,437
Progress Billing	**3,681,544**	157,232,667
Business Income		
Raw Water	**54,023,666**	53,827,304
Rental of Leased Properties	**257,421,277**	86,995,387
Interest on Investments & Deposits	**50,039,227**	46,992,859
Miscellaneous Income	**2,931,218**	6,286,542
Other Fines and Penalties	**8,956**	0
Gains/Loss on Foreign Exchange	**(504,030,291)**	144,163,304
Gain/Loss on Disposed Assets	**247,784**	9,724
Total	**2,125,682,300**	2,696,365,361

Concession Fees – Debt Service and Progress Billings are concession fees received from the Concessionaires that are intended for MWSS loan amortization and payments to contractors/suppliers, respectively. These are pass-on payment without any margin in favor of MWSS.

Concession Income – is the annual Current Operating Budget being paid by the concessionaires to MWSS for administrative expenditures subject to annual Consumer Price Index adjustment.

Business Income - are income resulting from operation, including interest earned from deposits.

Raw Water – are business income from sale of raw water on service areas not covered by the service areas of the MWSI.

Gain or Loss on Foreign Exchange are paper gain/loss as a result of appreciation or devaluation of pesos on loan payments.

Gain/Loss on Disposed Assets – are the difference between book value and income from sale from disposal.

23. Personal services

This account is comprised of the following:

	2015	2014 As restated
Salaries and wages – regular	**68,839,443**	70,512,182
Productivity incentive allowance	**13,430,789**	9,610,716
Other personnel benefits	**8,603,496**	6,102,242
Life and retirement insurance contributions	**8,261,880**	8,509,940
Cash gift/13th month pay	**6,511,177**	6,783,169
PERA	**4,010,407**	4,118,160
Honoraria	**3,509,013**	2,626,690
Representation allowance	**2,815,044**	3,971,634
Transportation allowance	**2,682,307**	2,629,101
Other bonuses and allowances	**1,871,292**	273,000
Clothing allowance	**860,000**	860,000
PHILHEALTH contributions	**693,713**	790,083
Loyalty	**656,500**	-
Terminal leave benefits	**568,214**	816,433
Hazard pay	**436,943**	648,792
ECC contributions	**201,450**	207,550
Pag-IBIG contributions	**201,100**	195,900
Subsistence, laundry & quarter allowance	**74,243**	4,539,815
Provident fund benefit	**-**	1,505,252
Salaries and wages – contractual	**-**	148,838
Longevity pay	**-**	1,032
Total	**124,227,011**	124,850,529

24. Maintenance and other operating expenses

This account consists of the following:

	2015	2014 As Restated
Taxes, duties and licenses	**130,063,132**	6,258,459
Security services	**25,983,902**	22,379,528
Other maintenance and operating expenses	**13,092,922**	2,470,356
Consultancy expenses	**12,462,808**	59,003
Auditing services	**11,163,866**	8,320,266
Janitorial services	**4,068,812**	2,532,244
Other professional services	**3,846,876**	3,632,975
Electricity expenses	**3,668,814**	4,834,189
Advertising expenses	**2,965,150**	1,152,652
Insurance expense	**2,759,350**	2,762,485
Training expenses	**2,538,826**	1,949,362
Office supplies expenses	**2,280,825**	2,923,549
Communication expense	**2,238,400**	2,330,817
Legal Services	**1,979,836**	62,486,171
Extraordinary and miscellaneous expenses	**1,890,363**	892,007
Gasoline, oil and lubricants	**1,546,375**	1,834,374
Representation expenses	**1,534,082**	1,131,730
Repairs and maintenance	**1,034,384**	548,921
Other supplies expenses	**970,454**	470,664
Printing and binding expenses	**900,283**	211,596
Drugs and medicines expenses	**633,956**	93,627
Rent Expense	**514,079**	711,506
Travelling expenses	**274,027**	46,934
Subscription expenses	**140,966**	120,527
Water expenses	**107,015**	259,216
Fidelity bond premiums	**53,491**	57,476
Postage and deliveries	**46,515**	33,515
Membership dues and contributions to organization	**46,006**	70,022
Environment/Sanitary Services	**12,000**	-
Subsidy to Other Funds	**-**	224,967
Donations	**-**	15,000
Total	**228,817,515**	130,814,138

25. Income Tax Expense

Section 18 of the MWSS Charter (R.A. 6234) provides that "All articles imported by the Metropolitan Waterworks and Sewerage System xxx, shall be exempt from the imposition of import duties and other taxes.

BIR Ruling No. DA-088-2001 dated May 16, 2001 ruled that the concession fees paid by the Concessionaires to MWSS, if at all they are in the nature of income, shall be excluded from the gross income subject to tax.

Categorically, MWSS is taxable with respect to its other income other than concession fees received from the concessionaires.

The account Taxes, Duties and Licenses is used to recognize the amount of taxes, duties and licenses and other fees due to regulatory agencies except income tax. This also includes taxes on interest income on savings deposits, time deposits, and government securities of the bond sinking fund/other funds. *(COA Circular 2004-008 and the New Government Accounting Manual)*

MWSS paid Corporate Income Tax in the 2nd Quarter of taxable year 2015 amounting to P44,852,353.74. The same was accounted for as Taxes, Duties and Licenses.

26. Financial expenses

This account consists of:

	2015	2014 As restated
Interest expenses	**277,936,891**	223,295,160
Other financial charges	**52,846,442**	59,185,964
Bank charges	**132,662**	104,378
	330,915,995	282,585,502

27. Contingent Liabilities

MWSS is contingently liable for lawsuits or claims filed by third parties which are either pending in the courts or under negotiations. These cases involve, among others, lease of properties, collection of sum of money, water use conflict issues, payments of claims, protest on real property taxes and tax consequences resulting from revaluation/appraisal of its Property, Plant and Equipment.

a. BIR Tax Assessment

MWSS also received Assessment/Demand Letter requiring the agency to settle tax deficiency for CY 2010 amounting to P30,772,011.57. MWSS is currently exhausting all available legal remedies with the BIR on the subject tax assessments.

b. The System has pending court litigations concerning project contracts and land disputes totaling P29.71 million prior to its privatization in 1997. The MWSS has also disputed the real estate taxes charged by the local government of Quezon City in the amount of P264 million. In 2010, the Quezon City government auctioned some of the properties located in the area. To prevent the inclusion of MWSS property in the auction held in December 2010, the System deposited P30M. The legal issues on the matter are elevated before the Supreme Court and subsequently a temporary restraining order (TRO) was issued on January 21, 2011 enjoining Quezon City government from proceeding with the levy of the subject properties until further orders from the court.

c. Other significant legal cases are as follows:

- MWSS vs. Maynilad Water Services Civil Case R-QZN-15-06702-CV
- Neri Colmenares and Carlos Zarate of Bayan Muna partylist vs. Cesar Purisima, MWSS, et.al GR. 219352
- Lina Francia F. Badeo vs. MWSS for reinstatement with back wages and others
- Lease of MWSS property along Katipunan Ave by SM prime Holdings
- Water for all Refund Movement vs. MWSS GR 208207, GR EnBanc 212581
- Waterwatch Coalition Inc. vs. MWSS GR. 207444/208207/210147
- Gabriel Advincula vs MWSS; GR 179217, Re: Severance Pay
- Alexander Lopez, et al vs MWSS, GR 198693, Re: Contract Collectors Claim
- CSC vs MWSS; indirect Contempt on Alexander Lopez, et.al., Separation Pay and Terminal Leave of Contract Collectors
- Various cases regarding Unlawful Detainer on Land Properties of MWSS

d. MWSS Appraisal Capital Stock (Revaluation Surplus) will result in tax consequences once the actual amount of revaluation surplus is determined through the conduct of appraisal of its Property, Plant and Equipment.

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28. Report on the Supplementary Information Required Under Revenue Regulation No. 15-2010

In compliance with the above regulation, MWSS' taxes and withholding taxes paid and accrued during the year are categorized as follows:

a. Income Tax

For the Second Quarter of CY 2015, MWSS remitted income tax amounting to P20,975,420.47 (net of tax credits).

b. VAT Output Tax

MWSS is a VAT registered company with VAT Output Tax declaration of P34,636,176.42 for the year based on the amount reflected in the Income/Receivables Account of P288,634,803.44.

c. VAT Input Tax

The amount of VAT Input taxes claims are broken down as follows:

Particulars	Amount
Beginning of the year	286,000
Current year's purchases	291,016
Total	577,016
Claim for Tax credits and other adjustments	2,535
Input VAT for 2015 (January)	579,551

d. Other Taxes and Licenses

Particulars	Amount
Local	
Other Taxes and Licenses	130,035,819
BIR Registration Fee	500
BTr (Fidelity Bond)	24,991
Total	130,061,310

e. The amount of withholding taxes categorized into:

Particulars	Amount
i. Tax on Compensation and Benefits	13,562,387
ii. Creditable Withholding Tax/es	681,029
iii. Final Withholding Tax/es	5,183,530
iv. Expanded Withholding Taxes	4,918,823

f. Payment of Penalty of P77.49 million as Withholding Agent

MWSS has received a Preliminary Assessment Notice from the Regional Office of BIR covering the taxable year 2009 amounting to P192M, inclusive of penalties, for deficiency income/VAT/Percentage/Withholding Tax, which has been protested. Last July 18, 2015 a warrant of garnishment was received and payment was made on July 30, 2015 amounting to P77.49 million. Hence, MWSS applied for the abatement of surcharges and penalties to the BIR Commissioner. Finally, a Certificate of Approval for the abatement of surcharge and interest imposed on withholding on compensation, expanded and withholding on Value Added Tax for the taxable year 2009 was issued on November 13, 2015.

29. Unreconciled Asset and Liability Account Balances

The unreconciled balances in the Asset and Liability accounts were taken up in one comprehensive account to be able to monitor the reconciliation being done by the System.

The outcome is as follows:

Particulars	**2015**	2014 As restated
Asset Accounts		
Accounts Receivable	**21,625,745**	21,718,273
Other Receivables	**1,108,354**	1,108,354
Prepayments	**96,513,125**	96,741,496
Property, Plant and Equipment	**32,052,328**	74,507,419
Construction in Progress	**457,018,739**	457,018,739
Other Assets	**(19,575,783)**	(19,575,783)
Total Unreconciled Assets	**588,742,508**	631,518,498
Liability Accounts		
Payable Accounts	**533,802,867**	533,802,867
Inter-Agency Payable	**-**	-
Other Liability Account	**328,113,668**	328,113,668
Deferred Credits	**22,632,720**	22,632,720
Total Unreconciled Liabilities	**884,549,255**	884,549,255
Net Unreconciled Balances	**295,806,747**	253,030,757

30. In compliance with PAS 8 (Accounting Polices, Changes in Accounting Estimates and Errors), the Retained Earnings as of January 1, 2014 has been restated as follows:

Unrestated Balance, January 1, 2014	1,271,432,380
Adjustments:	
Prior Years/Adjustments/Allocated Errors	738,403
Disallowed benefits from 2006 and onwards	227,116
Income/Expense Adjustments	55,131
Payment of Gratuity	(262,348)
Payment of Money Claims – AA, COLA, RA 1616	(733,852)
Consultancy Services that should not be capitalized	(18,595,959)
Adjustment of Depreciation	100,295,567
Dividends for 2013	(479,360,129)
Borrowing Cost that should not be capitalized	(264,170,588)
Total	(661,806,659)
Retained Earnings, January 1, 2014 (As Restated)	**609,625,721**

31. **Compliance with RA 7656**

MWSS paid dividend of P508.608 million in CY 2015 to the Bureau of the Treasury pertaining to the dividend for CYs 2013 and 2014.