

METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
Notes to Financial Statements
For the year ended December 31, 2018

1. GENERAL INFORMATION/ENTITY PROFILE

The Metropolitan Waterworks and Sewerage System (MWSS), a government-owned and controlled corporation, was 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.

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 US\$120 million 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 US\$120 million 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 percent 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, Maynilad 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 (1) immediately approving the PSA, (2) declaring that Maynilad had successfully implemented the 2005 Rehabilitation Plan subject to the fulfillment of certain conditions, and (3) 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 cleanup 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 percent the concession fees (Corporate Operating Budget or COB) of the MWSS Corporate Office and the Regulatory Office.

On December 7, 2015, the MWSS issued a Notice of Award (NOA) to San Miguel Corporation – K Water Consortium for the Bulacan Bulk Water Supply Project. In accordance with the NOA, the Consortium registered the Luzon Clean Water Development Corporation as the newest concessionaire.

On January 15, 2016, the Luzon Clean Water Development Corporation entered into a CA with MWSS for the project. The CA is for a period of 30 years from signing date and may be extended as provided for in the CA. The project shall comprise of the supply of treated bulk water, planning, financing, development, design, engineering and construction of facilities including the management, operation and maintenance in order to alleviate the chronic water shortage and provide potable water needs of the Province of Bulacan.

CY 2018 Rate Rebasing

In CY 2018, Rate Rebasing (RR) was performed which served as basis for reviewing the performance as well as to determine the new business plan that the MWCI and MWSI will undertake. The exercise will also ensure that notwithstanding the changes in the economic and operating assumptions, both concessionaires will be able to recover all its expenditures (Opex, Capex and Income Taxes), plus guaranteed rate of return. As such, the exercise will serve as one of the major drivers of tariff adjustments under the CA.

Section 9.2 of the CA provides that the Standard Rates for water and sewerage services shall be adjusted each year effective January 1 of each Charging Year. In accordance with the (i) the Rate Adjustment Limit set forth in Section 9.2.1., (ii) the adjustment principles set forth in Section 9.2.2 and (iii) the procedures set forth in Sec. 9.2.3.

Rate Adjustment Limit (RAL) is defined as the percentage, either positive or negative, equal to the sum of "C" or the percentage change in the Consumer Price Index, "E" or Extraordinary Price Adjustment and "R" or the Rate Rebasing Convergence Adjustment.

On May 25, 2017, after two failed biddings, the MWSS BOT issued Resolution No. 2017-056-RO that approved the Revised Terms of Reference (TOR) for the procurement services for the 4th RR and its Approved Budget for the Contract (ABC) amounting to P64,664,320.00 using the alternative method of procurement, Negotiated Procurement – Two Failed Biddings.

On August 31, 2017, only Test Consults, Inc. in joint venture with Constantino Guadalquiver & Co. (TCI/CGC) submitted its bid. After the procurement process, the MWSS BOT issued Resolution No. 2017-122-RO dated September 14, 2017 that awarded the contract for the consultancy services for the 4th RR (Contract No. RO-CS2017-001) with a total cost not exceeding P64,555,904.00 to TCI/CGC.

Manila Water Company, Inc. (MWCI)

On September 24, 2018, MWSS RO recommended to the MWSS BOT, among others, for Manila Water Company, Inc. the implementation of partial “R” on a staggered basis as scheduled below:

Year	01 Jan 2019	01 Jan 2020	01 Jan 2021	01 Jan 2022
Php/cu.m.	0.00	2.00	2.00	0.76

On September 27, 2018, as recommended by MWSS RO, the MWSS BOT issued Resolution No. 2018-145-RO for RR determination for Manila Water Company, Inc. for Charging Years 2018 to 2022.

Maynilad Water Services, Inc. (MWSI)

On September 7, 2018 after months of audit, series of meetings and consultations, the MWSS RO recommended to the MWSS BOT, among others, for Maynilad Water Services, Inc. the implementation of partial “R” on a staggered basis subject to the decision by the Supreme Court of the case docketed as G.R. No. 239938, to wit:

Year	01 Jan 2019	01 Jan 2020	01 Jan 2021	01 Jan 2022
Php/cu.m.	0.00	1.95	1.95	0.93

On September 13, 2018, as recommended by MWSS RO, the MWSS BOT issued Resolution No. 2018-136-RO for RR determination for Maynilad Water Services, Inc. for Charging Years 2018 to 2022.

SOURCES OF FUNDS

The following are the sources of funds of MWSS:

- a. Concession fees collected;
- b. Rentals on leased properties;
- c. Interest income on investments;
- d. Loan availments from foreign and domestic financial institutions;
- e. Collection of raw water and accounts receivable; and
- f. 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 Review 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 undertake 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 (P12.2 billion)*

- Fund Source: Official Development Assistance (ODA) - China
- 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:
 1. Notice of Award was issued on December 11, 2018 to China Energy Engineering Corp. Ltd. (CEEC) for the detailed Engineering Design (DED) and construction works;
 2. Notice of Award was issued on November 21, 2018 to the Joint Venture of EDCOP, PRIMEX and SMEC for the consultancy services;
 3. Loan Signing was done on November 20, 2018 during the state visit to the country of China President Xi Jinping;
 4. Ongoing negotiation with lot owners for the Tunnel Outlet Portal;
 5. Ongoing coordination with the ff. agencies:
 - RDC Region IV-A - endorsement granted on November 2018
 - NCIP Region IV-A - for the FPIC
 - EMB-Central - for the ECC
 - DENR IV-A - for the ECC of the access road to the dam site.
 6. On-going construction of access roads by DPWH.
 - Access road to dam site (12 kms.) – 25 percent accomplishments and
 - Access road to Tunnel Outlet Portal (8.87 km.) – 56 percent accomplishment

b. *Strategic Initiative 2 – Bulacan Bulk Water Supply Project (BBWSP) (P16.32 billion)*

- Funding Source: Private Proponent under PPP scheme
- Aims to provide clean and affordable treated water, will be implemented in three stages, covering 24 water service providers (WSPs) serving 21 municipalities and three cities in Bulacan.
- 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.
- Status: On-going construction works (water treatment plant and pipeline conveyance facilities) with an actual over all physical accomplishment of 96.233 percent.

c. *Strategic Initiative 3 – Angat Water Transmission Improvement Project (AWTIP) (US\$133.98M)*

- 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: On-going construction works at 84.48 percent physical accomplishment; TBM Excavation: 5,939 linear meters to date; and Tunnel Concrete Lining: 5,969.40 linear meters out of 6,400 linear meters or 93 percent accomplishment to date.

d. *Strategic Initiative 4 - Angat Dam and Dykes Strengthening Project (ADDSP) (P5.719 billion)*

- Fund Source: Angat Hydropower Corporation (AHC) for the strengthening works of the dam and dyke; National Government for the dam instrumentation and flood protection works
- 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: As of December 31, 2018, the strengthening works and flood protection works is 100% completed. Strengthening works was undertaken by Hanjin, the

contractor engaged by AHC while the Dam Instrumentation was implemented by NPC as per the MOA. On the other hand, the dam instrumentation works is 95% completed with five out of seven contract packages already completed. This is being implemented by NPC as per the MOA.

e. *Strategic Initiative 5 - Rehabilitation, Operation and Maintenance of MWSS-owned Auxiliary turbines 4 and 5 of the Angat Hydro-Electric Power Plant (AHEPP)*

- Funding Source: Private Proponent under PPP Scheme
- The Project involves the opportunity to optimize the benefit from the MWSS-owned auxiliary turbines 4 & 5 by developing the hydropower generation component, a “by-product” of water releases.
- Status: On-going preparation & discussion by the Inter-Agency Technical Working Group (MWSS, DOE, NPC, and PPP Center) on the proposed water and asset sharing agreements with Angat Hydropower Corp. (AHC, the AHEPP owner/operator). These agreements, once finalized, will be discussed/agreed with AHC, and will form part of the bidding documents.

f. *Strategic Initiative 6 – Sumag Diversion Project*

- Funding Source: Concessionaire’s 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 appurtenance 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: This Project is being implemented and funded by the Common Purpose Facility (CPF) Office of the two (2) concessionaires (Manila Water and Maynilad). The Project has not yet resumed as of this date considering that the Provincial Mining and Regulatory Board, Province of Quezon has yet to issue the necessary quarry permit. MWSS/CPF sent the application for quarry permit last February 15, 2017. A letter dated September 3, 2018 was also sent by the CPF Office to follow-up on the status of said application.

g. *Rehabilitation of Umiray Facilities*

- Funding Source: Concessionaire’s Fund through the Common Purpose Facility (CPF)
- Rehabilitation and strengthening of existing tunnel structures/facilities to withstand future typhoons in order to ensure the continuous flow of raw water from the Umiray River to the Angat Reservoir.

- Status: This Project is being implemented and funded by the Common Purpose Facility (CPF) office of the two (2) Concessionaires (Manila Water and Maynilad). The construction works which resumed last January 4, 2018 is on-going at 62.40 percent accomplishment.

h. Strategic Initiative 7 – MWSS Reorganization

MWSS Corporate Office (CO) has an approved Reorganization based on Governance Commission for GOCCs (GCG) MC 2013-17.

The process started late 2017 and placement of positions to the new Organizational Structure set up is being implemented. As of December 31, 2018, 89 out of 128 plantilla positions were filled up, while 23 employees who availed of the Early Retirement Incentive Program (ERIP) were paid. The MWSS-CO has a pending request for additional positions that is currently being assessed by the GCG.

i. Strategic Initiative 8 – 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. The latest study conducted by the UP-CIDS for 2018, which was completed December 2018, was presented to the MANCOM on January 2019.

Board Resolution No. 2019-063-CO dated April 23, 2019 authorized the issuance of the Financial Statements of MWSS pursuant to Section 8 (g) of Republic Act No. 6234, the MWSS Charter.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in compliance with the Philippine Public Sector Accounting Standards (PPSAS) prescribed by the Commission on Audit through COA Resolution No. 2014-003 dated January 24, 2014.

The consolidated financial statements are presented in peso (P), which is also the country's functional currency, and amounts are rounded off to the nearest peso, unless otherwise stated.

The financial statements of the MWSS Corporate Office and the Regulatory Office are consolidated in this report.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Accounting

The consolidated financial statements are prepared on an accrual basis in accordance with the PPSAS.

3.2 Financial Instruments

a. Financial assets

i. Initial recognition and measurement

Financial assets within the scope of PPSAS 29-Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. The MWSS determines the classification of its financial assets at initial recognition.

The MWSS' financial assets include: cash and cash equivalents; trade and other trade receivables; and loans and other loans receivables.

ii. Subsequent measurement

1. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

iii. Derecognition

The MWSS derecognizes a financial asset or, where applicable, a part of a financial asset or part of MWSS of similar financial assets when:

1. the contractual rights to the cash flows from the financial asset expired or waived; and
2. the MWSS has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions set forth in PPSAS 29 – Financial Instruments: Recognition and Measurement; and either the entity has:
 - transferred substantially all the risks and rewards of ownership of the financial asset; or
 - neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the asset.

iv. 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.

b. Financial liabilities

i. Initial recognition and measurement

Financial liabilities within the scope of PPSAS 29 are classified as financial liabilities at fair value through surplus or deficit, or loans and borrowings, as appropriate. The entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

The MWSS' financial liabilities include trade and other payables, loans and borrowings, financial guarantee contracts.

ii. Subsequent measurement

1. Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

iii. Derecognition

A financial liability is derecognized when the obligation under the liability expires or is discharged or cancelled.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit.

3.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Cash in bank earns interest at the respective authorized government depository bank rates. 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.

3.4 Receivables

Receivables are recognized and carried at original billed amount. Provision for impairment 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.

3.5 Property, Plant and Equipment

Property, plant and equipment (PPE) are either Retained 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.

Depreciation of PPE commences once the properties become operational and available for use, and is 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.

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.

3.6 Service Concession Arrangements

The MWSS analyzes all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the MWSS recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price.

In the case of assets other than ‘whole-of-life’ assets, it controls through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the MWSS also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

3.7 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.

3.8 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.

3.9 Leases

Leases in which the MWSS does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term.

Rent received from an operating lease is recognized as income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

3.10 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.

3.11 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.

3.12 Subsequent events

All post year-end events up to the date the financial statements are authorized for issue that provide additional information about the MWSS' 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.

3.13 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.

3.14 *Judgments and use of estimates*

The preparation of the accompanying financial statements in conformity with PPSAS 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.

3.15 *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.

3.16 *Estimating allowance for impairment*

The MWSS maintains allowances for impairment 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.

3.17 *Estimated useful lives of property, plant and equipment*

The MWSS 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 MWSS 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 MWSS' estimates brought about by changes in the factors mentioned.

3.18 *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.

3.19 *Changes in Accounting Policies and Estimates*

The MWSS recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

The MWSS recognizes the effects of changes in accounting estimates prospectively through surplus or deficit.

4. CHANGES IN ACCOUNTING POLICIES

MWSS adopted the following new accounting policies:

4.1. Service Concession Arrangements

MWSS adopted the PPSAS No. 32 – Service Concession Arrangements: Grantor. The new standard includes the requirement for the recognition, measurement, presentation and disclosure of Service Concession Asset and is effective for years beginning on or after May 2015 pursuant to COA Circular No. 2015-003 dated April 16, 2015. This accounting change has no significant impact on MWSS' consolidated financial statements.

5. PRIOR PERIOD ADJUSTMENTS

Particulars	As at December 31, 2018	As at December 31, 2017 (As restated)
Corporate Office	0	28,427,903,790
Regulatory Office	0	80,733,869
Total Prior Period Adjustments	0	28,508,637,659

The Prior Period Adjustment (PPA) account of the Corporate Office for CY 2017 includes P28,427,903,790 previously recorded as Revaluation Surplus under the Philippine Financial Reporting Standards (PFRS). In view of the first time adoption of the PPSAS, said amount is recorded as an adjustment to Accumulated Surplus/(Deficit) of the earliest year being presented.

The PPA account of the Regulatory Office totaling P80,733,869 for CY 2017 includes: (a) credit to the account of P78,508,956 representing the recording of disallowances in compliance with COA Order of Execution No. 2016-097; (b) credit to the account of P2,237,413 representing reversal of excess accrual in CY 2016; and (c) debit to the account of P12,500 representing other adjustments to the beginning balance of CY 2016 Accumulated Surplus/(Deficit).

6. CASH AND CASH EQUIVALENTS

Particulars	As at December 31, 2018	As at December 31, 2017 (As restated)
Cash on Hand	737,764	633,575
Cash in Bank – Local Currency	1,986,531,532	3,796,904,152
Cash in Bank – Foreign Currency	3,235,058	3,090,927
Total Cash and Cash Equivalents	1,990,504,354	3,800,628,654

- 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) that earn interest at respective bank deposit rates. The increase was due to collection of MWCI and MWSI Current Operating Budget for CY 2018 paid in December 2018.
- 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) and LBP that earn interest at respective bank deposit rates.
- d. *Cash in Bank – Local Currency, Time Deposits* - This consists of placements in local currency time deposits with DBP and LBP that are made for varying period. The decrease was due to the termination of various Time Deposit accounts for the settlement of JBIC loan payable to the Bureau of the Treasury, and payment of dividends for CYs 2015 and 2017.
- 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 Deposits* - This consists of placements in foreign currency time deposit with LBP.

7. RECEIVABLES

7.1. Loans and Receivables

Particulars	2018	2017 (As restated)
Accounts Receivable	1,551,679,436	1,550,429,294
<i>Allowance for Impairment –A/R</i>	(1,117,001,777)	(1,117,001,777)
Interests Receivable	4,084,526	5,082,918
Loans Receivable	47,839,362	48,898,702
Total	486,601,547	487,409,137

Accounts Receivable account consists of the following:

Receivables from customers-water, sewer, including raw water account includes the balance of accounts receivables prior to the privatization of MWSS in the amount of P1.117 billion, 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, such as the congressional approval.

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

7.2. Inter-Agency Receivables

Particulars	2018	2017 (As restated)
Due from National Government Agencies	18,287,291	16,198,466
Due from Local Government Units	13,024	13,024
Due from Government Corporations	2,912,430	2,678,562
Total	21,212,745	18,890,052

Inter-Agency receivables represent collectibles from other government agencies such as the Department of Public Works and Highways (DPWH), Office of the Government Corporate Counsel (OGCC), Supreme Court of the Philippines (SC), 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.

7.3. Other Receivables

Particulars	2018	2017 (As restated)
Receivables-Disallowances/Charges	1,197,342	1,197,342
Due from Officers and Employees	119,115,533	127,498,299
Other Receivables	5,617,810,264	5,609,931,853
Total	5,738,123,139	5,738,627,494

The *Other Receivables* account consists of the following:

	2018	2017 (As restated)
Receivables from MWSI	5,437,212,844	5,432,234,484
Receivables from MWCI	164,563,535	163,997,996
Others	15,535,473	13,200,961
Subtotal	5,617,311,852	5,609,433,441
Unreconciled Balances	498,412	498,412
Total	5,617,810,264	5,609,931,853

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

	2018	2017 (As restated)
MWSI		
Cost of borrowings	3,952,833,428	3,952,833,428
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	82,712,512	82,712,512
Mabuhay Vinyl	4,993,546	4,993,546
LMG Chemphil	4,627,025	4,627,025
Other receivables	20,004,695	15,026,335
Total	5,437,212,844	5,432,234,484

	2018	2017 (As restated)
MWCI		
Guarantee deposits	65,583,130	65,583,130
Inventory held in trust	82,438,412	82,438,412
LMG Chemphil	7,730,290	7,730,290
La Vista	591,347	591,347
Other receivables	8,220,356	7,654,817
Total	164,563,535	163,997,996

Cost of borrowings include 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 Services, Inc. relative to the BNP Paribas loan.

Penalty on delayed remittance of Concession fee is disputed by MWSS. 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 out of the subject account from the books based on the order of the rehabilitation court.

Inventory held in trust represents costs of inventories turned-over to the concessionaires upon commencement of the Concession Agreement. Under Section 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 deposit 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, where MWCI refunded the amount of P6.6 million in 2011 while MWSS the amount of P12.284 million in August 2017.

8. OTHER ASSETS

8.1. Current and Non-Current Other Assets

Particulars	2018		2017 (As restated)	
	Current	Non-Current	Current	Non-Current
Advances	62,681	0	0	0
Prepayments	797,742,809	0	903,702,689	0
Deposits	2,888,349	10,828,425	2,888,349	10,828,425
Other Assets	0	1,402,092,204	0	1,401,032,777
Restricted Fund	0	77,966,274	0	76,587,590
Total	800,693,839	1,490,886,903	906,591,038	1,488,448,792

Prepayments account includes *Advances to suppliers/contractors* that represent 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.

The Other Assets account consists of the following:

	2018	2017 (As restated)
Unserviceable Assets	1,215,907,581	1,214,848,154
Research and Development	6,212,055	6,212,055
Garnished Accounts	10,613,512	10,613,512
Dormant Accounts	169,359,056	169,359,056
Total	1,402,092,204	1,402,092,204

The above balances were carried forward since the implementation of the eNGAS in year 2007. Some of the accounts are subject to reconciliation while some are to be requested for write off such as dormant receivable accounts in which there is a high probability of uncertainty of collection.

Restricted Fund is the amount set aside by Regulatory Office earmarked solely for future arbitrations.

9. OTHER INVESTMENTS

Particulars	2018	2017 (As restated)
Investments in Non-Marketable Securities	421,758,625	412,234,466
Investment in Stocks	2,524,168	2,524,168
Total	424,282,793	414,758,634

Investments in Non-Marketable Securities 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 *Investments in Non-Marketable Securities* 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.

10. PROPERTY PLANT AND EQUIPMENT, net

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

	Building and Other Structures	Furniture, Fixture and Books	Machinery and Equipment	Transportation Equipment	Land	Concession Assets	Construction in Progress	Total
Carrying Amount, January 1, 2018	5,677,588,804	6,787,643	172,168,450	28,190,427	13,431,930,942	69,548,093,716	302,277,961	89,167,037,943
Additions/Capitalizations	0	35,714	3,964,202	2,989,354	0	19,736	1,491,126,971	1,498,135,977
Reclass/Transfers	0	(403,084)	(397,826)	0	0	(23,220,034)	0	(24,020,944)
December 31, 2018	5,677,588,804	6,420,273	175,734,826	31,179,781	13,431,930,942	69,524,893,418	1,793,404,932	90,641,152,976
Unreconciled Balances	0	0	258,914,231	15,506	(10,319,400)	23,691,892	457,018,739	729,319,968
Reclass/Adjustment	0	0	0	0	0	0	0	0
Subtotal	0	0	258,914,231	15,506	(10,319,400)	23,691,892	457,018,739	729,319,968
December 31, 2018	5,677,588,804	6,420,273	434,649,057	31,195,287	13,421,611,542	69,548,585,310	2,250,423,671	91,370,473,944
Accumulated								

	Building and Other Structures	Furniture, Fixture and Books	Machinery and Equipment	Transportation Equipment	Land	Concession Assets	Construction in Progress	Total
Depreciation								
January 1, 2018	2,888,601,827	5,169,384	146,342,040	20,470,003	0	41,569,632,914	0	44,630,216,168
Depreciation	85,320,480	123,289	2,135,435	1,156,877	0	857,639,693	0	946,375,774
Additions	0	0	0	0	0	0	0	0
Reclass/Transfer	(37,727)	(333,443)	(1,428,034)	(2,917,481)	0	(20,862,289)	0	(25,578,974)
December 31, 2018	2,973,884,580	4,959,230	147,049,441	18,709,399	0	42,406,410,318	0	45,551,012,968
Unreconciled Balance	0	0	233,922,550	(756,617)	0	21,322,703	0	254,488,636
Reclass/Adjustment	0	0	0	0	0	0	0	0
Subtotal	0	0	233,922,550	(756,617)	0	21,322,703	0	254,488,636
December 31, 2018	2,973,884,580	4,959,230	380,971,991	17,952,782	0	42,427,733,021	0	45,805,501,604
Carrying Amount, December 31, 2018	2,703,704,224	1,461,043	53,677,066	13,242,505	13,421,611,542	27,120,852,289	2,250,423,671	45,564,972,340

Carrying Amount, January 1, 2017	5,677,517,733	7,195,600	170,780,090	28,486,553	13,431,930,942	69,560,441,456	220,014,750	89,096,367,124
Additions/Capitalizations	71,071	173,772	2,734,544	0	0	0	82,263,211	85,242,598
Reclass/Transfers	0	(581,729)	(1,346,184)	(296,126)	0	(12,347,740)	0	(14,571,779)
December 31, 2017	5,677,588,804	6,787,643	172,168,450	28,190,427	13,431,930,942	69,548,093,716	302,277,961	89,167,037,943
Unreconciled Balances	0	0	302,401,441	15,506	(10,319,400)	23,691,892	457,018,739	772,808,178
Reclass/Adjustment	0	0	(43,487,210)	0	0	0	0	(43,487,210)
Subtotal	0	0	258,914,231	15,506	(10,319,400)	23,691,892	457,018,739	729,320,968
December 31, 2017	5,677,588,804	6,787,643	431,082,681	28,205,933	13,421,611,542	69,571,785,608	759,296,700	89,896,358,911
Accumulated Depreciation								
January 1, 2017	2,802,471,730	5,411,773	144,549,835	18,493,394	0	40,685,088,543	0	43,656,015,275
Depreciation	86,130,097	211,288	3,078,813	2,243,122	0	895,536,085	0	987,199,405
Additions	0	0	0	0	0	0	0	0
Reclass/Transfer	0	(453,677)	(1,286,608)	(266,513)	0	(10,991,714)	0	(12,998,512)
December 31, 2017	2,888,601,827	5,169,384	146,342,040	20,470,003	0	41,569,632,914	0	44,630,216,168
Unreconciled Balance	0	0	273,061,039	(756,617)	0	21,322,703	0	293,627,125
Reclass/Adjustment	0	0	(39,138,489)	0	0	0	0	(39,138,489)
Subtotal	0	0	233,922,550	(756,617)	0	21,322,703	0	254,488,636
December 31, 2017	2,888,601,827	5,169,384	380,264,590	19,713,386	0	41,590,955,617	0	44,884,704,804
Carrying Amount, December 31, 2017	2,788,986,977	1,618,259	50,818,091	8,492,547	13,421,611,542	27,980,829,991	759,296,700	45,011,654,107

The increase in *Construction in Progress* was due to the implementation of Angat Water Transmission Improvement Project (AWTIP) that involves the design and construction of a new tunnel (Tunnel No. 4) along MWSS' existing tunnel No. 1 from Ipo to Bigte in Norzagaray, Bulacan which is 84.48 percent accomplished as of December 31, 2018.

11. FINANCIAL LIABILITIES

11.1. Payables

Particulars	2018		2017 (As restated)	
	Current	Non-Current	Current	Non-Current
Accounts Payable	573,801,303	0	563,517,931	0
Interest Payable	159,425,008	0	173,058,968	0
Due to Officers and Employees	13,295,467	0	15,943,159	0
Total	746,521,778	0	752,520,058	0

Accounts payable includes accrued maintenance and other operating expenses.

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

11.2. Loans Payable

Particulars	2018		2017 (As restated)	
	Current	Non-Current	Current	Non-Current
Loans Payable – Domestic	27,735,423	441,989,261	25,111,086	525,121,309
Loans Payable – Foreign	849,507,713	6,635,390,592	770,854,430	7,400,845,156
Total	877,243,136	7,077,379,853	795,965,516	7,925,966,465

The current and non-current portion of Financial Liabilities are detailed as follows:

Source	Maturity Date	Currency	Annual Interest Rate	2018		2017	
				Current	Non-Current	Current	Non-Current
Domestic							
DBP/LBP	12-31-18	P	4.50%	0	0	0	80,357,143
SPIAL	05-15-26	\$	9.65%	13,840,784	161,208,299	13,154,841	159,796,304
ADB 1746-PHI	02-01-22	P	floating	13,894,639	106,072,646	11,956,245	114,021,758
NHA		P	floating	0	98,795,399	0	98,795,399
IBRD 1272/1282	07-15-20	\$	8.50%	0	75,912,917	0	72,150,705
Sub Total				27,735,423	441,989,261	25,111,086	525,121,309
Foreign							
ADB 1379-PHI	07-15-20	\$	floating	445,345,274	490,995,080	383,922,234	889,935,723
JBIC (OECF)	02-20-20	Y	2.70%	0	132,669,646	0	1,531,254,964
China Eximbank AWUAIP II	01-21-30	\$	labor rate	404,140,334	4,243,473,499	384,111,310	4,417,280,062
French Protocol	12-31-18	FF	3%-6.8%	22,105	0	2,821,018	0
ADB 3377-PHI	03-15-41	\$	floating	0	1,768,252,367	0	562,374,407
Sub Total				849,507,713	6,635,390,592	770,854,430	7,400,845,156
Total				877,243,136	7,077,379,853	795,965,516	7,925,966,465

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 US\$150 million 9.25 percent 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. This loan matured last March 2018.

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 and 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 with NHA and Bureau of the Treasury (BTr) and subsequent preparation of MOA between MWSS, NHA and the two concessionaires. MWSS will be coordinating with the BTr to reconcile all outstanding loans including the NHA Loan.

International Bank for Reconstruction and Development (IBRD) Loan No. 1272/1282-Manila Urban Development Project – are likewise a national government loan relented 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. In CY 2018, MWSS remitted a total amount of P2,098,072,916.13 to the National Treasury as repayment of the JBIC Loan.

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 9.9 km 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.

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. In CY 2018, a total of P2,936,064.41 of repayment of the loan was made.

ADB Loan 3377-PHI is a negotiated loan agreement between MWSS and Asian Development Bank for the Angat Water Transmission Improvement Project in the amount of US\$123.30 million on May 27, 2016. This loan is guaranteed by the National Government and payable semi-annually in 25 years inclusive of 6.5 years

grace period. MWSS shall pay 0.25 percent Guarantee Fee per annum on the outstanding obligation pursuant to DC 1-2016 to the National Government. The expected closing date is June 30, 2022.

12. INTER-AGENCY PAYABLES

Particulars	2018	2017 (As restated)
Due to Treasurer of the Philippines	68,303,271	146,856,674
Due to BIR	21,552,541	4,523,203
Due to GSIS	1,186,673	1,257,331
Due to PhilHealth	117	76,842
Due to Pag-IBIG	60,245	78,380
Due to Government Corporations	1,395	4,095
Total	91,104,242	152,796,525

Due to Treasurer of the Philippines pertains to the guarantee fee on existing loans while *Other GOCCs* refers to payable to the National Home Mortgage Finance Corporation.

Increase in the account of *Due to BIR* refers to withheld taxes in December 2018, which were remitted in January 2019.

13. INTRA-AGENCY PAYABLES

Particulars	2018	2017 (As restated)
Due to Operating Units	41,585	0
Due to Other Funds	(12,542)	0
Total	29,043	0

The balances of accounts *Due to Operating Units* and *Due to Other Funds* pertain to other intra-agency payables of the Regulatory Office.

14. TRUST LIABILITIES

Particulars	2018	2017 (As restated)
Trust Liabilities	82,227,147	71,250,432
Bail Bonds Payable	3,785,803	3,195,303
Guaranty/Security Deposits Payable	170,631,641	170,631,641
Total	256,644,591	245,077,376

The increase in the balance of *Trust Liabilities* account pertains to (a) trust liability totaling P7,594,390.78 that was presented under Other Payables in CY 2017 and (b) receipt for the NCIP Work and Financial Plan relative to the Kaliwa Dam Project.

15. OTHER PAYABLES

Particulars	2018	2017 (As restated)
Dividends Payable	254,239,027	539,224,749
Other Payables	405,709,794	281,646,260
Total	659,948,821	820,871,009

This account includes 10 percent 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.

16. DEFERRED CREDITS

Particulars	2018	2017 (As restated)
Deferred Service Concession Revenue	1,772,895,824	1,803,616,224
Other Deferred Credits	116,415,133	58,553,308
Total	1,889,310,957	1,862,169,532

Deferred Service Concession Revenue account consists of:

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 amortized fully within the year 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:

Rental of MWSS Properties	Advance payment for rental of various MWSS properties	51,646,872
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.	31,124,028
Cost of Lot Housing	Collection from employees for Cost of Lot payment (MWSS Housing)	13,019,097
Metalbank, Inc.	Advance payment for the purchase of various scrap materials	5,194,018
Miscellaneous – Others	Pasig River Environmental Mgt. & Rehab Sector Dev. Program (PREMSDP)	1,752,679
Deferred Credits to Income	Others	591,210

BID Documents	Sale of bid documents	357,654
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.	80,071
Amount withheld for liquidated damages	Amount withheld from contractors under dispute	25,705
Other Deferred Credits	Unreconciled balances	12,623,799
Total		116,415,133

17. SHARE CAPITAL

The 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.

18. 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.

19. SERVICE AND BUSINESS INCOME

Particulars	2018	2017 (As restated)
Service Concession Revenue		
Concession Income	1,044,339,302	1,010,981,807
Debt Service	1,218,193,862	1,184,496,125
Progress Billing	111,836,250	23,991,333
Business Income		
Income from Raw Water	88,293,557	83,283,360
Rent Income	127,372,113	107,711,144
Interest Income	62,180,371	61,055,198
Total	2,652,215,455	2,471,518,967

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.

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.

Business Income – is income resulting from operation, including interest earned from deposits. The increase of rental of leased properties was brought about by the collection of rental from additional lessees.

Income from Raw Water – is business income from sale of raw water on service areas not covered by the service areas of the MWSS.

20. PERSONNEL SERVICES

20.1. Salaries and Wages

Particulars	2018	2017 (As restated)
Salaries and Wages - Regular	77,699,374	74,987,702
Salaries and Wages – Casual/Contractual	3,839,735	596,820
Total	81,539,109	75,584,522

20.2. Other Compensation

Particulars	2018	2017 (As restated)
Year End Bonus	6,523,370	6,225,240
Other Bonuses and Allowances	6,420,832	6,013,733
Honoraria	6,170,000	4,352,580
Personnel Economic Relief Allowance (PERA)	3,502,423	3,669,843
Representation Allowance (RA)	2,858,379	2,736,601
Transportation Allowance (TA)	2,462,164	2,656,670
Overtime and Night Pay	1,983,935	416,566
Subsistence Allowance	1,746,844	6,138,002
Longevity Pay	1,471,073	6,479,220
Clothing/Uniform Allowance	966,500	920,500
Productivity Incentive Allowance	714,000	3,819,980
Cash Gift	693,500	769,000
Total	35,513,020	44,197,935

20.3. Personnel Benefit Contributions

Particulars	2018	2017 (As restated)
Retirement and Life Insurance Contributions	9,573,093	8,893,729
PhilHealth Contributions	683,445	655,500
Employees Compensation Insurance Premium	173,000	183,600
Pag-IBIG Contributions	171,450	184,700
Total	10,600,988	9,917,529

20.4. Other Personnel Benefits

Particulars	2018	2017 (As restated)
Retirement Gratuity	63,684,554	0
Terminal Leave Benefits	10,008,258	5,392,522
Other Personnel Benefits	5,765,739	7,847,120
Total	79,458,551	13,239,642

The *Retirement Gratuity* account refers to payments made to employees who availed of the Early Retirement Investment Plan (ERIP) during the year.

21. MAINTENANCE AND OTHER OPERATING EXPENSES

21.1. Traveling Expenses

Particulars	2018	2017 (As restated)
Travelling Expenses – Local	538,612	316,396
Travelling Expenses – Foreign	181,269	246,178
Total	719,881	562,574

21.2. Training and Scholarship Expenses

Particulars	2018	2017 (As restated)
Training Expenses	4,745,507	6,338,042

21.3. Supplies and Materials Expenses

Particulars	2018	2017 (As restated)
Fuel, Oil and Lubricants Expenses	2,419,890	1,605,717
Other Supplies and Materials Expenses	1,921,071	1,756,105
Office Supplies Expenses	1,453,283	1,542,863
Medical, Dental and Laboratory Supplies	18,235	7,231
Drugs and Medicines Expenses	0	411,477
Total	5,812,479	5,323,393

21.4. Utility Expenses

Particulars	2018	2017 (As restated)
Electricity Expenses	5,185,614	5,320,480
Water Expenses	2,335,470	28,114
Total	7,521,084	5,348,594

21.5. Communication Expenses

Particulars	2018	2017 (As restated)
Telephone Expenses – Landline	864,830	893,495
Telephone Expenses – Mobile	796,916	790,478
Internet Expenses	440,351	554,862
Postage and Courier Services	69,376	54,725
Cable, Satellite, Telegraph, and Radio Expenses	35,992	56,190
Total	2,207,465	2,349,750

21.6. Awards

Particulars	2018	2017 (As restated)
Awards/Rewards Expenses	20,000	0

21.7. Extraordinary and Miscellaneous Expenses

Particulars	2018	2017 (As restated)
Extraordinary and Miscellaneous Expenses	1,054,272	1,171,684

21.8. Professional Services

Particulars	2018	2017 (As restated)
Consultancy Services	54,158,353	4,347,773
Other Professional Services	18,749,964	4,969,038
Auditing Services	15,435,722	10,421,105
Legal Services	1,711,500	0
Total	90,055,539	19,737,916

The increase in *Consultancy Services* refers to expenses incurred by the Regulatory Office as payments for consultants totaling P50,605,926.

21.9. General Services

Particulars	2018	2017 (As restated)
Security Services	26,176,240	26,239,749
Janitorial Services	3,490,029	4,468,546
Total	29,666,269	30,708,295

21.10. Repairs and Maintenance

Particulars	2018	2017 (As restated)
Repairs and Maintenance – Transportation Equipment	870,442	646,433
Repairs and Maintenance – Buildings and Other Structures	374,895	432,761
Repairs and Maintenance – Machinery and Equipment	315,719	98,867
Repairs and Maintenance – Furniture and Fixtures	3,200	15,138
Total	1,564,256	1,193,199

21.11. Taxes, Insurance Premiums and Other Fees

Particulars	2018	2017 (As restated)
Taxes, Duties and Licenses	77,842,808	25,452,364
Insurance Expenses	2,836,771	2,796,669
Fidelity Bond Premiums	80,265	72,216
Total	80,759,844	28,321,249

The increase in *Taxes, Duties and Licenses* refers to the input taxes attributable to exempted income i.e. concession fees which are charged to expenses.

21.12. Other Maintenance and Operating Expenses

Particulars	2018	2017 (As restated)
Other Maintenance and Operating Expenses	9,413,511	6,697,163
Representation Expenses	2,650,621	1,988,584
Donations	2,348,032	8,000
Subscription Expenses	1,946,537	1,189,654
Advertising, Promotional and Marketing Expenses	785,756	810,409
Rent/Lease Expenses	677,523	680,127
Printing and Publication Expenses	287,758	519,940
Membership Dues and Contributions to Organizations	65,718	34,100
Transportation and Delivery Expenses	156	0
Total	18,175,612	11,927,977

22. FINANCIAL EXPENSES

Particulars	2018	2017 (As restated)
Interest Expenses	228,278,059	255,220,354
Bank Charges	271,922	180,148
Other Financial Charges	60,620,764	66,247,862
Total	289,170,745	321,648,364

23. NON-CASH EXPENSES

23.1. Amortization

Particulars	2018	2017 (As restated)
Amortization of Angat water rights	0	6,161,066

23.2. Depreciation

Particulars	2018	2017 (As restated)
Depreciation – Building and Other Structures	85,320,480	86,130,097
Depreciation – Furniture and Fixtures	123,289	211,288
Depreciation – Machinery and Equipment	2,135,435	3,078,813
Depreciation – Transportation Equipment	1,156,877	2,243,122
Depreciation – Service Concession Assets	857,639,693	895,536,085
Total	946,375,774	987,199,405

24. NON-OPERATING INCOME, GAIN OR LOSSES

24.1. Other Non-Operating Income

Particulars	2018	2017 (As restated)
Miscellaneous Income	1,230,102	1,546,067

24.2. Gains

Particulars	2018	2017 (As restated)
Gain on Foreign Exchange (FOREX)	924,714	0
Gain on Sale of Property, Plant and Equipment	267,657	0
Total	1,192,371	0

24.3. Losses

Particulars	2018	2017 (As restated)
Loss on Foreign Exchange (FOREX)	454,721,791	99,877,087
Loss on Sale of Property, Plant and Equipment	0	399,061
Total	454,721,791	100,276,148

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 No. 2001-008 and the New Government Accounting Manual*)

26. CONTINGENT LIABILITIES

The MWSS is contingently liable for lawsuits or claims filed by third parties which either are 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. As per Board Resolution No. 2017-047-CO, MWSS engaged the services of the Office of the Government Corporate Counsel (OGCC), as the MWSS Statutory Counsel, for the legal representation in the preparation and filing of necessary legal proceeding against the Bureau of Internal Revenue (BIR) at the Court of Tax Appeals (CTA) to contest the BIR's final Decision on disputed Assessment for taxable year 2013. A Petition for Review was filed at the Court of Tax Appeals last 24 May 2017 per CTA Case No. 9599. However, the CTA in March 2018, in view of the Supreme Court decision in the case of BIR vs PSALM dismissed the petition for lack of jurisdiction and instead will refer it to the Department of Justice.

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 P30 million. 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. 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

27. 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 Year 2018 the MWSS incurred P6,477,687.03 Corporate Income Tax payable.

b. VAT Output Tax

MWSS is a VAT registered company with VAT Output Tax declaration of P14,879,339.80 for the year based on the amount reflected in the Income/Receivables Account of P123,994,498.33.

c. VAT Input Tax

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

Particulars	Amount
Beginning of the year	274,647
Current year's purchases	132,389,799
Total	132,664,446
Claim for tax credits and other adjustments	103,594,316
Input VAT for 2019 (January)	29,070,130

d. Other Taxes and Licenses

Particulars	Amount
Tax attributed	61,988,379
Final tax on interest income	11,162,091
Real estate tax	4,661,216
Vehicle registration	30,622
BIR Registration Fee	500
Total	77,842,808

e. The amount of withholding taxes categorized into:

Particulars	Amount
i. Tax on Compensation and Benefits	12,684,593

ii. Creditable Withholding Tax/es	84,077,119
iii. Final Withholding Tax/es	712,142

28. UNRECONCILED ASSET AND LIABILITY ACCOUNT BALANCES

The summary of the unreconciled balances in the Asset and Liability accounts are as follows:

Particulars	2018	2017 (As restated)
Asset Accounts		
Loans and Receivable Accounts	21,596,858	21,596,858
Other Receivables	1,108,354	1,108,354
Other Current Assets	96,513,125	96,513,125
Property, Plant and Equipment, net	474,832,332	474,832,332
Other Non-Current Assets	(19,575,783)	(19,575,783)
Total Unreconciled Assets	574,474,886	574,474,886
Liability Accounts		
Financial Liabilities	533,802,867	533,802,867
Trust Liabilities	171,961,336	171,961,336
Other Payables	156,151,332	156,151,332
Deferred Credits	22,632,720	22,632,720
Total Unreconciled Liabilities	884,548,255	884,548,255
Net Unreconciled Balances	(310,073,369)	(310,073,369)

The unreconciled balances refer to carryforward balances from prior years and most were dated before the privatization in 1997. Previous reconciliations have already been conducted which substantially reduced the balances to their current amounts. In view of the difficulty in finding the supporting documents and lack of man-power, reconciliation has not been prioritized. In CY 2019, reconciliation of these accounts is among the priority projects of the Finance Department, in coordination with the Asset Management Department in the case of PPE and Other Non-Current Assets.

29. RESTATEMENT OF ACCUMULATED SURPLUS/(DEFICIT)

The Accumulated Surplus/(Deficit) as of January 01, 2018 has been restated as follows:

Balance, January 01, 2017 (Unrestated)	9,431,656,231
Prior Period Adjustments	28,508,637,659
Other Adjustment	(6,378,591)
Adjusted Balance, January 01, 2017 (Restated)	37,933,915,299
Changes in Net Assets/Equity for CY 2017, net	235,268,365
Adjusted Balance, January 01, 2018 (Restated)	38,169,183,664

30. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

The budget was on an accrual basis, covering the period from January 01, 2018 to December 31, 2018. The MWSS-Corporate and Regulatory Offices have a separate budget approval from the Department of Budget and Management.