## 1. Corporate Information

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. 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.

Due to financial difficulties, the MWSI suspended payments of concession fees to MWSS beginning March 8, 2001. As a result, disputes between MWSS and the concessionaire ensued which brought them to a process of arbitration before the Appeals Panel appointed pursuant to the CA. On November 7, 2003, the Appeals Panel issued an award declaring that there is neither a Concessionaire Event of Termination nor an MWSS event of termination and that, consequently, the CA shall continue in force and that MWSS and the concessionaire shall perform their respective obligations under the CA until the termination of the concession. The Appeals Panel further declared that concession fees which should have been paid by the concessionaire to MWSS were due and payable to MWSS with the corresponding interest pursuant to the CA and that MWSS may draw on the performance bond in accordance with Section 6.9 (Performance Bond) of the Concession Agreement.

On November 13, 2003, MWSI filed a petition for its corporate rehabilitation with the Rehabilitation Court, submitting therewith a rehabilitation plan as required under applicable legal requirements. A stay order was then issued by the Rehabilitation Court on November 17, 2003 prohibiting the concessionaire, among other things, from making any payment of its liabilities outstanding as at the date of the filing of the petition.

After securing a favorable decision from the Supreme Court, MWSS was able to draw on the Performance Bond in the entire amount of One Hundred Twenty Million US Dollars (US$120,000,000.00) for unpaid concession fees. On September 9, 2004, the concessionaire filed with the Rehabilitation Court a revised rehabilitation plan which was recommended for approval by the court-appointed Rehabilitation Receiver. However, the terms thereof had to be further modified in order to address the concerns raised by several creditors of the concessionaire. On April 29, 2005, the concessionaire submitted its 2005 Rehabilitation Plan incorporating therein the terms of a Debt and Capital Restructuring Agreement (DCRA) executed among the concessionaire, MWSS, Benpress Holdings Corporation, the Suez Group and the Lenders. The Rehabilitation Court approved the 2005 Rehabilitation Plan as well as other related documents, including the DCRA, on June 1, 2005.

Under Clause 2.6 (Increase in capital) of the DCRA, as part of the implementation of the Capital Restructuring, MWSS is given the right and obligation to subscribe to 1,238,476,000 Class “A” shares (the MWSS Subscription shares) representing 83.97 per cent of the outstanding capital stock of the concessionaire (the MWSS Subscription Right), pursuant to Clause 2 (Capital Restructuring) of the DCRA, which subscription shall be paid for by MWSS by way of conversion into equity of the MWSS receivables converted into Philippine pesos based on assumed exchange rate of P54.630 to US$1.00. Alternatively, under Clause 24 (Substitution of the MWSS) of the DCRA, MWSS is given the right, subject to the prior approval of all the lenders and the Suez Group, to assign the MWSS Subscription Right; provided, that the assignee of MWSS shall assume all the obligations and undertakings of MWSS under the DCRA in connection with, relating to or arising from, such right, including the execution of a debt conversion and subscription agreement with the concessionaire and the provision of the Financial Assistance to the concessionaire, as required under Clause 14.1 (the Financial Assistance) of the DCRA.

Article 3(j) of the Charter authorizes MWSS, among other things, to dispose of real and personal property, including rights and franchises, consistent with the purpose for which MWSS was created and reasonably required for the transaction of the lawful business of the same. Consistent with the privatization policies of the Republic, the MWSS Board of Trustees, in its meeting dated September 8, 2005, issued Resolution No. 2005-203 authorizing MWSS to exercise its option to assign the MWSS subscription right to a private investor. Pursuant to a process of a competitive public bidding and selection, the sponsor was awarded the right to acquire the MWSS receivables and the MWSS subscription right, subject to the sponsor’s assumption of the DCRA sponsor obligations and performance of the other sponsor obligations.

On March 2, 2009, MWCI submitted a business plan proposing to increase the investments on wastewater and new water sources project and to ensure water supply security to support their request for extension of the Concession Agreement for an additional period of fifteen (15) years, from 2022 to 2037, subject to the written consent of the Republic of the Philippines (ROP) as required under Section 16.12 of the CA. Series of public consultations were conducted to inform and educate stakeholders of the issues to warrant the extension. On April 28, 2009, per Board Resolution 2009-072, MWSS approved the extension of the concession for the East Area Concession.

Following the extension of the CA with the MWCI was the extension of the CA with the MWSI for additional fifteen (15) years. On June 24, 2009, MWSI submitted its formal proposal for 15-year extension of its Concession anchored on the following considerations:

a. Economic benefits to consumers through the mitigation of tariff increases;
b. Ability to undertake long-term water supply and sewerage projects to ensure adequate service and comply with more aggressive regulatory and environment requirements;
c. Access to longer-term financing at competitive rates to fund more long-term CAPEX projects; and
d. Ensure the long-term viability of the Concessionaire.

On September 10, 2010, Board Resolution No. 2009-180 resolved that the Concession period of the Maynilad Water Services, Inc. be renewed/extended for an additional period of fifteen (15) years, subject to the same conditions required when the MWCI was granted their extension.

Following the extension of the CA with the MWCI was the extension of the CA with the MWSI for additional fifteen (15) years per Board Resolution No. 2009-180 dated September 10, 2010, subject to the same conditions required when the MWCI was granted their extension.

The benefits that the Government and Customers will get from the term extension are the following:

1. Support the economic stimulus plan of the Government;
2. Reduced impact of the approved tariff;
3. Create jobs through our contractors and suppliers; and
4. Increased revenues to Government and concession fees to MWSS

In CY 2013, Rate Rebasing exercise 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 Concession Agreement.

MWSS Board Resolution No. 2013-101-RO dated September 12, 2013 was issued, regarding the rate rebasing determination for Manila Water Co. Inc. for charging years 2013 to 2017, denying Manila Water's petition for an upward adjustment of its average basic water charge; and to effect a negative adjustment of 29.47per cent of Manila Water's 2012 average basic water charge of P24.57 per cu.m. to be implemented in 5 equal tranches of negative 5.894per cent per Charging Year.

For Maynilad Water Services Inc. rate rebasing determination for charging years 2013 to 2017, MWSS Board Resolution No. 2013-100-RO dated September 12, 2013 was issued denying Maynilad's petition for an upward adjustment of its average basic water charge; and effect a negative adjustment of 4.82 per cent of Maynilad's 2012 average basic water charge of P30.28 per cu.m. to be implemented in 5 equal tranches of negative 0.964per cent per Charging Year.

Disputing the approved rate, Manila Water filed its Dispute Notice with the Appeals Panel and served the same to MWSS on September 24, 2013, while Maynilad filed its Dispute Notice on October 4, 2013 pursuant to their right to appeal to an Arbitration Panel under Section 9.4.5 of the Concession Agreements. Rate Arbitration still on-going marked the end of CY 2013.

## ***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

## ***KEY PROJECTS***

To ensure uninterrupted and adequate supply of clean and affordable water in Metro Manila and neighboring towns, MWSS continues to implement the following projects:

### A. Foreign-Assisted Projects

#### 1. Angat Water Utilization and Aqueduct Improvement Project (AWUAIP)-Phase 2

In order to secure the conveyance of raw water coming from the Angat Dam, the Project, denominated as Angat Water Utilization and Aqueduct Improvement Project Phase 2 (AWUAIP-2) was conceived.

The Project involves the construction of Bicti-Novaliches Aqueduct No. 6 (AQ6) i.e. combination of 3.3 meter diameter Steel Pipe Aqueduct (6.509 km) and 3.7 meter diameter concrete lined tunnel (3.3961 km); rehabilitation of 5.5 km existing AQ5, and interconnection works.

The Project was completed six (6) months ahead of schedule based on the Certificate of Completion (COC) dated September 10, 2012 and was inaugurated on July 17, 2012 by His Excellency, President Benigno S. Aquino, III.

Variation Order was incurred because of the need to provide additional length of steel aqueducts, various steel pipe bends and additional Class 5 Support for tunneling works, quantity overruns and underruns necessary for the completion of the Project.

On January 16, 2013, the Contractor, China International Water and Electric Corporation (CWE) submitted the Final Quantification (VO2) for the Project. After series of evaluation and joint reviews, final payment was made in November 2013.

Project details are as follows:

| | | |
|---|---|---|
| Project Name | : | Angat Water Utilization & Aqueduct Improvement Project (AWUIAP) – Phase 2 |
| Location | : | Bigte, Norzagaray, Bulacan to La Mesa Dam |
| Contractor | : | China International Water and Electric Corporation |
| Contract Effectivity | : | May 7, 2010 |
| Notice to Proceed | : | March 17, 2010 |
| Original Completion Date | : | 06 May 2013 (in reference to Contract Effectivity)<br>16 March 2013 (in reference to NTP) |
| Components | : | Package 1 : Tunnel & Aqueduct Construction<br>Package 2 : Aqueduct No. 5 Rehabilitation<br>Package 3 : Aqueduct Interconnection |
| Revised Contract Amount after Final Quantification/VO No. 2 | : | P 5,765,312,529.62 (US$ 115,330,270.38) |
| Original Loan Amount | : | US$ 116,602 million |
| Undrawn Portion/Cancelled Amount | : | US$ 1,271,729.62 (awaiting confirmation of cancellation from China Eximbank) |

**2. Angat Water Transmission Improvement Project (AWTIP) formerly Angat Water Utilization and Aqueduct Improvement Project (AWUIAP) Phase 3**

As part of improving the reliability and security of the conveyance system, MWSS constructed a two (2) phase project called the Angat Water Utilization and Aqueduct Improvement Project (AWUIAP). Phase 1 included the construction of a 5.5 km by pass aqueduct (AQ6) along the critical segments of AQ5, while Phase 2 included the construction of the remaining segment of AQ6 and the subsequent rehabilitation of 5.5 kilometer of AQ5.

Upon completion of the AWUIAP Phase 1 and 2, further inspection of the conveyance system were done, through a grant from the Asian Development Bank (ADB). The study covers the total assessment of the conveyance system from Ipo Dam to La Mesa Portal. ADB hired a Consultant to conduct a full inspection and investigation of the System and a full Feasibility Study of the Project. Per assessment conducted, it was found that Tunnels 1, 2 and 3 are already in critical condition due to their relatively old age, thus need rehabilitation, while AQs 1-4 have shown significant leakages ranging from 6 -10 per cent, which likewise require urgent repair.

It is noteworthy to mention that the AWTIP was endorsed by the NEDA ICC-Technical Board on November 27, 2013 and approved by the NEDA ICC-Cabinet Committee on December 16, 2013. MWSS is waiting for the schedule when AWTIP may be presented for consideration of and approval by the NEDA Board which is chaired by the President.

The Project Cost and amount of loan are presented below:

| Source | Amount (In Millions) | | % Share |
|---|---|---|---|
| | PhP (₱) | USD ($) | |
| Loan | 5,317.04 | 123.65 | 92.30 |
| Taxes (GOP counterpart to be funded by CF) | 444.61 | 10.34 | 7.70 |
| Total | 5,761.65 | 133.99 | 100.00 |

| | | |
|---|---|---|
| Project Location | : | Norzagaray, Bulacan |
| Project Cost | : | P5.770 billion |
| Funding Source | : | ADB |
| Implementation Schedule | : | 2014-2018 (4.33 years) |

Accomplishment:

- Completed Feasibility Study in August 2013;
- Approved by NEDA-ICC Technical Board on November 27, 2013, and by the NEDA Cabinet committee on December 16, 2013;
- Drafted the MOA between MWSS and the concessionaires for the loan repayment; and
- Drafted MOA amongst MWSS, DENR and NPC in lieu of the EIA.

## B. Locally Funded Projects

### 1. Joint Sewage and Septage Treatment Plant, GEF-MTSP Grant No. 057296-PH (through DENR)/MWSS

The Republic of the Philippines has entered into a Global Environment Facility (GEF) Grant Agreement with the International Bank for Reconstruction and Development (World Bank), acting as an Implementing Agency for the GEF, providing US$ 5 million grant to the GOP, through the Department of Environment and Natural Resources (DENR), to assist in financing the GEF-Manila Third Sewerage Project (GEF-MTSP). The objective of the Project is to assist the Recipient in the Project Areas in: (a) identifying essential adjustments to administrative, institutional and regulatory practices and existing legislations in order to attract private investments in the Recipient's wastewater sector; (b) increasing the effectiveness of the agencies responsible water pollution control through improved coordination; and (c) promoting innovative, simple and effective wastewater treatment techniques.

Component 6 of the GEF-MTSP is the Joint Sewage and Septage Treatment Plant (STP) in Project 7, Quezon City which will implement a pilot project to upgrade the existing MWSS Imhoff Tank in Project 7, Quezon City into a joint sewage and septage treatment facility.

Out of the total US$ 5 million grant for GEF-MTSP, US$ 1.5 million was allocated to the MWSS-CO for the Project 7 STP, which is broken down as follows:

| | |
|---|---|
| US$ 0.2 million | Consulting Services for Bid Evaluation Support and Construction Supervision of the Joint Sewage and Septage Treatment Plant; and |
| US$ 1.3 million | For Goods/equipment for the construction of the joint Sewage and Septage Treatment Plant under a design and build contractual arrangement. |

Specifically the MWSS shall implement Part F of the Project with Contract Price amounting to P266.27 million sourced from:

a. DENR - Php57.685 million pursuant to the World Bank GEF-MTSP Grant No. 057296-PH per Special Allotment Release Order (SARO)

b. MWSS - P208/592 million through Maynilad, per MOA dated January 17, 2008

## 2. Angat Dam and Dykes Strengthening Project (ADDSP)

Strengthening of the Angat Dam and Dyke Project was conceived in order to ensure its stability and safety to withstand the potential risk posed by possible seismic activity associated with the West Valley Fault, and establish contingency measures.

| | | |
|---|---|---|
| Project Location | : | Norzagaray, Bulacan |
| Project Cost | : | P5.719 billion |
| Funding Source | : | National Government |
| Implementation Schedule | : | 2014-2017 (3.5 years) |

Accomplishment:

- Prepared the project for bidding (until it was deferred in the light of SC decision confirming the award of AHEPP TO K-water);
- Initiated the discussions with K-Water on the implementation of the Project;
- Secured approval from DPWH for the re-alignment on the initial budget of P1.826 billion, to finance a portion of the Angat River Downstream Improvement Project (ARDIP) of Bulacan; and
- Finalized Emergency Action Plan (EAP) for dam break scenario

Status:

- On-going discussion with K-Water regarding their obligations to the AHEPP's Mandatory Rehabilitation under the O & M Agreement for the Non-Power Components; and
- On-going documentation works for the re-aligned budget.

3. **Rehabilitation of Umiray-Angat Transbasin Tunnel Structures / Facilities**

Rehabilitation and strengthening of existing funnel structures/facilities to withstand future typhoons in order to ensure the continuous flow of raw water from the Umiray River to the Angat Reservoir.

| | | |
|---|---|---|
| Project Location | : | Umiray, General Nakar, Quezon |
| Project Cost | : | P 774 Million |
| Funding Source | : | Concessionaires' fund through the Common Purpose Facility (CPF) Office |
| Implementation Schedule | : | 2014 – 2015 (1.5 years) |

Accomplishment:

- Monitored the re-scoping of rehabilitation program of DCCD Consultant and the CPF BAC regarding the re-bidding of the Project
- Attended coordination meetings with CPF, NCIP AND LGU

Status:

- On-going preparation for the re-bidding of the Project

4. **Sumag River Diversion**

Construction of a diversion tunnel to supplement the water coming from Umiray River going to the Angat Reservoir.

| | | |
|---|---|---|
| Project Location | : | Umiray, General Nakar, Quezon |
| Project Cost | : | P 717 Million |
| Funding Source | : | Concessionaires' fund through the Common Purpose Facility (CPF) Office |
| Implementation Schedule | : | 2014 – 2015 (1.5 years) |

Accomplishment:

- Cooperated with CPF on the compliance of MOA between CPF and the NCIP
- Monitored the negotiation of DCCD Consultant and CPF-BAC to the lowest complying bidder.
- Project Notice of Award was issued to Cavite Ideal Int'l Construction and Development Corp. on 17 December 2013.

Status:

- On-going coordination in the preparation of MOA (permitting works) between MWSS and NCIP/IPs
- Monitoring of the implementation of the project is in progress.

Benefits:

- Additional supply of water for the domestic use of Metro Manila

## C. Public–Private Partnership Projects:

### 1. Bulacan Bulk Water Supply Project (BBSWSP)

Supply of treated bulk water to the entire Province of Bulacan through its water districts as per MOA signed in July 2012 between MWSS and the Province of Bulacan.

| | | | |
|---|---|---|---|
| Project Location | : | Province of Bulacan | |
| Project Cost | : | Phase 1 & 2 | P 9.637 billion |
| | | Phase 3 | 14.798 billion |
| | | Total | P 24.435 billion |
| Funding Source | : | Private Proponent (PPP Scheme) | |
| Implementation Schedule | : | Phase 1 & 2 - 2015-2017 | |
| | | Phase 3 - 2018 onwards | |

Accomplishment:

- Completed the Feasibility Study in September 2013.
- Submitted to DENR-EMB the Environmental Impact Statement for evaluation and requested for the issuance of ECC/Certificate of Non-Coverage;
- Approved by NEDA-ICC on October 4, 2013 and by the NEDA Board on November 21, 2013;
- Secured opinion from OGCC on whether MWSS can undertake the project without legal impediments;
- Coordinated with NHA re: Purchase of NHA lots in SJDMC for WTP,
- Obtained full support of LWUA on the project;
- Presented the draft Water Purchase Agreement to the Water Districts; and
- Completed the review of draft PQ Documents.

Status:

- On-going coordination with various agencies in relation to the Project (presentation/endorsement to Regional Development council, DPWH, LWUA, Water Districts, LGUs, NEDA, PGB), including dialogues/meetings with other Project stakeholders;
- On-going review of the Feasibility Study submitted by the Transaction Advisor, prior to its acceptance; and
- Monitoring of various activities of the TA, making sure that deliverables are timely accomplished as planned

Benefits:

- Improved access to potable water in the Province of Bulacan;
- Improved level of water supply service in terms of water quality, supply hours and reliability;
- Reduced reliance of ground water sources which was already is, for some areas, are already saline intruded; and
- Increased revenue for MWSS, in concession fees.

## 2. New Centennial Water Source Project (NCWSP)

Development of a new water source in order to meet the increasing water demand by constructing a redundant dam for Metro Manila's domestic water supply.

| | | | |
|---|---|---|---|
| Project Location | : | Kaliwa River in General Nakar, Quezon and Tanay, Rizal | |
| Project Cost | : | Kaliwa Dam & Conveyance | P 14.719 billion |
| | : | Laiban Dam & Hydropower | 29.585 billion |
| | : | Total | P 44.304 billion |
| Funding Source | : | Private Proponent under PPP Scheme | |
| Implementation Schedule | : | Kaliwa Dam & conveyance – 2015 - 2020 | |

Accomplishment**:**

- Completed Feasibility Study in September 2013;
- Submitted EIS documents to DENR EMB for review;
- Validated the NCIP surveys necessary in securing Pre Condition Certificate;
- Discussed with LGUs regarding the land Acquisition Plans;
- Submitted the Project to NEDA for approval by the NEDA-ICC; and
- Secured DPWH endorsement for NG funding.

Status:

- Ongoing documentation works relative to the documents required by EMB-DENR (Review Committee) in the acquisition of Environmental Compliance Certificate (ECC) and documents necessary in the conduct of various consultations / meetings / assemblies in acquiring PPIC and Indigenous Development Plan; and
- Monitoring of various activities of the TA, making sure that deliverables are timely accomplished as planned

Benefits:

The NCSWP-Kaliwa Dam will initially provide:

- 600 MLD of raw water to Metro Manila, the seat of the country's economic, financial and social activity, ensuring a redundant water source over Angat Dam to meet long-term water demand; and

- Allows the existing concessionaires to increase their service obligations in their respective areas.

**3. Rehabilitation, Operation and Maintenance of Auxiliary turbines 4 and 5 of the Angat Hydro-Electric Power Plant**

The Project involves the opportunity to optimize the benefit from the MWSS-owned auxiliary turbines 4 & 5 (AN-4 & AN-5) by developing the hydropower generation component, a “by-product” of water releases.

| | |
|---|---|
| Project Location | : Norzagaray, Bulacan |
| Project Cost | : P 1.155 billion |
| Funding Source | : Private Proponent under PPP Scheme |
| Implementation Schedule | : 2014 – 2015 (1.25 years) |

Accomplishment:

- Acquired the Certificate of Non-Coverage from DENR
- Secured endorsement from the Regional Development Council (RDC) of Region III
- Advertised the Project for prequalification process on 05 January 2013 (last publication) but resulted to failed bidding since only one (1) out of the two (2) bidders had qualified
- Preparatory works and documentation were done for the re-bidding. (However, activities were hampered due to the decision of the Supreme Court declaring the award of AHEPP to K-Water as valid and legal)
- Initiated the discussion with K-Water regarding cost sharing agreement on the O & M of shared facilities in the AHEPP
- Secured OGCC Opinion that MWSS may lawfully negotiate with K-water

Status:

- On-going preparation for the proposed negotiated procurement of the Project (particularly with K-Water)

Benefit:

- Increase revenue for MWSS

## 2. Basis of Financial Statement Preparation

The Administrator has the inherent authority to issue Financial Statements of MWSS pursuant to Section 8 (g) of Republic Act No. 6234, the MWSS Charter.

The accompanying financial statements have been prepared in conformity with generally accepted state accounting principles in the Philippines.

The financial statements of MWSS have been prepared using the historical cost basis and are presented in Philippine pesos, which is the System’s functional and presentation currency. All values are rounded to the nearest thousand. The financial statements of the MWSS Corporate Office and the Regulatory Office are consolidated in this report.

## 3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year. Since 2005 the system is already adopting the International Financial Reporting Standards (IFRS). These accounting standards are as follows:

- 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 2, *Inventories,* reduces the alternatives for measurement of inventories by disallowing the use of the last in, first out formula. Moreover, the revised accounting standards does not permit foreign exchange differences arising directly on the recent acquisition of inventories invoiced in foreign currency to be included in the cost of purchase of inventories.

- 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 materials 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 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 futures; and (b) an expenses 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 asset 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 to 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.

- FRS 30, *Heritage Assets,* applies to all heritage assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities. The FRS sets out new disclosure requirements for the reporting of heritage assets, which apply whether or not they are reported in the balance sheet.

## 4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash in banks earn interest at the respective authorized government depository bank rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of changes in values. Cash equivalents are for varying periods 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 investments 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), except those fully depreciated and those classified as administration equipment, are stated at appraised value based on the appraisal conducted in 1995 by Cuervo Appraisers, Inc., an independent appraiser hired by MWSS for that purpose, less impairment in value. Appraisal increments are recorded as appraisal capital. Additional PPE acquired after said appraisal was recorded at cost.
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.

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.

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.

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

Cash and cash equivalents consist of the following:

| | **2013** | 2012 |
|---|---|---|
| Cash | **502** | 826 |
| Cash Equivalents | **2,396,007** | 1,970,061 |
| | **2,396,509** | 1,970,887 |

## 6. Accounts Receivables, net

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| *Trade/business* | | |
| Receivables from customers-water, sewer, including raw water accounts | **1,122,568** | 1,122,114 |
| Receivables from concessionaires | **265,296** | 491,949 |

| | | |
|---|---|---|
| | **1,387,864** | 1,614,063 |
| Allowance for doubtful accounts | **(1,117,002)** | (1,117,002) |
| | **270,862** | 497,061 |
| *Non-trade receivables* | | |
| Intra-agency receivables | **1,689,473** | 1,353,602 |
| Inter-agency receivables | **14,694** | 22,467 |
| Due from officers and employees | **41,508** | 44,221 |
| Loans receivables | **52,889** | 52,475 |
| Interest receivables | **3,490** | 2,307 |
| | **1,802,054** | 1,475,072 |
| | **2,072,916** | 1,972,133 |

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 P1.117 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.

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

*Intra-agency receivables* are receivables from the MWSS Regulatory Office consisting of electric bills, telephone bills and share in dividends paid to the National Government plus other accounts such as share in janitorial, security and other expenses.

*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, 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:

| | **2013** | 2012 |
|---|---|---|
| Receivables from MWSI | **5,647,357** | 5,591,216 |
| Receivables from MWCI | **138,750** | 136,194 |
| Others | **42,768** | 62,218 |
| | **5,828,875** | 5,789,628 |

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

| | **2013** | 2012 |
|---|---|---|
| MWSI | | |
| Cost of borrowings | **3,952,833** | 4,097,176 |
| Penalty on delayed remittance of Concession fees | **1,118,315** | 1,118,315 |
| Inventory held in trust | **158,480** | 158,480 |
| Penalty for non-payment of borrowing costs | **95,247** | 95,247 |
| Guarantee deposits | **94,996** | 94,996 |
| Mabuhay Vinyl | **4,994** | 4,994 |
| LMG Chemphil | **4,627** | 4,627 |
| Other receivables | **217,865** | 17,381 |
| | **5,647,357** | 5,591,216 |
| MWCI | | |
| Guarantee deposits | **65,583** | 65,583 |
| Inventory held in trust | **43,748** | 43,747 |
| Penalty on delayed remittance of Concession fees | **13,182** | 13,182 |
| LMG Chemphil | **7,730** | 7,730 |
| La Vista | **591** | 591 |
| Other receivables | **7,916** | 5,361 |
| | **138,750** | 136,194 |

*Cost of borrowings* include the principal, interest and finance charges such as bank conversions, documentary stamps, cable charges and penalties.

*Inventory 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 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 P6.600 million 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.

Management would finally do the adjustments as soon as the actual amount is established based on Regulatory Office (RO) findings per MWSS-RO Case No. 97-011-002 and MWSS-RO Case No. 97-011-003 both dated June 1998.

## 8. Inventories

This account consists of the following:

| | **2013** | 2012 |
|---|---|---|
| Office supplies and printed forms | **203** | 474 |
| Auto parts and supplies | **124** | 101 |
| IT supplies and accessories | **23** | 69 |
| | **350** | 644 |

## 9. Prepayments

This account consists of the following:

| | **2013** | 2012 |
|---|---|---|
| Advances to suppliers/contractors | **284,415** | 284,415 |
| Prepaid expenses | **18,630** | 17,570 |
| Deposits on letters of credit | **-** | (29) |
| | **303,045** | 301,956 |

*Advances to suppliers/contractors* include the balance of the 15 per cent 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.

## 10. Property, plant and equipment, net

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

| | **Building, Plant Equipment &Transmission Lines** | **Office Furniture & Other Equipment** | **Transportation Equipment** | **Land & Land Improvements** | **Total** |
|---|---|---|---|---|---|
| Cost | | | | | |
| January 1, 2013 | 61,459,438 | 219,718 | 326,157 | 12,830,332 | 74,835,645 |
| Additions | - | 34,427 | - | 1,042,739 | 1,077,166 |
| Adjustments | - | 169,542 | 135,875 | (1,428,624) | (1,123,207) |
| Transfers/Capitalization | 67 | 248,240 | - | - | 248,307 |
| December 31, 2013 | 61,459,505 | 671,927 | 462,032 | 12,444,447 | 75,037,911 |
| Acc. Depreciation | | | | | |
| January 1, 2013 | (37,513,693) | (138,231) | (171,763) | - | (37,823,687) |
| Depreciation | | | | | |
| Addition | (1,267,727) | (13,747) | (22,293) | - | (1,303,767) |
| Adjustments | - | (374,037) | (128,055) | - | (502,092) |
| December 31, 2013 | (38,781,420) | (526,015) | (322,111) | - | (39,629,546) |

| | | | | | |
|---|---|---|---|---|---|
| **Carrying Amount December 31, 2013** | **22,678,085** | **145,912** | **139,921** | **12,444,447** | **35,408,365** |
| Cost | | | | | |
| January 1, 2012 | 61,459,438 | 217,773 | 274,213 | 12,824,758 | 74,776,183 |
| Additions | - | 1,874 | - | 5,574 | 7,448 |
| Adjustments | - | 71 | 51,944 | - | 52,015 |
| Transfers/Capitalization | - | - | - | - | - |
| December 31, 2012 | 61,459,438 | 219,718 | 326,157 | 12,830,332 | 74,835,646 |
| Acc. Depreciation | | | | | |
| January 1, 2012 | (36,099,496) | (127,795) | (139,772) | - | (37,367,063) |
| Depreciation | | | | | |
| Addition | (1,414,197) | (10,423) | (16,212) | - | (1,440,832) |
| Adjustments | - | (12) | (15,779) | - | (15,791) |
| December 31, 2012 | (37,513,693) | (138,230) | (171,763) | - | (37,823,686) |
| Carrying Amount December 31, 2012 | 23,945,745 | 81,488 | 154,394 | 12,830,332 | 37,011,959 |

## 11. Construction in-progress

The movements in this account are as follows:

| | **2013** | 2012 |
|---|---|---|
| Balance, beginning | **5,774,051** | 3,128,340 |
| Additions/New Project | **638,935** | 2,911,969 |
| Transfers/capitalization | **-** | - |
| Reclassification/Adjustments | **(11,613)** | (266,258) |
| **Balance, end** | **6,401,373** | 5,774,051 |

The increase in *Construction in Progress* represents the implementation of Angat Water Utilization and Aqueduct Improvement Project (AWUAIP) Phase 2.

## 12. Investments

This account consists of the following:

| | **2013** | 2012 |
|---|---|---|
| Stocks and bonds | | |
| MERALCO stocks | **2,152** | 2,152 |
| PLDT investment plan | **373** | 373 |
| | **2,525** | 2,525 |
| Miscellaneous | | |
| Special reserve fund | **354,914** | 334,650 |
| Sinking fund | **29,510** | 29,510 |
| | **384,424** | 364,160 |
| | **386,949** | 366,685 |

The S*pecial Reserve Fund* with the Bureau of 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.

## 13. Other assets, net

This account consists of the following:

| | 2013 | 2012 |
|---|---|---|
| Unserviceable assets | **264,672** | 175,428 |
| Research and development | **6,212** | 6,212 |
| MWSS Share in Angat Dam construction | **30,529** | 38,651 |
| Inventories | **-** | (41,160) |
| Garnished accounts | **10,614** | 10,614 |
| Guarantee deposits | **10,728** | 10,728 |
| Dormant accounts | **688,359** | 688,359 |
| | **1,011,114** | 888,832 |
| Allowance for Dormant Accounts | **-** | - |
| | **1,011,114** | 888,832 |

*Unserviceable assets* are the costs of construction materials and supplies that can no longer be used in projects due to obsolescence or assets which are no longer operational. Management is working out on its disposal.

## 14. Payable accounts

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Accounts payable | **190,080** | 246,269 |
| Interest payable | **122,955** | 120,929 |
| Dividends Payable | **139,248** | - |
| Due to officers and employees | **63,396** | 59,883 |
| | **515,679** | 427,081 |

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

*Due to officers and employees* refer to accrued personal services and COLA of incumbents to be paid the following year.

## 15. Inter-agency payables

This account consists of payables to the following:

| | **2013** | 2012 |
|---|---|---|
| Bureau of Treasury | **233,665** | 247,712 |
| Bureau of Internal Revenue | **29,889** | 43,658 |
| GSIS | **572** | 990 |
| Pag-IBIG | **141** | 149 |
| Other GOCCs | **(5)** | 38 |
| | **264,262** | 292,547 |

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

*Due to BIR* includes P29,160,920.32 (5% Final Tax of P20.82M + EWTof P8.33M) which have yet to be collected from China International Water and Electric Corp. (CIWEC) relative to their Payment Certificate No. 13, Progress Billing 10 Final applied for loan disbursement with the China Eximbank in December 2013. These taxes are due to be collected in CY 2014 during the 1st Quarter of the year and immediately remit to the BIR upon receipt.

## 16. 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 Concession Agreement.

## 17. Other liability accounts

This account includes 10 per cent 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 such as cost of living allowance, contract collectors early retirement pay and retirement claims of former MWSS-CO employees under RA 1616 pursuant to Supreme Court Decision GR No. 164542 dated December 18, 2007, released to MWSS on March 12, 2008 and taken up in the books in September 2008.

## 18. Long-term liabilities

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

| **Source** | **Maturity Date** | **Currency** | **Annual Interest Rate** | **2013** | 2012 |
|---|---|---|---|---|---|
| **Domestic** | | | | | |
| DBP/LBP | 12/31/18 | P | 4.50% | **1,366,071** | 1,687,500 |
| SPIAL | 05/15/26 | $ | 9.65% | **355,626** | 340,674 |

| | | | | | |
|---|---|---|---|---|---|
| ADB 1746-PHI | 02/01/22 | P | floating | **196,176** | 181,944 |
| NHA | | P | floating | **98,795** | 98,795 |
| IBRD 1272/1282 | 07/15/20 | $ | 8.50% | **64,144** | 59,491 |
| | | | | **2,080,812** | 2,368,404 |
| **Foreign** | | | | | |
| ADB 1379-PHI | 07/15/20 | $ | floating | **2,208,587** | 2,242,706 |
| ADB 986-PHI | 10/01/14 | $ | floating | **561,753** | 1,209,485 |
| JBIC (OECF) | 02/20/20 | Y | 2.70% | **1,458,649** | 1,647,217 |
| IBRD 4019-PH | 07/01/16 | $ | floating | **362,429** | 456,220 |
| China Eximbank (AWUAIP II) | 01/21/30 | $ | LIBOR rate | **5,122,279** | 4,366,221 |
| ADB 1150-PHI | 10/15/16 | $ | floating | **141,852** | 203,957 |
| French Protocol | 12/31/18 | FF | 3%-6.8% | **56,369** | 80,919 |
| IBRD 4227 PHI | 09/15/17 | $ | floating | **30,906** | 34,773 |
| ADB 2012-PHI | 08/15/13 | $ | LIBOR rate | **0** | 9,522 |
| | | | | **9,942,824** | 10,251,020 |
| **Total** | | | | **12,023,636** | 12,619,424 |
| Current Portion - | | | | | |
| Asian Development Bank (ADB) | | | | **835,500** | 822,740 |
| Int'l. Bank for Reconstruction & Development (IBRD) | | | | **142,160** | 122,402 |
| French Protocol | | | | **24,695** | 22,143 |
| Special Project Implementation Assistance Loan (SPIAL) | | | | **11,695** | 10,846 |
| | | | | **1,014,050** | 978,131 |
| **Non-current Portion** | | | | **11,009,586** | 11,641,293 |

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 per cent 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 9 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.

*ADB Loan No. 986-PHI* – Angat Water Supply Optimization Project was obtained on December 18, 1989. The objectives of the project were to maximize the capacity of the main water supply source of the MWSS and to meet projected water demand in the project area through construction of additional supply, treatment and distribution facilities. It is a twenty (20) year loan with a grace period of five (5) years which will mature on October 1, 2014.

*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 JPY6.59 billion were treated by MWSS as government equity and in part loans. Amortization for the NG loan commenced in 2001, however, no billing were received by MWSS since then. In 2004 and 2005, MWSS forwarded payment to the BTR the amount of P200M and P111.32M, respectively.

*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 II 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 II, 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.

*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 in twenty (20) equal, consecutive, half-yearly installments, the first one falling due six (6) months after the Starting Date of Repayment which is fixed 3 months after the coming into force of the Contracts signed in 1993. There are two (2) billing periods, the "Preliminary Period", starting from the date of the first drawing under the credit until the Starting Date of Repayment, and "Repayment Period" starting from the end of the preliminary period. Amortization payments dates are in accordance with every disbursements made starting from various months in 2003 and ends in 2016.

*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 fifteen (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.

*ADB Loan No. 2012-PHI* – MWSS New Water Source – was obtained November 24, 2003. The objective of the project was to provide the Borrower with consulting services to a) prepare and design projects for the development of new water sources for Metro Manila and b) improve the Borrower's capacity for financial management, accounting, and fiscal control. It was a seven 7-year loan with a grace period of four (4) years which will mature on August 15, 2013.

## 19. Deferred credits

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Deferred credits to income - COB | **1,426,767** | 1,188,447 |
| Deferred credits to Income – Penalty/Interest on delayed payment of Concession Fee | **1,277,774** | 1,225,230 |
| Others | **592,757** | 509,004 |
| | **3,297,298** | 2,922,681 |

*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. Proposal for write-off of this account has already been requested to COA in a letter dated February 13, 2012.

## 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. Personal services

This account is comprised of the following:

| | **2013** | 2012 |
|---|---|---|
| Salaries and Wages – regular | **73,955** | 71,988 |
| Productivity Incentive Allowance | **13,171** | 630 |
| Representation Allowance | **10,469** | 13,848 |
| Subsistence, Laundry & Quarter Allowance | **9,957** | 39,009 |
| Cash Gift/13th Month Pay | **7,005** | 7,543 |
| Life and Retirement Insurance Contributions | **8,858** | 8,736 |
| Longevity Pay | **6,834** | 6,830 |
| Other Bonuses and Allowances | **4,986** | - |
| Other Personnel Benefits | **4,421** | 2,957 |
| PERA | **4,351** | 4,568 |
| Provident Fund Benefit | **3,579** | 19,806 |
| Transportation Allowance | **3,441** | 3,645 |
| Honoraria | **2,797** | 4,714 |
| Terminal Leave Benefits | **2,522** | 3,776 |
| Hazard Pay | **1,840** | 1,733 |
| Clothing Allowance | **925** | 974 |
| PHILHEALTH Contributions | **703** | 695 |
| Pag-IBIG Contributions | **218** | 229 |
| ECC Contributions | **218** | 229 |
| Salaries and Wages - Contractual | **55** | 1,304 |
| | **160,305** | 193,214 |

## 22. Maintenance and other operating expenses

This account consists of the following:

| | **2013** | 2012 |
|---|---|---|
| Security Services | **23,432** | 21,434 |
| Auditing Services | **13,982** | 6,588 |
| Electricity Expenses | **8,012** | 9,313 |
| Taxes, Duties and Licenses | **6,628** | 10,058 |
| Other professional Services | **6,300** | 3,183 |
| Janitorial Services | **3,823** | 3,465 |
| Consultancy Expenses | **3,433** | 99,888 |
| Communication Expense | **2,478** | 2,613 |
| Other Maintenance and Operating Expenses | **2,353** | 3,897 |
| Insurance Expense | **2,141** | 6,171 |
| Office Supplies Expenses | **1,928** | 2,038 |
| Training Expenses | **1,662** | 2,725 |
| Extraordinary and Miscellaneous Expenses | **1,543** | 1,961 |
| Gasoline, Oil and Lubricants | **1,495** | 1,581 |
| Representation Expenses | **1,464** | 748 |
| Advertising Expenses | **960** | 999 |
| Repairs and Maintenance | **948** | 3,668 |
| Rent Expense | **649** | 752 |
| Other supplies Expenses | **591** | 440 |
| Donations | **252** | 35 |
| Water Expenses | **142** | 120 |
| Subscription Expenses | **141** | 109 |
| Fidelity Bond Premiums | **124** | 110 |
| Printing and Binding Expenses | **99** | 20 |
| Travelling Expenses | **85** | 370 |
| Membership Dues and Contributions to Organization | **80** | 10 |
| Drugs and Medicines Expenses | **54** | 91 |
| Postage and Deliveries | **17** | 7 |
| Environmental/Sanitary Services | **-** | 17 |
| | **84,816** | 182,411 |

## 23. Financial expenses

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Interest expenses | **172,495** | 199,455 |
| Other financial charges | **49,003** | 56,455 |
| Documentary stamp expenses | **-** | 5 |
| Bank charges | **51** | 102 |
| | **221,549** | 256,017 |

## 24. Subsequent events

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 be used to pay the loan with LBP/DBP Bonds Facility.

## 25. Contingent liabilities

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 CY 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.

## 26. 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:

| Corporate Income Taxes | **CO** | **RO** | **Total** |
|---|---|---|---|
| Paid in 2013 | - | - | - |
| To be Paid in 2014 | - | - | - |
| Total | - | - | - |
| Add: Taxes Paid in 2013 | | | |
| On Compensation | 12,524 | 4,752 | 17,276 |
| Final Withholding Tax (FWT) on Loans- BIR Form 2306 | 3,111 | - | 3,111 |
| Real Property Taxes | - | - | - |
| Input VAT | 22,463 | - | 22,463 |
| ITW on Suppliers and Contractors | 53,762 | 3,242 | 57,004 |
| Output VAT | 28,673 | - | 28,673 |
| Total | 120,533 | 7,994 | 128,527 |
| Add: Taxes Withheld (To be Paid in 2014) | | | |
| On Compensation | 792 | 718 | 1,510 |
| Input VAT | 337 | - | 337 |
| ITW on Suppliers and Contractors | 249 | 1,145 | 1,394 |
| Output VAT | 751 | - | 751 |
| Total | 2,129 | 1,863 | 3,992 |
| **Total Taxes Paid and Accrued** | **122,662** | **9,857** | **132,519** |

## 27. 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:

| | **2013** | 2012 |
|---|---|---|
| **Asset Accounts** | | |
| Accounts Receivable | 21,718 | 21,718 |
| Other Receivables | 1,108 | 1,181 |
| Prepayments | 101,290 | 101,290 |
| Property, Plant and Equipments | 14,324 | 136,223 |
| Construction in Progress | 457,019 | 462,577 |
| Other Assets | (19,576) | (19,576) |
| **Total Unreconciled Assets** | **575,883** | 703,413 |
| **Liability Accounts** | | |
| Payable Accounts | 582,802 | 582,802 |
| Inter-Agency Payable | 4,789 | 4,790 |
| Other Liability Account | 328,114 | 328,114 |
| Deferred Credits | 22,633 | 22,633 |
| **Total Unreconciled Liabilities** | **938,338** | 938,339 |
| **Equity Account** | | |
| Capital Stock | 282 | 282 |
| **Total Unreconciled Equity** | **282** | 282 |
| **Net Unreconciled Balances** | **362,737** | 235,208 |

Reconciliation were made during the year 2013, bulk of which were those of the General Administration Equipment in the asset account which were reclassified to various accounts amounting to P659 million which Subsidiary Ledgers were able to be established during the year.

There were also reconciled asset accounts in the PPE – Land, from operational to non-operational assets including cancellation of consolidated lots and book up of new re-titled lots based on new TCTs and without materials changes in the amounts.

There were additional reclassification of Accumulated depreciation for Motor Vehicles and Other Transportation which were also prepared amounting to P189 million.

## 28. RESTATEMENT OF 2012 FINANCIAL STATEMENTS

Due to adjustments in the assets and liability/equity accounts as shown in Note 27, the affected accounts in the CY 2012 Financial Statements were restated**.**