

METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM

Notes to Financial Statements

1. GENERAL INFORMATION/ENTITY PROFILE

The Metropolitan Waterworks and Sewerage System (MWSS), a government-owned and controlled corporation, was created under Republic Act (R.A.) No. 6234 which was approved on June 19, 1971 replacing the National Waterworks and Sewerage Authority. The MWSS is an attached agency to the Department of Public Works and Highways (DPWH). 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 R.A. No. 8041, otherwise known as the National Water Crisis Act of 1995, implemented under Executive Order (E.O.) No. 286 dated December 6, 1995, which reorganized the MWSS. The passage of E.O. 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, MWSI suspended payment of concession fees. From March 2001 to July 2001, MWSS used its own funds to meet the maturing obligations of MWSI. 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 MWSI were supposed to cover.

Despite continuous negotiations, several disputes between MWSI 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 USD120 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 USD120 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, MWSI submitted to the Rehabilitation Court its 2005 Rehabilitation Plan incorporating the terms and conditions of the Debt and Capital Restructuring Agreement (DCRA) executed between MWSI, 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 MWSI. On September 8, 2005, the MWSS Board of Trustees (BOT) 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 MWSI 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 MWSI, MWSS, the Suez Group and other lenders on August 9, 2007.

Thereafter, MWSI, MWSS, the Suez Group, and other creditors of MWSI 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 MWSI from the corporate rehabilitation proceedings.

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

On January 15, 2016, the LCWDC 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.

Term Extension

During the 11th year of the implementation of the Concession Agreement, the Parties, MWSS and MWCI and MWSI (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 waste water 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 Department of Finance (DOF) transmitted to the MWSS, the signed Letter of Consent and Undertaking in behalf of the Republic for the approval of extension of the CA 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 Consent and Undertaking in behalf of the Republic another approval of 15 years extension of the CA 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.

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 (Operating Expenses, Capital Expenditure 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 (i) the Rate Adjustment Limit (RAL) 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.

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	1 Jan 2019	1 Jan 2020	1 Jan 2021	1 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	1 Jan 2019	1 Jan 2020	1 Jan 2021	1 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 million liters per day (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 as of December 31, 2020
 1. The Environmental Compliance Certificate (ECC) issued on October 11, 2019 for NCWS-KDP is subject to conditions and restrictions consisting of the following:
 - a. Seventeen (17) conditions on Environmental Management;
 - b. Four (4) general conditions; and
 - c. Four (4) restrictions.
 2. Notice to Proceed (NTP) issued to China Energy Engineering Corporation (CEEC) on November 13, 2019.
 3. CEEC On-going Activities:
 - Geological survey & soil investigation at Tunnel Outlet Portal in Teresa, Rizal.
 - Topographic and geological survey at the dam site area in Brgy. Pagsangahan, General Nakar, Quezon.
 - Discussion with the landowners within the tunnel alignment with regard to accessibility for the conduct of borehole drilling.
 - Percentage of accomplishment as of December 31, 2020:
 - a. DED Stage = 92.67%
 - b. Overall Project Accomplishment (DED+Construction) = 2.48%
 - Preparatory works for construction on-going with the Tunnel Boring Machine (TBM) procurement & manufacturing completed on Nov 2020.
 - Site preparation for TBM launching area.

- On-going coordination with QUEZELCO for the supply of electricity for the temporary facilities at dam site area, intake area, outlet area and tunnel adit area.
4. Free and Prior Informed Consent (FPIC) Process
 - MOA negotiation with the IP leaders of Rizal was conducted on November 4 to 5, 2020.
 - MOA negotiation with the IP leaders of Quezon was conducted on October 13 to 15, 2020.
 - On-going coordination with NCIP for the finalization of the MOA.
 5. Lot Acquisition for Tunnel Outlet Portal
 - Three (3) Lots already acquired
 - Two (2) lots were already issued writ of possession
 - Six (6) lots for expropriation process,
 - Two (2) lots were still at OGCC for documentation
 6. Resettlement:
 - On-going coordination with DENR IV-A and LGU General Nakar in securing the identified resettlement site in sitio Cablao, Barangay Pagsangahan, General Nakar, Quezon, as identified by the affected families.
 - Awaiting Resolution to be issued by the Sangguniang Bayan of General Nakar on the proposed MOA for the implementation of the resettlement plan.
 7. Access Roads Construction (by DPWH):
 - The Contract is Being Funded and implemented by DPWH.
 - Access Road to Tunnel Outlet Portal = 100% completed in June 2019.
 - Access Road to Dam site (Km. 92) = 96% accomplishment to date.
- 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 as of December 31, 2020:
 1. 100% project completion (Water Treatment Plant and Conveyance) as of June 30, 2019
 2. Stages 1 and 2 are fully operational

c. *Strategic Initiative 3 – Angat Water Transmission Improvement Project (AWTIP)*
(USD133.98 million)

- 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: Completed on August 16, 2020 and is now operational.

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:
 - The strengthening works of dam and dyke is the responsibility of the Angat Hydroelectric Corporation under the contract with PSALM and was completed.
 - Dam Instrumentation: Five (5) out of the seven (7) contract packages were already completed. This is being implemented by NPC as per MOA.
 - Flood protection works: Completed as per information from PGB. This is being implemented by PGB as per 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: As of December 31, 2020, the MWSS and the Angat Hydropower Corporation (AHC), the current operator of AHEPP, has not yet reach an agreement on the Water and Asset Sharing Agreements, of which these Agreements will form of the bidding documents under BOT Law. Thus, the OGCC in its Opinion No. 256 dated December 10, 2020 opined that MWSS may lawfully negotiate an Agreement with AHC pursuant to the MOA on Angat Water Protocol, the Asset Purchase Agreement (APA) and the bidding documents that may justify the resort to Direct Negotiation within the ambit of RA 9184 (negotiated procurement). The matter will be submitted to MWSS Board for approval.

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).
- ONGOING ACTIVITIES:
 1. Tunnel Structure
 - Excavation and clearing works
 - Dewatering works
 2. Outside Structure:
 - Temporary backfilling of excavated portion to install additional layer of cofferdam
 3. Others:
 - Procurement of materials and equipment
 - Negotiation with Heavy Airlift Service Provider (AAOP)

g. *Bigte-Novaliches Aqueduct No. 7 Project (BNAQ7) (P7.420 billion)*

- Funding Source: Loan and GOP counterpart funded by Concession Fees
- Design and construction of a 3.60 meters diameter x 15 kilometers long aqueduct with a design capacity of 1,700 mld
- Status:

1. The project was approved by NEDA Board ad referendum on October 9, 2019.
 2. Loan Agreement in the total loan amount of US\$126.02M was signed in August 2020.
 3. Loan effectiveness issued on November 20, 2020.
- Procurement:
 1. Civil Works (design & construction)
 - The Notice of Award (NOA) was issued on December 2, 2020 to China SHECB-BIDR-SXSY Consortium in the total contract price of Two Billion Five Hundred Fifty Five Million Nine Hundred Sixty Thousand Four Hundred Fifty Seven and 54/100 Pesos (PhP2,555,960,457.54) and Thirty Five Million Two Hundred Seventy One Thousand Three Hundred Twenty Seven and 56/100 US Dollar (USD35,271,327.56), inclusive of all taxes and duties.
 2. Consultancy services for construction supervision:
 - The results of financial evaluation including the combined scores for technical and financial, as contained in Submission 3 was approved by ADB in its “No Objection” letter dated October 13, 2020 with DOWHA Engineering in association with EDCOP being the first ranked firm.
 - The Notice Of Award (NOA) was issued to DOHWA Engineering on December 3, 2020 in the total contract amount of total contract price of Two Million Two Hundred Ninety Eight Thousand and Sixteen US Dollars (USD 2,298,016.00) and One Hundred Seven Million Two Hundred Twenty Three Thousand Two Hundred Fifteen and 12/100 Pesos (PhP107,223,215.12) inclusive of local indirect taxes.

h. 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.
- ONGOING ACTIVITIES:
 - Construction of New MWSS Quarters
 - Construction of Power House
 - Tile setting and fit out installation at Military Barracks 1 & 2
 - Clearing/Breaking of River Constriction
 - Clearing of stop logs/trash racks clogged by the recent typhoon.
 - Dredging on the upper bed of weir to block more silt falling from the apron.
 - Clearing the tunnel of silt and boulders from erosion that fell on the portal during typhoon.

- ISSUES AND CONCERNS:

1. Heavy rain makes it extremely unpleasant to work in. It causes the ground to become sodden and the water tables to rise and makes the working area flooded with rainfall.
2. Remaining sludge inside tunnel makes it difficult for the locomotive to travel construction materials to site. Action Plan: Identify which station has the most volume of piled.

- Updates from CPF:

Target: 99.964%
Actual: 78.479%

i. Ipo Dam 3 Project (4 billion indicative cost)

- Construction of an impounding dam downstream of the existing Ipo Dam #2 that will serve as catchment for spillage/excess water from the existing Ipo Dam and adjacent tributaries.
- Target date started: 1st quarter 2022
- Target date completed: 1st quarter 2025
- Feasibility Study (FS) being undertaken by consultant EDCOP and this is funded through the Project Development and Related Studies (PDRS) funding of NEDA.
 - Draft Final Report submitted on September 30, 2020; and
 - Final Report was submitted by EDCOP on December 29, 2020, incorporating therein all the comments from MWSS and NEDA.

j. 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, 2020, 107 out of 128 plantilla positions were filled up, while 24 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.

k. 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 2020, which was submitted by UP-CIDS in March 2021 and was presented to the MANCOM in April 2021.

Board Resolution No. 2021-042-CO dated April 27, 2021 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 financial statements have been prepared in compliance with the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB) which were prescribed by the Commission on Audit (COA) through COA Resolution Nos. 2014-003 dated January 24, 2014, COA Resolution 2017-006 dated April 26, 2017 and COA Resolution No. 2020-001 dated January 09, 2020. IPSAS consists of individual IPSAS and the accompanying Philippine Application Guidance (PAG) issued by COA.

The financial statements have been prepared complying with the requirements set forth under COA Circular No. 2020-002 dated January 28, 2020 which prescribed the adoption of the Updated Revised Chart of Accounts for Government Corporations.

The financial statements are presented in Philippine 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 IPSASs.

3.2 *Financial Instruments*

a. Financial assets

i. Initial recognition and measurement

Financial assets within the scope of IPSAS 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. MWSS determines the classification of its financial assets at initial recognition.

MWSS' financial assets include cash, cash equivalents, short term investments, investments in stocks and in non-marketable securities, 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

MWSS derecognizes a financial asset or, where applicable, as 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. 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 IPSAS 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

MWSS assesses at each reporting date 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.

b. Financial liabilities

i. Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 - Financial Instruments: Recognition and Measurement 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.

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, 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 *Investment Property*

Investment property are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment property are measured using the cost model and are depreciated over their estimated useful life.

Investment property are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit or service potential is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use.

The MWSS uses the cost model for the measurement of investment property after initial recognition.

3.6 Property, Plant and Equipment

a. Recognition

An item is recognized as property, plant, and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

- i. tangible items;
- ii. are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- iii. are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- i. it is probable that future economic benefits or service potential associated with the item will flow to the entity;
- ii. the cost or fair value of the item can be measured reliably; and
- iii. the cost is at least P15,000.

PPE of the MWSS encompasses assets that are retained by MWSS at the start of the Concession, newly acquired or developed assets used by the MWSS in its operations and Service Concession Assets that pertain to the assets assigned to the two Concessionaires, the MWSI and MWCI, and the Common Purpose Facility (CPF) assets.

b. Measurement at recognition

An item recognized as property, plant, and equipment is measured at cost.

A PPE acquired through non-exchange transaction is measured at its fair value as at the date of acquisition.

The cost of the PPE is the cash price equivalent or, for PPE acquired through non-exchange transaction, its cost is its fair value as at recognition date.

Cost includes the following:

1. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
2. expenditure that is directly attributable to the acquisition of the items; and
3. initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

c. Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, the MWSS recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

d. Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

1. Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

2. Depreciation method

The straight line method of depreciation is adopted unless another method is more appropriate for MWSS operation.

3. Estimated useful life

The MWSS uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experience.

4. Residual value

The MWSS uses a residual value equivalent to ten percent (10%) of the cost of the PPE

e. Impairment

An asset's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

f. Derecognition

The MWSS derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

Service Concession Arrangements

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, 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, MWSS also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

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.

3.7 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.

3.8 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.

3.9 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.

3.10 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.

3.11 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.

3.12 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.

3.13 Judgments and use of estimates

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

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.

3.14 Contingent Assets and Contingent Liabilities

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. 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.

3.15 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.”

3.16 Budget Information

The annual budget is prepared on a cash basis and is published in the government website.

A separate Statement of Comparison of Budget and Actual Amounts (SCBAA) is prepared since the budget and the financial statements are not prepared on comparable

basis. The SCBAA is presented showing the original and final budget and the actual amounts on comparable basis to the budget. Explanatory comments are provided in the notes to the annual financial statements.

The annual budget figures included in the financial statements are consolidated amounts for the MWSS CO and RO.

3.17 Related Parties

The MWSS regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the MWSS, or vice versa.

Members of the Board of Trustees are regarded as related parties and exercise joint control over the MWSS CO and RO operations.

Members of key management are regarded as related parties and comprise the Administrator, Deputy Administrators and Department Managers of the MWSS.

3.18 Employee Benefits

The employees of MWSS are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

The MWSS recognizes the undiscounted amount of short-term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

4. CASH AND CASH EQUIVALENTS

Particulars	2020	2019 (As restated)
Cash on Hand	2,285,874	1,741,294
Cash in Bank – Local Currency	427,754,121	1,203,679,248
Cash in Bank – Foreign Currency	62,883,443	68,045,639
Time Deposits – Local Currency	2,987,292,643	2,000,786,510
Time Deposits – Foreign Currency	1,603,491	3,079,595
Total Cash and Cash Equivalents	3,481,819,572	3,277,332,286

- 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* - This consists of cash in local currency deposited in current and savings account with the Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) that earn interest at respective bank deposit rates.
- c. *Cash in Bank – Foreign Currency* - This represents balances of cash in foreign currency, deposited in savings account with the Bureau of the Treasury and LBP.
- d. *Time Deposits – Local Currency* - 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 remittance of P986.506 million as full settlement of JBIC-110 PH (NG advances) that matured in February 2020.
- e. *Time Deposits – Foreign Currency* - This consists of placements in foreign currency time deposit with LBP.

5. INVESTMENTS

Particulars	2020	2019
Current		
Investments in Treasury Bills-Local	0	198,705,029
Total Current Investments	0	198,705,029
Non-Current		
Investments in Non-Marketable Securities	0	429,252,520
Investment in Stocks	2,524,168	2,524,168
Total Non-Current Investments	2,524,168	431,776,688

Investments in Treasury Bills - Local are peso-denominated short-term fixed income securities issued by the Republic of the Philippines through its Bureau of Treasury which are rolled over every six months. The decrease is due to matured Treasury Bills in November 2020 that was no longer rolled over.

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 CYs 2016 to 2037 with settlement amount ranging from P100,000 to P29,430,649.50. The decrease in CY 2020 was due to the reclassification from this account to the Other Assets - Restricted Fund account in view that the funds are for a specific purpose.

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.

6. RECEIVABLES

Receivables consist of the following:

Particulars	2020	2019 (As Restated)
Loans and Receivables	172,879,529	485,046,055
Inter-Agency Receivables	55,506,499	38,242,092
Intra-Agency Receivables	776,590	37,428
Other Receivables	5,774,750,803	5,732,718,315
Total	6,003,913,421	6,256,043,890

6.1. Loans and Receivables

Particulars	2020	2019
Accounts Receivable	1,243,822,180	1,553,612,310
<i>Allowance for Impairment – Accounts Receivable</i>	<i>(1,117,001,778)</i>	<i>(1,117,001,778)</i>
Interests Receivable	4,026,528	4,012,821
Loans Receivable	42,032,599	44,422,702
Total	172,879,529	485,046,055

Accounts Receivable account consists of:

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.

6.2. Inter-Agency Receivables

Particulars	2020	2019
Due from National Government Agencies	39,338,700	32,915,361
Due from Local Government Units	13,024	13,024
Due from Government Corporations	16,154,775	5,313,707
Total	55,506,499	38,242,092

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.

The increase in the *Due from National Government Agencies* account refers to rent receivable from Supreme Court (November 2017 to December 2020) and OGCC (July to December 2020) which remained unpaid as of year-end.

6.3. Intra-Agency Receivables

Particulars	2020	2019 (As restated)
Due from Operating Units	776,590	37,428
Total	776,590	37,428

The net amount of P776,590 is due to the elimination of the following reciprocal accounts:

Particulars	Amount
Intra Agency Receivables	
Due from Operating Units	923,774
Due from Central/Home Office	98,391,495
Total Intra Agency Receivables	99,315,269
Intra Agency Payables	
Due to Operating Units	(98,391,495)
Due to Central/Home Office	(147,184)
Total Intra Agency Payables	(98,538,679)
Net Balance of Intra Agency Receivables	776,590

The balance is due to RO's unpaid electricity and water bills to CO as of year-end totaling P749,320.86 and timing differences in the recording of receivables and payables.

6.4. Other Receivables

Particulars	2020	2019
Receivables-Disallowances/Charges	42,291,282	42,553,485
Due from Officers and Employees	115,847,870	117,340,833
Other Receivables	5,616,611,651	5,572,823,997
Total	5,774,750,803	5,732,718,315

The decrease in the Receivables-Disallowances/Charges account is due to payment from a retired employee amounting to P262,202.60.

The *Other Receivables* account consists of the following:

Particulars	2020	2019
Receivables from MWSI	5,442,250,163	5,436,924,343
Receivables from MWCI	160,359,579	121,536,168
Others	14,001,809	14,363,486
Total	5,616,611,551	5,572,823,997

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

Particulars	2020	2019
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	25,042,014	19,716,194
Total	5,442,250,163	5,436,924,343
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	4,016,400	(34,807,011)
Total	160,359,579	121,536,168

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 MWSI. On December 19, 2007, the Rehabilitation Court issued an order, Special Proceeding No. Q-03-071, disallowing the penalty and the Order was confirmed on February 6, 2008. MWSS has requested the Commission on Audit in a letter dated February 13, 2012 requesting approval for the dropping 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 MWSI the amount of P12.284 million in August 2017.

7. INVESTMENT PROPERTY

Particulars	2020	2019
Investment Property, Land	2,034,200,456	593,706,416
Total	2,034,200,456	593,706,416

The *Investment Property, Land* comprises land that are currently not in use, held for capital appreciation and with expected future use. P593.706 million pertains to land reclassified from the *Other Assets* account as reflected in prior years' financial statement, while the increase of P1.440 billion pertains to the cost of thirteen (13) lots reclassified from the PPE – Land account in view of their nature.

8. PROPERTY, PLANT AND EQUIPMENT

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

As of December 31, 2020

	Building and Other Structures	Furniture, Fixture and Books	Machinery and Equipment	Transportation Equipment	Land	Heritage Assets	Service Concession Assets	Construction in Progress	Total
Carrying Amount, January 1, 2020	2,618,641,594	845,648	54,246,932	17,753,396	13,421,611,542	4,000	26,195,648,806	3,838,482,300	46,147,234,218
Additions/Acquisitions	0	133,927	2,459,049	0	0	0	157,851,806,544	573,936,659	158,428,336,179
Total	2,618,641,594	979,575	56,705,981	17,753,396	13,421,611,542	4,000	184,047,455,350	4,412,418,959	204,575,570,397
Disposals/Reclass	0	(1,113)	(16,798)	0	(1,440,498,040)	0	0	0	(1,440,515,951)
Depreciation (As per Statement of Financial Performance)	(84,703,830)	(50,971)	(3,609,883)	(2,859,278)	0	0	(814,179,139)	0	(905,403,101)
Carrying Amount, December 31, 2020	2,533,937,764	927,491	53,079,300	14,894,118	11,981,113,502	4,000	183,233,276,211	4,412,418,959	202,229,651,345
(As per Statement of Financial Position)									
Gross Cost (Asset Account Balance per Statement of Financial Position)	5,677,588,805	6,560,043	439,716,030	38,824,439	11,981,113,502	40,000	264,087,066,707	4,412,418,959	286,643,328,485
Accumulated Depreciation	(3,143,651,041)	(5,632,552)	(386,636,730)	(23,930,321)	0	(36,000)	(80,853,790,496)	0	(84,413,677,140)
Carrying Amount, December 31, 2020 (As per Statement of Financial Position)	2,533,937,764	927,491	53,079,300	14,894,118	11,981,113,502	4,000	183,233,276,211	4,412,418,959	202,229,651,345

As of December 31, 2019

	Building and Other Structures	Furniture, Fixture and Books	Machinery and Equipment	Transportation Equipment	Land	Heritage Assets	Service Concession Assets	Construction in Progress	Total
Carrying Amount, January 1, 2018	2,703,704,225	1,461,043	53,677,066	13,242,503	13,421,611,542	0	27,120,852,292	2,250,423,671	45,564,972,342
Additions/Acquisitions	0	16,963	4,336,909	7,629,153	0	0	0	1,589,954,104	1,601,937,129
Total	2,703,704,225	1,478,006	58,013,975	20,871,656	13,421,611,542	0	27,120,852,292	3,840,377,775	47,166,909,471
Disposals/Reclass	0	(526,058)	(849,717)	(1,169,557)	0	4,000	(98,147,546)	(1,895,475)	(102,584,353)
Depreciation (As per Statement of Financial Performance)	(85,062,631)	(106,300)	(2,917,326)	(1,948,703)	0	0	(827,055,940)	0	(917,090,900)
Carrying Amount, December 31, 2019 (As per Statement of Financial Position)	2,618,641,594	845,648	54,246,932	17,753,396	13,421,611,542	4,000	26,195,648,806	3,838,482,300	46,147,234,218

Gross Cost (Asset Account Balance per Statement of Financial Position)	5,677,588,805	6,437,235	437,934,320	38,824,439	13,421,611,542	40,000	69,214,926,360	3,838,482,300	92,635,845,001
Accumulated Depreciation	(3,058,947,211)	(5,591,587)	(383,687,388)	(21,071,043)	0	(36,000)	(43,019,277,554)	0	(46,488,610,783)
Carrying Amount, December 31, 2019 (As per Statement of Financial Position)	2,618,641,594	845,648	54,246,932	17,753,396	13,421,611,542	4,000	26,195,648,806	3,838,482,300	46,147,234,218

An oil painting by H.R. Ocampo “Abstract in Red and Black”, water color painting “Rooster” by Kiukok and “Brick Tower” by Joya, all declared National Artists of the Philippines are listed in the PPE. The paintings were registered and provided with a Certificate of Registration of Cultural Property under Certification No. 1190 dated September 10, 2014 by the National Museum of the Philippines.

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.

The increase in *Service Concession Assets* refer to the initial recognition of concession assets acquired and/or developed by the Concessionaires after the commencement of the Concession Agreement in 1997, based on the balances submitted by the Concessionaires as of December 31, 2019.

Service Concession Assets is broken down as follows:

Particulars	Turned-over	Concessionaire Acquired and/or Developed	Total
Gross Cost	69,214,926,360	194,872,140,347	264,087,066,707
Accumulated Depreciation	(43,833,456,693)	(37,020,333,803)	(80,853,790,496)
Carrying Amount, December 31, 2020	25,381,469,667	157,851,806,544	183,233,276,211

The *Service Concession Assets* with Carrying Amount of P25,381,469,667 refers to various assets owned by MWSS that were assigned to MWCI and MWSI during privatization. The Concessionaire acquired and/or developed concession assets can be further broken down as follows:

MWCI

Particulars	Cost	Amortization	Net Book Value
a. Water Facilities and Transmission Lines			
House Service Connection (water)	271,181,135	(271,036,196)	144,939
Water Meters	2,573,881,552	(919,593,869)	1,654,287,683
Supply Mains	4,333,855,804	(1,190,040,499)	3,143,815,305
Transmission & Distribution Mains	27,467,192,871	(9,484,641,022)	17,982,551,849
Service Pipe Replacement	3,271,117,063	(1,588,817,855)	1,682,299,208
Distribution Reservoir and Booster	5,905,264,345	(1,790,859,169)	4,114,405,176
Wells and Facilities	495,874,903	(131,937,157)	363,937,746
Water Treatment Plant	6,834,475,623	(1,172,902,404)	5,661,573,219
b. Used Water Facilities and Transmission Lines			
House Service Connection (used water)	87,564,842	(35,422,499)	52,142,343
Transmission and Discharge Mains	7,475,743,327	(1,148,044,553)	6,327,698,774
Sewer Network Improvement	70,541,857	(13,712,080)	56,829,777
Sewer Treatment and Pumping Station	8,662,459,520	(1,128,395,823)	7,534,063,697
c. Land	712,083,696	(95,517,401)	616,566,295
d. Construction in Progress	21,842,955,322	0	21,842,955,322
e. General and Admin Building and Structure	580,459,679	(341,437,558)	239,022,121
Total	90,584,651,539	(19,312,358,085)	71,272,293,454

Based on December 31, 2019 audited financial statements

MWSI

Particulars	Cost	Amortization	Net Book Value
a. Completed			
Water Utility Plant	59,181,514,118	(14,545,899,786)	44,635,614,332
Sewer Utility Plant	7,420,294,272	(1,823,793,434)	5,596,500,838
Concession Rehabilitated Facilities	4,274,492,707	(1,050,604,120)	3,223,888,587
Common Purpose Facilities Improvements	645,736,702	(158,712,083)	487,024,619
Land	913,335,397	(224,483,698)	688,851,699
Land	3,549,533,500	(872,420,372)	2,677,113,128
b. In-Progress			
Construction in Progress	27,770,749,729	0	27,770,749,729
Inventories	531,832,383	0	531,832,383
Total	104,287,488,808	(18,675,913,493)	85,611,575,315

Based on December 31, 2019 audited financial statements

Particulars	Cost	Amortization	Net Book Value
MWCI	90,584,651,539	(19,312,358,085)	71,272,293,454
MWSI	104,287,488,808	(18,675,913,492)	85,611,575,316
Total	194,872,140,347	(37,988,271,577)	156,883,868,770

The MWSS recognizes the amortization by the Concessionaires of the Service Concession Assets as the depreciation expense in view of the absence of detailed documents that can be the basis of the MWSS in the computation of depreciation expense for each concession asset item.

The difference of P967,937,774 between the Carrying Amount as of December 31, 2020 totaling P157,851,806,544 as reported in the MWSS Statement of Financial Position and the total Net Book Value as of December 31, 2019 totaling P156,883,868,770 as submitted by the Concessionaires pertains to the amortization of Land which do not have a corresponding depreciation expense in the MWSS books of accounts.

The Concessionaires have yet to submit their financial statements for CY 2020 resulting in the non-recognition of the corresponding Depreciation Expense and amortization of Deferred Service Concession Revenue for the year.

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.

9. OTHER ASSETS

9.1. Current and Non-Current Other Assets

Particulars	2020			2019		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances	0	682,881	682,881	0	478,044	478,044
Prepayments	0	2,339,822,963	2,339,822,963	794,845,993	15,900,663	810,746,656
Deposits	0	14,136,415	14,136,415	2,888,349	10,928,425	13,816,774
Other Assets	0	726,244,522	726,244,522	0	726,123,589	726,123,589
Restricted Fund	0	607,293,791	607,293,791	0	103,381,819	103,381,819
Total	0	3,688,180,572	3,688,180,572	797,734,342	856,812,540	1,654,546,882

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 account is presented as non-current in CY 2020 to correctly reflect its nature. The major increase refers to the advance payment amounting to P1.554 billion for the design and construction of New Centennial Water Source – Kaliwa Dam Project (NCWS-KDP).

Prepayments and *Deposits* were presented as Other Current Assets in CY 2019. However, in view of the nature, both are presented as Other Non-Current Assets in CY 2020.

The *Other Assets* account consists of the following:

Particulars	2020	2019
Unserviceable Assets	540,059,900	539,938,966
Dormant Accounts	169,359,056	169,359,056

Particulars	2020	2019
Garnished Accounts	10,613,512	10,613,512
Research and Development	6,212,055	6,212,055
Total	726,244,523	726,123,589

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.

The increase in *Other Assets* account refers to the increase in the balance reported by the RO amounting to P120,934.

Restricted Fund is the amount restricted by government corporations for authorized long-term plans except for liquidation of long-term debt. The Regulatory Office earmarked P103.382 million solely for future arbitrations. The Corporate Office's restricted fund comprises Special Reserve Fund amounting to P431.789 million with the BTr as guarantee for the financial obligations of MWSS during the concession period; SM Prime Fund of P37.650 million representing amount received from SM Prime Holdings, Inc. as an initial deposit for the lease of 4.1 hectares MWSS Property in 2010; BBWSP Fund of P10.114 million for the operation and maintenance cost for tapping into Aqueduct No. 6; and ADDSP Fund of P24.056 million as the remaining balance of the held-in-trust fund received from the BTr to rehabilitate Angat dam and dyke.

10. FINANCIAL LIABILITIES

Particulars	2020	2019 (As restated)
Payables	657,926,339	722,724,379
Bills/Bonds/Loans Payable	396,215,304	928,025,082
Total	1,054,141,643	1,650,749,461

10.1. Payables

Particulars	2020	2019 (As restated)
Accounts Payable	586,941,754	566,269,363
Interest Payable	52,165,939	138,926,296
Due to Officers and Employees	18,818,646	17,528,720
Total	657,926,339	722,724,379

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.

10.2. Bills/Bonds/Loans Payable

Particulars	2020		
	Current	Non-Current	Total
Loans Payable – Domestic	26,981,724	352,401,016	379,382,740
Loans Payable – Foreign	369,233,580	7,799,567,999	8,168,801,579
Total	396,215,304	8,151,969,015	8,548,184,319

Particulars	2019		
	Current	Non-Current	Total
Loans Payable – Domestic	26,718,094	396,016,334	422,734,428
Loans Payable – Foreign	901,306,988	6,566,447,926	7,467,754,914
Total	928,025,082	6,962,464,260	7,890,489,342

The current and non-current portion of Loans Payable are detailed as follows:

Source	Maturity Date	Currency	Annual Interest Rate	2020		
				Current	Non-Current	Total
Domestic						
SPIAL	05-15-26	\$	9.65%	12,645,320	115,671,028	128,316,348
ADB 1746-PHI	02-01-22	P	floating	14,336,403	68,578,464	82,914,867
NHA		P	floating	0	98,795,399	98,795,399
IBRD 1272/1282	07-15-20	\$	8.50%	0	69,356,125	69,356,125
Sub Total				26,981,723	352,401,016	379,382,739
Foreign						
ADB 1379-PHI	07-15-20	\$	floating	0	0	0
JBIC Loan PH 110	02-20-20	Y	2.70%	0	0	0
China Eximbank AWUAIP II	01-21-30	\$	labor rate	369,233,705	3,138,486,490	3,507,720,195
French Protocol	12-31-18	FF	3%-6.8%	(125)		(125)
China Eximbank NCWS-KDP	01-21-40	\$	2%	0	1,521,483,548	1,521,483,548
ADB 3377-PHI	03-15-41	\$	Floating	0	3,139,597,961	3,139,597,961
Sub Total				369,233,580	7,799,567,999	8,168,801,579
Total				396,215,303	8,151,969,015	8,548,184,318

Source	Maturity Date	Currency	Annual Interest Rate	2019		
				Current	Non-Current	Total
Domestic						
SPIAL	05-15-26	\$	9.65%	13,333,107	135,295,552	148,628,659
ADB 1746-PHI	02-01-22	P	floating	13,384,987	88,796,936	102,181,923
NHA		P	floating	0	98,795,399	98,795,399
IBRD 1272/1282	07-15-20	\$	8.50%	0	73,128,447	73,128,447
Sub Total				26,718,094	396,016,334	422,734,428
Foreign						
ADB 1379-PHI	07-15-20	\$	floating	472,985,481	0	472,985,481
JBIC Loan PH 110	02-20-20	Y	2.70%	38,982,852	0	38,982,852

Source	Maturity Date	Currency	Annual Interest Rate	2019		
				Current	Non-Current	Total
China Eximbank AWUAIP II	01-21-30	\$	labor rate	389,316,550	3,698,507,217	4,087,823,767
French Protocol	12-31-18	FF	3%-6.8%	22,105	0	22,105
China Eximbank NCWS-KDP	01-21-40	\$	2%	0	0	0
ADB 3377-PHI	03-15-41	\$	Floating	0	2,867,940,709	2,867,940,709
Sub Total				901,306,988	6,566,447,926	7,467,754,914
Total				928,025,082	6,962,464,260	7,890,489,342

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 relented 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.

National Housing Authority (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 that already matured 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. The Loan already matured on February 20, 2020.

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 USD116,602,000. 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.

China Eximbank - The New Centennial Water Source-Kaliwa Dam Project (NCWS-KDP) is one of the Infrastructure Flagship Projects (IFPs) under President Rodrigo Duterte's "Build, Build, Build" program. For purposes of implementing the project, MWSS has entered into a contract (No. NCWS-KDP 001-2018) with China Energy Engineering Corporation Limited wherein the project has a total commercial contract amounting to Php12,189,893,798.70. The 15% of the total commercial contract amounting to Php1,828,484,069.81 represents the local funding of MWSS while the other 85% will be financed through a loan. With this, MWSS has entered into a loan agreement with Export-Import Bank of China (China Eximbank) on November 20, 2018 which was under the Preferential Buyer's Credit Loan Agreement with No. 142010300202018213220 PBC 2018 No. 25 Total No. 482 on the (NCWS-KDP) amounting to USD211,214,646.54 or a total of P10,361,409,728.90 using a reference exchange rate of P49.056303 : USD1.00. The Loan Effectiveness was on November 1, 2019. Thus, MWSS paid a total of USD633,643.94 representing 0.3% lump sum amount for the Management Fee which was remitted on November 26, 2019 directly to China Eximbank.

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 10 years that started in December 2002. In CY 2018, a total of P2,936,064.41 of repayment of the loan was made. The loan matured last December 2018.

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 USD123.30 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.

11. INTER-AGENCY PAYABLES

Particulars	2020	2019
Due to Treasurer of the Philippines	30,214,276	55,606,320
Due to BIR	22,685,103	22,617,680
Due to GSIS	3,798,792	1,983,897
Due to PhilHealth	183,471	80,910
Due to Pag-IBIG	359,468	70,028
Due to Other Government Corporations	1,395	1,395
Total	57,242,505	80,360,230

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

The accounts *Due to Bureau of Internal Revenue (BIR)*, *Government Service Insurance System (GSIS)*, *Philippine Health Insurance Corporation (PhilHealth)* and *Home Development Mutual Fund (Pag-IBIG)* refer to balances of withheld amounts as of December 31, 2020 which were remitted in January 2021.

12. TRUST LIABILITIES

Particulars	2020	2019 (As restated)
Trust Liabilities	114,273,921	127,940,928
Bail Bonds Payable	1,872,569	4,064,803
Guaranty/Security Deposits Payable	170,631,641	170,631,641
Total	286,778,131	302,637,372

The balance of *Trust Liabilities* account includes receipts for the National Commission on Indigenous People (NCIP) Work and Financial Plan relative to the Kaliwa Dam Project.

13. OTHER PAYABLES

Particulars	2020	2019
Dividends Payable	620,082,411	358,549,752
Other Payables	515,438,806	485,788,175
Total	1,135,521,217	844,337,927

Dividends Payable account comprises 50% of CY 2020 net earnings totaling P499,026,280.97 and set up of short payment for CY 2019 totaling P121,006,377.81 due to correction in the computation of the 50% net earnings. Dividends for CY 2020 was declared and approved on May 18, 2021 under Board Resolution No. 2021-046-CO. Payment was received by the BTR on May 19, 2021.

Other Payables 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 lawsuits and money claims.

14. DEFERRED CREDITS

Particulars	2020	2019
Deferred Service Concession Revenue	158,386,355,270	1,213,561,850
Other Deferred Credits	156,701,218	139,256,206
Total	158,543,056,488	1,352,818,056

Deferred Service Concession Revenue account consists of:

Deferred Service Concession Revenue account represents the unearned portion of the revenue arising from the exchange of assets between the MWSS and the Concessionaires by the end of the service concession agreement amortized yearly over the economic substance of the arrangement. The material increase in CY 2020 is due to the initial recognition of the concession assets developed and/or acquired by the Concessionaires after the commencement of the concession agreement in 1997 totaling P156,883,868,770, based on the balances reported by the Concessionaires as of December 31, 2019.

Deferred credits to income – COB account represent 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 Treasury 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* include the following:

Account	Particulars	Amount
Deferred Credits to Income	Others	59,167,165
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.	35,699,020
Rental of MWSS Properties	Advance payment for rental of various MWSS properties	30,724,507

Account	Particulars	Amount
Cost of Lot Housing	Collection from employees for Cost of Lot payment (MWSS Housing)	13,219,098
Interest	Interest on Materials on Site Advances	8,423,623
Miscellaneous – Others	Pasig River Environmental Mgt. & Rehab Sector Development Program (PREMSDP)	8,441,962
BID Documents	Sale of bid documents	833,023
Amount withheld for liquidated damages	Amount withheld from contractors under dispute	192,820
Total		156,701,218

15. 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.

16. 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.

17. SERVICE AND BUSINESS INCOME

Particulars	2020	2019
Service Concession Revenue		
Concession Income	1,174,649,387	1,098,650,105
Debt Service	1,121,742,068	2,347,705,870
Progress Billings	30,700,214	464,822,241
Total Service Income	2,327,091,669	3,911,178,216
Business Income		
Rent Income	134,171,316	127,854,083
Income from Raw Water	71,014,360	83,834,305
Interest Income	48,545,572	58,127,808
Total Business Income	253,731,248	269,816,196
Total	2,580,822,917	4,180,994,412

Service 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.

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

18. PERSONNEL SERVICES

These expenses include the following:

Particulars	2020	2019
Salaries and Wages	117,507,598	118,490,060
Other Compensation	48,778,218	46,396,284
Personnel Benefit Contributions	14,281,835	15,439,432
Other Personnel Benefits	16,490,856	11,442,901
Total	197,058,507	191,768,677

18.1. Salaries and Wages

Particulars	2020	2019
Salaries and Wages - Regular	110,619,910	113,350,176
Salaries and Wages - Casual/Contractual	6,887,688	5,139,884
Total	117,507,598	118,490,060

18.2. Other Compensation

Particulars	2020	2019
Other Bonuses and Allowances	10,803,321	11,125,158
Year End Bonus	9,856,416	9,977,677
Honoraria	6,238,120	6,463,000
Productivity Incentive Allowance	4,987,490	1,596,089
Personnel Economic Relief Allowance	4,338,206	4,247,913
Representation Allowance (RA)	3,533,191	3,509,875
Transportation Allowance (TA)	2,846,485	2,811,060
Subsistence Allowance	1,432,485	629,779
Longevity Pay	1,241,800	1,302,039
Clothing/Uniform Allowance	1,080,000	1,104,000
Cash Gift	897,250	1,029,794
Hazard pay	873,500	0

Particulars	2020	2019
Overtime and Night Pay	634,954	2,599,900
Loyalty	15,000	0
Total	48,778,218	46,396,284

18.3. Personnel Benefit Contributions

Particulars	2020	2019
Retirement and Life Insurance Premiums	12,636,939	14,035,662
PhilHealth Contributions	1,312,596	988,670
Employees Compensation Insurance Premium	195,100	212,700
Pag-IBIG Contributions	137,200	202,400
Total	14,281,835	15,439,432

18.4. Other Personnel Benefits

Particulars	2020	2019
Retirement Benefits- Civilian	6,319,180	0
Terminal Leave Benefits	6,295,702	3,637,066
Other Personnel Benefits	3,875,974	6,994,104
Retirement Gratuity	0	811,731
Total	16,490,856	11,442,901

19. MAINTENANCE AND OTHER OPERATING EXPENSES

These expenses include the following:

Particulars	2020	2019
Professional Services	53,973,417	59,175,673
Taxes, Insurance Premiums and Other Fees	40,091,091	134,137,707
General Services	37,324,167	36,263,799
Utility Expenses	7,729,297	10,555,929
Repairs and Maintenance	5,725,903	3,144,107
Supplies and Materials Expenses	5,692,392	7,975,470
Training and Scholarship Expenses	2,964,535	4,756,850
Communication Expenses	1,640,082	2,040,648
Traveling Expenses	1,176,451	3,226,729
Confidential, Intelligence and Extraordinary Expenses	990,554	1,037,400
Other Maintenance and Operating Expenses	9,972,264	16,249,393
Total	167,280,153	278,563,705

19.1. Professional Services

Particulars	2020	2019
Other Professional Services	25,939,833	24,241,782
Auditing Services	14,578,839	14,280,147
Consultancy Services	13,454,745	20,653,744
Total	53,973,417	59,175,673

19.2. Taxes, Insurance Premiums and Other Fees

Particulars	2020	2019
Taxes, Duties and Licenses	37,564,593	132,175,155
Insurance/Reinsurance Expenses	2,444,984	1,862,279
Fidelity Bond Premiums	81,514	100,273
Total	40,091,091	134,137,707

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.

19.3. General Services

Particulars	2020	2019
Security Services	33,001,176	32,018,809
Janitorial Services	4,322,991	4,244,990
Total	37,324,167	36,263,799

19.4. Utility Expenses

Particulars	2020	2019
Electricity Expenses	4,271,370	7,937,063
Water Expenses	3,457,927	2,618,866
Total	7,729,297	10,555,929

19.5. Repairs and Maintenance

Particulars	2020	2019
Repairs and Maintenance – Buildings and Other Structures	4,321,456	1,256,450
Repairs and Maintenance – Machinery and Equipment	1,016,545	933,740
Repairs and Maintenance – Transportation Equipment	387,587	953,697

Particulars	2020	2019
Repairs and Maintenance – Furniture and Fixtures	315	220
Total	5,725,903	3,144,107

19.6. Supplies and Materials Expenses

Particulars	2020	2019
Other Supplies and Materials Expenses	2,761,107	3,275,334
Fuel, Oil and Lubricants Expenses	1,485,895	2,686,694
Office Supplies Expenses	1,445,390	1,968,784
Medical, Dental and Laboratory Supplies	0	44,658
Total	5,692,392	7,975,470

19.7. Training and Scholarship Expenses

Particulars	2020	2019
Training Expenses	2,964,535	4,756,850

19.8. Communication Expenses

Particulars	2020	2019
Telephone Expenses	1,412,987	1,684,181
Internet Subscription Expenses	171,758	243,881
Postage and Courier Services	53,909	92,818
Cable, Satellite, Telegraph, and Radio Expenses	1,428	19,768
Total	1,640,082	2,040,648

19.9. Traveling Expenses

Particulars	2020	2019
Travelling Expenses – Local	1,172,951	3,209,229
Travelling Expenses – Foreign	3,500	17,500
Total	1,176,451	3,226,729

19.10. Confidential, Intelligence and Extraordinary Expenses

Particulars	2020	2019
Extraordinary and Miscellaneous Expenses	990,554	1,037,400

19.11. Other Maintenance and Operating Expenses

Particulars	2020	2019
Other Maintenance and Operating Expenses	5,822,194	9,068,238
Representation Expenses	1,625,012	2,698,641
Subscription Expenses	1,483,332	1,792,029
Advertising, Promotional and Marketing Expenses	548,803	527,466
Printing and Publication Expenses	191,747	1,046,766
Rent/Lease Expenses	152,518	1,077,985
Documentary stamp tax	142,658	0
Membership Dues and Contributions to Organizations	6,000	38,268
Total	9,972,264	16,249,393

20. FINANCIAL EXPENSES

Particulars	2020	2019
Interest Expenses	125,905,125	176,967,363
Other Financial Charges	40,169,456	52,670,270
Bank Charges	244,810	391,964
Total	166,319,391	230,029,597

21. NON-CASH EXPENSES

21.1. Depreciation

Particulars	2020	2019
Depreciation – Service Concession Assets	814,179,143	827,055,940
Depreciation – Building and Other Structures	84,703,830	85,062,631
Depreciation – Machinery and Equipment	3,609,883	2,917,326
Depreciation – Transportation Equipment	2,859,278	1,948,703
Depreciation – Furniture and Fixtures	50,971	106,300
Total	905,403,105	917,090,900

22. NON-OPERATING INCOME, GAIN OR LOSSES

22.1. Non-Operating Income/Gain

Particulars	2020	2019
Other Non-Operating Income		
Miscellaneous Income	14,365	92,800,986

Particulars	2020	2019
Gains		
Gain on Foreign Exchange (FOREX)	403,766,880	294,423,192
Total	403,781,245	387,224,178

22.2. Non-Operating Losses

Particulars	2020	2019
Losses		
Loss on Sale of Property, Plant and Equipment	0	17,237,321
Loss on Foreign Exchange (FOREX)	946,050	641,298
Total	946,050	17,878,619

23. INCOME TAX

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*)

24. 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 sums 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. 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.

b. 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 Avenue by SM Prime Holdings, Inc.
- 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

25. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS NO. 15-2010

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

a. Income Tax

For the Year 2020 the MWSS incurred P 14,530,467 Corporate Income Tax payable.

b. VAT Output Tax

MWSS is a VAT registered company with VAT Output Tax declaration of P 186,807,830 for the year based on the amount reflected in the Income/Receivables Account of P 22,416,933.

c. VAT Input Tax

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

Particulars	Amount
Beginning of the year	18,431,444
Current year’s purchases	55,271,933

Particulars	Amount
Total	73,703,377
Claim for tax credits and other adjustments	(39,079,851)
Input VAT for 2021 (January)	34,623,526

d. The amount of withholding taxes categorized into:

Particulars	Amount
i. Tax on Compensation and Benefits	19,391,067
ii. Creditable Withholding Tax/es	39,524,191
iii. Final Withholding Tax/es	267,823

26. UNRECONCILED ASSET AND LIABILITY ACCOUNT BALANCES

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

Particulars	2020	2019
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 manpower, Finance Department finds it difficult to conduct reconciliation of the accounts.

27. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

The budget was on an accrual basis, covering the period from January 1, 2020 to December 31, 2020. The MWSS-Corporate and Regulatory Offices have a separate budget approval from the Department of Budget and Management (DBM).

28. CORPORATE RECOVERY AND TAX INCENTIVES FOR ENTERPRISES (CREATE) LAW

The CREATE Act was passed into law on March 26, 2021. The law's purpose is to grant tax relief for companies in financial need, provide transparent tax provisions, and further increase the competitiveness of the Philippines.

The MWSS already availed of the reduced Corporate Income Tax rate for CY 2020 from 30% to 25% as provided under BIR Revenue Regulations No. 5-2021 dated April 8, 2021. Although the reduction in Percentage Tax rate from 3% to 1% was made effective July 1, 2020, the MWSS implemented the new rate in CY 2021 in the absence of a Revenue Memorandum Circular of the BIR that will provide guidance on the treatment of Percentage Taxes for the Contract of Service Personnel that were already remitted covering the period July 1, 2020 to December 31, 2020.

29. SUBSEQUENT EVENTS

In December 2019, the MWSS revoked the extension of the concession agreement with MWCI and MWSI. This decision by the Board of Trustees is based on the directive of President Rodrigo R. Duterte in view of the identified supposedly "onerous provisions" in the Concession Agreements and ordered for the review and amendment.

As a result of the negotiation of the Concessionaires with the National Government, a revised Concession Agreement (CA) was signed by the MWCI and MWSI dated March 31, 2021 and May 18, 2021, respectively.

Quoting from a report by the MWCI, "the revised CA confirms the continuation of the concession until July 31, 2037. The revised CA removes recovery of Corporate Income Taxes and the adjustment for foreign currency differential (FCDA). The revised CA also lowers the yearly inflation factor to 2/3 of the Consumer Price Index adjustment and imposes a cap on tariff rate increases equivalent to 1.3x the previous standard rate for water and 1.5x the previous standard rate for wastewater. Instead of a market-driven appropriate discount rate, the Company shall now be limited to a 12% fixed nominal discount rate. The rate rebasing mechanism under the original CA is retained. However, no tariff increases will be implemented until December 31, 2022 in order to assist the disadvantaged sector and to contribute to the economy's recovery post COVID-19. The Undertaking Letter of the Republic has been retained with the exclusion of the clause prohibiting interference by the government in the rate setting mechanism and with the proviso that this shall now apply only to contracts and obligations existing at the time of execution of the revised CA.