

**PART I –**

**AUDITED**

**FINANCIAL STATEMENTS**



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

## **INDEPENDENT AUDITOR'S REPORT**

**Engr. Angeles L. Bontilao**  
Chairman, Board of Directors  
Manolo Fortich Water District  
Manolo Fortich, Bukidnon

We have audited the accompanying financial statements of **Manolo Fortich Water District**, Manolo Fortich, Bukidnon which comprise the Statement of Financial Position as of December 31, 2017 and the related Statements of Comprehensive Income, Cash Flows and Changes in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, *selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.*

### ***Auditor's Responsibility***

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

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

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

*Bases for Qualified Opinion*

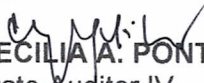
As discussed in Part II- Observations and Recommendations of this report, a qualified opinion was rendered due to the District's understated liabilities due to non-accrual of Leave Benefits Payable totaling P4,593,807.92, unreconciled Accounts Receivable amounting to P1,597,793.66, and overstated Property, Plant and Equipment from non-recognition of appropriate depreciation expenses; thereby casting doubt on the accuracy of the District's financial statements.

*Qualified Opinion*

In our opinion, except for the effects of the matter described in the Bases for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Manolo Fortich Water District, Manolo Fortich, Bukidnon as of December 31, 2017 and of its financial performance and its cash flows for the year ended in accordance with Philippine Financial Reporting Standards (PFRS).

**COMMISSION ON AUDIT**

BY:

  
**CECILIA A. PONTILLAS**  
State Auditor IV  
Supervising Auditor

February 23, 2018



**MANOLO FORTICH WATER DISTRICT**  
**A. Ditona St., Tankulan, Manolo Fortich, Bukidnon**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY**  
**FOR FINANCIAL STATEMENTS**

The management of the Manolo Fortich Water District (MFWD), Manolo Fortich, Bukidnon is responsible for preparation of the financial statements as at December 31, 2017, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material statement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit had audited the financial statements of the Manolo Fortich Water District in accordance with the Philippine Public Sector Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

**ENGR. ANGELES L BONTILAO**  
Chairman of the Board  
January 22, 2018

**WILLIAM N. PAILAGAO**  
Corporate Budget Analyst B  
January 22, 2018

**ENGR. ROGELIO K. PANGAN**  
General Manager  
January 22, 2018





# MANOLO FORTICH WATER DISTRICT

## Statement of Financial Position

As of December 31, 2017

(With comparative figures for 2016)

	<u>NOTE*</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	36,605,758.30	20,762,327.77
Receivables	4	2,638,877.04	1,426,115.86
Inventories	5	11,797,594.42	16,888,841.55
Other Current Assets		305,000.01	167,707.13
<b>Total Current Assets</b>		<b>51,347,229.77</b>	<b>39,244,992.31</b>
<b>Non-Current Assets</b>			
Other Investments	6	5,118,360.56	4,359,458.03
Property, Plant and Equipment	7	92,417,578.75	90,539,475.85
Intangible Assets		128,145.00	128,145.00
Other Non-Current Assets	8	5,796,438.05	5,382,601.91
<b>Total Non-Current Assets</b>		<b>103,460,522.36</b>	<b>100,409,680.79</b>
<b>Total Assets</b>		<b>154,807,752.13</b>	<b>139,654,673.10</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Financial Liabilities	9	2,162,130.31	3,522,502.19
Inter-Agency Payables	10	953,494.25	593,141.86
Other Payables		50,180.09	86,180.09
<b>Total Current Liabilities</b>		<b>3,165,804.65</b>	<b>4,201,824.14</b>
<b>Non-Current Liabilities</b>			
Financial Liabilities	11	43,886,800.99	33,518,599.34
Trust Liabilities	12	49,715.39	37,152.39
Deferred Credits/Unearned Income		26,950.00	14,050.00
<b>Total Non-Current Liabilities</b>		<b>43,963,466.38</b>	<b>33,569,801.73</b>
<b>Total Liabilities</b>		<b>47,129,271.03</b>	<b>37,771,625.87</b>
<b>EQUITY</b>			
Government Equity		77,640,787.95	77,640,787.95
Retained Earnings/(Deficit)		30,037,693.15	24,242,259.28
<b>Total Equity</b>		<b>107,678,481.10</b>	<b>101,883,047.23</b>
<b>Total Liabilities and Equity</b>		<b>154,807,752.13</b>	<b>139,654,673.10</b>

(see accompanying Notes to Financial Statements)



**MANOLO FORTICH WATER DISTRICT**  
**Statement of Comprehensive Income**

Year Ended December 31, 2017  
*(With comparative figures for 2016)*

	<u>NOTE*</u>	<u>2017</u>	<u>2016</u>
<b>Income</b>			
Service and Business Income	13	69,353,015.37	63,003,888.86
Other Non-Operating Income		611,131.64	787,820.84
<b>Total Income</b>		<b>69,964,147.01</b>	<b>63,791,709.70</b>
<b>Expenses</b>			
Personnel Services	14	15,926,762.26	14,440,119.38
Maintenance and Other			
Operating Expenses	15	35,259,600.90	30,499,645.52
Financial Expenses	16	2,394,649.93	2,097,344.38
Non-Cash Expenses	17	10,602,368.94	10,078,336.60
<b>Total Expenses</b>		<b>64,183,382.03</b>	<b>57,115,445.88</b>
<b>Profit/(Loss) Before Tax</b>		<b>18,837,893.14</b>	<b>18,932,379.80</b>
<b>Income Tax Expense/(Benefit)</b>		<b>13,057,128.16</b>	<b>12,256,115.98</b>
<b>Profit/(Loss) After Tax</b>		<b>5,780,764.98</b>	<b>6,676,263.82</b>
<b>Net Assistance/Subsidy/(Financial Assistance/Subsidy/Contribution)</b>		<b>0.00</b>	<b>0.00</b>
<b>Net Income/(Loss)</b>		<b>5,780,764.98</b>	<b>6,676,263.82</b>
<b>Other Comprehensive Income/(Loss) for the Period</b>		<b>0.00</b>	<b>0.00</b>
<b>Comprehensive Income/(Loss)</b>		<b>5,780,764.98</b>	<b>6,676,263.82</b>

*(see accompanying Notes to Financial Statements)*



**MANOLO FORTICH WATER DISTRICT**  
**Statement of Cash Flows**  
Year Ended December 31, 2017  
*(With comparative figures for 2016)*

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Cash Inflows</b>		
Proceeds from Sale of Goods and Services	65,530,468.68	61,565,151.64
Collection of Income/Revenue	2,348,211.84	1,583,016.97
Collection of Receivables	2,820,921.57	2,220,803.50
Trust Receipts	180,140.51	88,567.44
Other Receipts	267,685.78	264,426.15
<b>Total Cash Inflows</b>	71,147,428.38	65,721,965.70
Adjustments	(1,125,320.50)	(8,093,834.78)
<b>Adjusted Cash Inflows</b>	70,022,107.88	57,628,130.92
<b>Cash Outflows</b>		
Payment of Expenses	22,975,623.17	18,869,051.62
Purchase of Inventories	2,524,290.16	3,172,861.23
Grant of Cash Advances	15,725,471.18	14,020,203.27
Payments of Accounts Payable	5,115,867.59	5,926,932.71
Remittance of Personnel Benefit Contributions and Mandatory Deductions	8,281,581.20	9,059,012.97
Other Disbursements	146,510.00	0.00
<b>Total Cash Outflows</b>	54,769,343.30	51,048,061.80
Adjustments	0.00	0.00
<b>Adjusted Cash Outflows</b>	54,769,343.30	51,048,061.80
<b>Net Cash Provided by/(Used in) Operating Activities</b>	<b>15,252,764.58</b>	<b>6,580,069.12</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Cash Inflows</b>	0.00	0.00
<b>Cash Outflows</b>		
Purchase/Construction of Property, Plant and Equipment	7,354,025.88	19,906,038.10
<b>Total Cash Outflows</b>	7,354,025.88	19,906,038.10
Adjustments	0.00	0.00
<b>Adjusted Cash Outflows</b>	7,354,025.88	19,906,038.10
<b>Net Cash Provided By/(Used In) Investing Activities</b>	<b>7,354,025.88</b>	<b>19,906,038.10</b>

**CASH FLOWS FROM FINANCING ACTIVITIES****Cash Inflows**

Proceeds from Domestic and Foreign Loans

12,021,857.00 16,087,000.00

**Total Cash Inflows**

12,021,857.00 16,087,000.00

Adjustments

0.00 0.00

**Adjusted Cash Inflows**

12,021,857.00 16,087,000.00

**Cash Outflows**

Payment of Long-Term Liabilities(Principal)

1,654,305.35 1,596,423.11

Payment of Interest on Loans and Other Financial  
Charges

2,422,859.82 2,028,008.66

**Total Cash Outflows**

4,077,165.17 3,624,431.77

Adjustments

0.00 0.00

**Adjusted Cash Outflows**

4,077,165.17 3,624,431.77

**Net Cash Provided By/(Used In) Financing Activities**

7,944,691.83 12,462,568.23

**INCREASE/(DECREASE) IN CASH AND CASH  
EQUIVALENTS**

15,843,430.53 (863,400.75)

**CASH AND CASH EQUIVALENTS, JANUARY 1**

28,856,162.55 21,625,728.52

**CASH AND CASH EQUIVALENTS, DECEMBER 31**

36,605,758.30 20,762,327.77





**MANOLO FORTICH WATER DISTRICT**  
**Manolo Fortich, Bukidnon**  
**Notes to Financial Statements**  
**December 31, 2017**

**1. Brief Historical Background**

The Manolo Fortich Water District (MFWD) was duly organized and established by virtue of Presidential No. 198 with its principal address at A. Ditona Street, Tankulan, Manolo Fortich, Bukidnon and managed by Engr. Rogelio K. Pangan per Board Resolution No. 36, Series of 2006 passed and approved on July 20, 2006.

All Local Water Districts in the Philippines were declared as Government-Owned and Controlled Corporations (GOCCs) with original charter (P.D. 198) in a case decided by the Supreme Court on September 13, 1991 docketed as G.R. 95237-38 entitled "Davao City Water District, et al vs. Civil Service Commission, et al."

**2. Summary of Significant Accounting Policies**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

**2.1 Basis of Financial Statement Presentation**

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS) and the Revised Chart of Accounts (RCA) for Government Corporations (GCs) classified as Government Business Enterprises (GBEs) under COA Circular No. 2015-010 dated December 1, 2015.

**2.2 Significant Accounting Judgments and Estimates**

The preparation of the financial statements is in accordance with the PFRS which require the use of certain critical accounting estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. It also requires management to exercise its judgment in applying the district's accounting policies. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

**2.3 Basis of Recording**

The District adopts the modified accrual method of accounting. Revenues were recorded in the period in which services were given and expenses were recorded in the period in which benefits were received.

**2.4 Monetary Denomination Used**

These financial statements are presented in Philippine Peso as its monetary denomination used to facilitate proper recording and reporting of the transactions except when otherwise indicated.

**2.5 Method of Accounting**

The District uses the Revised Chart of Accounts prescribed under COA Circular No. 2015-010 dated December 01, 2015 effective January 01, 2016.



**MANOLO FORTICH WATER DISTRICT**  
**Statement of Changes in Equity**  
 Year Ended December 31, 2017

Retained Earnings/ (Deficit)	Contributed Capital	Share Premium	TOTAL
<b>BALANCE AT JANUARY 1, 2016</b>			
<b>ADJUSTMENTS:</b>			
Add/(Deduct):			
Changes in Accounting Policy			
Prior Period Errors			
Other Adjustments			
<b>RESTATED BALANCE AT JANUARY 1, 2016</b>			
17,627,068.57	36,110,045.61	41,435,741.34	95,172,855.52
<b>CHANGES IN EQUITY FOR 2016</b>			
Add/(Deduct):			
Issuances of Share Capital			
Comprehensive Income for the year			
Dividends			
Other Adjustments			
<b>BALANCE AT DECEMBER 31, 2016</b>			
17,565,995.46	36,110,045.61	41,530,742.34	101,883,047.23
<b>CHANGES IN EQUITY FOR 2017</b>			
Add/(Deduct):			
Issuances of Share Capital			
Comprehensive Income for the year			
Dividends			
Other Adjustments			
<b>BALANCE AT DECEMBER 31, 2017</b>			
24,256,928.17	36,110,045.61	41,530,742.34	107,678,481.10

## **2.6 Significant accounting policies observed for each account**

### **2.6.1 Cash and Cash Equivalents**

Cash includes cash on hand and cash in banks. Cash is valued at face value.

Petty Cash Fund is maintained under the Imprest system. All replenishment is directly charged to appropriate expense account.

### **2.6.2 Receivables**

Receivables are stated at face value less allowance for impairment.

### **2.6.3 Inventories**

Supplies and Materials purchased for inventory purpose are recorded using perpetual Inventory System. Purchased out of petty cash fund was directly charged to the appropriate expense accounts. Cost of issued items and the ending inventory of supplies and materials were computed using Moving Average Method from First-In-First-Out (FIFO) method.

### **2.6.4 Property, Plant and Equipment**

Property, Plant and Equipment consist of infrastructure assets, machinery and equipment, transportation equipment and construction in progress. The District's PPE are recorded at cost less accumulated depreciation. Depreciation is computed following the provisions of COA Circular No. 2003-007 dated December 11, 2003, wherein the straight line method was used and a residual value equivalent to 10% of the acquisition cost was deducted before dividing same by the estimated useful life

### **2.6.5 Liabilities**

Liabilities are recognized only when goods are accepted and/or services rendered or when suppliers' bills are received.

## **3. Cash and Cash Equivalents**

This account consists of the following:

	<b>2017</b>	<b>2016</b>
Cash-Collecting Officers	92,858.00	129,067.84
Petty Cash	0.00	0.00
Local Currency on Hand	2,000.00	2,000.00
Cash in Bank-Local Currency, Current Account	31,510,900.30	20,631,259.93
Time Deposits-Local Currency	5,000,000.00	0.00
<b>Total</b>	<b>36,605,758.30</b>	<b>20,762,327.77</b>



#### 4. Receivables

This account consists of the following:

	2017	2016
Accounts Receivable	3,194,998.86	1,922,534.70
<i>Allowance for Impairment-Accounts Receivable</i>	(703,739.43)	(627,496.01)
Other Receivables	147,617.61	131,077.17
<b>Total</b>	<b>2,638,877.04</b>	<b>1,426,115.86</b>

#### 5. Inventories

This account consists of the following:

	2017	2016
Inventory Held for Sale	131,126.70	330,239.78
Inventory Held for Distribution	8,057,198.52	2,825,055.46
Inventory Held for Consumption	2,044,001.21	2,209,748.12
Semi-Expendable Machinery and Equipment	547,021.92	529,798.22
Semi-Expendable Furniture, Fixtures and Books	1,018,246.07	993,999.97
<b>Total</b>	<b>11,797,594.42</b>	<b>16,888,841.55</b>

#### 6. Other Investments

This account consists of:

	2017	2016
Sinking Fund	5,118,360.56	4,359,458.03

The increase/decrease in this account is shown as an adjustment in the Statement of Cash Flows under the Operating Activities.

#### 7. Property, Plant and Equipment

This account consists of the following:

	2017	2016
Land	1,831,479.82	1,476,479.82
Plant-Utility Plant in Service (UPIS)	150,281,110.75	133,912,254.47
<i>Accumulated Depreciation-Plant (UPIS)</i>	(73,932,245.99)	(64,272,590.67)
Office Equipment	731,665.00	728,790.00
<i>Accumulated Depreciation-Office Equipment</i>	(582,056.92)	(531,303.28)
Information and Communication Technology Equipment	1,699,710.65	1,536,692.25



<i>Accumulated Depreciation-Information and Communication Technology Equipment</i>	(1,246,414.87)	(1,154,782.71)
Communication Equipment	80,130.00	80,130.00
<i>Accumulated Depreciation-Communication Equipment</i>	(72,117.00)	(72,117.00)
Motor Vehicles	5,956,492.23	5,956,492.23
<i>Accumulated Depreciation-Motor Vehicles</i>	(3,854,560.75)	(3,245,614.69)
Furniture and Fixtures	236,370.90	236,370.90
<i>Accumulated Depreciation-Furniture and Fixtures</i>	(199,313.61)	(186,831.52)
Leased Assets, Buildings and Other Structures	2,250,000.00	2,250,000.00
<i>Accumulated Depreciation-Leased Assets, Buildings and Other Structures</i>	(1,233,000.00)	(1,130,343.75)
Construction in Progress-Infrastructure Assets	10,470,328.54	14,955,849.80
<b>Total</b>	<b>92,417,578.75</b>	<b>90,539,475.85</b>

#### 8. Other Non-Current Assets

This account consists of the following:

	<b>2017</b>	<b>2016</b>
Restricted Fund	4,100,794.72	3,734,376.75
Abandoned/Surrendered Property/Assets	587,890.00	587,890.00
Other Assets	1,107,753.33	1,060,335.16
<b>Total</b>	<b>5,796,438.05</b>	<b>5,382,601.91</b>

Amounts included in the restricted cash represent those required to be set aside to guarantee payment of loans with LWUA and cannot be withdrawn by the District without the consent of LWUA. The increase/decrease in this account is shown as an adjustment in the Statement of Cash Flows under the Operating Activities.

#### 9. Financial Liabilities

This account consists of:

	<b>2017</b>	<b>2016</b>
Accounts Payable	2,162,130.31	3,522,502.19

#### 10. Inter-Agency Payables

This account consists the following:

	<b>2017</b>	<b>2016</b>
Due to BIR	574,045.01	249,642.66
Due to GSIS	255,751.34	228,927.76
Due to Pag-IBIG	103,622.90	96,021.44

Due to PhilHealth	20,075.00	18,550.00
<b>Total</b>	<b>953,494.25</b>	<b>593,141.86</b>

#### 11. Financial Liabilities (Non-Current)

This account consists of:

	<b>2017</b>	<b>2016</b>
Loans Payable-Domestic	43,886,800.99	33,518,599.34

#### 12. Trust Liabilities (Non-Current)

This consists of:

	<b>2017</b>	<b>2016</b>
Customers' Deposits Payable	49,715.39	37,152.39

#### 13. Service and Business Income

This account consists of the following:

	<b>2017</b>	<b>2016</b>
Fines and Penalties-Service Income	8,700.00	10,000.00
Other Service Income	1,342,350.00	237,080.00
Waterworks System Fees	67,109,620.02	61,613,582.59
<i>Sales Discounts</i>	(155,127.29)	(104,476.07)
Interest Income	69,205.17	57,316.60
Other Business Income	978,267.47	1,190,385.74
<b>Total Service and Business Income</b>	<b>69,353,015.37</b>	<b>63,003,888.86</b>

#### 14. Personnel Services

This account consists of the following:

	<b>2017</b>	<b>2016</b>
Salaries and Wages	8,870,103.00	7,521,538.45
Other Compensation	5,070,349.10	5,566,643.85
Personnel Benefit Contributions	1,287,507.46	1,097,666.76
Other Personnel Benefits	698,802.70	254,270.32
<b>Total</b>	<b>15,926,762.26</b>	<b>14,440,119.38</b>

## 15. Maintenance and Other Operating Expenses

This consists of the following:

	2017	2016
Generation, Transmission and Distribution Expenses	19,583,493.18	16,204,190.49
Repairs and Maintenance	7,468,718.08	6,619,071.62
Labor and Wages	1,644,476.37	1,731,246.30
Supplies and Materials Expenses	1,619,513.09	1,559,624.83
Taxes, Insurance Premiums and Other Fees	1,617,378.98	1,417,276.94
Traveling Expenses	579,652.32	580,624.92
Training and Scholarship Expenses	471,893.24	324,848.60
Utility Expenses	330,322.00	343,335.99
Confidential, Intelligence and Extraordinary Expenses	295,834.70	342,284.90
Professional Services	156,188.20	260,753.40
Communication Expenses	118,391.23	87,378.95
Other Maintenance and Operating Expenses	1,373,739.51	1,029,008.58
<b>Total</b>	<b>35,259,600.90</b>	<b>30,499,645.52</b>

## 16. Financial Expenses

This account consists of the following:

	2017	2016
Interest Expenses	2,392,444.32	2,033,470.81
Bank Charges	150.00	1,050.00
Other Financial Charges	2,055.61	62,823.57
<b>Total</b>	<b>2,394,649.93</b>	<b>2,097,344.38</b>

## 17. Non-Cash Expenses

This account consists of the following:

	2017	2016
Depreciation	10,526,125.52	9,960,942.52
Impairment Loss-Loans and Receivables	76,243.42	117,394.08
<b>Total</b>	<b>10,602,368.94</b>	<b>10,078,336.60</b>

#### **18. Authority to Issue Financial Statements**

The Financial Statements for the year ended December 31, 2017 were approved by Engr. Rogelio K. Pangan, General Manager.