

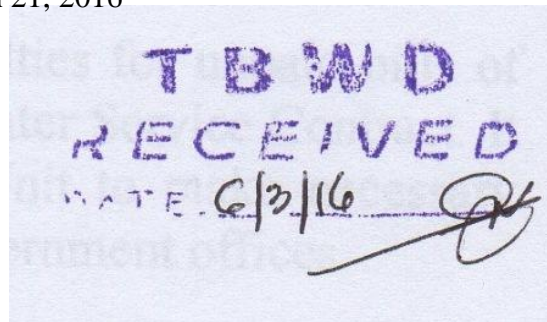


Republic of the Philippines  
**COMMISSION ON AUDIT**  
**Regional Office No. 10**  
J.V. Serina Street, Carmen, Cagayan de Oro City



March 21, 2016

**Mr. GEOVANNI A. HERA**  
General Manager  
Tubod-Baroy Water District  
Tubod, Lanao del Norte



Dear Manager Hera:

We are pleased to transmit the Annual Audit Report on the audit of **Tubod-Baroy Water District**, Tubod, Lanao del Norte, for the year ended December 31, 2015, in compliance with Section 43 of Presidential Decree No. 1445 otherwise known as the Government Auditing Code of the Philippines.

The audit was conducted to: (a) ascertain the degree of reliance that may be placed on the management's assertion on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

The attached report consists of Part I – Audited Financial Statements, Part II – Observations and Recommendations, Part III – Status of Implementation of Prior Year's Audit Recommendations, which were discussed with the officials and staff concerned, and Part IV – Annexes.

We conducted our audit in accordance with Philippine Public Sector Standards on Auditing and we believe these standards provided a reasonable basis for the audit results.

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements because the effect of the deviations from prescribed procedures materially affected the account balances. Three of the significant observations contained in the report which were discussed with concerned officials and employees of the District during the exit conference conducted on February 5, 2016, are as follows:

- 1. Fines and penalties totaling P344,456.84 were included in the Accounts Receivable and recognized as income, contrary to Philippine Accounting Standards (PAS) 18, thereby overstating the income account.**

We have recommended to Management to stop the practice of recording penalty charges as outright income and to instruct the Accounting Unit to make necessary adjustments to the affected income account.

**2. The non-imposition of the 10% penalty on water charges of government offices contrary to the Water Service Contract resulted to non-collection of penalty income to the disadvantage of the District.**

We have recommended to Management to impose penalties for unpaid bills of government offices pursuant to the stipulations of the Water Service Contract. It was further recommended to require the Accounting Unit to make necessary adjustments to provide penalty charges on delinquent government offices.

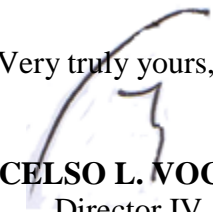
**3. Guarantee Deposits Payable amounting to P159,740.00 which had long been dormant was continuously carried over in the books contrary to Section 111 of P.D. 1445, which may have effect on the fair presentation of the financial statements.**

We have recommended to Management to transfer dormant accounts to the Registry Book of Dormant Account inasmuch as documents related thereto can no longer be traced and or located.

We request that a status report, thru accomplishing the attached Agency Action Plan and Status of Implementation form, on the actions taken on the audit recommendations be submitted within 60 days from receipt of this report, pursuant to Section 93 of the General Provisions of the General Appropriations Act FY 2015.

We appreciate the invaluable support and cooperation extended by the officials of that Agency to the Audit Team during the audit engagement.

Very truly yours,



**CELSO L. VOCAL**  
Director IV  
Regional Director



Republic of the Philippines  
**COMMISSION ON AUDIT**  
**Regional Office No. 10**  
J.V. Serina Street, Carmen, Cagayan de Oro City

March 21, 2016

**Ms. AURORA A. ZORILLA**  
Chairman, Board of Directors  
Tubod-Baroy Water District  
Tubod, Lanao del Norte

Dear Board Chairman Zorilla:

We are pleased to transmit the Annual Audit Report on the audit of **Tubod-Baroy Water District**, Tubod, Lanao del Norte, for the year ended December 31, 2015, in compliance with Section 43 of Presidential Decree No. 1445 otherwise known as the Government Auditing Code of the Philippines.

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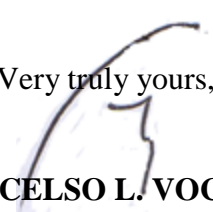
**3. Guarantee Deposits Payable amounting to P159,740.00 which had long been dormant was continuously carried over in the books contrary to Section 111 of P.D. 1445, which may have effect on the fair presentation of the financial statements.**

We have recommended to Management to transfer dormant accounts to the Registry Book of Dormant Account inasmuch as documents related thereto can no longer be traced and or located.

We request that a status report, thru accomplishing the attached Agency Action Plan and Status of Implementation form, on the actions taken on the audit recommendations be submitted within 60 days from receipt of this report, pursuant to Section 93 of the General Provisions of the General Appropriations Act FY 2015.

We appreciate the invaluable support and cooperation extended by the officials and staff of that Agency to the Audit Team during the audit engagement.

Very truly yours,



**CELSO L. VOCAL**  
Director IV  
Regional Director



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

**OFFICE OF THE SUPERVISING AUDITOR**  
**Audit Group I-Water Districts**

March 21, 2016

**CELSO L. VOCAL**  
Regional Director  
Commission on Audit  
Regional Office No. 10  
Cagayan de Oro City

Sir:

In compliance with Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we audited the accounts and operations of **Tubod-Baroy Water District** for the year ended December 31, 2015.


The audit was conducted to ascertain the propriety of the agency's financial transactions; its compliance with laws, rules and regulations; and the efficiency of its operations. It was also conducted to ascertain the accuracy of the financial records and reports and the fairness of presentation of the financial statements.

Our report consists of four parts, namely, Part I – Audited Financial Statements, Part II – Observations and Recommendations, Part III – Status of Implementation of Prior Years' Audit Recommendations and Part IV - Annexes. The observations and recommendations were communicated to Management thru Audit Observation Memorandum and discussed with management officials and staff. Their comments are included in the appropriate portion of this report.

There is reasonable assurance that the financial statements/records/reports are free from material misstatements and are prepared in accordance with Philippine Financial Reporting Standards (PFRS)/accounting principles generally accepted in the Philippines.

Our audit was conducted in accordance with the Philippine Public Sector Standards on Auditing (PPSSA) and we believe that the audit evidence we have obtained provide reasonable basis for our audit opinion/report.

Very truly yours,

  
**CAROLINA A. DIEZ**  
State Auditor V  
Supervising Auditor



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

**Team 5, Audit Group I – Water Districts**

February 24, 2016

**CAROLINA A. DIEZ**

State Auditor V

Supervising Auditor

CGS-Water District & other

Stand alone Agencies

Ma'am:

In compliance with Section 43 of Presidential Decree No. 1445, we audited the accounts and operations of the **Tubod-Baroy Water District**, Tubod, Lanao del Norte, for the year ended December 31, 2015.

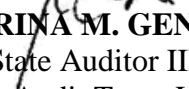
The audit was conducted on a test basis to ascertain the propriety of financial transactions and compliance of the agency to prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports and the fairness of the presentation of the financial statements.

Our attached report consists of four parts, Part I – Audited Financial Statements, Part II – Observations and Recommendations which were discussed with concerned management officials and staff during the exit conference conducted on February 13, 2015, Part III – Status of Implementation of Prior Year's Recommendations, and Part IV – Annexes.

In our opinion, except for the effects of the matters discussed in Part II of this report, there is reasonable assurance that the financial statements are free from material misstatement(s) and were prepared in accordance with applicable laws, rules and regulations and in conformity with generally accepted state accounting principles.

Our audit was conducted in accordance with Philippine Public Sector Standards on Auditing, and we believe these standards provided a reasonable basis for the results of audit.

Very truly yours,

  
**MACRINA M. GENTILES**  
State Auditor III  
OIC- Audit Team Leader



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue  
Quezon City

# **ANNUAL AUDIT REPORT**

**ON THE**

## **TUBOD-BAROY WATER DISTRICT**

Tubod, Lanao del Norte  
Province of Lanao del Norte

**For the Year Ended December 31, 2015**

## EXECUTIVE SUMMARY

### A. INTRODUCTION

The Tubod-Baroy Water District (TBWD) was created under a special law, Presidential Decree 198 as amended by PD Nos. 768 and 1479 better known as the “Provincial Water Utilities Act of 1973.” TBWD was awarded with the Certificate of Conditional Conformance No. 228 by the Local Water Utilities Administration (LWUA) on November 8, 1982.

The TBWD is presently categorized as “Category D” Water District serving a total population of 33,219 as of December 31, 2015 with 3,308 total service connections.

As of December 31, 2015, the governing board is composed of directors representing the different sectors and organizations within the municipality of Tubod-Baroy who were appointed by the Provincial Chief Executive. They exercise corporate powers and determine policies for the operations of the District. They are as follows:

Chairperson: Aurora A. Zorilla  
Members: Vicoria O. Gorecho  
Celesina V. Macalam  
Cesa S. Abe

All local water districts were declared as Government-Owned and Controlled Corporations (GOCC) by the Supreme Court on September 13, 1991 in the case docketed as GR Nos. 95237-38.

### B. HIGHLIGHTS OF FINANCIAL OPERATIONS

As of December 31, 2015, there was an increase of 4.27% in assets, decrease of 10.42% in liabilities and increase of 62.43% in government equity, summarized as follows:

#### **Financial Condition**

	Calendar Year 2015	Calendar Year 2014	Increase/(Decrease)
Assets	P 19,025,000.08	P 18,245,764.36	779,235.72
Liabilities	11,071,484.74	12,358,952.46	(1,287,467.72)
Government Equity	7,953,515.34	5,886,811.90	2,066,703.44

#### **Results of Operations**

	<b><i>2015</i></b>	<b><i>2014</i></b>	<b><i>Increase/(Decrease)</i></b>
Income	P16,886,204.73	P14,393,084.76	P 2,493,119.97



Expenditures	14,875,866.48	P12,887,472.17	P1,988,394.31
Net Operating Income	P 2,010,338.25	P 1,505,612.59	P 504,725.66

### **C. OPERATIONAL HIGHLIGHTS**

The district is serving a total population of 33,219 as of December 31, 2015. It has total service connections of 3,308 which are all active metered and billed. Total water sales billed for the year amounted to and collected a total of P16,886,204.73 which includes collections for the current account, arrears-current year, arrears-previous years, water maintenance fees and surcharges.

For the year 2015, total water production of the district has reached 1,230,513 cubic meters, of which the total accounted water was only 744,570 cubic meters or 60.50% leaving an unaccounted balance of 485,943 cubic meters or 39.49%.

### **D. SCOPE OF AUDIT**

An audit was conducted on the accounts and operations of Tubod-Baroy Water District, Tubod, Lanao del Norte, for the Calendar Year 2015.

The audit consisted of testing the adequacy of the related systems and controls set by the agency, verification of the accuracy, legality and completeness of its financial transactions, and the application of the other audit procedures considered necessary under the circumstances.

It was also made to determine whether the district's financial statements present fairly its financial position and results of operations and cash flows, and whether applicable laws, rules and regulations were followed. Further, it was also conducted to determine whether the agency managed and utilized its resources economically, efficiently and effectively in the implementation of its programs, projects and activities.

### **Independent Auditor's Report on the Financial Statements**

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements due to the inclusion and outright recognition of Fines and penalties in the Accounts Receivable and income account casting doubt as to their accuracy, validity and reliability at year end.

### **D. SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS**

- 1. Fines and penalties totaling P344,456.84 were included in the Accounts Receivable and recognized as income, contrary to Philippine Accounting Standards (PAS) 18, thereby overstating the income account.**

We have recommended to Management to stop the practice of recording penalty charges as outright income and to instruct the Accounting Unit to make the necessary adjustments to the affected income account.

- 2. The non-imposition of the 10% penalty on water charges of government offices contrary to the Water Service Contract resulted to non-collection of penalty income to the disadvantage of the District.**

We have recommended to Management to impose penalties for unpaid bills of government offices pursuant to the stipulations of the Water Service Contract. It was further recommended to require the Accounting Unit to make necessary adjustments to provide penalty charges on delinquent government offices.

- 3. The ownership or legal documents of the lots where the four pumping stations and three reservoirs of the District were located was not transferred in its name contrary to Section 112 of PD 1445 and Section 449 of GAAM Volume 1 thereby exposes the properties and the subject lots to possible risk of loss.**

We have recommended to Management to secure the Transfer Certificate of the Title of the lot to ensure ownership and dominion over the property in compliance with Section 112 of PD 1445 and Section 449 of GAAM Volume 1. The Officer-in-Charge should coordinate with the officials of the District concerned in the titling of the lot.

- 4. Guarantee Deposits Payable amounting to P159,740.00 which had long been dormant was continuously carried over in the books contrary to Section 111 of P.D. 1445, which may have effect on the fair presentation of the financial statements.**

We have recommended to Management to transfer dormant accounts to the Registry Book of Dormant Account inasmuch as documents related thereto can no longer be traced and or located.

- 5. The District was not able to fully implement the Disaster Risk Reduction Management Fund (DRRMF) because no plan was formulated as mandated under Republic Act (RA) No. 10121.**

We have recommended and Management agreed to fully comply with RA 10121 regarding the formulation and implementation of plans, programs, projects and activities related to Disaster Risk Reduction Management.

- 6. The District did not adopt the automated electronic payroll system of paying its government employees in violation of DBM National Payroll System (NPS) which requires every government agencies to establish Automated Teller Machine (ATM) payroll accounts for all their employees to allow for the electronic distribution of monthly salaries.**

We recommended to Management to establish ATM payroll accounts for all their employees in conformity with the DBM NPS to promote efficient, accurate and transparent processing of employee wages and salaries.

- 7. The district did not observe the prescribed use of NGAS forms of Disbursement Voucher (DV) and Budget Utilization Request (BUR) in the utilization and disbursement of the district's funds pursuant to COA Circular No. 2006-004 dated January 31, 2006, thus, accountability for expenditures is not properly established.**

We have recommended Management to comply strictly with the provisions of COA Circular No. 2006-004 in using the new DV form and the BUR Form, and to require the Budget Office to prepare the Budget Utilization Request (BUR) for every transaction duly certified by the requesting officer on the necessity and legality of charges to appropriations under his/her supervision.

#### **STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Of the 11 audit recommendations presented in prior year's Annual Audit Report, five were fully implemented and the remaining six were partially implemented.

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**PART I –**

**AUDITED FINANCIAL**  
**STATEMENTS**



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

## **INDEPENDENT AUDITOR'S REPORT**

**Ms. AURORA A. ZORILLA**  
Chairman, Board of Directors  
Tubod-Baroy Water District  
Tubod, Lanao del Norte

We have audited the accompanying financial statements of Tubod-Baroy Water District which comprise the Statement of Financial Position as of December 31, 2015, and the Statements of Financial Performance and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements and 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 whether the financial statements are free from material misstatement.

The 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 preparation 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 on the entity's internal control. The 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 audit opinion.

*Bases for Qualified Opinion*

As discussed in detail in Part II of this report, Fines and penalties totaling P344,456.84 were included in the Accounts Receivable and recognized as outright income casting doubt on the affected accounts' accuracy, validity and reliability at year end.

*Qualified Opinion*

In our opinion, except for the effects of the matter described in the Bases for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Tubod-Baroy Water District as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with state accounting principles.

*Other Matters*

The exit conference for the results of the financial and compliance audit of the CY 2015 operations was conducted on February 5, 2016.

**COMMISSION ON AUDIT**

By:

**CAROLINA A. DIEZ**  
State Auditor V  
Supervising Auditor

February 23, 2016



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

## **INDEPENDENT AUDITOR'S REPORT**

**Mr. GEOVANNI A. HERRA**

General Manager  
Tubod-Baroy Water District  
Tubod, Lanao del Norte

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*Bases for Qualified Opinion*

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*Qualified Opinion*

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*Other Matters*

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**COMMISSION ON AUDIT**

By:

**CAROLINA A. DIEZ**  
State Auditor V  
Supervising Auditor

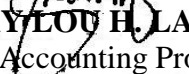
February 23, 2016



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Tubod-Baroy Water District, Tubod, Lanao del Norte** is responsible for all information and representation contained in the Statement of Financial Position as of **December 31, 2015** and the related Statements of Financial Performance, Cash Flows for the year then ended. The financial statements referred to have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgement of management with an appropriate consideration to materiality.

In this regards, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

  
**JACKYLOU H. LAMDAGAN**  
Sr. Accounting Processor B

  
**GEOVANNI A. HERA**  
General Manager

February 23, 2016



**TUBOD-BAROY WATER DISTRICT**  
**STATEMENT OF FINANCIAL POSITION**  
**As of December 31, 2015**  
**(With Comparative Figures for December 31, 2014)**

	2015	2014
<b>ASSETS</b>		
Current Assets		
Cash (Note 1)	₱ 3,418,373.13	₱ 2,470,085.93
Receivables (Note 2)	1,670,739.59	2,725,310.80
Less: <i>Allowance for Doubtful Accounts</i>	(760,888.72)	(651,615.68)
Inventories (Note 3)	399,546.88	212,278.04
Total Current Assets	<u>₱ 4,727,770.88</u>	<u>₱ 4,756,059.09</u>
Investments		
Investment in Securities		
Sinking Fund		
Total Investments	-	-
Property, Plant and Equipment (Note 4)		
Land	47,000.00	47,000.00
Land Improvements	-	-
Buildings	19,707,197.14	19,552,977.24
Office Equipment, Furniture & Fixtures	601,952.82	474,657.54
Machineries and Equipment	4,108,562.55	4,191,333.3
Transportation Equipment	124,569.00	124,569.00
Other Property, Plant & Equipment	161,391.46	41,210.71
Construction in Progress	351,999.99	
Accumulated Depreciation	(11,703,525.16)	(10,942,042.52)
Total Property, Plant and Equipment	<u>₱ 13,399,147.80</u>	<u>₱ 13,489,705.27</u>
Other Assets (In-Active Receivables)	898,084.40	
<b>TOTAL ASSETS</b>	<b><u>₱ 19,025,000.08</u></b>	<b><u>₱ 18,245,764.36</u></b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities (Note 5)	1,226,394.85	1,717,060.57
Long-Term Liabilities (Note 6)	9,845,089.89	10,641,891.89
Deferred Credits		
Total Liabilities	<u>₱ 11,071,484.74</u>	<u>₱ 12,358,952.46</u>
<b>EQUITY</b>		
Government Equity		
Restricted Capital		
Donated Capital	32,000.00	32,000.00
Retained Earnings	7,921,515.34	5,854,811.90
Total Equity	<u>7,953,515.34</u>	<u>5,886,811.90</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>₱ 19,025,000.08</u></b>	<b><u>₱ 18,245,764.36</u></b>

*(See Accompanying Notes to Financial Statements)*



**TUBOD-BAROY WATER DISTRICT**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**For the Year Ended December 31, 2015**  
**(With Comparative Figures for December 31, 2014 )**

	<b>2015</b>	<b>2014</b>
<b>Income</b>		
Income from Government Services (Note 7)	₱ 16,886,204.73	₱ 14,419,901.62
Interest Income		11,183.14
Total Income	₱ 16,886,204.73	₱ 14,393,084.76
 <b>Less: Expenses (Note 8)</b>		
<b>Personnel Services:</b>		
Salaries & Wages- Regular	₱ 3,267,013.79	₱ 2,998,546.26
Sal & Wages-Casual	1,193,161.41	386,133.62
Personnel Econ. Relief Allow.	350,000.00	342,000.00
Additional Compensation	111,000.00	108,000.00
Representation Allowance	60,000.00	60,000.00
Transportation Allowance TA	60,000.00	60,000.00
Clothing Allowance	115,000.00	95,000.00
Honoraria	184,565.62	171,883.40
Overtime & Holiday Pay	166,181.83	172,816.57
Christmas Bonus	310,138.00	310,138.00
Cash Gift	95,000.00	95,000.00
Productivity Incentive Benefit	310,138.00	95,000.00
Life and Retirement Insurance	451,798.88	416,190.40
Pag-ibig Contributions	23,400.00	69,398.40
Philhealth Contributions	43,687.50	40,512.50
ECC Contributions	19,200.00	22,800.00
Pension & Retirement Benefits	205,217.05	289,597.18
Other Personnel Benefits		109,094.04
Total Personnel Services	6,965,502.08	5,842,110.37
 <b>Maintenance and Other Operating Expense:</b>		
Travelling Expenses-Local	130,863.87	113,199.20
Training & Seminar Expense	66,440.00	46,078.00
Electricity	4,624,173.72	2,689,300.53
Telephone and Internet Expense	40,087.58	46,519.71
Postage and Deliveries	21,552.00	10,483.30
Dues and Subscriptions Exp	270.00	0
Advertising Expense	1,000.00	5,485.00

Rent Expense	37,600.00	32,300.00
Fidelity Bond Premiums	16,980.00	19,820.43
Office Supplies Expense	141,651.20	122,616.75
Gasoline, Oil, and Lubricants	62,205.13	91,646.43
Legal and Professional Expense	21,760.00	34,150.00
General Services	44,690.00	32,590.00
Taxes, Duties & Licenses Exp	347,595.40	295,063.22
Other Structures Maintenance	2,836.00	12,633.00
Maint. of Structures & Impvt.	77,587.92	189,075.50
Maint of Pumping Eqpt	59,029.89	608,621.86
Maint of Water Treatment Eqpt.	7,073.00	15,667.00
Maint of Reservoir & Tanks	2,669.50	0.00
Maint. of Trans & Dist. Mains	282,675.25	461,041.53
Maint. of Meters	2,813.75	4,122.00
Maint. of Motor vehicle		43,923.83
Furniture & Fixture Maint.	9,221.97	0
Chemicals & Filtering	55,477.20	18,770.00
Rewards and other Claims	210.00	0
Representation Expense	44,350.43	39,831.57
Extraordinary & Misc. Expenses	62,627.90	95,847.48
Depreciation - Wells, Reservoir	525,573.75	
Depreciation - Motor Vehicles	21,314.04	
Depreciation - Other Eqpt	168,754.72	
Depreciation - F/F	39,151.49	
Depreciation - Other PPE	6,688.64	668,955.72
Bad Debts Expense	109,273.04	114,246.14
Total O& M Expense	₱ 7,034,197.39	5,811,988.20
Total Operating Expenses	13,999,699.47	11,654,098.57
Add: Other Expenses		
Interest on Long-term Debt	843,130.00	1,169,237.88
Misc. Income Deduction	32,297.01	31,215.60
Loss on sale of assets		32,920.12
Bank Charges	740.00	
<b>Total Expenses</b>	<b>14,875,866.48</b>	<b>12,887,472.17</b>
<b>NET INCOME</b>	<b>₱ 2,010,338.25</b>	<b>₱ 1,505,612.59</b>

*(See Accompanying Notes to Financial Statements)*



**TUBOD-BAROY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2015  
(With Comparative Figures for CY 2014)**

	2015	2014
Cash Flows from Operating Activities:		
<i>Cash Inflows:</i>		
Collection of Income/Revenues	₱16,146,856.15	₱14,982,213.42
Receipt from Sale of Goods and other inventories	1,218,473.12	934,548.69
Cash receipts of Interest Income	6,219.60	10,028.23
Other Receipts	468,648.29	8,386.23
<i>Total Cash Inflows</i>	<b>₱17,840,197.16</b>	<b>₱15,935,176.57</b>
<i>Cash Outflows:</i>		
Personnel Services	6,965,502.08	₱3,197,981.88
Maintenance & Other Operating Expenses	7,034,197.39	8,992,419.43
Remittance of taxes withheld	580,613.32	
<i>Total Cash Outflows</i>	₱14,580,312.79	₱12,190,401.31
Net Cash from Operating Activities	<b>₱ 3,259,884.37</b>	<b>₱ 3,734,747.03</b>
Cash Flows from Investing Activities:		
<i>Cash Inflows:</i>		
Sale of Property, Plant and Equipment		
Interest and dividends		
<i>Total Cash Inflows</i>	-	-
<i>Cash Outflows:</i>		
Investments		
To Purchase Property, Plant and Equipment	₱ 670,925.17	₱ 1,814,267.84
<i>Total Cash Outflow</i>	670,925.17	1,814,267.84
Net Cash from Investing Activities	<b>₱ (670,925.17)</b>	<b>₱(1,814,267.84)</b>
Cash Flows from Financing Activities:		
<i>Cash Inflows:</i>		
From Acquisition of Loan	-	-
<i>Total Cash Inflow</i>	-	-
<i>Cash Outflows:</i>		
Payment of Loan Amortization	₱ 1,639,932.00	₱ 1,809,660.00
Financial expenses	740.00	
<i>Total Cash Outflow</i>	1,640,672.00	₱ 1,809,660.00
Net Cash from Financing Activities	<b>(1,640,672.00)</b>	<b>(1,809,660.00)</b>
Net Increase in Cash and Cash Equivalents	948,287.20	120,847.42
Cash at Beginning of the Period	2,470,085.93	2,349,238.51
<b>Cash at the end of the Period</b>	<b>₱ 3,418,373.13</b>	<b>₱ 2,470,085.93</b>



**TUBOD-BAROY WATER DISTRICT**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the Year Ended December 31, 2015**  
**(With Comparative Figures for CY 2014)**

	2015	2014
<b>Government Equity</b>		
Balance at the beginning of the period		
Additions (deductions)		
Balance at the end of the period		
<b>Restricted Capital</b>		
Balance at the beginning of the period		
Additions (deductions)		
Balance at the end of the period		
<b>Donated Capital</b>		
Balance at the beginning of the period	₱ 32,000.00	₱ 32,000.00
Additions (deductions)		
Balance at the end of the period	₱ 32,000.00	₱ 32,000.00
<b>Retained Earnings</b>		
Balance at the beginning of the period	5,854,811.90	4,864,636.57
Prior period Adjustments	55,365.19	(524,377.95)
Changes during the Period	1,000.00	8,940.69
Net income (loss) for the period	2,010,338.25	1,505,612.59
Balance at the end of the period	₱ 7,921,515.34	₱ 5,854,811.90
<b>TOTAL EQUITY</b>	<b>₱ 7,953,515.34</b>	<b>₱ 5,886,811.90</b>



**TUBOD-BAROY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015

**I. Brief Historical Background**

The Tubod-Baroy Water District (TBWD) was created under a special law, Presidential Decree 198 as amended by PD Nos. 768 and 1479 better known as the “Provincial Water Utilities Act of 1973.” TBWD was awarded with the Certificate of Conditional Conformance No. 228 by the Local Water Utilities Administration (LWUA) on November 8, 1982.

All local water districts were declared as Government-Owned and Controlled Corporations (GOCC) by the Supreme Court on September 13, 1991 in the case docketed as GR Nos. 95237-38.

The District has the following Objectives:

- a. To acquire, install, improve, maintain and operate water supply and distribution systems for domestic, industrial and agricultural uses for residents and land within the municipalities of Tubod and Baroy, all of the Province of Lanao del Norte.
- b. To contribute to the economic growth and public health throughout as orderly and effective system of local utilities.

**II. Basis of Financial Statement Presentation**

The accompanying financial statements have been prepared on the basis of Generally Accepted Accounting Principles and pertinent provisions contained in the Commercial Practices Manual for Local Water Utilities Administration and the New Government Accounting system (NGAS).

**III. Summary of Significant Accounting Policies**

The accrual method of accounting is adopted for both income and expenses.

In recording expenditures, the voucher system is followed in which vouchers is credited prior to payment and debited when paid.

Property, Plant and Equipment is carried at cost minus salvage at 10% of the cost of the property. Depreciation is computed on a straight line method based on the estimated useful life ranging from five to ten years in accordance with COA Circular No. 2003-007 dated December 11, 2003.



### Note 1. Cash

Cash and cash equivalents include cash in bank deposits to be used in the operation of the water district, cash on hand in the possession of the district cashier and working fund in the possession of a disbursing officer.

Bank balance as of December 31, 2015 was verified per bank statements and the cash accounts consist of the following:

	<b>2015</b>	<b>2014</b>
Cash in Bank -GF savings account	₱2,081,926.53	₱1,210,636.31
Cash in Bank - Trust Fund Savings account	207,168.30	351,809.11
Cash in Bank - Joint Savings Account w/ LWUA	1,129,278.30	907,640.51
<b>TOTAL</b>	<b>₱3,418,373.13</b>	<b>₱2,470,085.93</b>

### Note 2. Receivable

Account Receivable – this account includes all amounts due on open accounts arising from the services rendered to customers for water sales and other incidental services.

As of December 31, 2015, this account is composed of receivable from customers as listed below.

	<b>2015</b>	<b>2014</b>
Accounts Receivable- Customer	₱ 1,487,681.16	₱ 2,512,805.43
Accounts Receivable- WMF	31,262.50	15,459.74
Accounts Receivable –Others	151,792.93	197,045.63
Total Current Receivable	₱ 1,670,739.59	₱ 2,725,310.80
Accounts Receivable- Cust. (In-active)	898,084.40	-
Total Receivables	₱ 2,568,820.99	₱ 2,725,310.80
Less: Allowance for Doubtful Accounts	(760,888.72)	(651,615.68)
TOTAL	₱ 1,807,932.27	₱ 2,073,695.12
Advances to Officers & Employees	-	-
<b>TOTAL</b>	<b>₱ 1,807,932.27</b>	<b>₱ 2,073,695.12</b>

### Note 3. Inventories

This account consists of unissued materials and supplies which are kept in stock for future use in the operations of the district. Inventory accounts are carried in the books at cost net of spoilage, obsolescence and damaged items.

	<b>2015</b>	<b>2014</b>
Raw Materials Inventory	₱ 361,166.88	₱ 182,472.69

Accountable Forms Inventory	12,000.00	-
Office supplies inventory	26,380.00	29,805.35
<b>TOTAL</b>	<b>₱ 399,546.88</b>	<b>₱ 212,278.04</b>

#### Note 4. Property, Plant and Equipment

Properties relatively permanent in character are included under this account. It includes intangible plants, landed capital, source of supply plant, pumping plant, water treatment plant, transmission and distribution plant, general plant and other tangible assets.

Property, Plant and Equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight line method over the estimated useful lives of the properties pursuant to Commission on Audit Circular No. 2003-007 dated December 11, 2003.

The district's office space is currently on a rental basis since they do not have their own building for the purpose.

As of December 31, 2015, this account is composed of the following:

	2015			2014		
	Acquisition	Accumulated	Net Book	Acquisition	Accumulated	Net Book
	Cost	Depreciation	Value	Cost	Depreciation	Value
<b>Land</b>	<b>47,000.00</b>		<b>47,000.00</b>	<b>47,000.00</b>		<b>47,000.00</b>
<b>Construction in Progress</b>	<b>351,999.99</b>					
<b>BUILDINGS:</b>						
Wells	7,058,236.68	1,728,337.97	5,329,898.71	6,768,819.65	1,422,362.71	5,346,456.94
Structures & improvements	95,000.00	65,787.50	29,212.50	95,000.00	47,737.50	47,262.50
Reservoir & Tanks	2,078,882.15	929,069.30	1,221,048.88	2,134,581.68	860,332.61	1,274,249.07
Trans. and Distribution Mains	8,055,017.53	3,071,367.21	5,335,650.31	8,134,515.13	2,854,692.55	5,279,822.58
Services	2,420,060.78	2,419,412.78	648	2,420,060.78	2,418,764.78	1,296.00
	<b>19,707,197.14</b>	<b>8,213,974.76</b>	<b>11,916,458.40</b>	<b>19,552,977.24</b>	<b>7,603,890.15</b>	<b>11,949,087.09</b>
<b>OFFICE EQPT, FUR/FIX:</b>						
Furniture and Fixtures	<b>601,952.82</b>	<b>317,996.87</b>	<b>283,955.95</b>	<b>474,657.54</b>	<b>278,845.38</b>	<b>195,812.16</b>
<b>MACHINERIES &amp; EQPT</b>						
Power Production Equipment	73,243.00	71,165.64	2,077.36	73,243.00	66,181.76	7,061.24
Pumping Equipment	3,846,014.80	2,862,763.49	1,023,786.03	3,928,785.55	2,792,123.67	1,136,661.88
Water Treatment Equipment	76,624.00	27,297.30	49,326.70	76,624.00	18,677.10	57,946.90
Hydrants	112,680.75	112,680.75	-	112,680.75	112,680.75	
	<b>4,108,562.55</b>	<b>3,073,907.18</b>	<b>1,075,190.09</b>	<b>4,191,333.30</b>	<b>2,989,663.28</b>	<b>1,201,670.02</b>
<b>Land Transport Equipment</b>	<b>124,569.00</b>	<b>70,644.62</b>	<b>53,924.38</b>	<b>124,569.00</b>	<b>49,330.58</b>	<b>75,238.42</b>
<b>OTHER PPE</b>						
Other Plants	149,681.46	22,826.50	15,084.21	37,910.71	19,826.38	18,084.33
Tools, Shop and Garage Eqpt.	11,710.00	4,175.23	7,534.77	3,300.00	486.75	2,813.25
	<b>161,391.46</b>	<b>27,001.73</b>	<b>22,618.98</b>	<b>41,210.71</b>	<b>20,313.13</b>	<b>20,897.58</b>
	<b>25,102,672.96</b>	<b>11,703,525.16</b>	<b>13,399,147.80</b>	<b>24,431,747.79</b>	<b>10,942,042.52</b>	<b>13,489,705.27</b>

#### Note 5. Current Liabilities

	<b>2015</b>	<b>2014</b>
Accounts Payable:		
Commission on audit	₱225,502.73	

Caraga plumbing Concept	27,602.00		
Central Water Trading	25,513.67		
Crown Paper Stationary	12,488.00		
GC Hardware	5,828.00		
Kwan Shell Station	4,455.40		
MIE Oro Plast	118,983.60		
MRM Empire Trading	46,780.00		
PALL Roces Corp	29,000.00		
TMSI Corp.	1,803.04		
Tubod Builders Ent.	890.00		
<b>TOTAL</b>		<b>498,846.44</b>	<b>757,650.65</b>
Due to BIR		91,789.17	63,908.61
Due to GSIS		132,135.44	116,116.89
Due to Pag-ibig		40,722.79	35,893.41
Due to Philhealth		7,425.00	7,125.00
Guaranty Deposits		159,740.00	440,630.00
Pensions & Benefits Reserve		295,736.01	295,736.01
<b>TOTAL</b>		<b>₱ 1,226,394.85</b>	<b>₱ 1,717,060.57</b>

The Accounts Payable consists of TBWD's liabilities to suppliers in the amount of P498,846.44. These are transmission and distribution pipelines purchased for the clustering of water meters, except for TMSI, Kwan Shell Station and Crown Paper which are Utilities, Fuel and Office supplies purchases, respectively.

The Statutory deductions withheld from government employees and government shares are current obligation of the District which will be remitted to the BIR, GSIS, Pag-ibig, and Philhealth on or before 10<sup>th</sup> day of the ensuing month.

#### Note 6. Long-term Liabilities

	Interest Rates		New Amortization	2015	2014	
	Old	New				Outstanding Balance
3-732 RL	10.5%	8.2%	₱15,970.00	₱ 1,283,593.99	₱ 1,366,261.99	
3-305 SL	10.5%	8.2%	38,149.00	2,679,317.92	2,907,154.92	
3-305 RL	10.5%	8.2%	40,921.00	2,873,960.37	3,118,356.37	
4-2374 RL	12.5%	8.2%	41,621.00	3,008,217.61	3,250,118.61	
<b>TOTAL</b>			<b>₱ 136,661.00</b>	<b>₱9,845,089.89</b>	<b>₱10,641,891.89</b>	

The District availed a long term loan with LWUA. The principal and interest of the regular loan portion have monthly amortization of ₱136,661.00. Loan Account No. 3-305 RL will end amortization on December 2023, LA#3-305 SL will be amortized until

December 2023, LA#3-732 RL will be amortized until September 2025, and LA#4-2374 RL will end amortization on April 2024. As of December 31, 2015, the outstanding loan balance is ₱9,845,089.89. The loan was paid in accordance with the amortization schedule, thus, no penalties were imposed for delayed or non-payment.

**Note 7. Revenue**

OPERATING REVENUE	2015	2014
Metered Sales	₱ 15,607,613.66	₱ 13,464,166.37
Misc. Service Revenue	926,137.59	498,424.10
Penalty Charge	344,456.84	409,581.15
Other income	7,996.64	20,913.14
<b>TOTAL</b>	<b>₱ 16,886,204.73</b>	<b>₱ 14,393,084.76</b>

**Note 8. Expenses**

**Personnel Services:**

Salaries & Wages- Regular	₱ 3,267,013.79	₱ 2,998,546.26
Sal & Wages-Casual	1,193,161.41	386,133.62
Personnel Econ. Relief Allow.	350,000.00	342,000.00
Additional Compensation	111,000.00	108,000.00
Representation Allowance	60,000.00	60,000.00
Transportation Allowance TA	60,000.00	60,000.00
Clothing Allowance	115,000.00	95,000.00
Honoraria	184,565.62	171,883.40
Overtime & Holiday Pay	166,181.83	172,816.57
Christmas Bonus	310,138.00	310,138.00
Cash Gift	95,000.00	95,000.00
Productivity Incentive Benefit	310,138.00	95,000.00
Life and Retirement Insurance	451,798.88	416,190.40
Pag-ibig Contributions	23,400.00	69,398.40
Philhealth Contributions	43,687.50	40,512.50
ECC Contributions	19,200.00	22,800.00
Pension & Retirement Benefits	205,217.05	289,597.18
Other Personnel Benefits		109,094.04
<b>Total Personnel Services</b>	<b>6,965,502.08</b>	<b>5,842,110.37</b>

**Maintenance and Other**

**Operating Expense:**

Travelling Expenses-Local	130,863.87	113,199.20
Training & Seminar Expense	66,440.00	46,078.00
Electricity	4,624,173.72	2,689,300.53
Telephone and Internet Expense	40,087.58	46,519.71

Postage and Deliveries	21,552.00	10,483.30
Dues and Subscriptions Exp	270.00	0
Advertising Expense	1,000.00	5,485.00
Rent Expense	37,600.00	32,300.00
Fidelity Bond Premiums	16,980.00	19,820.43
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General Services	44,690.00	32,590.00
Taxes, Duties & Licenses Exp	347,595.40	295,063.22
Other Structures Maintenance	2,836.00	12,633.00
Maint. of Structures & Impvt.	77,587.92	189,075.50
Maint of Pumping Eqpt	59,029.89	608,621.86
Maint of Water Treatment Eqpt.	7,073.00	15,667.00
Maint of Reservoir & Tanks	2,669.50	0.00
Maint. of Trans & Dist. Mains	282,675.25	461,041.53
Maint. of Meters	2,813.75	4,122.00
Maint. of Motor vehicle		43,923.83
Furniture & Fixture Maint.	9,221.97	0
Chemicals & Filtering	55,477.20	18,770.00
Rewards and other Claims	210.00	0
Representation Expense	44,350.43	39,831.57
Extraordinary & Misc. Expenses	62,627.90	95,847.48
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Depreciation - F/F	39,151.49	
Depreciation - Other PPE	6,688.64	668,955.72
Bad Debts Expense	109,273.04	114,246.14
Total O& M Expense	<u>7,034,197.39</u>	<u>5,811,988.20</u>
Total Operating Expenses	<u>13,999,699.47</u>	<u>11,654,098.57</u>
Add:		
Interest on Long-term Debt	843,130.00	1,169,237.88
Misc. Income Deduction	32,297.01	31,215.60
Loss on sale of assets		32,920.12
Bank Charges	740.00	
<b>Total Expenses</b>	<b><u>₱14,875,866.48</u></b>	<b><u>₱12,887,472.17</u></b>

**PART II –**

**OBSERVATIONS AND  
RECOMMENDATIONS**

## PART II - DETAILED OBSERVATIONS AND RECOMMENDATIONS

### Fines and Penalties recognized as outright income

1. Fines and penalties totaling P344,456.84 were included in the Accounts Receivable and recognized as income, contrary to Philippine Accounting Standards (PAS) 18, thereby overstating the income account.

The Philippine Accounting Standards (PAS) 18 on revenue recognition provides that revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

Likewise, the objectivity principle requires that accounting data recorded in the books should be the result of completed transactions.

Review and audit of the Account Receivable in the amount of P2,568,820.99 as of December 31, 2015 disclosed that fines and penalties, equivalent to 10% of the unpaid current water bills from January to December 31, 2015 totaling P 344,456.84 were recorded as outright income. The table below will show the amount of monthly penalty charges which were included in the total Accounts Receivable as income, to wit:

<b>Billing Period</b>	<b>Month Recorded</b>	<b>Amount</b>
December 2014	January 2015	39,970.60
January 2015	February 2015	21,723.50
February 2015	March 2015	23,576.45
March 2015	April 2015	30,076.30
April 2015	May 2015	28,933.16
May 2015	June 2015	29,910.04
June 2015	July 2015	27,945.83
July 2015	August 2015	28,943.15
August 2015	September 2015	24,349.53
September 2015	October 2015	29,144.68
October 2015	November 2015	31,403.75
November 2015	December 2015	28,479.85
	<b>TOTAL</b>	<b><u>P 344,456.84</u></b>

The irregular practice of recording fines and penalties as an outright income overstated the Account Receivable and income accounts in the financial statements. Further verification of the records disclosed that payments received from customers for

water bills were debited to Cash and credited to Accounts Receivable-Customers without showing the breakdown of collections. Hence, the recorded fines and penalties could not be determined as collected.

**We have recommended to Management to stop the practice of recording penalty charges as outright income and to instruct the Accounting Unit to make the necessary adjustments to the affected income account.**

*Management justified that in as much as they want to comply with the recommendation, the accounting program in the Cashier was programmed in such a way that it automatically adds up the fines and the customers water dues into one amount making it difficult to segregate the fines from the billings. The Cashier explained that if she will be instructed to segregate the fines and penalties, it would be tedious and additional burden on her part to work on more than 3,000 concessionaires of the District and, in doing so, she may neglect some of her duties due to lack of material time. The Management, however, committed that they will contact the programmer to check and make changes on the system in compliance to the audit observation.*

#### **Non-imposition of penalty on water charges to government offices**

- 2. The non-imposition of the 10% penalty on water charges of government offices contrary to the Water Service Contract resulted to non-collection of penalty income to the disadvantage of the District.**

Stipulation No. 11 of the Water Service Contract states that –

*“Consumption Charge is payable at the Office of Tubod-Baroy Water District and any of its collection agencies from the date of the delivery of Bill of Notice to the consumer or his duly authorized agent and shall be declared delinquent after the due date of 15 after the date of the delivery and receipt of bill. A **penalty charge of 10 percent of the current amount billed shall be made in addition to the consumption charge if the payment of the water rate is not made on or before the due date and the water service shall be disconnected 5 days after the due date without further notice.**”*

Pursuant to the aforementioned stipulation in the contract entered into by the District and its concessionaire, a 10% penalty should be imposed for all unpaid bills after due date. The said contract was duly signed by the concessionaire and the District, therefore all of the provisions and stipulations of the contract are binding and mandatory between the parties.

In the course of our audit, we have observed that it has been the practice of the District not to impose fines on water charges of government offices which is not in consonance to what has been stipulated in the contract. Further inquiry from the management disclosed that said practice was being done since the previous management.



Analysis and review of the subsidiary ledgers of government offices revealed that the District failed to assess penalties amounting to P 35,927.52 as of December 31, 2015 for unpaid bills after the due date by government offices. Summarized below are the government offices with their respective uncollected penalties on delinquent water charges.

<i>Name of Government Offices</i>	<i>Total of Uncollected Penalty</i>
PNP 2/ New Building	1,134.75
Barangay Hall	154.04
DSWD	18.12
Senior Citizen Building	18.12
ECD-LGU-Tubod	92.28
PNP - Tubod/ECD	80.68
BJMP - Tubod	14,013.24
BFP - Tubod	393.94
TCES 2	2,717.32
TCES 1	1545
TCES 5, BSP	2,546.52
Slaughter House 2	9,347.69
Department of Education	3,865.82
<b>T O T A L</b>	<b>35,927.52</b>

The failure of the district to enforce the mandatory stipulation of the contract and the lack of guidelines or criteria to justify the non-imposition of penalties to government offices renders the same a proper subject of audit. In effect, this deprived the district from realizing additional income on delinquent accounts and consequently misstated the financial statements for income that could have been realized.

**We have recommended to Management to impose penalties for unpaid bills of government offices pursuant to the stipulations of the Water Service Contract. It was further recommended to require the Accounting Unit to make necessary adjustments to provide penalty charges on delinquent government offices.**

*In reply to this observation, Management assured compliance with the recommendation. They have already been charging penalty charges to government offices despite oppositions by some government offices.*

#### **Titling of lots**

- 3. The ownership or legal documents of the lots where the four pumping stations and three reservoirs of the District were located was not transferred**

**in its name contrary to Section 112 of PD 1445 and Section 449 of GAAM Volume 1 thereby exposes the properties and the subject lots to possible risk of loss.**

Section 112 of PD 1445 provides that each government agency shall record its financial transactions and operations conformably with generally accepted accounting principles and in accordance with pertinent laws and regulations.

Section 449 of the Government Accounting and Auditing Manual (GAAM), Vol. I provides that that, *“Land purchased by agencies of the Government shall be evidenced by a Torrens Title drawn in the name of the Republic of the Philippines, or such other document satisfactory to the President of the Philippines that the title is vested in the Government.*

Based on the foregoing provisions, it is imperative that asset accounts of specific nature such as land be examined to ascertain its existence, ownership, valuation and encumbrances to avoid the risk of possible third party claims.

Verification of the pertinent documents and records on the Land account revealed the subject lots where the pumping station and reservoirs were located were not yet transferred in the name of the District (**Annex A**). Records show however, that only Deeds of Donation were executed by the donors in favor of the District with respect to each lot but these cannot be considered as titles to the lot. Ownership of land is established on the basis of genuine Certificate of Title issued by the Register of Deeds, free from any lien and encumbrance.

It is of significance to note that not only will the District be placed in the disadvantage position as regards claims to the ownership of the lots but also it would entail penalty charges on tax liabilities due to late registration.

Hence, failure to transfer in the name of the District renders the ownership of the parcels of land doubtful and exposes them to possible land disputes. It also further exposes the properties located on the lots to risk of loss due to the lack of legal evidence of ownership.

**We have recommended to Management to secure the Transfer Certificate of the Title of the lot to ensure ownership and dominion over the property in compliance with Section 112 of PD 1445 and Section 449 of GAAM Volume 1. The Officer-in-Charge should coordinate with the officials of the District concerned in the titling of the lot.**

*Management commented that they have already obtained title of one of the lots and the titling for the other 2 lots is already in process. As to the fourth remaining lot which is documented by a deed of donation, the Management intends to return the land to the donor as they don't have full dominion over the water in the subject lot due to other residents claiming and relying on the water source.*

## **Dormant Accounts**

- 4. Guarantee Deposits Payable amounting to P159,740.00 which had long been dormant was continuously carried over in the books contrary to Section 111 of P.D. 1445, which may have effect on the fair presentation of the financial statements.**

Section 111 of Presidential Decree No. 1445 states that:

*“2) The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.”*

Tracing of balances appearing in the financial statements revealed that Guaranty Deposits Payable amounting to P159,740.00 remained dormant for 10 years against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. The account is considered dormant for it had remained non-moving for more than five (5) years.

Further inquiry from the accounting section disclosed that relevant records which could provide accurate information or details of the dormant account could not be located. The improper monitoring of the dormant account hampered the tracing of transactions in detail which is necessary in coming up with information concerning past operations and present condition as basis for proper decision making.

In effect, the fair presentation of the District’s financial statements may have been affected with the existence of this dormant amount.

**We have recommended to Management to transfer dormant accounts to the Registry Book of Dormant Account inasmuch as documents related thereto can no longer be traced and or located.**

*During the exit conference, Management commented that they have finally found the records related to the Guarantee Deposit Payable account. The said records have the list of concessionaires with corresponding amounts owed to them. Further, they informed the Audit Team that they will start crediting the amounts due to each concessionaire based on the records found, and for those accounts having no existing records, a request for transfer to the Registry Book of Dormant accounts will have to be made.*

**No plan was formulated for the implementation of the DDRMF**

- 5. The District was not able to fully implement the Disaster Risk Reduction Management Fund (DRRMF) because no plan was formulated as mandated under Republic Act (RA) No. 10121.**

Republic Act (RA) No. 10121 mandates the institutionalization of the LDRRMF policies, structures and plans with continuing budget appropriation at various levels of government. The act further mandates the adoption and implementation of a coherent, comprehensive, integrated, efficient and responsive National Disaster Risk Reduction and Management Plan (NDRRMP) that will aim to strengthen the capacity of the national government to build the disaster resilience of communities, and to institutionalize arrangements and measures for reducing disaster risks, including projected climate risks, and enhancing disaster preparedness and response capabilities at all levels. All departments, bureaus, offices and agencies of the government are further authorized by the act to use a portion of their appropriations to implement projects designed to address Disaster Risk Reduction Management (DRRM) activities in accordance with the guidelines to be issued by the National Disaster Risk Reduction and Management Council (NDRRMC) in coordination with the DBM.

Review of the financial accounts and operations of the District, disclosed that no Disaster Risk Reduction Management Plan (DRRMP) was formulated to address concerns on Disaster Risk Reduction and Management. The said DRRMP shall encompass disaster prevention and mitigation, disaster preparedness, disaster response and disaster rehabilitation and recovery, and which shall be the basis in the allocation of the DRRM. Moreover, it was noted that out of the P200,000.00 appropriation for DRRM, only P4, 000.00 for the procurement of disaster equipage was utilized as implementation of the DRRM allocation.

Inquiry from the Management regarding the lack of Disaster Risk Reduction Management Plan, disclosed that they have not yet formulated its DRMM Plan due to other financial concerns that were given high priority.

Although the District has appropriated funds for DRRM, it was not fully implemented due to the lack of formulation of plan with which to base the implementation of projects, programs and activities on DRRM. The formulation of the DRRMP is crucial as it will serve as a guide for preventive measures and mitigation, preparedness, response, rehabilitation and recovery in cases calamities occur, thus reducing disaster risk.

**We have recommended and Management agreed to fully comply with RA 10121 regarding the formulation and implementation of plans, programs, projects and activities related to Disaster Risk Reduction Management.**

#### **Adoption of the DBM National Payroll System (NPS)**

- 6. The District did not adopt the automated electronic payroll system of paying its government employees in violation of DBM National Payroll System (NPS) which requires every government agencies to establish Automated Teller Machine (ATM) payroll accounts for all their employees to allow for the electronic distribution of monthly salaries.**

In line with the policy of institutionalizing efficiency, transparency and accountability in processing of employee salaries across government, the Department of Budget and Management (DBM) implemented a new NPS system effective January 2014 which will facilitate a quick, verifiable and efficient digitized distribution of salaries thru ATMs. Moreover, the NPS will ensure timely remittance of monthly withholding taxes and fees to the GSIS, the BIR, the Pag-Ibig Fund, and PhilHealth.

The foregoing mandates were not adhered to by the District. In the course of our audit of paid disbursements for the period of January – August 31, 2015, it was disclosed that the district still pays its employee thru manual payouts. Verification of the records showed that the district prepares their salaries every 15 days based on the bi-monthly submission of DTRs, drawing cash advances for salaries on a weekly basis.

The table below will show the total amount of cash advances granted and disbursed by the Cashier from January 2015 to December 2015 in relation to the manual processing of monthly salaries.

Month	Amount
January	304,601.74
February	279,551.86
March	297,484.11
April	297,459.99
May	295,684.50
June	285,013.36
July	287,251.27
August	274,380.33
September	285,926.42
October	415,973.62
November	269,402.23
December	468,188.44
<b>TOTAL</b>	<b><u>3,760,917.87</u></b>

It should be taken into account by Management that switching to electronic payroll processing has many advantages, among others, to wit:

1. Enable employees to receive their salaries on time anywhere and anytime thru ATMs;
2. Timely remittances, thus resolving the never-ending conflict of non-remittances to the GSIS, Pag-Ibig, Philhealth and BIR;
3. Cost savings due to the reduction in the redundancy and paperwork in processing payroll;
4. Easier tracking of payroll activities due to the streamline payroll processing;
5. It will relieve the government's human resource units from the burden of handling cash and manually keeping track of all payroll activities; and

6. Help in eliminating ghost employees and preventing other payroll-related irregularities in the bureaucracy.

With the adoption of Automated Teller Machine (ATM) for salary disbursement, the tedious and time-consuming process of granting cash advances can now be avoided resulting to proper, safe and processing of employee salaries.

Thus, the adherence to the ATM Payroll System bears advantages over the Manual Payroll System which will facilitate a prompt, efficient and cost-effective release of employee salaries. Moreover, the adoption of this system could save the government time and resources that can be utilized to other vital transactions of the district.

**We recommended to Management to establish ATM payroll accounts for all their employees in conformity with the DBM NPS to promote efficient, accurate and transparent processing of employee wages and salaries.**

*In response to this observation, the Management informed the Audit Team that they have already complied with the requirements of its disbursing bank, Land Bank of the Philippines, in doling out its bi-monthly salaries to employees, and that they will be starting paying salaries of employees thru ATMs by the end of January 2016 upon the release of ATM cards to the employees.*

#### **Prescribed use of the BUR and the New DV form**

7. **The District did not observe the prescribed use of NGAS forms of Disbursement Voucher (DV) and Budget Utilization Request (BUR) in the utilization and disbursement of the district's funds pursuant to COA Circular No. 2006-004 dated January 31, 2006, thus, accountability for expenditures is not properly established.**

Section 2 of COA Circular No. 2006-004 dated January 31, 2006 which reinstates with amendments of COA Circular No. 2005-001 dated February 28, 2005 prescribes the use of Budget Utilization Request (BUR) form for the incurrence of obligation/utilization in the corporate government sector. It further redefines the roles and responsibilities of the Heads of the Requesting Unit, Budget Unit, Accounting Unit and Treasury Department which are hereby set forth as follows:

*2.1 The Head of the Requesting Unit shall prepare the Budget Utilization Request (BUR) and the Disbursement Voucher (DV) and certify on the necessity and legality of changes to budget under his supervision. He shall also certify the validity, propriety and legality of supporting documents;*

*2.2 The Head of the Budget Unit shall certify the availability of budget and maintain the Registry of Budget and Utilization (RBU);*

2.3 *For contract or purchase order, the Head of the Accounting Unit shall certify the availability of funds based on BUR duly certified by the Head of the Budget Unit;*

2.4 *The Head of the Accounting Unit shall certify the completeness of supporting documents in the DV;*

2.5 *The Head of Treasury Department shall prepare the Daily Cash Position Report to be submitted to the Chief Executive Officer of the Corporation.*

The foregoing provisions were not adhered to by the District. Audit of the monthly disbursement vouchers for the period January to August 31, 2015 revealed that the district failed to prepare and attach Budget Utilization Request (BUR) for the utilization of the budget duly certified by the Budget Officer (BO) or its equivalent as to the availability of funds / appropriation. It was also noted that the DV form used was not in accordance the revised form as prescribed for GOCCs under COA Circular No. 2006-004.

Inquiry with the concerned personnel disclosed that they did not observe the proper use of the DV and BUR Forms, as such, it would be difficult to determine the responsibility and liability of the accountable persons responsible for any improper utilization/ disbursements of government funds. Moreover, Section 47 of the Government Accounting and Auditing Manual (GAAM), Vol. III requires that the agency internal control system, policies, procedures, accountability for resources and all financial transactions shall be clearly documented and adequately supported.

The District's disregard to use the proper DV and BUR form may have, to some extent, resulted in absence of controls to monitor and regulate the use of limited appropriations. Consequently, the failure to support the various disbursements of the district with proper documents affects the propriety and regularity of the incurred transactions.

**We have recommended Management to:**

**• Comply strictly with the provisions of COA Circular No. 2006-004 in using the new DV form and the BUR Form; and to**

**• Require the Budget Office to prepare the Budget Utilization Request (BUR) for every transaction duly certified by the requesting officer on the necessity and legality of charges to appropriations under his/her supervision in Box A of the DV and certification by the Head of the Budget Unit or its equivalent on the availability of appropriation/allotment and funds obligated for the purpose (Box B).**

*During the exit conference, Management commented that they have already started implementing the recommendation on the proper use of the new DV form and BUR form.*

## **COMPLIANCE WITH TAX LAWS, RULES AND REGULATIONS**

The Management as a withholding agent of the Bureau of Internal Revenue fully complied with BIR Regulations on withholding of taxes. They remitted the value added and expanded withholding tax for the supplies and materials, equipment and services it procured and taxes withheld on compensation for Calendar Year 2015 in the total amount P832,278.92 to the government in accordance with the BIR regulations. (**Annex B**)

## **SETTLEMENT OF SUSPENSIONS, DISALLOWANCES AND CHARGES**

No disallowances, charges and suspensions was issued during the year. Some audit deficiencies were immediately complied by management. However, notice of charge will be issued in 2016 pertaining to CY 2015 transactions.



**PART III –**

**STATUS OF IMPLEMENTATION OF  
PRIOR YEAR'S AUDIT  
RECOMMENDATIONS**

**PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR'S  
AUDIT RECOMMENDATIONS**

Audit Observations	Recommendations	Reference	Status of Implementation	Auditor's Validation
<p>1.The validity and uncertainty in the collection of long overdue accounts receivable totaling P2,093,652.13 aged ranging from 120 days to 10 years, misrepresented the real valuation of current assets as at year end.</p>	<p>We recommended and management agreed to:</p> <ul style="list-style-type: none"> <li>• Intensify the collections of long overdue accounts and make the proper disclosure in the Notes to Financial Statements regarding inactive accounts.</li> <li>• Create a committee that will focus on the investigation of the location and whereabouts of concessionaires to ascertain extent of their recovery.</li> <li>• If the committee's findings conclude that collection for those accounts which prove to be beyond collectability, request for authority to write-off the accounts pursuant to COA Circular 97-001 dated February 5, 1997.</li> </ul>	<p>AAR 2014 Part 2</p>	<p>Implemented</p>	<p>Management complied to transfer the inactive accounts to the non-current asset account.</p>
<p>2.Accounting records for Supplies and Materials did not reconcile with the Property Inventory Report, showing a variance of P48,638.54, casting doubt as to the reliability and accuracy of balance of both records contrary to Sections 43 and 62 of the NGAS Manual, Volumes I and II, respectively.</p>	<p>We recommended that the management:</p> <ul style="list-style-type: none"> <li>• Require the accounting personnel and property section to reconcile regularly as required under Sections 43 and 62 of the NGAS Manual, Volumes I and II, respectively.</li> <li>• Instruct the accountant to conduct a periodic reconciliation of their records with actual inventory at the supply section to avoid unreconciled balances.</li> <li>• Effect necessary adjustments either in the books or physical</li> </ul>	<p>AAR 2014 Part 2</p>	<p>Implemented</p>	<p>Management complied to regularly reconcile between the accounting records and the Property Inventory Report and to conduct periodic reconciliation of records for supplies and materials inventory account.</p>

	inventory report to obtain a fair presentation of account balance.			
3. Contributions and remittances to Home Development Mutual Fund (HDMF) for the period January 1, 2013 to December 31, 2014 were paid in excess by P91,083.20 due to management's non compliance to the provision of IRR of Home Development Fund Law of 2009 on the maximum limit of employer's contribution. This excess payment unnecessarily increased the expenditures incurred for the period to the disadvantage of the District.	We recommended that the management make representation with the HDMF to recover the excess contribution or at least to offset on TBWD future PAG-IBIG remittances until this is diminished; and the Accounting Section to strictly comply with the provisions of RA 9679 on the maximum limit of PAG-IBIG Contributions-employer share at P100 per month for each employee.	AAR 2014 Part 2	Implemented	The District complied with the maximum limit of the employer's share in the PAG-IBIG Contributions remittance which should be at P100 per month for each employee.
4. The District's physical assets with net book value of P 11,251,696.29 were not insured with the General Insurance Fund of the Government Service Insurance System (GSIS), contrary to Section 5 of R.A. 656, as amended by PD No. 245, thus exposing the District to risk of non-indemnification in case of natural or man-made calamity.	We recommended that the management insure all its insurable property and equipment with the General Insurance Fund of the GSIS to protect its interest.	AAR 2014 Part 2	Partially Implemented	The District is currently processing the certificate of title of the assets, since the GSIS requires title to such properties before they have to be insured in their system.
5. No funds were appropriated for the Disaster Risk Reduction and Management (DRRM) System, contrary to RA 10121.	We recommended that the management to appropriate funds relative to DRRM and strictly adhered to the implementation of relevant activities for knowledge building, awareness raising and disaster preparedness under the applicable provisions of RA 10121.	AAR 2014 Part 2	Partially Implemented	The District allocated funds for the DRRM. However, no DRRM related activities were implemented in 2015.
6. The District Corporate Operating Budget (COB) for FY 2014 was not submitted to the DBM for review and approval contrary with DBM Corporate Budget	We recommended that the management submit the COB to the DBM pursuant to DBM Corporate Budget Memorandum No. 34	AAR 2014 Part 2	Implemented	The COB for FY 2015 was forwarded to the Department of Budget Management pursuant to the DBM Corporate Budget Memorandum.

<p>Memorandum No. 34 dated December 28, 2012, thus, compliance to the Philippine Development Plan (PDP) for FYs 2011-2016 is not assured.</p>	<p>reiterating the Policy Guidelines and Procedures in the Preparation and Submission of the FY 2014 Budget Proposals, and require the Budget Officer to furnish COA the Annual Budget supported with complete documents every year thereafter. To allow COA to monitor and evaluate the accuracy of the agency's reported performance against its approved targets aligned with MFOs, KRAs, and sector outcomes in the PDP Results Matrices.</p>			
<p>7. The District did not prepare a GAD plan and its related activities and no funds was allocated in the agency's budget as mandated under Section 33 of CY 2014 GAA and PCW-NEDA-DBM Joint Circular No. 2012-01.</p>	<p>We recommended that the management prepare GAD Plan at the beginning of the year that is designed to address gender issues in compliance with the provisions of Section 33 of GAA and PCW-NEDA-DBM Joint Circular No. 2012-01; appropriate funds equivalent to 5% budgetary appropriation for GAD as mandated in the GAA; and create/designate a GAD focal person who serves as the technical working group whose task is to facilitate the preparation of District GAD plan, catalyze, coordinate, provide directions and monitor the program/projects on GAD concerns of the District.</p>	<p>AAR 2014 Part 2</p>	<p>Partially Implemented</p>	<p>The District allocated funds for GAD but no plan has been drafted for CY 2015. But the GAD Plan for 2016 has already been drafted.</p>

<p>8. The District's Collecting Officer/Teller were not properly bonded as required under Section 4.1 of Treasury Circular No. 02-2009 dated August 6, 2009.</p>	<p>We recommended that the Management properly designate collecting officer/teller who is duly bonded; and consider the Districts' organizational structure, evaluate the performance and potential of this current JO employee-teller for possible permanent position and implement the government bond requirement.</p>	<p>AAR 2014 Part 2</p>	<p>Partially Implemented</p>	<p>Not all of the Collecting Officers were bonded.</p>
<p>9. The Petty Cash Fund (PCF) was not sufficient for the petty expenses of the District for one month due to non-adherence of Section 4.3.1 of COA Circular No. 97-002 dated February 10, 1997 and Section 15 of NGAs Manual, Volume 3.</p>	<p>We recommended and management agreed to replenish PCF upon reaching 75% utilization so that sufficient cash balance is available to cover expenses of small payments for maintenance and operating expenses of the District; the Petty Cash Custodian update the daily disbursements in the PCF record; and may make the option to appoint another personnel to handle the PCF.</p>	<p>AAR 2014 Part 2</p>	<p>Implemented</p>	<p>The District complied with the audit recommendations per per our verification.</p>
<p>10. The District Non-Revenue Water (NRW) of 398,321 cubic meter equivalent to 37.58% (average) of the total water production was far beyond the tolerable allowance of 20% water loss of LWUA based on Memorandum Circular No. 004-10 dated February 23, 2010, thus, the operational efficiency level for CY 2014 of the district was consequently affected.</p>	<p>We recommended that the management properly address the problem on unaccounted water losses to mitigate the revenue losses, improve the bottom line, increase efficiency and delivery of water services.</p>	<p>AAR 2014 Part 2</p>	<p>Partially Implemented</p>	<p>To mitigate water revenue losses, new water meters were set in in place to replace old meters. In addition, clustering of water distribution was implemented. New measures of accounting water losses were also implemented to accurately determine the causes and amount of water losses.</p>

<p>11. Receivables-Customers inactive/closed accounts amounting to P1,675,790.03 aging 2 to 10 years were classified as current assets and the inadequacy of records in the subsidiary ledger accounts distorting the accuracy and fair presentation of the financial statements (FS).</p>	<ul style="list-style-type: none"> <li>• Reclassify inactive/closed accounts to other assets in compliance to Paragraph 57 of PAS 1 for proper presentation of the receivables account in the FS.</li> <li>• Strengthen the district strategies to maximize collections of Account Receivable and implement policy of disconnection in case of failure of payment of water bills in more than two months.</li> <li>• Create a committee to investigate the location and whereabouts of debtors to ascertain extent of their recovery.</li> </ul>	<p>AAR 2014 Part 2</p>	<p>Partially Implemented</p>	<p>Not all of the inactive accounts were classified to other assets.</p>
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## **PART IV – ANNEX**

<b>Annex</b>	<b>Title</b>
<b>A</b>	Schedule of Lots not Transferred in the Name of the District
<b>B</b>	Schedule of Withholding Taxes Remitted to the BIR


**Tubod-Baroy Water District**  
Schedule of Lots not Transferred in the Name of the District  
Calendar Year 2015

<b>Pumping Station</b>	<b>Donor of the Lot</b>	<b>Location / Address</b>	<b>Land Area</b>	<b>Remarks</b>
1	Lucas Yu	Sto. Nino, Baroy		serviceable
2	Domingo Quirong	Limot, Tubod	199 sq.m.	serviceable
3	Benjamin Cabatic	Sto. Nino, Baroy	60 sq.m.	serviceable
4	Victorio Kilat	Pigcarangan	16 sq.m.	serviceable
5	Susan Monding	Bulod	100 sq.m.	serviceable

Reservoir and Tanks Located on the Subject Lots  
Calendar Year 2015

<b>Reservoir</b>	<b>Donor of the Lot</b>	<b>Location/Address</b>	<b>Land Area</b>	<b>Remarks</b>
1	Bernadeth Santilan	Prencisa, Baroy	200 sq.m.	serviceable
2	Ella Elagan	Prencisa, Baroy	196 sq.m.	serviceable
3	Nida Ursal	Pigcarangan	78 sq.m.	serviceable

Prepared by:

  
**Merjam S. Decierdo**  
State Auditor II  
Audit Team Member

Reviewed by:

**Macrina M. Gentiles**  
State Auditor III  
OIC- Audit Team Leader



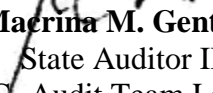
**Tubod-Baroy Water District**  
Schedule of Withholding Taxes Remitted to the BIR  
Calendar Year 2015

	<b>Withheld Salary</b>	<b>Withheld Suppliers (1%)</b>	<b>Withheld Suppliers(5%)</b>	<b>Franchise Tax</b>	<b>Total</b>
January	28,143.44	3,957.21	11,251.10	21,062.14	64,413.89
February	28,542.82	1,480.11	9,421.35	25,956.71	65,400.99
March	25,956.71	7,800.76	23,938.30	21,651.50	79,347.27
April	29,004.91	2,178.62	13,421.77	23,851.60	68,456.90
May	26,189.64	1,817.14	11,554.37	27,831.04	67,392.19
June	26,189.64	2,893.22	16,756.69	26,173.36	72,012.91
July	26,189.64	500.27	4,867.30	27,062.61	58,619.82
August	28,992.81	3,367.75	17,765.67	28,817.41	78,943.64
September	30,030.43	809.24	6,553.86	25,015.33	62,408.86
October	30,691.45	1,496.25	10,707.15	28,162.66	71,057.51
November	37,441.47	1,848.53	5,097.01	27,521.77	71,908.78
December	31,297.29	2,047.70	12,786.08	26,185.09	72,316.16
	<b>P348,670.25</b>	<b>P30,196.80</b>	<b>P144,120.65</b>	<b>P309,291.22</b>	<b>P832,278.92</b>

Prepared by:

**Ashma A. Edres**  
State Auditor I  
Audit Team Member

Reviewed by:

  
**Macrina M. Gentiles**  
State Auditor III  
OIC- Audit Team Leader