

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION/ENTITY PROFILE

The financial statements of Lemery Water District (LEWAD) were authorized for issue on August 20, 2019 as shown in the Statement of Management's Responsibility for Financial Statements signed by Dr. Ferdinand M. Macababab, as Board Chairman of LEWAD.

On August 8, 1981, LEWAD was organized by virtue of Sangguniang Resolution No. 81-49 which was passed by the Sangguniang Bayan of Lemery. On November 17, 1981 a Conditional Certificate of Conformance No. 169 was issued by Local Water Utilities Administration (LWUA) which entitles the LEWAD to all rights and privileges authorized under Presidential Decree (PD) No. 198.

Initially, water districts are quasi-public corporations performing public service and supplying public wants. On March 12, 1992, all water districts were declared as Government-Owned and Controlled Corporations (GOCCs) with original charter based on the Supreme Court en banc ruling in Davao City Water District, et al. vs. Civil Service Commission and Commission on Audit.

LEWAD was categorized by LWUA as Category "C" water district effective March 30, 2012.

On April 1, 2014, LEWAD has entered into a Joint Venture Agreement with Primewater Infrastructure Corporation for the financing, development, rehabilitation, improvement, expansion, operations and management of the water system of the municipality of Lemery, Batangas. The undertaking aimed to improve the water supply system of the Municipality, in consonance with the Public-Private Partnership (PPP) program being espoused by the National Government. Primewater Infrastructure Corp. is designated as an operator of the concession, contractor and agent of LEWAD in joint venture area.

The new organizational structure of LEWAD is composed of five Board of Directors (BOD) and the Contract Monitoring Unit (CMU).

The present members of the BOD are:

Board Chairman	:	Dr. Ferdinand M. Macababab
Vice Chairman	:	Mr. Ricarte A. Punzalan
Board Secretary	:	Mrs. Hide Malabanan-Aguila
Board Treasurer	:	Mrs. Alicia G. Mangubat
Board Member	:	Mr. Casimiro A. De Guia, Jr.

The CMU is composed of the following:

General Manager C	:	Engr. Hydee Dela Luna-Ramirez
Admin Chief C	:	Maria Cecilia M. Mendoza
Sr. Industrial Mgt. Relation Officer B	:	Aldwin O. Bandalaria
Admin. Service Assistant A	:	Josephine S. Manabat
Driver	:	Christopher O. Serrano

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

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) prescribed by the Commission on Audit through COA Resolution No. 2014-003 dated January 24, 2014.

The accounting policies have been consistently applied throughout the year presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

The consolidated financial statements are presented in peso (₱), which is also the country's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Preparation

The financial statements are prepared under the historical cost convention, except where stated, do not take into account changing prices.

3.2 Change in Accounting Policies, Change in Accounting Estimates and Errors

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

The LEWAD recognizes the effect of changes in accounting policy retrospectively. It is applied prospectively if retrospective application is impractical.

Change in accounting estimates are adjustment of the carrying amount of an asset or liability or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. The LEWAD recognizes the effect of changes in accounting estimates prospectively.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more periods arising from failure to use, or misuse of reliable information that was available when financial statements for those periods were authorized for issue and should reasonably be expected to have been obtained and taken into account in the preparation of those financial statements. Prior period errors are accounted by retrospective restatement.

3.3 Cash and Cash Equivalents

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

3.4 Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory are received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the LEWAD.

4. Property, Plant and Equipment

4.1 Recognition

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

The characteristics of PPE are as follows:

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

An item of PPE is recognized as an asset if:

- i. it is probable that future economic benefits or service potential associated with the item will flow to the entity;
- ii. the cost or fair value of the item can be measured reliably; and
- iii. the cost is at least ₱15,000.00.

4.2 Measurement at Recognition

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

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

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

Cost includes the following:

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

4.3 Measurement after Recognition

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

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

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

4.4 Depreciation

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

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

4.5 Initial Recognition of Depreciation

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

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

4.6 Depreciation Method

The straight line method of depreciation is adopted unless another method is more appropriate for entity's operation.

