



GUIDE TO RING-FENCING OF LOCAL GOVERNMENT-RUN WATER UTILITIES



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This report is one of the deliverables under Component 3 of the Small Water Utilities Improvement and Financing (SWIF) project implemented by the Water and Sanitation Program (WSP). SWIF aims to improve the ability of small utilities to access increasingly market-based financing in line with the Government of the Philippines' water sector financing strategy. Component 3, cofinanced by the Public-Private Infrastructure Advisory Facility Sub-National Technical Assistance, seeks to examine issues surrounding access to market-based financing by small water utilities towards developing an intervention program, including the ring-fencing of accounts of local government-run water utilities.

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LOCAL GOVERNMENT-RUN WATER UTILITIES**



CONTENTS

INTRODUCTION	What is Ring-Fencing?	1
	Why LGUs Need to Ring-Fence Their Water Utility Operations	1
	Legal Basis	2
	Rationale for the Ring-Fencing Guide	3
	Organization of the Guide	3
CONCEPTUAL AND OPERATIONAL FRAMEWORK	New Government Accounting System Manual for LGUs	4
	<i>Basic Features and Policies</i>	4
	<i>Special Accounts</i>	6
	Operational Framework	8
	<i>Conceptual Framework for Ring-Fencing LGU-Run Water Utilities</i>	8
	<i>Phase 1</i>	8
	<i>Phase 2 (Financially Ring-Fenced)</i>	10
	<i>Setting the Operating Framework for Ring-Fencing</i>	11
<i>Ring-Fencing Timetable</i>	11	
STEPS IN RING-FENCING	Affirmation of the LGU's Commitment to Ring-Fencing	13
	Mapping of Systems and Procedures	13
	Organizational Review and Realignment	17
ACCOUNT RECONSTRUCTION	Step 1. Set up the Books of Accounts for the Water Utility	19
	Step 2. Establish the Beginning Balances for the Balance Sheet Accounts	19
	Step 3. Determine the Revenues Earned for the Year	30
	Step 4. Determine the Expenses for the Year	33
	Step 5. Determine Interest Expense and Other Financing Charges for the Year	40
	Step 6. Determine the Bad Debts Expense for the Year	42
	Step 7. Prepare a Trial Balance	43
	Step 8. Prepare the Income Statement	46
	Step 9. Determine the Balance of Retained Earnings Surplus Account for the Year	47
	Step 10. Prepare the Balance Sheet	47
	Step 11. Prepare the Cash Flow Statement	48
	Step 12. Close the Temporary Account Balances	49

**INTERIM
ACCOUNTING AND
FINANCIAL
REPORTING
SYSTEM**

Definition	50
Scope	50
Organizational Changes and Other Preparations	50
Activities During the Transition Stage	51
Modifications from LGU Accounting Processes	65
<i>Accounting for Revenues</i>	67
<i>Accounting for All Costs of the Water Utility</i>	73
<i>Preparation of Ring-Fenced Financial Statements</i>	79

SUPPLEMENTARY SECTIONS

Chart of Accounts

Introduction	83
Chart of Accounts and Description	83

**Billing and
Collections**

Definition	99
Scope	99
Policy Statements	99
Narrative Procedures	102
<i>Meter Reading</i>	102
<i>Billing</i>	102
<i>Billing Adjustments</i>	103
<i>Collections</i>	104
<i>Miscellaneous Receipts</i>	106
<i>Service Application</i>	106
<i>Service Disconnection</i>	108
<i>Meter Maintenance</i>	109

FIGURES, EXHIBITS AND FLOW CHARTS

Figure 1:	Ring-Fencing Timetable	12	Exhibit 24:	Cash Receipts Journal	53
Figure 2:	Sample Improved Organizational Structure	18	Exhibit 25:	Cash Disbursements Journal	54
Figure 3:	Local Government Unit Collection Flow	65	Exhibit 26:	Check Disbursements Journal	55
Figure 4:	Local Government Unit Disbursements Flow	66	Exhibit 27:	General Journal	56
			Exhibit 28:	General Ledger	57
			Exhibit 29:	Subsidiary Ledger	58
			Exhibit 30:	Cashbook—Treasury	59
			Exhibit 31:	Cashbook—Cash in Bank	60
			Exhibit 32:	Cashbook—Cash Advances	61
Exhibit 1:	General Information Sheet	14	Exhibit 33:	Official Receipt	62
Exhibit 2:	Activity Analysis Sheet	16	Exhibit 34:	Disbursement Voucher	63
Exhibit 3:	Inventory Count Sheet	21	Exhibit 35:	Journal Entry Voucher	64
Exhibit 4:	Property, Plant, and Equipment and Corresponding Accumulated Depreciation Accounts	22	Exhibit 36:	Daily Water Bills Issued	68
Exhibit 5:	Updated Listing of Property, Plant, and Equipment and Depreciation	25	Exhibit 37:	Bill Register	69
Exhibit 6:	Property, Plant, and Equipment Classified by Funding Source	26	Exhibit 38:	Report of Collections and Deposits	71
Exhibit 7:	Property, Plant, and Equipment Estimated Useful Lives	27	Exhibit 39:	Service Request Form	74
Exhibit 8:	Guaranty Deposits	29	Exhibit 40:	Summary of Service Requests	75
Exhibit 9:	Summary of Billed Water Sales	30	Exhibit 41:	Allocation of Shared Personal Services	77
Exhibit 10:	Collection Summary	32	Exhibit 42:	Allocation of Shared MOOE	78
Exhibit 11:	Dedicated Personal Services	34	Exhibit 43:	Water Bill	110
Exhibit 12:	Dedicated Personal Services Distributed by Cost Center	35	Exhibit 44:	Meter Reading Route	111
Exhibit 13:	Shared Personal Services Distributed by Cost Center	36	Exhibit 45:	Water Service Record	112
Exhibit 14:	Dedicated MOOE Distributed by Cost Center	37	Exhibit 46:	Water Rates Table	113
Exhibit 15:	Shared MOOE for the Waterworks Unit	39	Exhibit 47:	Collectors' Water Bills Accountability Report	114
Exhibit 16:	Distribution of Shared MOOE Allocated by Cost Center	40	Exhibit 48:	Abstract of Daily Collections	115
Exhibit 17:	Schedule of Loans Payable	41	Exhibit 49:	Report of Unpaid Water Bills	116
Exhibit 18:	Aging of Accounts Receivable	42	Exhibit 50:	Application for Service Connection	117
Exhibit 19:	Allowance for Doubtful Accounts	43	Exhibit 51:	Meter Maintenance Order Form	118
Exhibit 20:	Reconstructed Trial Balance	44	Exhibit 52:	Masterlist of Service Connections	119
Exhibit 21:	Reconstructed Income Statement	46			
Exhibit 22:	Reconstructed Balance Sheet	47	Flow Chart 1:	Meter Reading Procedures	120
Exhibit 23:	Reconstructed Cash Flow Statement	49	Flow Chart 2:	Billing Procedures	121
			Flow Chart 3:	Water Bill Collections: Daily Activities (1)	122
			Flow Chart 4:	Water Bill Collections: Daily Activities (2)	123
			Flow Chart 5:	Water Bill Collections: Monthly Activities	124

ABBREVIATIONS AND ACRONYMS

A/C	Account	NGAS	New Government Accounting System
ACA	Additional Compensation Allowance	NWRB	National Water Resources Board
BIR	Bureau of Internal Revenue	PERA	Personnel Economic Relief Allowance
CDJ	Cash Disbursements Journal	P	Mark if entry has been posted
CKDJ	Check Disbursements Journal	PhP	Philippine Pesos
COA	Commission on Audit	PIB	Productivity Incentive Bonus
CPLC	Construction in Progress Ledger Card	PPELC	Property, Plant and Equipment Ledger Cards
CRJ	Cash Receipts Journal	PPIAF	Public-Private Infrastructure Advisory Facility
Cu. m.	Cubic Meter	PS	Personal Services
DBM	Department of Budget and Management	Qty	Quantity
DILG	Department of the Interior and Local Government	RAAF	Report of Accountability for Accountable Forms
DoF	Department of Finance	RAAOCO	Registry of Appropriations, Allotments, and Obligation – Capital Outlay
DV	Disbursement Voucher	RCD	Report of Collections and Deposits
ECC	Employees’ Compensation Commission	RCI	Report of Checks Issued
EDF	Economic Development Fund	RD	Report of Disbursements
GSIS	Government Service Insurance System	RPI	Registry of Public Infrastructure
HRD	Human Resources Department	SAAO	Status of Appropriation, Allocation, and Obligation
IT	Information Technology	SDC	Summary of Daily Collections
JEV	Journal Entry Voucher	SRF	Service Request Form
LGU	Local Government Unit	SWIF	Small Water Utilities Improvement and Financing Project
m ³	Cubic Meter	TO	Treasurer’s Office
MBS	Monthly Billing Summary	WSP	Water and Sanitation Program
MOOE	Maintenance and Other Operating Expenses	WSP-EAP	Water and Sanitation Program–East Asia and the Pacific
NGA	National Government Agency		



INTRODUCTION

What is Ring-Fencing?

Ring-fencing is a legal or financial arrangement of separating the activities, assets and liabilities, revenues and costs, and so on, generated by a specific business from the general business of an entity. In the context of these Guidelines, the water supply operation of the local government is being isolated or 'fenced-off' from its other activities.

Ring-fencing includes the separation of financial accounts, the consolidation of financial accounts across different products and services within the company and its subsidiaries, the physical and procedural internal divisions (known as Chinese walls) to contain certain information and activities, the protocols for the disclosure and exchange of information between internal entities, and the consistent application of rules for cost/revenue attribution and for an appropriate allocation of common or joint costs, including overhead costs.

Ring-fencing often denotes that funds set aside for an activity are not spent on anything else, and that revenues generated by those activities are invested back.

Ring-fencing can be achieved using a range of strategies and techniques, including the creation of a new entity (corporatization). These Guidelines relate to the technique that is focused on the separation of financial accounts through the use of a subsidiary accounting system.

Why LGUs Need to Ring-Fence Their Water Utility Operations

LGUs can benefit much from the ring-fencing of their water utility operations. Ring-fencing leads to more accurate information that can be used for making decisions about resources allocation, management and operational changes and improvements, and tariffs. Better decisionmaking is expected to lead to better water supply services for the community.

a. Generating reliable financial reports showing the true performance of the water utility.

The financial operations of an LGU-run utility are centralized within the LGU, and financial performance results are consolidated and reported along with the other units in the LGUs. While recently there may have been moves by the Department of Finance (DoF) to enable separate reporting of financial results, the reporting is still limited and does not enable the reporting of all revenues and expenses of the utility. Implementing ring-fencing would not only enable the LGU to get more reliable financial reports and, in fact, generate reports specific to water operations but also support LGUs in overcoming barriers to increase their revenue generating potentials and serve as an aide in establishing parameters to define 'economic enterprises'.

The accounting system in the LGUs does not provide for the accrual method of recording revenues. Revenues are recognized when they are collected and not when they are realized. Apart from having an inaccurate income reported by the utility, the practice does not provide for the automatic monitoring of collection performance as collections are not usually compared against the receivables, which are normally

established under the accrual system. When ring-fencing is implemented, the accrual method will be used. Collection efficiency will be easily controlled.

There are other units performing supporting activities to the water service provision. Examples are the revenue collectors under the Treasurer's Office who collect the water bills and the maintenance personnel who repair the general facilities of the waterworks. These expenses are not currently included in the financial report of the water utility. The ring-fencing system provides a mechanism to capture all expenses related to the provision of water supply.

b. Generating information that can be used to determine the appropriate tariff.

The financial statements generated by ring-fenced accounting would provide accurate information about revenues and expenses, which will provide useful inputs in reviewing the adequacy of tariff as well as knowing how much subsidy is being provided by the LGU to the utility.

c. Building a financially viable and self-sustaining water utility.

Monitoring and evaluation of the performance of water supply operations can be more meaningful with the availability of reliable data. More efficient control of expenses can be made. Adequacy of tariff can be accurately determined. Collection efficiency can be improved. Accountability would be improved because the results of the actions of water utility staff are known.

Investment needs can be determined with more precision with better and more accurate information from the ring-fenced system. With this, the water utility will have a basis for requesting that the net income it generates should be retained to fund these investments.

All these contribute to making the water utility financially viable and sustainable.

Legal Basis

Ring-fencing is possible under existing policies and government accounting procedures. The Local Government Code of 1991 allows LGUs to create special accounts under the General Fund for public utilities and economic enterprises, development projects funded by its internal revenue allotment and other special accounts created by law or ordinance, an excerpt of which follows:

Article Two. Special Accounts

SEC. 313. Special Accounts to be Maintained in the General Fund. Local government units shall maintain special accounts in the general fund for the following:

- (a) Public utilities and other economic enterprises;
- (b) Loans, interests, bond issues, and other contributions for specific purposes; and
- (c) Development projects funded from the share of the local government unit concerned in the internal revenue allotment and such other special accounts, which may be created by law or ordinance. Receipts, transfers, and expenditures involving the foregoing special accounts shall be properly taken up thereunder. Profits or income derived from the operation of public utilities and other economic enterprises, after deduction for the cost of improvement, repair and other related expenses of the public utility or economic enterprise concerned, shall first be applied for the return of the advances or loans made therefor. Any excess shall form part of the general fund of the local government unit concerned.

This is likewise reiterated in the New Government Accounting System (NGAS). Under Sec. 105 of Chapter 6 (Special Accounts) of the NGAS: "LGUs shall maintain special accounts in the General Fund for public utilities and other economic enterprises, loans, interests, bond issues, and other contributions for special purposes. . . ." The special account shall contain receipts/revenues of the program and its annual budget allocation.

Rationale for the Ring-Fencing Guide

The development of the *Guide to Ring-Fencing of LGU-Run Water Utilities* (Guide) was undertaken to enable water utilities to generate accurate financial information. The lack of separate financial reports that account for all income and expenses of a water utility is one of the constraints identified during the rapid assessment conducted for the SWIF project of the Water and Sanitation Program. Without reliable financial information, it is difficult for private financing institutions, even government financing institutions, to ascertain the financial position of a water utility, much less be encouraged to consider extending credit to these LGU utilities if financial data is lacking.

The preparation of the guide is an offshoot of the Rapid Assessment of Commercial Financing for Small Utilities and other initiatives recognizing the need for ring-fencing such as the regulatory reform agenda drawn up during the August 2008 regulatory reform conference, Philippine Water Supply and Sector Roadmap, Department of the Interior and Local Government's capacity development activities, and the Philippines Development Forum's Sub-Working Group for Water Supply and Sanitation action agenda. These initiatives stress the fact that ring-fencing has been recognized as a necessary action not only to enable water utilities to generate accurate financial information but also as a major utility reform agenda towards improving service performance and ensuring sustainability of LGU-run utilities.

This Guide has been prepared to provide a simple yet practical manual to LGUs. It has been developed as a generic guide that is applicable to a typical LGU-run water utility and is flexible enough to adapt to the varying conditions in a utility.

Organization of the Guide

This Guide is presented in seven sections. The initial sections are:

1. Introduction
2. Conceptual and Operational Framework
3. Steps in Ring-Fencing
4. Account Reconstruction
5. Interim Accounting and Financial Reporting System

Supplementary financial systems that have also been included are:

6. Chart of Accounts
7. Billing and Collections

Section 1 discusses ring-fencing within the context of LGU-run water utilities. Section 2 provides the conceptual and operational framework and the preparatory steps to implement ring-fencing. Section 3 provides an overview of the steps in ring-fencing. Section 4 discusses detailed procedures on how prior accounting records are reconstructed to establish the balance sheet and income statement accounts following the concept of full costs reporting. Section 5 is the ring-fencing system itself that is implemented until such time that the water utility is fully financially ring-fenced and has its own separate accounting and financial reporting system.

The supplementary sections in the Guide (Sections 6 and 7) are to be implemented along with Section 5—even more so when the water utility is already ring-fenced. Section 6 contains the chart of accounts applicable to LGU-run water utilities conforming to the Commission on Audit's New Government Accounting System of 2004. Section 7 relates to the billing and collection procedures of a water utility.

CONCEPTUAL AND OPERATIONAL FRAMEWORK

New Government Accounting System Manual for LGUs

The ring-fencing of Local Government Unit (LGU) accounts operates within the New Government Accounting System (NGAS) environment. Presented here are excerpts from *The New Government Accounting System Manual for Local Government Units* that support the use of accrual accounting and special accounts with accompanying subsidiary ledgers and the generation of the standard financial statements for the water utility.

Basic Features and Policies

Sec. 04. Basic Features and Policies. The NGAS has the following basic features and policies:

- a. **Accrual Accounting.** A modified accrual basis of accounting is used. Under this method, all expenses shall be recognized when incurred. Income shall be on accrual basis (for example, Share from Internal Revenue Collections) except for transactions where accrual basis is impractical (for instance, Market Fees) or when other methods may be required by law.
- b. **One Fund Concept.** This system adopts the one fund concept. Separate fund accounting shall be done only when specifically required by law or by a donor agency or when otherwise necessitated by circumstances subject to prior approval of the Commission. As required under Sections 308, 309, and 310 of the Local Government Code, separate books shall be maintained for the General Fund, Special Education Fund, and Trust Fund.
- c. **Special Accounts in the General Fund.** Special accounts in the General Fund, complete with subsidiary ledgers, shall be maintained for the following:
 1. Public utilities and other economic enterprises;
 2. Loans, interests, bonds issued, and other contributions for specific purposes;
 3. Development projects funded from the Share in the Internal Revenue Collections; and
 4. Such other special accounts, which may be created by law or ordinance.
- d. **Chart of Accounts and Account Codes.** A new coding structure and a new chart of accounts with a three-digit account numbering system shall be adopted.
- e. **Books of Accounts.** The Books of Accounts are as follows:
 1. Journals
 - Cash Receipts Journal.
 - Cash Disbursements Journal.
 - Check Disbursements Journal.
 - General Journal.
 2. Ledgers
 - General Ledger.
 - Subsidiary Ledgers, where applicable, for:

- Cash;
- Receivables;
- Inventories;
- Investments;
- Property, Plant, and Equipment;
- Liabilities;
- Income; and
- Expenses.

All the above records shall be maintained by the accounting unit of the LGUs. However, treasurers and disbursing officers shall also maintain their respective cash records, such as:

1. Cashbook—Cash in Treasury.
2. Cashbook—Cash in Bank.
3. Cashbook—Cash Advances.

Treasurers/collectors shall prepare the Report of Collections and Deposits (RCD) daily, and the Report of Accountability for Accountable Forms (RAAF) monthly.

f. **Financial Statements.** The following statements shall be prepared:

1. Balance Sheet.
2. Statement of Income and Expenses.
3. Statement of Cash Flows.

Notes to Financial Statements shall accompany the above statements.

g. **Trial Balance.** The two money-column trial balance shall be used.

h. **Financial Expenses.** Financial expenses such as bank charges, interest expenses, commitment fees, and other related expenses shall be separately classified from Maintenance and Other Operating Expenses (MOOE).

i. **Perpetual Inventory of Supplies and Materials.** Supplies and materials purchased for the purpose of inventory shall be recorded using the perpetual inventory system. Regular purchases shall be coursed through the inventory account and issuances thereof shall be recorded as they take place, except those purchased out of petty cash fund which shall be for immediate use and not for stock. Such case shall be charged immediately to the appropriate expense accounts.

j. **Valuation of Inventory.** Cost of ending inventory of supplies and materials shall be computed using the moving average method.

k. **Maintenance of Supplies and Property, Plant, and Equipment Ledger Cards.** The Accounting Unit shall maintain Supplies Ledger Cards by stock number and Property, Plant, and Equipment Ledger Cards by category of assets.

l. **Construction of Assets.** For assets under construction, the Construction Period Theory shall be applied for costing purposes. Bonus paid to the contractor for completing the work ahead of time shall be added to the total cost of the project. Liquidated damages charged and paid for by the contractor shall be deducted from the total cost of the asset. Any related expenses incurred during the construction of the project—such as license fees, permit fees, clearance fees, and so on—shall be capitalized.

- m. **Depreciation.** The straight-line method of depreciation shall be used. A residual value equivalent to 10 percent of the cost shall be set up and depreciation shall start on the second month after purchase/completion of the property, plant, and equipment. Public infrastructures shall not be charged any depreciation.
- n. **Reclassification of Obsolete and Unserviceable Assets,** as well as Assets No Longer Used by the Agency to 'Other Assets' Account. Assets declared by proper authorities as obsolete and unserviceable, including assets of the agency no longer used, shall be reclassified to 'Other Assets' account from the corresponding inventory and property, plant, and equipment accounts.
- o. **Allowance for Doubtful Accounts.** An Allowance for Doubtful Accounts shall be set up for estimated uncollectible receivables. This will allow for a fair valuation of receivables. Allowance for Doubtful Accounts shall be provided only for trade receivables.
- p. **Elimination of Contingent Accounts.** Contingent accounts shall no longer be used. All financial transactions shall be recorded using the appropriate accounts. Cash shortages and disallowed payments shall be recorded under receivable accounts 'Due from Officers and Employees' and 'Receivables—Disallowances/Charges', as the case may be.
- q. **Recognition of Liability.** Liability shall be recognized at the time goods and services are accepted or rendered and supplier/creditor bills are received.
- r. **Interest Accrual.** Whenever applicable and appropriate, interest income and/or expense shall be accrued and recognized in the books of accounts.
- s. **Accounting for Borrowings and Loans.** All borrowings and loans incurred shall be recorded direct to the appropriate liability accounts.

Special Accounts

Sec. 105. Special Accounts in the General Fund. LGUs shall maintain special accounts in the General Fund for public utilities and other economic enterprises, loans, interests, bond issues, and other contributions for specific purposes; and development projects funded from the share of the local government concerned from the internal revenue collections and development of national wealth and such other special accounts which may be created by law or ordinance.

Sec. 106. Objectives for the Maintenance of Special Accounts. Accounting procedures for the operation of the special accounts are adopted in order to:

- a. Determine whether the income generated by the public utilities or economic enterprises are sufficient to meet their respective operating costs.
- b. Provide adequate information as to the assets, liabilities, and equity of each special account.

Sec. 107. Special Accounts Subsidiary Ledger. Special accounts shall be maintained through the use of complete subsidiary ledger. In case the LGU maintains a number of the same economic enterprise, each shall have its own set of subsidiary ledger (for example: if there are eight markets there will be eight subsidiary ledgers for the markets).

Sec. 108. Subcodes for the Special Accounts. The following shall be the subcodes for the special accounts:

Special Account	Subcode
General Fund	01
Market Operation	02
Slaughterhouse Operation	03
Waterworks System	04
Electric, Light, and Power System	05
Telephone System	06
Toll Roads, Bridges, and Ferries	07
Transportation System	08
Hospital	09
School	10
Sports Center	11
Recreational Center	12
Housing Projects	13
Convention/Conference Center	14
Parking Space	15
Ice Plant	16
Cemetery	17
20% Development Fund	18
80% Share from Energy Sources	19
Share from Development of National Wealth	20
Loans	21
Interests	22
Bond Issues	23

Sec. 109. Profit from Operation. Profits or income derived from the operation of public utilities and other economic enterprises, after deduction of the cost of improvement, repair and other related expenses of the public utility or economic enterprises concerned, shall first be applied for the return of the advances or loans made therefore, any excess shall form part of the general fund of the local government unit concerned.

Sec. 110. Reporting. At the end of the year, a post-closing trial balance shall be prepared for each special account. Also, the following financial statements shall be prepared:

- a. Balance Sheet.
- b. Statement of Income and Expenses.
- c. Statement of Cash Flows.

Operational Framework

Conceptual Framework for Ring-Fencing LGU-Run Water Utilities

The development of the financial system to ring-fence water utility operations is divided into two phases.

In Phase 1, the water utility has to ring-fence its accounts because they are still part of local government accounting. When the water utility is able to have its own budget and separate books of accounts, it no longer needs to ring-fence and has crossed over to Phase 2. These phases are described more fully in the next sections.

Phase 1

Before ring-fencing, water utility accounts are centrally maintained by the LGU. Some activities related to water service provision performed by other units or departments are not yet considered as water utility expenses. Financial reports for the operations of the water utility do not capture all the revenues and costs attributed to the service provision.

CLASSIFICATION OF EXPENSES

To be able to include all expenses related to water service provision, all operations and maintenance expenses of the LGU are classified into:

- **Personal Services (PS):** These costs include salaries, benefits, and other personal service expenses of:
 - Staff assigned to the water utility.
 - Staff not administratively assigned to the water utility but performing services directly related to water supply service provision. An example is an employee of the City Treasurer’s Office who collects fees of the water utility.

These costs do not include the PS of staff administratively assigned to the water utility but who are not performing services related to water supply service provision. An example is a staff member whose salaries and benefits are budgeted under the water utility but who actually performs work for the slaughterhouse.

- **Maintenance and Other Operating Expenses (MOOE):** This includes the cost of materials and supplies and all other expenses other than PS that are incurred by the Water Utility Division in operating and maintaining the water supply system. The typical MOOEs of a water utility are:
 - Traveling expenses;
 - Supplies and materials;
 - Utility expenses;
 - Communication;
 - Rent expenses;
 - Representation expenses;
 - Transportation and delivery expenses;
 - Professional services;
 - Repair and maintenance;
 - Insurance expenses;
 - Bad Debts expense;
 - Depreciation; and
 - Financial expenses.

This general classification is further broken down into:

- Direct or dedicated expenses are those incurred by the water utility itself.

- Indirect or shared expenses are those that contribute to water service provision that are incurred by units or departments outside of the Water Utility Division. These shared expenses can either be identifiable shared expenses or not specifically identifiable shared expenses.
 - o Identifiable shared expenses are those expenses incurred by the LGUs/departments outside of the Water Utility Division whose benefits can be traced directly to the water utility. These include the cost of PS and MOOE when another unit or division outside of the water utility undertakes an activity or task in support of the operations of the utility. The time, effort, and other resources spent in doing the activity are quantifiable and can be directly identified to a benefit gained by the utility. These are some illustrations of costs incurred in support of water service are:
 - Maintenance of the cleanliness and orderliness of the water utility premises, when these activities are carried out by a specified number of staff by the Department of Public Services or any concerned department or unit;
 - Repairs and maintenance of the utility plant that are undertaken by the City Engineer’s Office; or
 - Provision of security services to maintain peace and order in the premises undertaken by the Civil Security Unit of the Office of the City Mayor or the Philippine National Police.
 - o Allocable or not directly identifiable shared expenses are those incurred by LGUs/departments to support operations of other offices or units such as the water utility. They include both PS and MOOE to support the operations of other units and whose benefits cannot be traced directly against a particular activity or cost object. The following departments in the LGU are assumed to provide support services to other departments. The expenses of these departments should be allocated among the various departments or divisions that benefit from the support services.
 - Administrative services (Administrator);
 - General services;
 - Budgeting services;
 - Accounting services;
 - Treasury services;
 - Auditing services;
 - Information services;
 - Legal services; and
 - Human resources management services.

The water utility may agree with the units/departments on how to allocate the costs. The options below may be fine-tuned or an entirely different method may be agreed upon.

Option 1. As a percentage of waterworks staff over the total staff of the LGU.

This is estimated by getting the percentage of the waterworks employees over the total employees of the LGU. This factor is multiplied by the total Personal Services of each of the related LGUs/departments to get the waterworks share. This is illustrated in Exhibits 11 and 13.

This factor is computed as:

$$= \frac{\text{Total Waterworks Employees}}{\text{Total LGU Employees}}$$

By substituting the figures appearing in the General Information Sheet (Exhibit 1), the factor for the water utility would be:

$$= 15 / 149 \text{ or } 10.06\%$$

This may, however, bloat the assignment of cost to the water utility because of the very loose assumption used.

Option 2. Based on man-hours.

A more calibrated method of computing the share of the waterworks unit in the costs of the units/ departments that service the waterworks unit is to use man-hours as the cost driver. The waterworks units can determine or agree on the percentage allocation of the cost based on hours spent by personnel of service units/departments on waterworks activities. Interviews may be conducted to determine the number of hours spent by personnel of service units/departments on waterworks activities.

MAJOR ACTIVITIES IN PHASE 1

These are the major activities within Phase 1. These are discussed in detail in the section on Steps in Ring-Fencing.

- a. Preparations for ring-fencing. This involves the affirmation of the LGU's commitment to ring-fencing, systems and procedures mapping, and doing an organization review and realignment. These are detailed in the section on Steps in Ring-Fencing.
- b. Account reconstruction. This stage is centered on establishing the beginning balances for the financial statements of the water utility using the full cost method. This is discussed in detail in the section on Account Reconstruction.
- c. Interim accounting procedures. Once prior years' Income Statement and beginning balances of the Balance Sheet have been reconstructed, the water utility proceeds to capture all costs and expenses incurred by other units or departments related to water service provision through the interim accounting procedures (discussed in the section on Interim Accounting and Financial Reporting). It records revenues based on the total amount of bills issued (accrual method) and not based on collections only (cash basis). It implements a system of obtaining the cost of services done by other units or departments in the LGU which are related to water service provision. It maintains a separate set of books of accounts that are kept parallel with the books of accounts maintained by the Accounting Department/Division. It prepares the ring-fenced financial statements of the water utility.
- d. Other activities. The utility should also work on these to prepare for being corporatized.
 - Maintaining its own bank accounts where its collections can be deposited and disbursements can be paid from.
 - Preparing a full budget. The budget for the following year for the ring-fenced operations will need to consider full cost accounting. It has to include personnel costs, increase in MOOE, and reflect more realistic revenue levels when it now moves to accrual accounting.
 - Work on being able to retain its income to be used for improving services and infrastructure.

Phase 2 (Financially Ring-Fenced)

Phase 2 is when the water utility is already operating viably and is sustainable. It has its own budget, keeps a separate financial accounting and reporting system, and even maintains its own separate bank account. Because the financial reporting is already autonomous, it is now automatically ring-fenced.

A water utility can graduate to this stage in several ways. It can be established as a separate legal entity, such as a local government-owned and controlled corporation with a separate charter. It can also engage in private sector participation and/or public private partnerships to operate and manage part of all the water utility operations. It can even convert the water utility and form a water district.

The water utility can also remain within the LGU set up but operate like a corporatized entity operating in a commercial way. Without any change in its legal personality, the water utility can operate like a corporate entity that is self-sustaining and has the following characteristics:

- Has dedicated staff members or shared staff members as is practicable and economically efficient. Depending on the utility's funding resources and ability to fully cover its operation and maintenance costs, the water utility is projected to have personnel for its technical operations (production, distribution, maintenance, and engineering services such as planning, design, and construction supervision), finance and administration, human resources management, commercial activities like billing and collection and customer services.
- Has a separate financial and accounting system that covers all phases from transaction processing and bookkeeping, to generation of trial balance and preparation of financial reports. This assumes then that the water utility has its own finance/accounting unit that takes charge of the financial activities of the utility. It maintains its own books of accounts and prepares regular financial statements that will be consolidated with the overall LGU financial reports. It also maintains its own bank accounts where receipts and disbursements are deposited and paid from, respectively.
- Has a full cost budget that considers all the costs of operating and running the water utility, and which is determined and set based on the utility's ability to generate revenues from its water tariff and not from what is available from the allocation of the internal revenue allotment and internally generated funds of the LGU.
- Has the fiscal autonomy to dispose its income as appropriate and retain any surplus for system expansion and improvement. This will enable the water utility to be a truly sustainable undertaking if it has the authority to set its own targets and budget. This will also be a strong incentive for the water utility to perform well given that any surplus is plowed back to the utility for systems improvement and expansion.

Setting the Operating Framework for Ring-Fencing

The first important step that an LGU shall undertake prior to ring-fencing the water utility is to define its ultimate goals for the water utility and the operating framework with which the goals will be achieved. As there are no guidelines as yet from relevant government agencies (such as the Department of Finance, Department of Budget and Management, Department of the Interior and Local Government and/or Commission on Audit) that require LGUs to ring-fence the operations of economic enterprises, the water utilities included, there is a wide spectrum from which LGUs could decide on how to ring-fence the operations of their water utilities. The extent to which the LGU would want the water utility to become financially viable will determine the pace with which it will undertake ring-fencing as one of the measures which will help it achieve the goal of financial viability. The timeframe would also depend on the competence of existing water utility staff, the availability of resources, and the commitment of the LGU head to take things forward.

Ring-Fencing Timetable

Accounts reconstruction may take three months, after which the transition period begins. This may go on for at least one year to allow for the preparation of an annual set of ring-fenced financial statements for the water utility. It may last until the water utility is ready to be corporatized and graduate to Phase 2. Figure 1 shows what happens over the months (each number represents a month).

Figure 1: Ring-Fencing Timetable

Phase 1															Phase 2		
Accounts Reconstruction			Transition												Economic Enterprise		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Account Reconstruction			Partial ring-fencing of financial operations												Water Utility operating as a full blown economic enterprise		
Income Statement adjusted based on full costs and total billed revenues; Balance Sheet beginning balances set-up			<ul style="list-style-type: none"> Parallel books of accounts maintained All costs accounted for, including shared costs Revenues recorded when realized No separate budget yet Separate record of property, plant and equipment Separate bank accounts¹ Financial management guidelines implemented¹ Periodic ring-fenced financial reports prepared Business plan prepared 												<ul style="list-style-type: none"> Has separate budget Excess income retained in waterworks for operations and improvements Implements performance contracting (sets targets to improve performance) 		
Example: Income Statement for year ended 12-31-08			Example: January to July 2009—backlog														
Balance Sheet as of 12-31-08			August 2009 onwards—routine accounting of all regular and ring-fencing adjusting entries														
Cash Flow Statement for year ended 12-31-08																	

¹ Needs SB resolution

STEPS IN RING-FENCING

Affirmation of the LGU's Commitment to Ring-Fencing

At the time this Guide was compiled, the national government had not issued any directive to make Local Government Units (LGUs) implement ring-fencing. But if the LGU wants to go ahead and use it, the LGU chief executive may issue an executive order. This will be needed to ensure collaboration and support among the different departments that will be affected in the local government.

Another basis to implement ring-fencing would be through a city/municipal ordinance. This alternative is more sustainable since it is decided by the legislative body of the LGU, and the validity of the ordinance transcends the term of office of the local chief executive.

Mapping of Systems and Procedures

In this stage, the team responsible for installing the ring-fencing system would like to understand the existing condition of systems and procedures related to water service provision. This will be useful in the review of the organization structure and functions (next step). This will also enable the reviewer to see what and where improvements are needed. This involves the following activities:

- Mapping the work or procedures flow and linkages between the water utility and the other departments or units of the LGU, utilizing simple flow charting tools.
- Gathering or compiling the forms, report formats, and records that are used and prepared by the water utility.
- Understanding the various activities that are undertaken in relation to water supply provision and the organizational set up or structure of the water utility within the LGU.

This activity will involve a visit to the LGU for familiarization with the water utility and to gather the forms and reports.

Discussed below is a step by step illustration of how the systems mapping may be done:

Step 1: Gather basic information.

This step is to familiarize the team who will install the ring-fencing of accounts about how the water utility operates. This can be done by asking the utility to fill up a General Information Sheet (Exhibit 1) to get an overview of the operations of the waterworks unit. This includes basic data such as population, connections, production data, collection data, personnel, fixed assets, and financial operations. It also contains some performance indicators such as population served, nonrevenue water, collection efficiency and collection period, staffing ratio, and operating ratio.

Exhibit 1: GENERAL INFORMATION SHEET

Fill up grey cells only

Name of Waterworks	Antequera Waterworks System
Name of Local Government Unit, Province	Antequera, Bohol
Year Covered	2007

POPULATION

Population in service area	10,390
Persons per household	6
Persons served	9,984
Population served, %	96%

CONNECTIONS

Total Connections	1,664
Public taps	-
Residential / Institutional	1,654
Commercial / Industrial	10
Metered Connections - Total	1,664
Public taps	-
Residential / Institutional	1,654
Commercial / Industrial	10
Unmetered Connections - Total	-
Public taps	-
Residential / Institutional	-
Commercial / Industrial	-
New Connections for the Year	59

PRODUCTION

Non-revenue water, %	47%
Annual production, cu. m.	504,576
Annual volume billed, cu.m.	269,799
Production Capacity, lps	16
Ave. Consumption per conn./ month, cu.m.	13.51
Ave. consumption per capita per day, liters	75.06

COLLECTIONS

Collection Efficiency, %	107%
Collection Period, Days	62
Total Billings for the year, PhP	1,577,772
Total Collections for the year, PhP	1,692,919
Unpaid Bills, end of the year, PhP	270,036

PERSONNEL

Staff / 1000 Connections	9.01
WW Personnel / LGU Personnel, %	9.74%
Total personnel, Waterworks only	15
Regular	5
Casual	7
Job order	3
Total personnel, entire LGU	154
Regular	54
Casual	70
Job order	30

FIXED ASSETS

Total LGU	
Land	10,000,000
Buildings	50,000,000
Total for LGU	60,000,000

Office Furniture, Fixtures and Equipment	5,000,000
Motor Vehicles	8,000,000
Total for LGU	13,000,000

Waterworks	
Land	-
Buildings	-
Total used by Waterworks	-

Office Furniture, Fixtures and Equipment	
Motor Vehicles	-
Total used by Waterworks	-

% of Waterworks	
Land	0.00%
Buildings	0.00%

Office Furniture, Fixtures and Equipment	0.72%
Motor Vehicles	0.00%

REPAIRS & MAINTENANCE

Of Municipal Engineer's Office

Total LGU	
Land	-
Buildings	-
Total	-

Office Furniture, Fixtures and Equipment	35,880
Motor Vehicles	-

Total	35,880
Total Repairs & Maintenance, Total LGU	35,880

Waterworks Share	
Land	-
Buildings	-
Total	-

Office Furniture, Fixtures and Equipment	257
Motor Vehicles	-
Total	257
Total Repairs & Maintenance, Waterworks	257

REVENUES AND EXPENSES

Operating Ratio	197%
Operating Revenues	1,805,449
Operating Expenses	3,563,234

Step 2: Conduct an activity analysis of the water utility.

In preparation for account reconstruction and to understand the different work processes in water service provision, an activity analysis has to be conducted. This step identifies all activities related to the provision of water supply, whether these are done by and within the waterworks unit or undertaken by other units/ departments in the LGU.

1. Enumerate all activities related to the provision of water supply. Typical activities include:
 - Supervision of the waterworks unit.
 - Implementation of policies and guidelines include drafting service contracts, orientation of water connection application, policies on customer service, policies on meter reading, and policies on illegal connections.
 - Inspection and monitoring of compliance to policies and guidelines.
 - Daily maintenance and upkeep of facilities.
 - Water quality management.
 - Repairs and maintenance of facilities.
 - Provision of security services to maintain peace and order.
 - Processing of application for water service connections.
 - Meter reading.
 - Billing.
 - Collection.
 - Customer handling and management.
 - Maintenance of customer account records.
 - Preparation of collection reports.
 - Record keeping and filing of administrative and financial records.
 - Processing of financial transactions.
 - General accounting and financial reporting.
 - Supplies and fixed assets management.
 - Budget preparation.
 - Budget monitoring.
 - Human resource management.
 - Personnel records management.
 - Other activities including repairs and maintenance, drilling, search for additional/new water sources, supervision of projects, feasibility studies, disconnection/connection, and customer service.
2. Group the activities into these major functions shown below. These are also referred to as cost centers for purposes of distributing cost. This step will be helpful in conceptualizing the organization of the waterworks.
 - Operation and supervision include maintenance crew salaries and nonoffice costs.
 - Customer accounts functions include office costs, meter reading, and collections.
 - General administration and finance includes salaries of the mayor, the engineer, the planning officer, the health officer, and personnel.
3. Identify the office that performs the activity.

See Exhibit 2 for a sample of how this activity sheet is done.

Step 3: Map the process of key financial and commercial activities:

- Billing and collection.
- Processing of application for new service connections, disconnection, voluntary disconnection, and reconnection.

Exhibit 2: ACTIVITY ANALYSIS SHEET

Antequera Waterworks System
Activity Analysis Sheet
December 31, 2008

Cost Center and Activities	Unit Responsible										
	Direct	Indirect									
	Waterworks Dept	Office of the Mayor	Municipal Engineer's Office	Municipal Accountant's Office	Municipal Treasurer's Office	Municipal Admin. Office	Municipal Health Office	Office of the Municipal Planning & Devt Officer	General Services Office		
Operation and Supervision											
Supervision of Waterworks Unit	X	X									
Implementation of policies and guidelines	X	X									
Inspection and monitoring of compliance with policies and guidelines		X									
Planning for waterworks expansion and improvements	X	X	X	X			X	X			
Daily maintenance and upkeep of facilities			X								
Major and minor repairs of distribution system and facilities	X		X								
Customer Account Management											
Processing of application for water service connection	X										
Meter reading	X										
Billing	X										
Collection	X						X				
Maintenance of customer accounts records	X										
Preparation of collection reports							X				
General and Administration Management											
Provision of security services to maintain peace and order									X		X
Personnel records management	X										
Record keeping and filing of administrative and financial records	X			X							
Processing of financial transactions	X			X							
General accounting and financial reporting	X			X							
Budget preparation				X					X		
Budget monitoring				X					X		
Human resources management	X			X							
Supplies and fixed asset management	X		X	X							

- Disbursement and receipts.
- General accounting and financial reporting.
- Fixed asset management.
- Inventory management.
- Budget preparation and monitoring.

Understand how these activities are done, where they start, the steps undertaken, the persons and units or departments involved in the steps, the forms used and reports generated, and where these reports go. A simple flow chart may help in illustrating the process.

Step 4: Obtain copies of all financial and commercial operating reports, forms, and records currently prepared by the water utility and other departments involved in the provision of water supply.

These existing reports will be considered in designing the forms and reports required under a ring-fenced system.

Step 5: Ask for the following reports and records to be ready for at least the last year, or up to the last two years. These will be needed during the Accounts Reconstruction stage.

- Billing and collection reports.
- Customer accounts receivables.
- Staffing list and salary schedules.
- Operation and maintenance expense reports.
- Subsidiary records or ledgers for property, plant, and equipment.
- Trial Balance and, if separate financial reports are prepared for the water utility, obtain copies of Income Statement, Balance Sheet and Cash Flow Statement or similar reports prepared by the LGU.
- Monthly Data Sheet (as prescribed by the National Water Resources Board).

Organizational Review and Realignment

After becoming familiar with the existing procedures of the utility, the next stage is to review how the water utility is organized. This will help the ring-fencing system team to locate activities for water service provision that are performed outside the water utility and determine how to properly allocate expenses.

This involves documenting the existing organizational structure, functions, and responsibilities; number of staff; evaluation of adequacy of current staffing to meet the requirements of a financially ring-fenced water utility. It also involves developing recommendations to properly align the organizational structure to the proposed systems and procedures while the water utility is under Phase 1 and moving to Phase 2.

The suggested steps on how to conduct an organizational review and realignment activity are given here.

Step 1: Obtain a copy of the current table of organization or organizational structure. If there is no existing organization chart, document the structure by listing the key positions and functions in the water utility and the units/departments that are involved in the operation of the water utility.

Step 2: List the current employees and classify their status into regular, on detail, casual or temporary employees, or assigned from other departments/units undertaking some tasks for the utility. Verify if there are available job descriptions and qualification standards. If there is none, document the functions and responsibilities (regardless of employment status) of all the staff of the water utility and the immediate supervisor to whom they report or are accountable. In summary, these are the data that would be required:

- Section in the waterworks unit.

- Name of employee.
- Status—regular, on detail, casual, temporary, and so on.
- Position.
- Job description.
- Qualification standards.

Step 3: Given the proposed changes in the financial and commercial operating systems and procedures under a ring-fenced system, determine the appropriate organizational set up, the corresponding positions and the number of personnel required.

An example of an organizational structure for a water utility to be ring-fenced is shown in Figure 2.

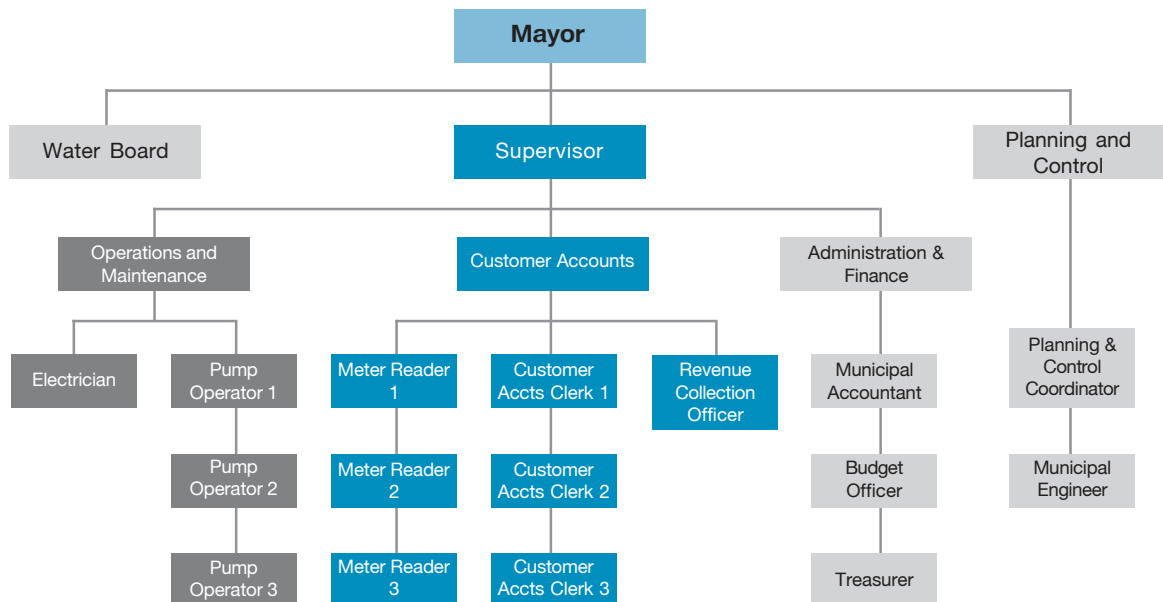
Step 4: Prepare a functional description of the key sections or units that may initially include:

- Customer account management.
- Operation and maintenance.
- General administration and finance.

There may be a need to realign staff or even hire additional staff based on the new organizational structure. Training of staff under the new structure may also be required.

In Figure 2, it is suggested that a ‘Water Board’ be constituted that will function similarly to the Board of Directors of a company. The Board will be involved in decisionmaking and policy-setting on behalf of the owner of the water utility (that is, the local government). It will supervise the performance of the water enterprise and its general manager. Since local governments, as owners, are interested not simply in the viability of the enterprise but also in the provision of water supply as a basic public service, the Water Board plays a critical balancing role.

Figure 2: Sample Improved Organizational Structure



Legend:
 White text: Waterworks units.
 Black text: Other LGUs providing support to the waterworks unit.

ACCOUNT RECONSTRUCTION

The reconstruction of the financial accounts of the waterworks unit of the Local Government Unit (LGU) consists of these major steps.

Step 1. Set up the books of accounts for the water utility.

Books of accounts to be established for the water utility are:

- Cash Receipts Journal.
- Cash Disbursements Journal.
- Check Disbursements Journal.
- General Journal.

These are to be posted to:

- General Ledger.
- Subsidiary Ledgers, which include the customers' Water Service Records.

Step 2. Establish the beginning balances for the Balance Sheet accounts.

Decide on a cut-off date for the beginning balances to be established.

Determine the beginning balances of the Balance Sheet accounts by going through the activities below.

A. Current Assets

The current assets of the water utility consist of:

- Cash
 - Cash-Collecting Officer.
 - Petty Cash Fund.
 - Cash in Bank.
- Receivables
 - Accounts Receivable.
 - Allowance for Doubtful Accounts.
 - Due from Other Funds.
 - Other Receivables.
- Inventories
 - Office Supplies Inventory.
 - Accountable Forms Inventory.
 - Gasoline, Oil, and Lubricants Inventory.
 - Other Supplies Inventory.
 - Spare Parts Inventory.
 - Construction Materials Inventory.

- Prepayments
 - Prepaid Rent.
 - Prepaid Insurance.
 - Advances to Contractors.
 - Other Prepaid Expenses.

1. Determine the balance of the Cash-Collecting Officer, Petty Cash Fund, and Cash in Bank of the water utility as of the cut-off date.

The balance of the Cash-Collecting Officer of the water utility can be obtained by conducting a count of the cash on hand on the cut-off date.

The balance of the Petty Cash Fund can be obtained by conducting a petty cash count. At any one time, the total of the cash on hand and the amount of the petty cash vouchers should always be equal to the amount of the petty cash fund. This is called the imprest system of handling cash.

The balance of the Cash in Bank of the water utility can be obtained by examining documents such as savings passbook, bank statements, and certificates of time deposit. If the Cash in Bank is not segregated by economic enterprise, estimate the amount belonging to the water utility based on interviews with personnel concerned.

2. Determine the balance of the Receivables of the water utility.

The Receivables accounts of the water utility consist of:

- Accounts Receivable.
- Allowance for Doubtful Accounts.
- Due from Other Funds.
- Other Receivables.

The Accounts Receivable balance may be obtained from the Accounts Receivable Subsidiary Ledgers (called water service records (Exhibit 45)), by summarizing the balances of the individual customers from the Accounts Receivable Subsidiary Ledger and getting the total of the individual balances.

The Allowance for Doubtful Accounts represents the amount of receivables from water sales estimated to be uncollectible. The water utility does not wait to see which customers will not pay. It records a bad debt expense or doubtful account expense based on estimates developed from past experience.

The balances of the other receivable accounts such as Due from Other Funds and Other Receivables may be obtained from the various subsidiary ledgers and from billing statements or statements of account.

3. Determine the balances of the various inventory accounts of the water utility.

The inventory accounts of the water utility consist of:

- Office Supplies Inventory.
- Accountable Forms Inventory.
- Gasoline, Oil, and Lubricants Inventory.
- Other Supplies Inventory.
- Spare Parts Inventory.
- Construction Materials Inventory.

Exhibit 4:**PROPERTY, PLANT, AND EQUIPMENT AND CORRESPONDING ACCUMULATED DEPRECIATION ACCOUNTS**

Property, Plant, and Equipment	Accumulated Depreciation
Land	(not subject to depreciation)
Land Improvements	Accumulated Depreciation—Land Improvements
Office Buildings	Accumulated Depreciation—Office Buildings
Other Structures	Accumulated Depreciation—Other Structures
Leasehold Improvements, Land	Accumulated Depreciation—Leasehold Improvements, Land
Leasehold Improvements, Buildings	Accumulated Depreciation—Leasehold Improvements, Buildings
Other Leasehold Improvements	Accumulated Depreciation—Other Leasehold Improvements
Office Equipment	Accumulated Depreciation—Office Equipment
Furniture and Fixtures	Accumulated Depreciation—Furniture and Fixtures
IT Equipment and Software	Accumulated Depreciation—IT Equipment and Software
Library Books	Accumulated Depreciation—Library Books
Machineries	Accumulated Depreciation—Machineries
Communication Equipment	Accumulated Depreciation—Communication Equipment
Firefighting Equipment and Accessories	Accumulated Depreciation—Firefighting Equipment and Accessories
Medical, Dental, and Laboratory Equipment	Accumulated Depreciation—Medical, Dental, and Laboratory Equipment
Technical and Scientific Equipment	Accumulated Depreciation—Technical and Scientific Equipment
Other Machineries and Equipment	Accumulated Depreciation—Other Machineries and Equipment
Motor Vehicles	Accumulated Depreciation—Motor Vehicles
Other Transportation Equipment	Accumulated Depreciation—Other Transportation Equipment
Other Property, Plant, and Equipment	Accumulated Depreciation—Other Property, Plant, and Equipment
Artesian Wells, Reservoirs, Pumping Stations, and Conduits	Accumulated Depreciation—Artesian Wells, Reservoirs, Pumping Stations, and Conduits
Other Public Infrastructures	Accumulated Depreciation—Other Public Infrastructures

Step 1: Gather these books of accounts/documents that contain information about property, plant, and equipment:

- Registry of Public Infrastructure (RPI).
- Registry of Appropriation, Allotments and Obligation – Capital Outlay (RAAOCO).
- Property, Plant, and Equipment Ledger Cards (PPELC).
- Construction in Progress Ledger Card (CPLC).

Step 2: Extract from these documents all assets used in the operations of the water utility.

List these assets in a spreadsheet containing these data for each asset (see Exhibit 5 for the format):

- Asset description.
- Location.
- Reference or source document.
- Acquisition date.
- Acquisition cost.
- Residual value.
- Cost after residual value.
- Estimated useful life (in years).
- Years in use as of year of financial statements being reconstructed.
- Annual depreciation.
- Accumulated depreciation as of the end of the year of the Balance Sheet being reconstructed.
- Net book value.

For LGU utilities that voluntarily submit to regulation by the National Water Resources Board (NWRB), it would also be helpful to add the information below on how the acquisition was funded, if they are available from the source documents. These are needed when calculating the assets entitled to a return on investment. The information will be taken into consideration when the water utility applies for a tariff increase (see Exhibit 6).

These are the possible sources of funds for acquiring an asset:

- Through internal cash generation.
- Through grant or donation.
- Through a loan.
- Other funding source.

Step 3: Classify the assets listed above into those that should be capitalized or not, depending on their amount.

An asset should be capitalized if its useful life is more than one year. Refer to recent Commission on Audit (COA) guidelines on the minimum amount necessary for an asset to be capitalized.

Step 4: Conduct a physical inventory of all property, plant, and equipment.

Do this by location to ensure that all assets are included in the inventory. Use inventory tags to identify assets that have already been counted. The inventory tags should contain information such as:

- Inventory control number.
- Location.
- Date of inventory.
- Condition of the asset, if still serviceable or not.
- Signature of the authorized personnel who conducted the inventory.

Summarize the inventory tags, sorted by type of asset. Prepare a separate list of assets identified as unserviceable during the inventory.

Step 5: Add other property, plant, and equipment taken in the inventory that are not recorded in the books of accounts of the LGU.

Compare the assets in the inventory with the list of assets determined in Step 3. Add assets in the inventory that can still be used into the list of assets. Note down assets in the list that are in the inventory but are no longer serviceable. These assets should be retired.¹

Step 6: Establish purchase cost or construction cost of unrecorded items.

Determine the cost of each of the added items including the date of acquisition and reference such as purchase requisition slip, sales invoice and official receipts. If historical cost is not determinable, fair market value can be used as an alternative.

Step 7: Compute for the depreciation expense and the corresponding accumulated depreciation of unrecorded items.

The straight-line method of depreciation shall be used and reference can be made to the table of estimated useful life of property, plant, and equipment (Exhibit 7) in computing for the depreciation.

- Compute the depreciation expense of the property, plant, and equipment (except land and construction in progress) of the water utility using the straight-line method and based on standard estimated useful life. The basis for the depreciation is the acquisition cost of the asset reduced by its residual value. This residual value is 10 percent of the asset cost.
- Construction in Progress is not subject to depreciation until the construction has been completed, after which the asset is transferred to a regular fixed asset account.
- Journalize and post the depreciation expense for the year in the appropriate ledgers.

Step 8: Prepare journal entries or adjusting entries to take up unrecorded property, plant, and equipment and their corresponding depreciation.

A debit to the appropriate asset account (refer to Exhibit 4) and a credit to government equity account can be made as adjusting journal entry to take up unrecorded assets.

Step 9: Post transactions to the general ledger and the subsidiary ledgers.

Posting the transactions to the general and subsidiary ledgers will facilitate the preparation of timely and accurate financial reports.

Step 10: Post repairs and maintenance information to a property ledger.

Set up a property ledger showing the repairs and maintenance information pertaining to each item of property, plant, and equipment.

¹: See page 9 on NGAS Section 4, Basic Features and Policies, (n) Reclassification of Obsolete and Unserviceable Assets.

Exhibit 5: UPDATED LISTING OF PROPERTY, PLANT, AND EQUIPMENT, AND DEPRECIATION

Antequera Waterworks System
Updated Listing of Property, Plant and Equipment, and Depreciation
December 31, 2008

Particulars	Acquisition Date	Acquisition Cost	Residual Value	Net cost subject to depreciation	Estimated useful Life (Years)	Years in Use as of 2008	Annual Depreciation 2006	Accumulated Depreciation 2007	Depreciation Expense 2008	Depreciation Expense	Total Accumulated Depreciation	Net Book Value
Buildings and Structures												
Pumphouse Tabuan - Direct Feed	1930	43,052	4,305	38,747	40	18	969	15,459	969	969	17,436	25,616
Pumphouse Bldg. Bungsahan	1985	28,863	2,866	25,977	10	13	2,598	25,977	-	-	25,977	2,866
Pumphouse Tabuan	1939	375,000	37,500	337,500	40	9	8,438	59,063	8,438	8,438	75,938	299,063
Pumphouse Obujan	2001	25,000	2,500	22,500	10	7	2,250	11,250	2,250	2,250	15,750	9,250
Pumphouse-Tagubas	2001	50,000	5,000	45,000	10	7	4,500	22,500	4,500	4,500	31,500	18,500
Pumphouse-Canomay	2005	25,000	2,500	22,500	10	3	2,250	2,250	2,250	2,250	6,750	18,250
Pumphouse-Sto. Rosario	2008	3,000	300	2,700	5	5 months	540			225	225	2,775
Reservoir												
Concrete Ground Res. Zigzag Tabuan	1962	30,000	3,000	27,000	40	46	675	27,000	-	-	27,000	3,000
Intake Box-Carhaja	1982	15,000	1,500	13,500	30	46	450	13,500	-	-	13,500	1,500
Elevated Reservoir Ceiling	1936	450,000	45,000	405,000	40	12	10,125	101,250	10,125	10,125	121,500	328,500
Con. Ground Res. Quinapon-an	1989	250,000	25,000	225,000	40	9	5,625	39,375	5,625	5,625	50,625	199,375
Con. Ground Res. Obujan	2001	300,000	30,000	270,000	40	7	6,750	33,750	6,750	6,750	47,250	252,750
Intake Box-Agrubun	2003	75,000	7,500	67,500	30	5	2,250	6,750	2,250	2,250	11,250	63,750
Con. Ground Res. Can-omay	2005	315,640	31,564	284,076	40	3	7,102	7,102	7,102	7,102	21,306	294,334
Transmission and Distribution Mains												
Transmission Lines # 1	1982	250,000	25,000	225,000	30	46	7,500	225,000	-	-	225,000	25,000
Transmission Lines # 2	1988	1,330,176	133,018	1,197,158	30	10	39,905	319,242	39,905	39,905	399,053	931,123
Transmission Lines # 3	2001	1,074,830	107,483	967,347	30	7	32,245	161,224	32,245	32,245	225,714	849,115
Pumping Equipment												
Submersible pump-direct feed	1990	150,000	15,000	135,000	10	18	13,500	135,000	-	-	135,000	15,000
Submersible Pump Unit Tagubas	2001	200,000	20,000	180,000	10	7	18,000	90,000	18,000	18,000	126,000	74,000
Submersible pump-Can-omay	2006	190,640	19,064	171,576	10	2	17,158	-	17,158	17,158	34,315	156,325
Submersible Pump-Obujan	2008	65,668	6,566	59,092	10	1	5,909			5,909	5,909	59,749
Submersible Pump Sto. Rosario	2008	15,500	1,550	13,950	10	5 months	1,395			581	14,919	14,919
Submersible Pump-Ceiling	2008	113,450	11,345	102,105	10	1	10,211			10,211	10,211	103,240
Other tools, minor machinery and eqpt. Plumbing Tools	2000	17,219	1,722	15,497	5	8	3,069	15,497	-	-	15,497	1,722
Computer Equipment												
Computer Set	2007	35,880	3,588	32,292	5	2	6,458			6,458	12,917	22,963
Water Treatment Equipment												
Water Chlorinator	2008	49,950	4,995	44,955	10	6 months	4,466			2,248	2,248	47,702
Furniture and Fixtures												
Writing Tables	2008	4,335	434	3,902	10	2 months	390			65	65	4,270
Total		5,483,192	548,319	4,934,873				1,311,228	164,024	183,263	1,658,515	3,824,676

Exhibit 7:
PROPERTY, PLANT, AND EQUIPMENT ESTIMATED USEFUL LIVES

Property, plant, and equipment	Useful life (years)
Deepwells and pumphouses	
Deepwell casing	15
Pump assembly	10
Motor for submersible pump	5
Motor control for deepwell pump	7
Pumphouse-mixed materials	10
Pumphouse-reinforced concrete	40
Booster station	
Pumphouse-mixed materials	10
Pumphouse-reinforced concrete	40
Pump assembly	20
Motor for booster and line turbine	5
Motor control for booster station	20
Reservoir	
Concrete reservoir	40
Steel overhead tank	25
Steel tank on ground concrete	30
Chlorinating equipment	10
Pipelines	
Cast/ductile iron pipes	60
Steel pipes with cement lining	40
Steel pipes cylinder type	20
Asbestos and plastic pipes	30
Flow meters	7
Water meters	7
Service connections	5
Valves and chambers	30
Fire hydrants	20
Building	40
Building improvements	10
Office furniture and fixtures	10
Office equipment	5
Vehicles	5
Tools and equipment	5

C. Construction in Progress

- Construction in progress: Artesian wells, reservoirs, pumping stations, and conduits.
- Construction in progress: Other public infrastructures.

Determine the balance in the construction in progress for the year.

- Obtain these payments from the report of obligation of allotment. If not available, try the record of expenses maintained by the waterworks unit.
- Journalize the disbursements and post to the ledgers.

D. Liabilities

Determine the balances of the current liabilities of the water utility as of the agreed cut-off date.

The current liabilities of the water utility consist of:

- Accounts Payable.
- Notes Payable.
- Interest Payable.
- Due to National Treasury.
- Due to Bureau of Internal Revenue (BIR).
- Due to Government Service Insurance System (GSIS).
- Due to Pag-Ibig.
- Due to PhilHealth.
- Due to Other National Government Agencies (NGAs).
- Guaranty Deposits Payable.
- Other Payables.

The Accounts Payable balance may be obtained from the Accounts Payable Subsidiary Ledger. Summarize the balances of the individual vendors/suppliers in the Accounts Payable Subsidiary Ledger and get the total.

The Notes Payable balance and the Interest Payable balance may be obtained from an examination of documents and records such as promissory notes, loan agreements, and amortization schedules.

The balance of the Due to National Treasury account and Due to Other NGAs may be obtained from supporting documents and records such as memoranda from the National Treasury and other NGAs.

The balances of the following accounts: Due to BIR, Due to GSIS, Due to Pag-Ibig and Due to PhilHealth may be obtained from the payroll records of employees. The payroll records will provide the basis for computing the share of the water utility based on the mandated percentages.

The balance of the Guaranty Deposits Payable account may be obtained by reviewing the subsidiary ledger of each customer to determine the amount of deposits made on water bills and on water meters. Prepare a schedule showing the amount of guaranty deposits obtained from each customer. Exhibit 8 presents the format for the Schedule of Guaranty Deposits.

The balance of the Other Payables account can be obtained by reviewing the pertinent supporting documents such as statements of accounts or billing statements.

Exhibit 8:
GUARANTY DEPOSITS

Antequera Waterworks System
Schedule of Guaranty Deposits
As of December 31, 2008

Customer name	Amount
Total	
Prepared by:	Verified by:

E. Long-Term Liabilities

Determine the balances of the long-term liabilities of the water utility as of the agreed cut-off date.

The long-term liabilities of the water utility consist of:

- Loans Payable.
- Other Long-Term Liabilities.

The Loans Payable balance may be obtained from an examination of documents and records such as promissory notes, loan agreements, and amortization schedules.

The balance of the Other Long-Term Liabilities account can be obtained by reviewing the pertinent supporting documents such as statements of accounts or billing statements.

F. Government Equity

Determine the balance of the government equity account of the water utility as of a given date.

1. Get the sum of all assets and liabilities.
2. The difference between assets and liabilities is to be credited to the Government Equity Account.

After the beginning balances have been established, prepare a journal entry to take up beginning balances and post in the General Ledger.

Step 3. Determine the revenues earned for the year.

Usually, LGUs recognize revenues only when collected. Under the ring-fencing of LGU accounts, the accrual method of accounting will be used to record water sales revenue. The cash method of accounting will continue to be used for other operating revenues or business income accounts, like new connection fees and meter maintenance. Water revenues will be recognized upon issuance of water bills, even if these have not yet been collected.

1. Determine billed water sales for the year.

The information can be obtained from the Billing Report. If the LGU does not prepare this, the monthly billing summary (MBS) will need to be compiled, recorded, and summarized to produce the information. This is illustrated in Exhibit 9.

- a. Prepare a journal entry to record Accounts Receivable and Water Sales Revenue.
- b. Post in the General Ledger.

Exhibit 9:

SUMMARY OF BILLED WATER SALES

Antequera Waterworks System
Summary of Billed Water Sales
For the year ended December 31, 2008

Month	Reference	Volume Billed (m ³)	Amount (PhP)
January	MBS	21,326	123,053.00
February	MBS	19,522	115,640.00
March	MBS	23,403	133,852.00
April	MBS	25,301	142,619.00
May	MBS	22,432	127,170.00
June	MBS	21,449	124,457.00
July	MBS	24,824	142,011.00
August	MBS	22,961	130,435.00
September	MBS	24,942	139,654.00
October	MBS	26,031	146,635.00
November	MBS	24,060	136,371.00
December	MBS	24,248	138,642.00
TOTAL		280,499	1,600,539.00

2. Determine all revenues earned based on collections.

Obtain reports of collections and deposits for the year from the local treasurer's office. If this is not available, obtain collection reports from the waterworks unit and summarize them by revenue account per month. (See illustration in Exhibit 10.)

Revenues based on collections consist of:

- a. Collection of water bills for prior years. This will only be done for the transition period from cash basis to accrual basis. Water bills for prior years that have not yet been collected have not yet been recognized as revenues. So during the transition year, all collection of water bills from prior years is included among water revenues.

This is done by comparing total water bills collected with total water bills issued for the current year. The excess of collections over current year billings indicate the water bills issued in prior years that will only be recognized as income during this transition year. This is computed as follows:

Total water bills collected (from Exhibit 10)	PhP 1,756,923.69
Less: Total water bills, current year (from Exhibit 9)	<u>1,600,539.00</u>
Excess of water bills collected over water bills issued	156,384.69
Less: Unpaid current year water bill	<u>-</u>
Water bills issued in prior years, collected this year	<u>PhP 156,384.69</u>

- b. Other operating revenues or business income. These are not usually accrued because they only occur occasionally, such as when there is late payment of bills when fines and penalties are imposed, or when there is a new connection to be installed. Refer to the Chart of Accounts for the NGAS-recommended account titles. If the utility wants to use other operating revenue accounts, COA approval has to be secured first. Refer to Exhibit 10 on how these are presented.

3. Determine the balances of miscellaneous income (nonoperating revenues) accruing to the water utility.

An example is interest earned on deposits of the water utility. Estimate interest income based on the prevailing interest rate and the average daily balance of the water utility funds in the bank.

4. Prepare a report of collections and deposits on a monthly or weekly basis.

5. Prepare a journal of collections and deposits on a monthly basis.

6. Post in the appropriate ledgers.

Exhibit 10:

COLLECTION SUMMARY

Antequera Waterworks System
 Collection Summary
 For the year ended December 31, 2008

Month	Water Sales	Other Business Revenues				Fines and Penalties	Other Operating Revenues	Guarantee Deposit	Socio-Civic Fund	Total
		Installation Fee	Reconnect. Fee	Tapping Fee	Inspection Fee					
January	212,799	275	175	275	275	11,909	2,505	550	22	228,785
February	163,432	50	275	50	50	9,832	2,391	100	4	176,184
March	116,622	75	125	75	75	5,243	2,126	150	6	124,497
April	119,433	150	100	150	150	5,159	2,000	300	12	127,454
May	118,375	100	150	100	100	5,129	2,278	200	8	126,440
June	155,874	150	550	150	150	7,311	2,753	300	12	167,250
July	132,175	150	400	150	150	5,903	2,039	300	12	141,278
August	155,225	225	150	225	225	7,780	2,290	450	18	166,588
September	194,580	225	575	225	225	11,539	3,260	450	18	211,098
October	140,498	325	325	325	325	7,232	1,974	650	26	151,680
November	139,200	150	75	150	150	5,834	2,714	300	12	148,585
December	108,710	125	75	125	125	5,063	1,690	250	10	116,173
TOTAL	1,756,924	2,000	2,975	2,000	2,000	87,934	28,019	4,000	160	1,886,012

Step 4. Determine the expenses for the year.

Expenses of LGUs are classified into:

- Personal Services (PS).
- Maintenance and Other Operating Expenses (MOOE).

And these expenses can either be:

- Dedicated expenses that are incurred by the waterworks unit itself, or
- Shared expenses or indirect expenses that are expenses related to the provision of water supply incurred by units or departments of the LGU other than the waterworks unit.

See discussions on the classification of expenses from page 8.

1. Determine the amount of dedicated PS and distribute by cost centers.

- List down all the employees of the waterworks unit including those charged under MOOE.
- Based on their functions, classify them according to the appropriate cost center.
- Obtain their salaries and benefits for the year and extend these by cost center.

Exhibits 11 and 12 illustrate how this is done.

Exhibit 11:

DEDICATED PERSONAL SERVICES

Antequera Waterworks System
 Dedicated Personal Services
 For the year ended December 31, 2008

Position Title	Status of Employment	Salary Grade	Monthly Salary	Annual Salary	PERA	ACA	13th Mo Pay	PIB	Pag-Ibig	GSIS	Phil-Health	ECC	Cash Gift	Add'l Cash Gift	Total
Waterworks supervisor *	permanent c/o Eng'g			155,597											155,597
Revenue Collection Clerk II	permanent	7	7,386	88,632	6,000	18,000	3,693	2,000	886	5,318	525	443	5,000	30,000	116,181
Customer Accounts Clerk	casual (MOOE)		2,860	34,320		-									34,320
Customer Accounts Clerk	casual (MOOE)		2,860	34,320											34,320
Meter Reader/Maintenance	permanent	5	5,617	67,404	6,000	18,000	5,617	2,000	674	4,044	375	337	5,000	30,000	105,749
Meter Reader/Maintenance	casual (MOOE)		3,850	46,200											46,200
Meter Reader/Maintenance	casual (MOOE)		3,850	46,200											46,200
Plumber	permanent	7	7,054	84,648	6,000	18,000	7,054	2,000	846	5,079	525	423	5,000	30,000	117,252
Electrician	casual (MOOE)		4,400	52,800		-									52,800
Pump Operator/Maintenance	casual (MOOE)		3,850	46,200											46,200
Pump Operator/Maintenance	casual (MOOE)		3,850	46,200											46,200
Pump Operator/Maintenance	casual (MOOE)		3,850	46,200											46,200
Pump Operator/Maintenance	casual (MOOE)		3,850	46,200											46,200
Pump Operator/Maintenance	casual (MOOE)		2,860	34,320											34,320
Plumber/Maintenance	casual (MOOE)		3,850	46,200											46,200
Total			59,987	719,844	18,000	54,000	16,364	6,000	2,407	14,441	1,425	1,203	15,000	90,000	973,939

* This position is held by a staff of the Engineering Department.

Legend: PERA: Personnel Economic Relief Fund; ACA: Additional Compensation Allowance; PIB: Productivity Incentive Bonus; GSIS: Government Service Insurance System Premium; ECC: Employees' Compensation Commission Premium.

Exhibit 12:**DEDICATED PERSONAL SERVICES DISTRIBUTED BY COST CENTER**

Antequera Waterworks System

Dedicated Personal Services Distributed by Cost Center

For the year ended December 31, 2008

Position Title	Total PS Cost	Operations and Maintenance	Customer Accounts Management	General Administration and Finance
Waterworks supervisor	155,597	77,798	38,899	38,899
Revenue Collection Clerk II	116,181		116,181	
Customer Accounts Clerk	34,320		34,320	
Customer Accounts Clerk	34,320		34,320	
Meter Reader/Maintenance	105,749	52,875	52,875	
Meter Reader/Maintenance	46,200	23,100	23,100	
Meter Reader/Maintenance	46,200	23,100	23,100	
Plumber (1)	117,252	117,252		
Electrician (1)	52,800	52,800		
Pump Operator/Maintenance	46,200	46,200		
Pump Operator/Maintenance	46,200	46,200		
Pump Operator/Maintenance	46,200	46,200		
Pump Operator/Maintenance	46,200	46,200		
Pump Operator/Maintenance	34,320	34,320		
Plumber/Maintenance	46,200	46,200		
Total	973,939	612,245	322,795	38,899

2. Determine the shared PS and distribute by cost center.

- Referring to the Activity Analysis Sheet (Exhibit 2), obtain the PS costs of all the LGU units/departments that perform activities related to water service provision. This includes both the regular employees and persons employed on job order basis paid under MOOE.
- Compute the share of the waterworks unit in the cost of these related units/departments. See discussions on classification of expenses from page 8.

3. Determine the dedicated MOOE of the waterworks unit.

- Obtain these expenses from the Registration of Appropriations, Allotments and Obligation. If not available, try the record of expenses maintained by the waterworks unit.
- Exclude salaries of personnel charged under MOOE because these have already been included in the PS computation.
- Allocate the MOOE to the appropriate cost center.

This is illustrated in Exhibits 13 and 14.

Exhibit 13:

SHARED PERSONAL SERVICES DISTRIBUTED BY COST CENTER

Antequera Waterworks System
 Shared Personal Services Distributed by Cost Center
 For the year ended December 31, 2008

Name of Office	PS Cost of Regular Employees	Cost of Job Order Employees	Total Personal Services	Share of Waterworks	Cost Centers			
					Operations and Maintenance	Customer Account Management	Adm. and Gen. Management	
	<i>a</i>	<i>b</i>	<i>c=a+b</i>	<i>d = c x % share</i>				
Office of the Municipal Mayor	1,459,245	199,509	1,658,754	166,989				166,989
Office of the Municipal Accountant	879,066	95,325	974,391	98,093				98,093
Treasurer's Office	1,310,461	100,000	1,410,461	141,993		70,996		70,996
Budget Office	653,024	26,089	679,112	68,367				68,367
Municipal Health Office	2,420,375	60,000	2,480,375	249,702	249,702			
Engineering Department	647,466	65,000	712,466	71,725	71,725			
MPDO	712,721	49,960	762,681	76,780				76,780
Total	8,082,358	595,882	8,678,240	873,648	321,427	70,996		481,225

Exhibit 14:
DEDICATED MOOE DISTRIBUTED BY COST CENTER

Antequera Waterworks System
Dedicated MOOE Distributed by Cost Center
For the year ended December 31, 2008

Account Title	Waterworks	20% EDF	Total	Cost Centers		
				Operations and Supervision	Customer Accounts	Admin and General Management
Traveling Expense	720	-			720	
Office Supplies Expense	93,769	-	93,769	37,508	56,261	
Gasoline, Oil and Lubricants	150,000	-	150,000	105,000	45,000	
Chemical and Flit. Supplies Expenses	8,800	-	8,800	8,800		
Maintenance Supplies Expenses	29,695	-	29,695	29,695		
Electricity Expense	1,000,000	-	1,000,000	1,000,000		
Fidelity Bond Premium	284	-	284		284	
Repairs and Maintenance - Transmission and Distribution Mains	98,215	-	98,215	98,215		
Repairs and Maintenance - Reservoir	20,998	301,602	322,600	322,600		
Miscellaneous Expenses	13,079	-	13,079	6,540	6,540	
TOTAL DIRECT MOOE	1,414,839	301,602	1,716,441	1,608,357	108,085	

4. Determine the shared MOOE for the waterworks.

- Referring to the Activity Analysis Sheet (Exhibit 2), obtain the MOOE of all the LGU units/departments that perform activities related to water service provision from the Report of Obligation of Allotment.
- From the total MOOE, deduct the salaries of job order employees because these have already been included in the PS computation.
- Include only expenses that can be attributed to the provision of water service.
- Compute the share of the waterworks unit in the cost of these related units/departments based on the agreed allocation with the concerned LGU unit/department (see discussion in section on classification of expenses from page 8).

Allocate the MOOE to the appropriate cost center based on the Activity Analysis sheet. This is illustrated in Exhibits 15 and 16.

Exhibit 15:
SHARED MOOE FOR THE WATERWORKS UNIT

Antequera Waterworks System
Shared MOOE for the Waterworks Unit
For the year ended December 31, 2008

Account Title	Office of the Mayor	Office of the Accountant	Office of the Treasurer	Budget Office	Municipal Health Office	Municipal Engineer's Office	Municipal Planning and Dev. Office	Total	Shared Cost *
Traveling Expense	37,540	40,681	60,037	8,532	39,524	16,045	28,327	230,685	23,223
Training Expenses	57,870	28,760	32,100	19,660	32,575	6,800	16,140	193,905	19,521
Office Supplies Expense	64,634	50,000	94,610	27,567	30,922	28,587	29,513	325,833	32,802
Gasoline, Oil and Lubricants	-	-	-	-	-	325,000	-	325,000	32,718
Electricity Expense	20,000	10,000	10,000	10,000	10,000	10,000	10,000	80,000	8,054
Telephone, Telegraph and Internet	29,949	-	-	-	-	-	-	29,949	3,015
Fidelity Bond Premium	6,000	-	7,980	-	-	-	-	13,980	1,407
Auditing Services	-	3,800	3,472	-	-	-	-	7,272	732
Building and Structures Maintenance	-	-	-	-	-	-	3,195	3,195	322
Motor Vehicle Maintenance	138,750	-	-	-	-	247,655	-	386,405	38,900
Other PPE Maintenance	4,580	500	2,275	-	900	350	13,750	22,355	2,251
Miscellaneous Expenses	17,925	8,240	3,106	388	600	323	1,995	32,576	3,279
Total	377,247	141,981	213,581	66,146	114,520	637,954	99,725	1,651,155	166,224

* Shared costs are a percentage of the total MOOE. The percentage is agreed upon among the other LGU units. In the above example the percentage was based on the number of personnel of the Waterworks Unit as against the total personnel of the LGU.

Exhibit 16:**DISTRIBUTION OF SHARED MOOE ALLOCATED BY COST CENTER**

Antequera Waterworks System

Distribution of Shared MOOE Allocated by Cost Center

For the year ended December 31, 2008

Account Title	Shared Cost	Cost Centers		
		Operations and Maintenance	Customer Accounts	General Adm and Finance
Traveling Expense	23,223.32			23,223.32
Training Expenses	19,520.64			19,520.64
Office Supplies Expense	32,801.99			32,801.99
Gasoline, Oil and Lubricants	32,718.12			32,718.12
Chemicals and Filter Supplies Expenses	-			
Maintenance Supplies Expenses	-			
Electricity Expense	8,053.69			8,053.69
Telephone, Telegraph and Internet	3,014.96	1,004.99	1,004.99	1,004.99
Fidelity Bond Premium	1,407.38			1,407.38
Auditing Services	732.11			732.11
Building and Structures Maintenance	321.64			321.64
Motor Vehicle Maintenance	38,899.83	29,174.87		9,724.96
Other PPE Maintenance	2,250.50			2,250.50
Miscellaneous Expenses	3,279.44			3,279.44
Total	166,223.62	30,179.86	1,004.99	135,038.78

Step 5. Determine interest expense and other financing charges for the year.

1. Determine loans secured for the year. Prepare the Schedule of Loans Payable (See format in Exhibit 17).
2. Compute the interest expenses for the loans based on the accrued amount appearing in the amortization schedule. If this schedule is not available, compute the amortization and interest due based on the terms and conditions of the loan. Use the accrued interest amount, not the amount paid by the LGU.

Exhibit 17:
SCHEDULE OF LOANS PAYABLE

	2006	2009	2010	2011	2012	2013	2014
Loan Account							
Name of Bank							
Where Loan was Used							
Interest Rate per annum							
Maturity, in years							
Grace Period, in years							
First Disbursement							
First Principal Repayment							
Total Principal							
Annual Amortization							
Opening Balance	-	2,100,000	1,750,000	1,400,000	1,050,000	700,000	350,000
Additions	2,100,000	-	-	-	-	-	-
Amortization	-	350,000	350,000	350,000	350,000	350,000	350,000
Loan Balance, End	2,100,000	1,750,000	1,400,000	1,050,000	700,000	350,000	-
Interest Payable, Beginning	-	-	-	-	-	-	-
Interest Expense	191,625	159,688	127,750	95,813	63,875	31,938	-
Interest Payment	191,625	159,688	127,750	95,813	63,875	31,938	-
Interest Payable, End	-	-	-	-	-	-	-

Step 6. Determine the Bad Debts Expense for the year.

The Allowance for Doubtful Accounts represents the amount of trade receivables estimated to be uncollectible. The water utility does not wait to see which customers will not pay. It records a bad debt expense based on estimates developed from past experience. There are two basic ways to estimate bad debts expense:

- Percent of water sales; and
- Aging of accounts receivable.

The percent of water sales method computes bad debts expense as a percentage of net sales.

The aging of accounts receivable method focuses on the actual age of the accounts receivable and determines a target allowance balance from that age. Review the subsidiary ledger of Accounts Receivable. Prepare an aging schedule showing the age of each account. This is illustrated in Exhibit 18.

Exhibit 18: AGING OF ACCOUNTS RECEIVABLE

Antequera Waterworks System
Aging of Accounts Receivable
December 31, 2008

Account No.	Customer Name	Consumer Type	Total Amount Overdue	30 days	31-60 days	61-90 days	Over 90 days
16-1-1-0149	Timbal, Abelio	Residential	200.00	200.00			
12-1-1-0125	Santos, Rafael	Residential	540.00			540.00	
06-1-1-0149	Pares, Tito	Residential	1,538.00				
16-1-1-0151	Ferrer, Pillar	Residential	439.00			439.00	
03-1-1-0034	Manabat, Carlos	Residential	315.00		315.00		
05-1-1-0038	Chu, Mario	Commercial	1,837.00				1,837.00
03-1-1-0089	Quiroz, William	Residential	450.00			450.00	
	Total		5,319.00	200.00	315.00	1,429.00	3,375.00
Prepared by:			Noted:				
Billing and Posting Clerk			Waterworks Accountant				
Date			Date				

Based on past experience, estimate the percentage of the amount that will not be collectible for each category of receivables. See Exhibit 19.

Exhibit 19:**ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Antequera Waterworks System
Allowance for Doubtful Accounts
December 31, 2008

Age	Accounts Receivable (PhP)	% Uncollectible	Allowance for Doubtful Accounts
30 days	200.00	0%	-
31-60 days	315.00	1%	3.15
61-90 days	1,429.00	2%	28.58
Over 90 days	3,375.00	3%	101.25
Total	5,319.00		132.98

Prepare a journal entry taking up the bad debts expense and the allowance for doubtful accounts and post in the ledgers.

Step 7. Prepare a Trial Balance.

1. Summarize all balances in the General Ledger by preparing the Trial Balance. This is illustrated in Exhibit 20.
2. Reconcile the balances in the General Ledger with the Subsidiary Ledgers.
3. Extend temporary accounts to the Income Statement columns and permanent accounts to the Balance Sheet columns.

Exhibit 20: RECONSTRUCTED TRIAL BALANCE

Antequera Waterworks System
Trial Balance
December 31, 2008

	Beginning Balance 1-1-08		2008		Ending Balances 12-31-08		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	668,007		3,538,973	3,727,537	479,443				479,443	
Accounts Receivable	462,162		1,600,539	1,756,924	305,778				305,778	
Allowance for Doubtful Accounts										
Accountable Forms Inventory	1,042		33,696	3,058	34,738				34,738	3,058
Property, Plant and Equipment										
Furniture and Fixtures			4,335		4,335				4,335	
IT Equipment and Software	35,880				35,880				35,880	
Other Public Infrastructures (OPI) - Reservoir	1,735,640				1,735,640				1,735,640	
OPI - Structures and Improvements	546,915		51,000		597,915				597,915	
OPI - Transmission and Distribution Mains	2,655,005				2,655,005				2,655,005	
OPI - Pumping Equipment	540,640		459,168		999,808				999,808	
OPI - Water Treatment Equipment			49,950		49,950				49,950	
OPI - Other Tools, Minor Machinery and Equipment	17,219				17,219				17,219	
Accumulated Depreciation										
Furniture and Fixtures		-		65		65				65
IT Equipment and Software		6,458		6,458		12,917				12,917
Other Public Infrastructures (OPI) - Reservoir		317,181		40,102		357,283				357,283
OPI - Structures and Improvements		154,944		23,266		178,210				178,210
OPI - Transmission and Distribution Mains		785,117		79,650		864,767				864,767
OPI - Pumping Equipment		277,315		39,707		317,022				317,022
OPI - Water Treatment Equipment				2,248		2,248				2,248
OPI - Other Tools, Minor Machinery and Equipment		15,497				15,497				15,497
Const. in Progress - Reservoir			450,073						450,073	
Const. in Progress - Building and Structures			50,473						50,473	
Const. in Progress - Wells Development			45,175						45,175	
Const. in Progress - Trans and Distribution Mains			481,800						481,800	
Const. in Progress - Pumping Equipment			320,000						320,000	

	Beginning Balance 1-1-08		2008		Ending Balances 12-31-08		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Due to Other Funds		242	242	160		160				160
Accounts Payable		20,088	20,088	6,575		6,575				6,575
Due to BIR				5,301		5,301				5,301
Due to GSIS		4,679	4,679	5,232		5,232				5,232
Due to Pag-Ibig		6,930	6,930	13,397		13,397				13,397
Due to PhilHealth		400	400	475		475				475
Other Payables				11,469		11,469				11,469
Loans Payable - Domestic				1,669,961		1,669,961				1,669,961
Government Equity		5,524,141				5,524,141				5,524,141
Retained Earnings	450,483				450,483				450,483	
Net Income (Loss)								274,064	274,064	
Water Sales Revenue				1,600,539		1,600,539		1,600,539		
Fines and Penalties				87,934		87,934		87,934		
Other Business Income				40,994		40,994		40,994		
Subsidy from Other funds				1,689,633		1,689,633		1,689,633		
Personal Services			1,559,816		1,559,816		1,559,816			
Travel Expense			23,943		23,943		23,943			
Training Expenses - Local			19,521		19,521		19,521			
Office Supplies Expense			126,571		126,571		126,571			
Gasoline, Oil and Lubricants Expenses			182,718		182,718		182,718			
Chemical and Flit. Supplies Expenses			8,800		8,800		8,800			
Maintenance Supplies Expenses			31,112		31,112		31,112			
Electricity Expenses			1,008,054		1,008,054		1,008,054			
Communication			3,015		3,015		3,015			
Auditing Services			732		732		732			
Rep & Maint - Artesian Wells, Reservoir, Pumping Stations, Conduits	420,814		420,814		420,814					
Rep & Maint - Bldg & Structures			322		322		322			
Rep & Maint - Other PPE			2,251		2,251		2,251			
Rep & Maint - Motor Vehicle			38,900		38,900		38,900			
Fidelity Insurance Premium			1,691		1,691		1,691			
Miscellaneous Expenses			30,499		30,499		30,499			
Bad Debts Expense			3,058		3,058		3,058			
Depreciation Expense			191,497		191,497		191,497			
Other MOOE			1,442		1,442		1,442			
Interest Expense			38,409		38,409		38,409			
Total	7,112,993	7,112,993	10,810,686	10,810,686	12,406,878	12,406,878	3,693,165	3,693,165	8,987,778	8,987,778

Step 8. Prepare the Income Statement.

From the figures reflected in the Trial Balance under the Income Statement columns, the reconstructed Income Statement for the waterworks unit (Exhibit 21) appears, as shown here.

Exhibit 21:

RECONSTRUCTED INCOME STATEMENT

Antequera Waterworks System
Reconstructed Income Statement
For the year ended December 31, 2008

Revenues	
Water Sales Revenue	1,600,539.00
Fines and Penalties	87,934.14
Other Business Income	40,993.80
Total Operating Income	<u>1,729,466.94</u>
Operating Expenses	
Personal Services	1,559,816.26
Travel Expense	23,943.32
Training Expenses - Local	19,520.64
Office Supplies Expense	126,571.04
Gasoline, Oil and Lubricants Expenses	182,718.12
Chemical and Filt. Supplies Expenses	8,800.00
Maintenance Supplies Expenses	31,111.85
Electricity Expenses	1,008,053.69
Communication	3,014.96
Auditing Services	732.11
Repairs and Maintenance	462,286.45
Fidelity Insurance Premium	1,690.88
Miscellaneous Expenses	30,499.27
Bad Debts Expense	3,057.78
Other MOOE	1,442.48
Total Operating Expenses	<u>3,463,258.85</u>
Net Operating Income / (Loss)	(1,733,791.91)
Depreciation Expense	191,496.62
Net Operating Income / (Loss) after Depreciation	(1,925,288.53)
Interest Expense	38,409.10
Net Income/ (Loss)	(1,963,697.63)
Add: Subsidy from Other Funds	1,689,633.14
Net Income/ (Loss)	<u><u>(274,064.49)</u></u>

Step 9. Determine the balance of Retained Earnings Surplus account for the year.

This account represents the earnings or losses from the operations of the water utility. For the initial year that the water utility is preparing the reconstructed income statement, this will be the net income or loss shown in the reconstructed income statement.

Step 10. Prepare the Balance Sheet.

From the figures reflected in the Trial Balance under the Balance Sheet columns, the reconstructed Balance Sheet for the Waterworks Unit appears here (Exhibit 22).

Exhibit 22:

RECONSTRUCTED BALANCE SHEET

Antequera Waterworks System
Reconstructed Balance Sheet
December 31, 2008

Assets		
Current Assets		
Cash		479,442.64
Accounts Receivable	305,777.60	
Less: Allowance for Doubtful Accounts	(3,057.78)	
Net Accounts Receivable		302,719.82
Accountable Forms Inventory		34,737.50
Total Current Assets		<u>816,899.96</u>
Property Plant and Equipment		
Furniture and Fixtures	4,335.00	
IT Equipment and Software	35,880.00	
Other Public Infrastructures (OPI) - Reservoir	1,735,639.79	
OPI - Structures and Improvements	597,914.70	
OPI - Transmission and Distribution Mains	2,655,005.13	
OPI - Pumping Equipment	999,808.22	
OPI - Water Treatment Equipment	49,950.00	
OPI - Other Tools, Minor Machinery and Eqpt	17,218.88	
Property Plant and Equipment, at Cost		6,095,751.72
Less: Accumulated Depreciation		1,748,008.56
Net Property, Plant and Equipment		<u>4,347,743.16</u>
Construction in Progress		
Reservoir	450,073.06	
Pumphouse	50,472.95	
Wells Development	45,175.00	
Transmission and Distribution Mains	481,800.00	
Installation of Submersible Pump	320,000.00	
		<u>1,347,521.01</u>
Total Assets		<u>6,512,164.13</u>

Continued on next page

Liabilities		
Current Liabilities		
Due to Other Funds	160.00	
Accounts Payable	6,574.84	
Due to BIR	5,301.18	
Due to GSIS	5,231.90	
Due to Pag-Ibig	13,397.16	
Due to PhilHealth	475.00	
Other Payables	11,469.36	
Total Current Liabilities		42,609.44
Loans Payable		1,669,961.00
Total Liabilities		1,712,570.44
Government Equity and Retained Earnings		
Government Equity		5,524,141.20
Retained Earnings, beginning	(450,483.02)	
Net Loss for the Year	(274,064.49)	
Retained Earnings, end		(724,547.51)
Total Government Equity and Retained Earnings		4,799,593.69
Total Liabilities, Government Equity and Retained Earnings		6,512,164.13

Step 11. Prepare the Cash Flow Statement.

Prepare the cash flow statement based on an analysis of the income statement and the balance sheet. Analyze each item in the income statement and balance sheet to determine which are cash inflows and cash outflows. Record only the cash inflows and cash outflows in the cash flow statement (see Exhibit 23).

Exhibit 23:**RECONSTRUCTED CASH FLOW STATEMENT**

Antequera Waterworks System
 Reconstructed Cash Flow Statement
 For the year ended December 31, 2008

Cash Inflows	
Cash Flows from Operating Activities	
Water Sales Revenue	1,600,539.00
Fines and Penalties	87,934.14
Other Business Income	40,993.80
Sub-total	<u>1,729,466.94</u>
Other Cash Inflow	
Due to Other Funds	160.00
Subsidy from Other Funds	1,689,633.14
Collection of Accounts Receivable	156,384.69
Receipt of Loans Payable	1,669,961.00
Sub-total	<u>3,516,138.83</u>
Total Cash Inflows	<u>5,245,605.77</u>
Cash Outflows	
Operating Expenses Net of Payables	3,417,751.63
Increase in Accountable Forms Inventory	33,695.75
Increase in Capital Assets	564,453.43
Increase in Construction-in Progress	1,347,521.01
Payment of Accounts Payable	32,339.47
Total Outflows	<u>5,395,761.29</u>
Add: Financing Charges	<u>38,409.10</u>
Total Cash Outflows	<u>5,434,170.39</u>
Net Cash Outflows	(188,564.62)
Add: Cash Balance, Beginning	<u>668,007.26</u>
Cash Balance, End	<u>479,442.64</u>

Step 12. Close the temporary account balances.

Close the temporary account balances and transfer the permanent account balances to the succeeding year.

INTERIM ACCOUNTING AND FINANCIAL REPORTING SYSTEM

Definition

The interim accounting and financial reporting system is the process of classifying, recording, and summarizing all transactions related to the operations of the Local Government Unit's (LGU's) water service provision, and segregating them from the overall LGU financial reports. The system provides for procedures for recognizing and recording revenues based on the accrual method and for allocating costs incurred by other units of the LGU in providing support services to the water utility. This system provides the environment within which the ring-fencing of the financial reporting for operations of the water utility operates.

Scope

As discussed in the section on Account Reconstruction, the Income Statement was reconstructed to simulate the results of operations when revenues are based not on actual collections but upon issuance of water bills and expenses related to water service provision performed by other LGU units are taken into account in the water utility's financial reports. Beginning balances for real accounts related to water service provision were also established.

This reconstruction stage is followed by the transition stage where the interim accounting and financial reporting system is implemented to produce ring-fenced financial reports. Activities under the transition stage continue to be done over the years until the water utility becomes fully ring-fenced and its financial statements become autonomous from the LGU accounts.

Organizational Changes and Other Preparations

During the transition stage, these organizational changes and other preparations are adopted:

1. The water utility has its own office where all staff directly performing services for water service provision is located.
2. The organizational structure and functions determined during the organizational review and realignment is followed.
3. The water utility has its own bookkeeper, if warranted.
4. The water utility has its own collection officer.
5. Staff members have been retrained to perform their realigned functions.
6. Collection of water bills and other fees of the water utility are done by the water utility's own collection officer in the water utility's own office.
7. A system of allocating shared costs is in place.

Activities during the Transition Stage

During this transition stage, these activities take place:

1. Parallel set of books of accounts with the LGU are maintained by the accounting unit for all waterworks transactions. These books are:
 - Cash Receipts Journal (Exhibit 24).
 - Cash Disbursements Journal (Exhibit 25).
 - Check Disbursements Journal (Exhibit 26).
 - General Journal (Exhibit 27).
 - General Ledger (Exhibit 28).
 - Subsidiary Ledgers (Exhibit 29), including Customer's Ledgers (Exhibit 45).
2. Parallel cash books are maintained by treasurers and disbursing officers for all waterworks transactions:
 - Cashbook—Cash in Treasury (Exhibit 30).
 - Cashbook—Cash in Bank (Exhibit 31).
 - Cashbook—Cash Advances (Exhibit 32).
3. A bills register (Exhibit 37) is used to record water bills issued. This is a special journal like the Cash Receipts Journal, Cash Disbursements Journal and Check Disbursements Journal.
4. To enable the recording of revenues on an accrual basis as well as systematize the recording and monitoring of collections, the billing and collection system presented in the Billing and Collections section may be implemented.
5. An additional copy of disbursement vouchers (Exhibit 34) is made for all waterworks-related transactions.
6. Separate official receipts (Exhibit 33) booklets are used for all waterworks collections, such as:
 - Water bills.
 - New connection fees.
 - Fines and penalties.
 - Other waterworks receipts.
7. At the end of the month, Journal Entry Vouchers or JEVs (Exhibit 35) are prepared for:
 - Water revenues from water bills issued.
 - Other revenues.
 - Expenses:
 - Shared costs—identifiable;
 - Shared costs—not specifically identifiable;
 - Depreciation; and
 - Interest expense.
 - Other payments, such as acquisition of property, plant, and equipment.
 - Subsidy from the local government.
8. Reconciliation of accounts is done on a monthly basis with the LGU accounts to ensure:
 - Completeness of entries captured in the ring-fenced books of accounts.
 - Accuracy of amounts.
 - Correctness of accounts used.

9. Monthly ring-fenced financial statements are prepared:

- Income Statement.
- Balance Sheet.
- Cash Flow Statement.

10. At the year's end, JEVs are prepared for:

- Depreciation, including assets classified under the public infrastructure account.
- Allowance for doubtful accounts.
- Interest payable.

11. Other monitoring and evaluation reports are also prepared, such as the financial and operational analysis reports and aging of accounts receivable.

Exhibit 33:
OFFICIAL RECEIPT

OFFICIAL RECEIPT

Republic of the Philippines

Accountable Form No. 51
(Revised January 1992)

ORIGINAL

Date

SC No. 2062884

Agency

Payor

Nature of collection

Account code

Amount

P

Total

P

Amount in words

Cash

Drawee bank

Number

Date

Check

Money order

Received the amount stated above:

Collecting Officer _____

NOTE: Write the number and date of this receipt at the back of the treasury warrant, check, or money order received.

Modifications from LGU Accounting Processes

This section discusses the modifications from the general LGU accounting processes to enable the implementation of the ring-fencing of accounts for the water utility. An overview of the existing LGU collection and disbursements flow are shown in Figures 3 and 4, respectively.

These modifications are on the following:

- Accounting for Revenues.
- Accounting for Costs.
- Preparation of Financial Reports.

Transactions involving Balance Sheet accounts follow the regular LGU accounting process, except for property, plant, and equipment accounts classified under the public infrastructure accounts which are subjected to depreciation under the ring-fencing system.

FIGURE 3: LOCAL GOVERNMENT UNIT COLLECTION FLOW

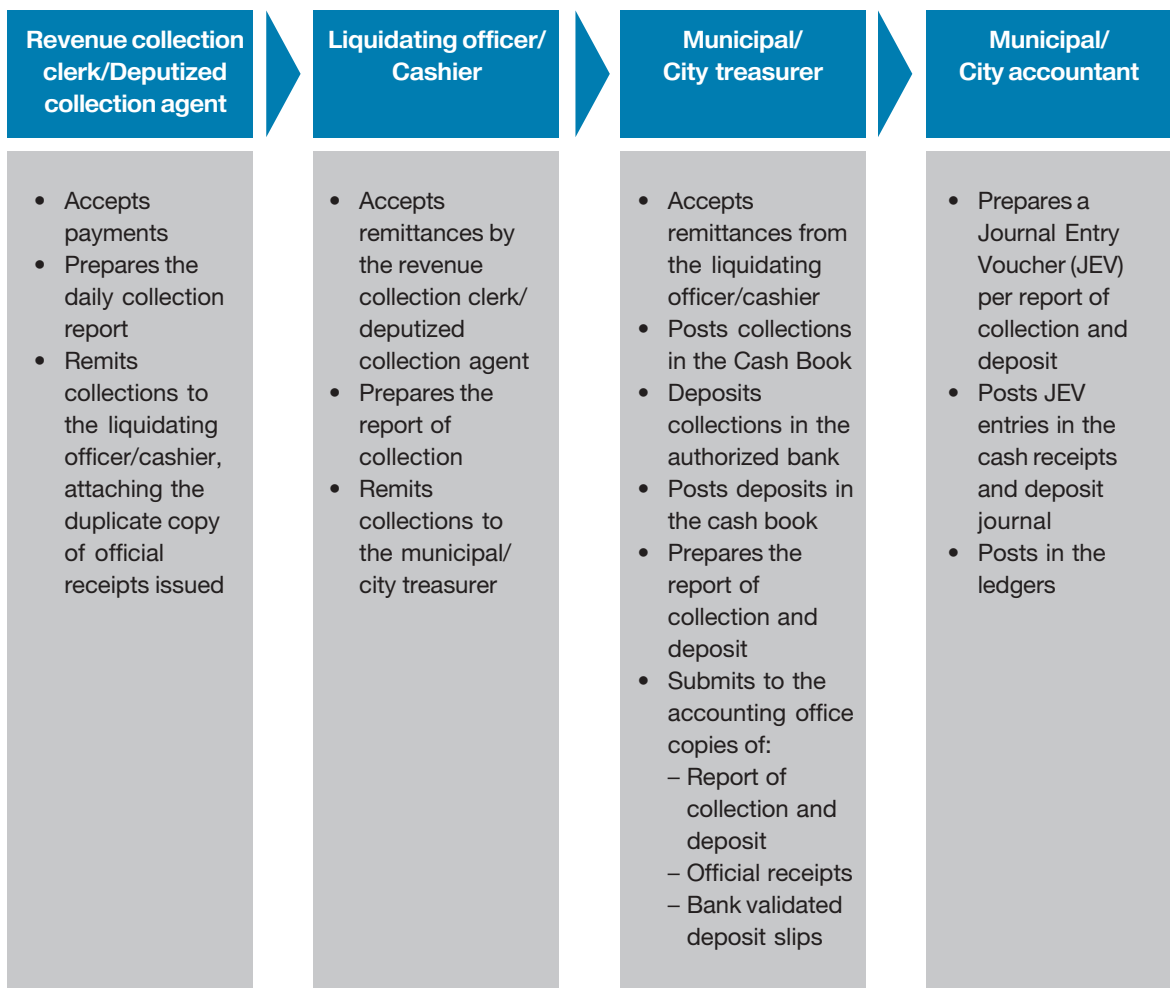
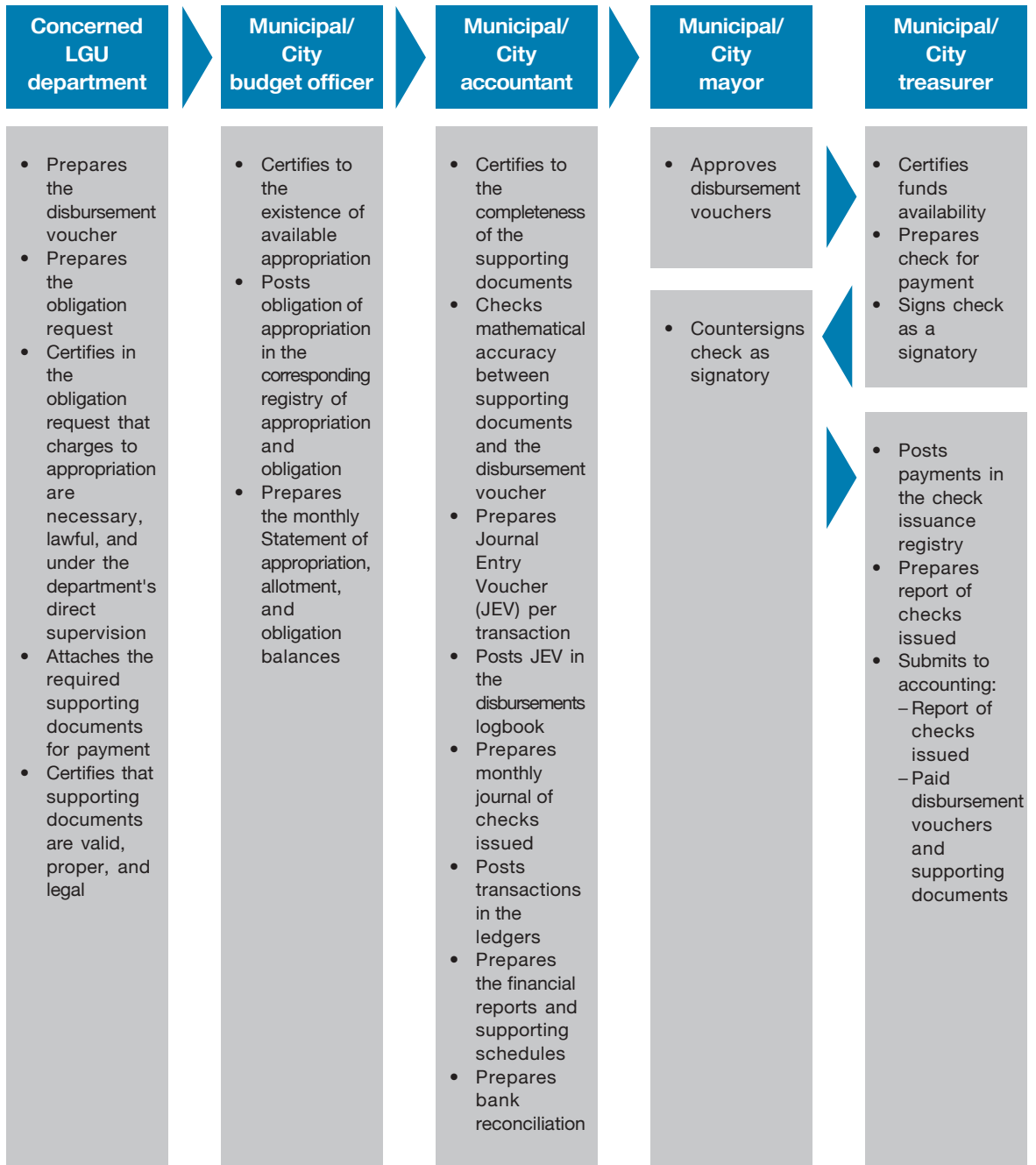


FIGURE 4: LOCAL GOVERNMENT UNIT DISBURSEMENTS FLOW



Accounting for Revenues

The revenue accounts of the water utility consist of:

- Income from waterworks systems.
- Other business income:
 - New connection fee;
 - Reconnection fee;
 - Meter maintenance fee; and
 - Other water operating revenues.
- Fines and penalties—business income.
- Nonoperating revenues:
 - Subsidy from other funds;
 - Income from grants and donations;
 - Interest income;
 - Dividend income;
 - Miscellaneous income;
 - Gain/loss on foreign exchange;
 - Gain/loss on sale of disposed assets; and
 - Gain on sale of securities.

All revenues of the water utility will be recognized at the point of generation. Total of water bills issued will already be recognized as revenues upon their issuance, and not when they are collected.

1. **Income from waterworks systems.** This is the major revenue account of the water utility. This account is used to record all water bills issued to customers for water sold.

These are the steps in recording water bills:

Step 1. Record all water bills issued every day in the form called daily water bills issued (Exhibit 36).

Step 2. Record totals of the daily water bills issued by meter reader in the bill register (Exhibit 37).

Step 3. At the end of the month, prepare a JEV debiting accounts receivable and crediting income from waterworks system for the total water bills relating to the current month only. (The unpaid bills as of the previous month have been recorded in the previous months already. Penalties will be recorded when they are paid.) When water bills are collected, the account to be credited will now be accounts receivable, instead of the former account of income from waterworks system when ring-fencing was not yet implemented.

2. **Other operating revenues.** These are revenues from services related to water provision other than for sale of water to consumers. Below are the common accounts for water utilities. Should the water utility have other fees or sources of revenues, these can be classified under 'Other Water Operating Revenues'.

- New connection fee.
- Reconnection fee.
- Meter maintenance fee.
- Other water operating revenues.

These revenues should be accrued at the end of the year.

These are the steps in recording other operating revenues:

Step 1. Obtain a copy of the report of collections and deposits (Exhibit 38) from the office of the treasurer.

Step 2. Identify and summarize daily collections into the cash receipts journal (Exhibit 24), classifying them by type of revenue.

Step 3. Prepare a JEV for collections of other operating revenues by account classification.

Step 4. Post the JEV to the General Journal.

3. **Nonoperating revenues.** These revenues are those earned by the water utility but not related to the provision of water to customers.

Examples are interest earned from bank accounts, dividends and proceeds of disposal of unserviceable assets.

The steps involved in recording these nonoperating revenues are the same as those for other operating revenues above.

Exhibit 38:
REPORT OF COLLECTIONS AND DEPOSITS

Page 1 of 2

REPORT OF COLLECTIONS AND DEPOSITS

LGU

Fund:

Date:

Name of Accountable Officer:

Report No.:

A. COLLECTIONS

1. For Collectors

Type (Form No.)	Official Receipt/Serial No.		Amount
	From	To	

2. For Liquidating Officers/Treasurers

Name of Accountable Officer	Report No.	Amount

B. REMITTANCES/DEPOSITS

Accountable Officer/Bank	Reference	Amount

Accounting for All Costs of the Water Utility

All costs that are incurred directly or indirectly by the water utility in the delivery of water supply services to its clientele should be fully accounted for and reported. These costs include (a) operation and maintenance expenses; (b) capital costs (depreciation charges); and (c) financing costs (interest charges).

1. **Operation and maintenance expenses.** As discussed in the section on classification of expenses (page 8), expenses of LGUs, as well as its water utility, are classified into:

- Personal Services (PS).
- Maintenance and Other Operating Expenses (MOOE).

For purposes of ring-fencing, these are further classified into:

- Dedicated expenses (incurred by the water utility itself).
- Shared expenses, which can be:
 - Identifiable shared expenses, or
 - Allocable or not directly identifiable shared expenses.

Dedicated expenses are recorded through disbursements vouchers and JEVs. Accruals of expenses at the end of an accounting period, depreciation, and financing charges are recorded through a JEV.

Shared expenses are expenses that contribute to water service provision that are incurred by units or departments outside of the water utility division. These expenses can either be directly identified or not.

Directly identifiable shared costs are captured through the service request form (see Exhibit 39) and summarized monthly into the summary of services requested (Exhibit 40). This summary is then journalized to record the charging of the expenses to the proper units.

Shared or allocable expenses that are not directly identifiable are captured through the allocation of support services forms (Exhibit 41 for PS and Exhibit 42 for MOOE) which are prepared monthly. These forms show how the PS and MOOE expenses of the servicing department/unit are allocated to the departments/units that benefit from them, including the water utility. A JEV is prepared out of this form which is then recorded in the General Journal.

See discussions on the classification of expenses starting from page 8.

These are the steps in recording these expenses.

Step 1. Determine the **dedicated** PS and MOOE for the waterworks unit.

- At the end of the month, obtain copies of all disbursement vouchers with transactions pertaining to the waterworks unit.
- Prepare a JEV for these dedicated expenses for the waterworks unit.
- Record the JEV in the General Journal.

Step 2. Determine the **identifiable shared** expenses (both PS and MOOE) for the waterworks unit.

- Summarize the service request forms (Exhibit 39) into the summary of services requested (Exhibit 40). Expense columns may be changed as appropriate.
- Prepare a JEV for these expenses for the waterworks unit.
- Record the JEV in the General Journal.

Exhibit 39:
SERVICE REQUEST FORM

Republic of the Philippines Antequera, Bohol Antequera Waterworks System				SERVICE REQUEST FORM			
To: (Servicing Unit) Municipal Health Office					SRF No. 01-001		
Description of Service Requested Testing of 3 water samples for water quality							
Requested by:				Noted by:			
Requesting Waterworks Staff		Date		Waterworks Head		Date	
ACTION TAKEN							
LABOR							
Staff Assigned	Staff's Initials	Monthly Rate (PhP)	Date Performed	Time (HH:MM)			Total Charges (PhP)
				Start	End	Total	
J. Cruz	JC	16,000	1-12-07	14:00	15:30	1:30	150.00
Total - Labor							150.00
MATERIALS AND OTHER EXPENSES							
Description				Quantity	Unit Cost	Total (PhP)	
Test tubes				3	10.00	30.00	
Chemicals				1 gm	15.00	15.00	
Transportation						55.00	
Total - Materials							100.00
Total - Labor and Materials							250.00
Services Approved by:				This is to certify that I accept the services rendered the corresponding charges as shown above.			
Head, Servicing Unit		Date		Head, Waterworks Unit		Date	

This form documents the request for service or support from other units or offices and contains an estimate of the cost of labor and materials; it shows the requesting party and the office from which service is requested. This form should be prenumbered. It is prepared in duplicate with this distribution:

- Copy 1: Water utility files, input for summary.
- Copy 2: Computation of allocable support costs.

Exhibit 40:**SUMMARY OF SERVICE REQUESTS**

Republic of the Philippines
 Antequera Waterworks System
 Antequera, Bohol

SUMMARY OF SERVICES REQUESTED

For the month ended January 31, 2009

Date Completed	SRF No.	Description of Service	Servicing Unit	Total	Salaries and Wages - Regular	Laboratory supplies	Transportation and Delivery Expenses	Repairs & Maintenance - Office Building	Security Services
12-Jan-09	01-001	Testing of water samples	Municipal Health Office	250.00	150.00	45.00	55.00		
15-Jan-09	01-002	Hauling of pipes	Gen. Services Dept.	1,000.00			1,000.00		
20-Jan-09	01-003	Fabrication of water meter boxes	Gen. Services Dept.	4,000.00	4,000.00				
22-Jan-09	01-004	Renovation of payments window	Gen. Services Dept.	25,000.00				25,000.00	
25-Jan-09	01-005	Security services at water treatment plant	Gen. Services Dept.	20,000.00					20,000.00
Total				50,250.00	4,150.00	45.00	1,055.00	25,000.00	20,000.00

Step 3. Determine the **not directly identifiable shared PS** for the waterworks unit.

- Referring to the activity analysis sheet (Exhibit 2), obtain the PS costs of all the LGU units/departments that perform activities related to water service provision, both for regular employees and job order employees paid through the MOOE budget.
- Compute the share of the waterworks unit in the cost of these related units/departments based on the agreed method of pro-rating the costs. This is illustrated in Exhibit 41.
- Prepare a JEV for these PS expenses for the waterworks unit.
- Record the JEV in the General Journal.

Step 4. Determine the **not directly identifiable shared MOOE** for the waterworks.

- At the end of the month, referring to the activity analysis sheet (Exhibit 2), obtain the MOOE of all the LGU units/departments that perform activities related to water service provision from the report of obligation allotment.
- From their total MOOE, deduct the salaries of job order employees because they have already been included in the PS computation.
- Include only expenses that can be attributed to the provision of water service.
- Compute the share of the waterworks unit in the MOOE of these related LGU units/departments based on the agreed allocation of expenses. This is illustrated in Exhibit 42.
- Prepare a JEV for the waterworks unit's share.
- Record the JEV in the General Journal.

Exhibit 41:

ALLOCATION OF SHARED PERSONAL SERVICES

Antequera Waterworks System
 Allocation of Shared Personal Services
 For the year ended December 31, 2008

Name of Office	PS Cost of Regular Employees	Cost of Job Order Employees	Total Personal Services	Share of Waterworks	Cost Centers		
					Operations and Maintenance	Customer Account Management	Adm. and Gen. Management
	<i>a</i>	<i>b</i>	<i>c=a+b</i>	<i>d = c x % share</i>			
Office of the Municipal Mayor	1,459,245	199,509	1,658,754	166,989			166,989
Office of the Municipal Accountant	879,066	95,325	974,391	98,093			98,093
Treasurer's Office	1,310,461	100,000	1,410,461	141,993		70,996	70,996
Budget Office	653,024	26,089	679,112	68,367			68,367
Municipal Health Office	2,420,375	60,000	2,480,375	249,702	249,702		
Engineering Department	647,466	65,000	712,466	71,725	71,725		
MPDO	712,721	49,960	762,681	76,780	76,780		
Total	8,082,358	595,882	8,678,240	873,648	321,427	70,996	481,225

Exhibit 42:

ALLOCATION OF SHARED MOOE

Antequera Waterworks System
 Allocation of Shared MOOE
 For the year ended December 31, 2008

	Office of the Mayor	Office of the Accountant	Office of the Treasurer	Budget Office	Municipal Health Office	Municipal Engineer's Office	Municipal Planning and Dev. Office	Total	Shared Cost *
Traveling Expense	37,540	40,681	60,037	8,532	39,524	16,045	28,327	230,685	23,223
Training Expenses	57,870	28,760	32,00	19,660	32,575	6,800	16,140	193,905	19,521
Office Supplies Expense	64,634	50,000	94,610	27,567	30,922	28,587	29,513	325,833	32,802
Gasoline, Oil and Lubricants	-	-	-	-	-	325,000	-	325,000	32,718
Electricity Expense	20,000	10,000	10,000	10,000	10,000	10,000	10,000	80,000	8,054
Telephone, Telegraph and Internet	29,949	-	-	-	-	-	-	29,949	3,015
Fidelity Bond Premium	6,000	-	7,980	-	-	-	-	13,980	1,407
Auditing Services	-	3,800	3,472	-	-	-	-	7,272	732
Bldg & Structures Maintenance	-	-	-	-	-	3,195	-	3,195	322
Motor Vehicle Maintenance	138,750	-	-	-	-	247,655	-	386,405	38,900
Other PPE Maintenance	4,580	500	2,275	-	900	350	13,750	22,355	2,251
Miscellaneous Expenses	17,925	8,240	3,106	388	600	323	1,995	32,576	3,279
Total	377,247	141,981	213,581	66,146	14,520	637,954	99,725	1,651,155	166,224

* Shared costs are a percentage of the total MOOE. The percentage is agreed upon among the other LGU units. In the above example the percentage was based on the number of personnel of the Waterworks Unit as against the total personnel of the LGU.

2. **Depreciation charges.** Depreciation of property, plant and equipment of the water utility is prepared periodically, especially at year-end, based on the straight-line method and using the recommended useful life of assets as prescribed by the National Water Resources Board (see Exhibit 7). Depreciation is journalized through a JEV and recorded in the General Journal.
3. **Financing charges.** Financing charges on loans of the water utility include interest expense, service fees, and other expenses related to a loan of the water utility. For ring-fencing purposes, these are recorded in the books of the water utility even if the loan was obtained by the local government. Financing charges should be calculated periodically, especially at year-end, and recorded through a JEV and posted to the General Journal.

Preparation of Ring-Fenced Financial Statements

1. The accumulated cost and revenues data that are recorded on an accrual basis are reported in the financial statements which are prepared by the water utility division.
2. The financial statements for the water utility following the interim accounting system are prepared to enable the accurate reporting of the expenses and revenues of the utility as well as of the assets and liabilities as of a certain date. The report is not intended to replace the report requirements of the Commission on Audit, the Department of Finance, and other government regulatory agencies.
3. The following financial statements are prepared by the water utility division within 15 days after the end of each month:
 - Income Statement (see format in Exhibit 21).
 - Balance Sheet (see format in Exhibit 22).
 - Cash Flow Statement (see format in Exhibit 23).
4. A quarterly aging of accounts receivable (see Exhibit 18) is prepared and submitted to the head of the water utility, the mayor, and the water board. It is used to monitor collection of past due accounts and to evaluate the utility's collection efforts.

This step completes the ring-fencing of accounts of an LGU-run water utility. With the preparation of ring-fenced financial statements, the water utility can now use these data to monitor and improve its performance and provide monitoring and evaluation reports for its management, to the mayor, the *Sangguniang Bayan*, and the water board.





SUPPLEMENTARY SECTIONS

The supplementary sections contain references that are not specific to ring-fencing of accounts but are useful to a water utility. The chart of accounts contains all the accounts that may be used by a water utility. The billing and collection section contains procedures and forms that supplement the accounting for revenues referred to in this Guide. This section may also be used by a water utility as a reference on how to streamline its procedures from meter reading to billing and collection of water bills and, hopefully, improve its service to consumers as well as its operations.



CHART OF ACCOUNTS

Introduction

The ring-fenced financial accounting system of Local Government Unit (LGU) water utilities generally follows the recommended Chart of Accounts under the New Government Accounting System (NGAS) of 2004 as contained in Commission of Audit (COA) Circular 2004-008, dated September 20, 2004.

The water utility may add other account titles and/or subsidiary accounts, as appropriate, to enable the accumulation of amounts for these transactions. Permission from the COA will be required before using these accounts.

1. Additional Account Titles: Public Infrastructure Accounts

The ring-fenced financial accounting system differs from NGAS by depreciating all assets including those classified under public infrastructure. The related accumulated depreciation and depreciation expenses for the applicable public infrastructure accounts are inserted in this Chart of Accounts.

2. Subsidiary Account Titles: Other Business Income Accounts

Examples of subsidiary account titles are details of other business income, such as:

- Service connection fees.
- Reconnection fees.
- Meter maintenance fees.

The General Ledger Accounts are grouped under the following major categories and are assigned the corresponding account codes:

Account code	General Ledger account
100	Current Assets
200	Property, Plant, and Equipment
300	Accumulated Depreciation
400	Liabilities
500	Government Equity
600	Income Accounts
700 – 900	Expense Accounts

The detailed Chart of Accounts and their descriptions are presented in the following pages.

Chart of Accounts and Description

The following Chart of Accounts and their descriptions are lifted from the updated New Government Accounting System for Local Government Units as per COA Circular 2004-008. Accounts not related to water supply operations have been excluded.

Account code	Account title	Normal balance	Description
	BALANCE SHEET ACCOUNTS		
	ASSETS		
	CURRENT ASSETS		
	<i>Cash</i>		
101	Cash in Vault	Debit	Amount of cash collected by the Treasurer of the Philippines and the treasurers of Local Government Units (LGUs) pending deposit
102	Cash-Collecting Officers	Debit	Amount of collections with the collecting officers/postmasters/telegraph operators pending deposit
103	Cash-Disbursing Officers	Debit	Amount of cash advances granted to designated regular/special disbursing officers/postmasters/telegraph operators for payment of authorized official expenditures or redemption of postal money orders and telegraphic transfers subject for liquidation
104	Petty Cash Fund	Debit	Amount of cash granted to designated petty cash custodian for payment of authorized petty or miscellaneous expenses which cannot be conveniently paid through check
108	Cash—National Treasury, Modified Disbursements System (MDS)	Debit	Amount of Notice of Cash Allocation received from the Department of Budget and Management and/or Notice of Transfer of Allocation received from the central office/regional office through which cash is withdrawn with the issuance of MDS checks
110	Cash—Bangko Sentral ng Pilipinas	Debit	Cash in local currency deposited with the Bangko Sentral ng Pilipinas
111	Cash in Bank—Local Currency, Current Account	Debit	Cash in local currency deposited in current account with authorized government depository banks
112	Cash in Bank—Local Currency, Savings Account	Debit	Cash in local currency deposited in savings account with authorized government depository banks
113	Cash in Bank—Local Currency, Time Deposits	Debit	Cash in local currency placed with authorized government depository bank for a specified period of time
	<i>Receivables</i>		
121	Accounts Receivable	Debit	Amount due from customers arising from services rendered, trading/business transactions or sale of merchandise or property
301	<i>Allowance for Doubtful Accounts</i>	Credit	Amount of trade receivables estimated to be uncollectible

Account code	Account title	Normal balance	Description
122	Notes Receivable	Debit	Amount of promissory notes/time drafts/trade acceptances/other negotiable short-term instruments received from trade debtors
123	Due from Officers and Employees	Debit	Amount of cash advances granted for travel and other collectibles from government agency's officers and employees
144	Due from Other Funds	Debit	Amount due from other funds maintained by the agency
149	Other Receivables	Debit	Amount due from other debtors not falling under any of the specific receivable accounts
	Inventories		
155	Office Supplies Inventory	Debit	Amount of trade receivables estimated to be uncollectible
156	Accountable Forms Inventory	Debit	Cost or appropriate value of accountable forms purchased/acquired/ received for use in the course of government operation and/or sale
161	Gasoline, Oil and Lubricants Inventory	Debit	Cost of gasoline, oil and lubricants purchased/received for use in government operations
165	Other Supplies Inventory	Debit	Cost of supplies purchased/received for use which cannot be classified under any of the specific inventory accounts
167	Spare Parts Inventory	Debit	Cost of spare parts purchased/received for the repair of government vehicles, aircrafts, machineries and other equipment
168	Construction Materials Inventory	Debit	Cost of construction materials purchased/received for use in the construction, repair and rehabilitation of government facilities
	Prepayments		
177	Prepaid Rent	Debit	Amount advanced/deposited for lease/ rentals of property, plant and equipment used in government operations
178	Prepaid Insurance	Debit	Amount advanced for fidelity bond premiums of accountable officers and insurance premiums of insurable government property
179	Prepaid Interest	Debit	Amount advanced for interest of loans contracted by the government
181	Advances to Contractors	Debit	Amount advanced to contractors as authorized by law
185	Other Prepaid Expenses	Debit	Amount advanced for other expenses which are not classified in the specific prepaid accounts

Account code	Account title	Normal balance	Description
189	Other Current Assets	Debit	Amount of other assets which cannot be classified under any of the specific current assets accounts
	Investments		
191	Investments in Treasury Bills	Debit	Amount placed in treasury bills issued by Bureau of the Treasury
192	Investments in Stocks	Debit	Amount of authorized investments in stocks
193	Investments in Bonds	Debit	Amount of authorized investments in bonds
197	Other Investments and Marketable Securities	Debit	Amount placed in other investments and marketable securities
	PROPERTY, PLANT, AND EQUIPMENT		
	Land and Land Improvements		
201	Land	Debit	Cost/appraised value of acquired land
202	Land Improvements	Debit	Cost/appraised value of land improvements which are permanent or capital in nature
302	<i>Accumulated Depreciation—Land Improvements</i>	Credit	Cumulative reduction in the value of the land improvement due to use
	Buildings		
211	Office Buildings	Debit	Cost/appraised value of office buildings constructed/acquired including related improvements which are permanent or capital in nature
311	<i>Accumulated Depreciation—Office Buildings</i>	Credit	Cumulative reduction in the value of office buildings due to use
215	Other Structures	Debit	Cost/appraised value of other structures constructed/acquired including related improvements which are permanent or capital in nature
311	<i>Accumulated Depreciation—Other Structures</i>	Credit	Cumulative reduction in the value of other structures due to use
	Leasehold Improvements		
218	Leasehold Improvements, Land	Debit	Cost/appraised value of improvements made on land under lease
318	<i>Accumulated Depreciation—Leasehold Improvements, Land</i>	Credit	Cumulative reduction in the value of improvements made on land under lease due to use
219	Leasehold Improvements, Buildings	Debit	Cost/appraised value of improvements made on buildings under lease
319	<i>Accumulated Depreciation—Leasehold Improvements, Buildings</i>	Credit	Cumulative reduction in the value of improvements made on buildings under lease due to use

Account code	Account title	Normal balance	Description
220	Other Leasehold Improvements	Debit	Cost/appraised value of improvements made on other properties under lease
320	<i>Accumulated Depreciation—Other Leasehold Improvements</i>	Credit	Cumulative reduction in the value of improvements made on other properties under lease due to use
	Office Equipment, Furniture, and Fixtures		
221	Office Equipment	Debit	Cost/appraised value of office equipment acquired
321	<i>Accumulated Depreciation—Office Equipment</i>	Credit	Cumulative reduction in the value of office equipment due to use
222	Furniture and Fixtures	Debit	Cost/appraised value of furniture and fixtures acquired
322	<i>Accumulated Depreciation—Furniture and Fixtures</i>	Credit	Cumulative reduction in the value of furniture and fixtures due to use
223	IT Equipment and Software	Debit	Cost/appraised value of IT equipment and software acquired
323	<i>Accumulated Depreciation—IT Equipment</i>	Credit	Cumulative reduction in the value of IT equipment due to use
224	Library Books	Debit	Cost/appraised value of library books acquired
324	<i>Accumulated Depreciation—Library Books</i>	Credit	Cumulative reduction in the value of library books due to use
	Machineries and Equipment		
226	Machineries	Debit	Cost/appraised value of machinery acquired
326	<i>Accumulated Depreciation—Machineries</i>	Credit	Cumulative reduction in the value of machinery due to use
229	Communication Equipment	Debit	Cost/appraised value of communication equipment acquired
329	<i>Accumulated Depreciation—Communication Equipment</i>	Credit	Cumulative reduction in the value of communication equipment due to use
231	Firefighting Equipment and Accessories	Debit	Cost/appraised value of firefighting equipment and accessories acquired
	<i>Accumulated Depreciation—Firefighting Equipment and Accessories</i>	Credit	Cumulative reduction in the value of firefighting equipment and accessories due to use
233	Medical, Dental, and Laboratory Equipment	Debit	Cost/appraised value of medical, dental, and laboratory equipment acquired
333	<i>Accumulated Depreciation—Medical, Dental, and Laboratory Equipment</i>	Credit	Cumulative reduction in the value of medical, dental, and laboratory equipment due to use

Account code	Account title	Normal balance	Description
236	Technical and Scientific Equipment	Debit	Cost/appraised value of technical and scientific equipment acquired
336	<i>Accumulated Depreciation—Technical and Scientific Equipment</i>	Credit	Cumulative reduction in the value of technical and scientific equipment due to use
240	Other Machineries and Equipment	Debit	Cost/appraised value of other machineries and equipment acquired
340	<i>Accumulated Depreciation—Other Machineries and Equipment</i>	Credit	Cumulative reduction in the value of other machineries and equipment due to use
	Transportation Equipment		
241	Motor Vehicles	Debit	Cost/appraised value of motor vehicles acquired
341	<i>Accumulated Depreciation—Motor Vehicles</i>	Credit	Cumulative reduction in the value of motor vehicles due to use
248	Other Transportation Equipment	Debit	Cost/appraised value of other transportation equipment acquired
348	<i>Accumulated Depreciation—Other Transportation Equipment</i>	Credit	Cumulative reduction in value of other transportation equipment due to use
250	Other Property, Plant, and Equipment	Debit	Cost/appraised value of other property, plant, and equipment acquired not falling under any of the specific property, plant, and equipment account
350	<i>Accumulated Depreciation—Other Property, Plant, and Equipment</i>	Credit	Cumulative reduction in the value of other property, plant, and equipment due to use
	Public Infrastructures		
254	Artesian Wells, Reservoirs, Pumping Stations, and Conduits	Debit	Cost/appraised values of artesian wells, reservoirs, pumping stations, and conduits constructed/acquired
354	<i>Accumulated Depreciation—Artesian Wells, Reservoirs, Pumping Stations and Conduits¹</i>	Credit	Cumulative reduction in the value of artesian wells, reservoirs, pumping stations, and conduits due to use
260	Other Public Infrastructures	Debit	Cost/appraised value of other public infrastructures constructed/acquired which cannot be classified under any specific type of public infrastructures
260	<i>Accumulated Depreciation—Other Public Infrastructures¹</i>	Credit	Cumulative reduction in the value of other public infrastructures constructed/acquired which cannot be classified under any specific type of public infrastructures due to use

¹ This account title will require COA approval prior to its use

Account code	Account title	Normal balance	Description
	Construction in Progress		
269	Construction in Progress—Artesian Wells, Reservoirs, Pumping Stations, and Conduits	Debit	Cost/appraised value of artesian wells, reservoirs, pumping stations, and conduits which are still under construction
273	Construction in Progress—Other Public Infrastructures	Debit	Cost/appraised value of other public infrastructure projects which are still under construction
274	Construction in Progress—Reforestation—Upland	Debit	Cost/appraised value of upland reforestation projects which are still under construction
290	Other Assets	Debit	Cost/appraised value of serviceable assets not used in operation and those waiting for disposal
	LIABILITIES		
	CURRENT LIABILITIES		
401	Accounts Payable	Credit	Amount of indebtedness arising from trade/business
402	Notes Payable	Credit	Amount of liabilities arising from the issuance of promissory notes/trade acceptances and other negotiable short-term instruments
403	Due to Officers and Employees	Credit	Amount of liabilities due to officers and employees of the agency
409	Interest Payable	Credit	Amount of unpaid charges arising from the use of borrowed money
411	Due to National Treasury	Credit	Amount due to the National Treasury
412	Due to BIR	Credit	Amount of taxes due/amount withheld for remittance to the Bureau of Internal Revenue (BIR)
413	Due to GSIS	Credit	Contributions due/collections received/amounts withheld for remittance to the Government Service Insurance System (GSIS)
414	Due to Pag-Ibig	Credit	Contributions due/collections received/amounts withheld for remittance to the Home Development Mutual Fund
415	Due to PhilHealth	Credit	Contributions due/collections received/amounts withheld for remittance to the Philippine Health Insurance Corporation
416	Due to Other NGAs	Credit	Amount received from other national government agencies for the implementation of specific programs/projects subject to liquidation
424	Due to Other Funds	Credit	Amount received/withheld for the account of other funds

Account code	Account title	Normal balance	Description
426	Guaranty Deposits Payable	Credit	Liability arising from cash received to guaranty performance which are refundable to the depositor
427	Performance/Bidders/Bail Bonds Payable	Credit	Liability arising from the receipt of cash bond to guarantee the performance of the contract/court order
439	Other Payables	Credit	Other liabilities not falling under any of the specific liability accounts
	LONG-TERM LIABILITIES		
444	Loans Payable—Domestic	Credit	Long-term indebtedness to domestic creditors covered by a contract/ agreement
445	Loans Payable—Foreign	Credit	Long-term indebtedness to foreign creditors covered by a contract/ agreement
450	Other Long-Term Liabilities	Credit	Other long-term liabilities not falling under any of the specific long-term liability accounts
	EQUITY		
	GOVERNMENT EQUITY		
501	Government Equity	Credit	Difference between the assets and the liabilities of the agency
510	Retained Earnings	Credit	Cumulative net earnings of the corporation
	INTERMEDIATE ACCOUNTS		
512	Income and Expense Summary	Credit	A summary account for all subsidies received, revenues earned, and expenses incurred during the year
513	Retained Operating Surplus	Credit	Net results of agency operation
	INCOME STATEMENT ACCOUNTS		
	INCOME		
639	Income from Waterworks Systems	Credit	Income from the operation of waterworks system
648	Other Business Income	Credit	Income which is not classified under specific business income accounts
639-01	New Connection Fees ²	Credit	Income from making new service connections
639-02	Reconnection Fee ²	Credit	Income from reconnecting a previously disconnected connection
639-03	Meter Maintenance Fee ²	Credit	Income from fees collected from customers for the routine maintenance of their water meters

². This account title will require COA approval prior to its use.

Account code	Account title	Normal balance	Description
648-19	Other Water Operating Revenues ²	Credit	Income from operations of the waterworks system which cannot be classified in the other business income accounts
649	Fines and Penalties—Business Income	Credit	Fines and penalties charged to business income
657	Subsidy from Other Funds	Credit	Amount of subsidy received from other funds
661	Dividend Income	Credit	Cash dividends earned from investments in stocks
662	Income from Grants and Donations	Credit	Amount of grants/donations received in cash or in kind
664	Interest Income	Credit	Interest on deposits with banks/loans/investments
678	Miscellaneous Income	Credit	Income earned which are not classified under the specific income accounts
681	Gain/Loss on Foreign Exchange (FOREX)	Credit / Debit	Amount of gain/loss in the conversion of foreign currencies to local currency
682	Gain/Loss on Sale of Disposed Assets	Credit / Debit	Amount of gain/loss on sale of disposed assets
683	Gain/Loss on Sale of Securities	Credit / Debit	Amount of gain/loss on sale of bonds/securities
684	Prior Years' Adjustments	Credit / Debit	Adjustment of prior years' income earned/expenses incurred
	EXPENSES		
	PERSONAL SERVICES		
	<i>Salaries and Wages</i>		
701	Salaries and Wages—Regular	Debit	Pay proper of regular government employees for services rendered
703	Salaries and Wages—Part-time	Debit	Pay proper of part-time government employees for services rendered
704	Salaries and Wages—Substitute	Debit	Pay proper of substitute government employees for services rendered
705	Salaries and Wages—Casual	Debit	Pay proper of casual government employees for services rendered
706	Salaries and Wages—Contractual	Debit	Pay proper of contractual government employees for services rendered
707	Salaries and Wages—Emergency	Debit	Pay proper of emergency government employees for services rendered
	<i>Other Compensation</i>		
711	Personnel Economic Relief Allowance (PERA)	Debit	Allowance granted to all appointive government employees

Account code	Account title	Normal balance	Description
712	Additional Compensation (ADCOM)	Debit	Allowance granted to all government personnel whether regular/casual on temporary status/contractual
713	Representation Allowance (RA)	Debit	Allowance granted to authorized officials and employees while in the actual performance of their respective functions
714	Transportation Allowance (TA)	Debit	Allowance granted to authorized officials/employees for transportation
715	Clothing/Uniform Allowance	Debit	Allowance to authorized government officials/employees for clothing/uniform
716	Subsistence, Laundry and Quarter Allowance	Debit	Allowances to authorized government officials/employees for subsistence, laundry and quarters
717	Productivity Incentive Allowance	Debit	Incentive to authorized government officials/employees for good performance
718	Overseas Allowance	Debit	Allowance to authorized government officials/employees on foreign assignment
719	Other Bonuses and Allowances	Debit	Other authorized bonuses and allowances to government officials/employees which are not classified under the specific accounts
720	Honoraria	Debit	Amount due to government officials/employees in recognition of their expertise, broad and superior knowledge in specific fields
721	Hazard Pay	Debit	Amount due to government officials/employees assigned in difficult/ dangerous/ strife-torn/embattled areas as certified by appropriate government body and to those whose lives are directly exposed to work conditions which may cause injury/sickness/ death/harmful change in the human organism
722	Longevity Pay	Debit	Compensation to government officials and employees for long services rendered
723	Overtime and Night Pay	Debit	Compensation to authorized government employees for working in excess of the minimum hours
724	Cash Gift	Debit	Amount granted to government officials and employees
725	Year End Bonus	Debit	Christmas bonus to government officials and employees
	Personnel Benefits Contributions		
731	Life and Retirement Insurance Contributions	Debit	Government's share in premium contributions to the government service insurance system

Account code	Account title	Normal balance	Description
732	Pag-Ibig Contributions	Debit	Government's share in premium contributions to the Home Development Mutual Fund
733	PhilHealth Contributions	Debit	Government's share in premium contributions to health insurance fund with the Philippine Health Insurance Corporation
734	ECC Contributions	Debit	Government's share in premium contributions to the Employees' Compensation Commission (ECC)
	<i>Other Personnel Benefits</i>		
738	Pension Benefits—Civilian	Debit	Amount of pension to government officers and employees and/or their dependents
740	Retirement Benefits—Civilian	Debit	Amount of retirement pay to government officers and employees and/or their dependents
742	Terminal Leave Benefits	Debit	Money value of the accumulated leave credits of government officials and employees
743	Health Workers Benefits	Debit	Amount of benefits given to health workers
749	Other Personnel Benefits	Debit	Amount of benefits not classified under the specific personnel benefits accounts
	MAINTENANCE AND OTHER OPERATING EXPENSES		
	<i>Traveling Expenses</i>		
751	Traveling Expenses—Local	Debit	Expenses in the movement of persons within the country whether employed in the government or not, such as transportation and travel per diems, hire of guides, ferriage, and all other similar expenses
752	Traveling Expenses—Foreign	Debit	Expenses in the movement of persons outside the country whether employed in the government or not such as transportation and travel per diems, passport processing, and so on
	<i>Training and Scholarship Expenses</i>		
753	Training Expenses	Debit	Expenses for participation/attendance in training, conventions and seminars/workshops. It also includes expenses incurred related to training, such as payment of honoraria to lecturers, hand outs, supplies and materials used, and meals and snacks
754	Scholarship Expenses	Debit	Expenses for scholarships granted to government personnel

Account code	Account title	Normal balance	Description
	<i>Supplies and Materials Expenses</i>		
755	Office Supplies Expenses	Debit	Cost/value of office/janitorial/IT supplies, and so forth, issued/used
756	Accountable Forms Expenses	Debit	Cost of accountable forms issued/used
760	Medical, Dental, and Laboratory Supplies Expenses	Debit	Cost of medical, dental and laboratory supplies used in government operations/projects
761	Gasoline, Oil, and Lubricants Expenses	Debit	Cost of gasoline, oil and lubricants consumed by government vehicles and other equipment in connection with government operations/projects
763	Textbooks and Instructional Materials Expenses	Debit	Cost of books and instructional materials distributed to public schools
765	Other Supplies Expenses	Debit	Cost of other supplies and material not classified under the specific supplies expense accounts used in government operations
	<i>Utility Expenses</i>	Debit	
766	Water Expenses	Debit	Costs of water consumed in government operations/projects
767	Electricity Expenses	Debit	Cost of electricity consumed in government operations/projects
	<i>Communication Expenses</i>		
771	Postage and Deliveries	Debit	Cost of postage/delivery of official forms/documents/records, and so on
772	Telephone Expenses—Landline	Debit	Cost of transmitting messages through telephone landlines
773	Telephone Expenses—Mobile	Debit	Cost of transmitting messages through mobile phones
774	Internet Expenses	Debit	Cost of transmitting messages through the internet
775	Cable, Satellite, Telegraph, and Radio Expenses	Debit	Cost of transmitting messages through cables/satellites/telegrams/radio services
778	Membership Dues and Contributions to Organizations	Debit	Membership dues/contributions/fees to professional/recognized organizations
780	Advertising Expenses	Debit	Cost of advertisement in newspapers/magazines/television/radio/other forms of media
781	Printing and Binding Expenses	Debit	Cost for the printing/binding of manuscripts/documents in government operations/projects

Account code	Account title	Normal balance	Description
782	Rent Expenses	Debit	Expenses for the use of facilities/equipment, and so on
783	Representation Expenses	Debit	Expenses for official meetings/conferences/entertainments
784	Transportation and Delivery Expenses	Debit	Cost of transporting government inventory/property/equipment
785	Storage Expenses	Debit	Cost of storing government goods/properties
786	Subscriptions Expenses	Debit	Cost of subscription to library/other reading materials
787	Survey Expenses	Debit	Expenses in the conduct of survey of government property
	Professional Services		
791	Legal Services	Debit	Cost of authorized legal services rendered by private lawyers
792	Auditing Services	Debit	Cost of services rendered by auditors and billed by the Commission on Audit
793	Consultancy Services	Debit	Cost of hiring consultants for special/technical services not available in the concerned agency
794	Environment/Sanitary Services	Debit	Cost of services for the upkeep of the environment and maintenance of sanitation
795	General Services	Debit	Expenses for general services such as carpentry/plumbing/electrical, and so on
796	Janitorial Services	Debit	Cost of janitorial services under contract with the government
797	Security Services	Debit	Cost of security services under contract with the government
799	Other Professional Services	Debit	Cost of other professional services contracted by the agency not classified under specific professional services accounts
	Repairs and Maintenance		
802	Repairs and Maintenance—Land Improvements	Debit	Cost of repairing and maintaining land improvements
811	Repairs and Maintenance—Office Buildings	Debit	Cost of repairing and maintaining office buildings
815	Repairs and Maintenance—Other Structures	Debit	Cost of repairing and maintaining structures other than those classified under specific maintenance accounts
818	Repairs and Maintenance—Leasehold Improvements, Land	Debit	Cost of repairing and maintaining improvements on land leased by the government

Account code	Account title	Normal balance	Description
819	Repairs and Maintenance—Leasehold Improvements, Buildings	Debit	Cost of repairing and maintaining improvements on buildings leased by the government
820	Repairs and Maintenance—Other Leasehold Improvements	Debit	Cost of repairing and maintaining improvements other than those classified under specific repairs and maintenance—leasehold improvements accounts
821	Repairs and Maintenance—Office Equipment	Debit	Cost of repairing and maintaining office equipment
822	Repairs and Maintenance—Furniture and Fixtures	Debit	Cost of repairing and maintaining furniture and fixtures
823	Repairs and Maintenance—IT Equipment and Software	Debit	Cost of repairing and maintaining IT equipment and software
826	Repairs and Maintenance—Machineries	Debit	Cost of repairing and maintaining machinery
829	Repairs and Maintenance—Communication Equipment	Debit	Cost of repairing and maintaining communication equipment
831	Repairs and Maintenance—Firefighting Equipment and Accessories	Debit	Cost of repairing and maintaining firefighting equipment and accessories
833	Repairs and Maintenance—Medical, Dental, and Laboratory Equipment	Debit	Cost of repairing and maintaining medical, dental and laboratory equipment
836	Repairs and Maintenance—Technical and Scientific Equipment	Debit	Cost of repairing and maintaining technical and scientific equipment
840	Repairs and Maintenance—Other Machineries and Equipment	Debit	Cost of repairing and maintaining other machinery and equipment not specifically included in the other accounts
841	Repairs and Maintenance—Motor Vehicles	Debit	Cost of repairing and maintaining motor vehicles
848	Repairs and Maintenance—Other Transportation Equipment	Debit	Cost of repairing and maintaining other transportation equipment
850	Repairs and Maintenance—Other Property, Plant, and Equipment	Debit	Cost of repairing and maintaining other types of property, plant and equipment not classified under specific repairs and maintenance accounts
854	Repairs and Maintenance—Artesian Wells, Reservoirs, Pumping Stations, and Conduits	Debit	Cost of repairing and maintaining artesian wells, reservoirs, pumping stations and conduits
860	Repairs and Maintenance—Other Public Infrastructures	Debit	Cost of repairing and maintaining other public infrastructures

Account code	Account title	Normal balance	Description
861	Repairs and Maintenance—Reforestation—Upland	Debit	Cost of repairing and maintaining upland reforestation projects
878	Donations	Debit	Amount of donations to other levels of government/individuals/ institutions
884	Miscellaneous Expenses	Debit	Amount of expenses other than those classified under specific confidential, intelligence, and extraordinary expense accounts
891	Taxes, Duties and Licenses	Debit	Amount of expenses for taxes, duties, and licenses
892	Fidelity Bond Premiums	Debit	Premiums on fidelity bond of accountable officers
893	Insurance Expenses	Debit	Premiums for the insurance of government properties
901	Bad Debts Expense	Debit	Amount of receivables estimated to be uncollectible
	<i>Depreciation</i>		
902	Depreciation—Land Improvements	Debit	Depreciation charges for the period on land improvements
911	Depreciation—Office Buildings	Debit	Depreciation charges for the period on office buildings
915	Depreciation—Other Structures	Debit	Depreciation charges for the period on other structures
916	Depreciation—Artesian Wells, Reservoirs, Pumping Stations, and Conduits ³	Debit	Depreciation charges for the period on artesian wells, reservoirs, pumping stations, and conduits
917	Depreciation—Other Public Infrastructures ³	Debit	Depreciation charges for the period on other public infrastructures
918	Depreciation—Leasehold Improvements, Land	Debit	Depreciation charges for the period on leasehold improvements, land
919	Depreciation—Leasehold Improvements, Buildings	Debit	Depreciation charges for the period on leasehold improvements, buildings
920	Depreciation—Other Leasehold Improvements	Debit	Depreciation charges for the period on other leasehold improvements
921	Depreciation—Office Equipment	Debit	Depreciation charges for the period on office equipment
922	Depreciation—Furniture and Fixtures	Debit	Depreciation charges for the period on furniture and fixtures
923	Depreciation—IT Equipment	Debit	Depreciation charges for the period on IT equipment
924	Depreciation—Library Books	Debit	Depreciation charges for the period on library books

³. This account title will require COA approval prior to its use.

Account code	Account title	Normal balance	Description
926	Depreciation—Machineries	Debit	Depreciation charges for the period on machinery
929	Depreciation—Communication Equipment	Debit	Depreciation charges for the period on communication equipment
931	Depreciation—Firefighting Equipment and Accessories	Debit	Depreciation charges for the period on firefighting equipment and accessories
933	Depreciation—Medical, Dental, and Laboratory Equipment	Debit	Depreciation charges for the period on medical, dental and laboratory equipment
936	Depreciation—Technical and Scientific Equipment	Debit	Depreciation charges for the period on technical and scientific equipment
940	Depreciation—Other Machineries and Equipment	Debit	Depreciation charges for the period on other machineries and equipment
941	Depreciation—Motor Vehicles	Debit	Depreciation charges for the period on motor vehicles
948	Depreciation—Other Transportation Equipment	Debit	Depreciation charges for the period on other transportation equipment
950	Depreciation—Other Property, Plant, and Equipment	Debit	Depreciation charges for the period on other property, plant and equipment
951	Obsolescence—IT Software	Debit	Reduction in the book value of IT software due to obsolescence/technological innovation and change in government policies
961	Loss of Assets	Debit	Amount of loss suffered by government due to theft/fortuitous events/calamities/civil unrest
969	Other Maintenance and Operating Expenses	Debit	Expenses not otherwise classified under the specific maintenance and other operating expense accounts
	FINANCIAL EXPENSES		
971	Bank Charges	Debit	Amount charged by a bank for various services rendered
972	Commitment Fees	Debit	Amount charged by creditors for unwithdrawn amount of loans
974	Documentary Stamps Expenses	Debit	Cost of documentary stamp issued/used in government transactions
975	Interest Expenses	Debit	Charges for the use of borrowed money
979	Other Financial Charges	Debit	Charges which are not classified under the specific financial expense accounts

BILLING AND COLLECTIONS

Definition

This billing and collection system refers to how water consumption by customers is recorded, billed, and collected. This system was developed for a local government-run (LGU-run) water utility. But it may also be adopted by a water cooperative, a rural waterworks and sanitation association or a small private water utility.

For an LGU-run water utility, it is assumed that the accrual method of accounting is adopted, where revenues are recognized at the time of issuance of the water bill, and not upon collection, and where accounts receivable are recorded for uncollected water bills.

Scope

The billing and collection system covers the procedures for:

- Meter reading.
- Billing of water consumption by consumers.
- Billing adjustments.
- Collection of water bills.
- Collection of other receipts such as guarantee deposits, connection fees, and other miscellaneous fees.

This section also includes procedures on how customer accounts are created, as well as the procedures on initiating maintenance of water meters and other parts of the waterworks system:

- Service application.
- Service disconnection.
- Meter maintenance.

This Guide also presents the policy statements that would support the implementation of the above procedures.

Policy Statements

Definition of Responsibilities

The billing activities are carried out initially by the billing/posting clerk and the meter readers. The collection procedures are undertaken by the bill collectors/cashier and by the billing/posting clerk. The transactions being carried out under the billing and collection process all pass through the department heads for checking and proper approval.

All collection activities of the water utility are carried out daily within the treasurer's office (TO). The overall function pertaining to collections still remains with the TO. The functions of the revenue collection clerks aim

to augment the TO's responsibilities as far as collection of water bills is concerned and is not to be construed as a replacement. The role of the water utility as an economic enterprise is centered in the monitoring of its daily collections, follow up on delinquent accounts, and in the preparation of daily and monthly reports on the revenues raised and collected as well as the status or ageing of its accounts receivables.

BASIC FEATURES

METER READING

Ideally, the waterworks' service area should be divided into meter reading zones where each zone covers about 100 customers, or enough water meters that can be read in one day. There should be enough meter readers to read all the zones within the working days of the month (excluding Saturdays, Sundays, and holidays).

Before the meter reader goes around to read meters, water bills are partially filled up with customer's data such as the name, account number, service address, previous meter reading, and unpaid bills and penalties, if any. These water bills should be prepared in the sequence of the meter reading route.

As the meter reader reads the water meter, he records the reading on the water bill, computes for the volume consumed, writes down the peso equivalent of the consumption, and adds any unpaid bills and penalties to get the total water bill due.

In the course of his rounds, if the meter reader observes any leakages, defective meters, pipes or connections, he fills up a meter maintenance order form (Exhibit 51) so that appropriate action can be taken by the technical department. This form may also be used for routine maintenance and testing of installed water meters and even for disconnection of meters of delinquent accounts.

BILLING

Water bills are filled up in the office with the name, address, customer number, meter number, unpaid water bill and penalty, and other data except the current meter reading. The meter reader brings these partially filled up water bills in his rounds. After the meter reader completes the water bills, these are recorded and posted to the customers' water service record. They are then given to the collector/cashier for collection. Bills that remain uncollected at the end of the month are returned to the billing/posting clerk where a penalty is added to the outstanding bill and/or a disconnection notice is prepared.

Complaints on water bills issued are investigated and corrected, if warranted, through the issuance of a journal voucher correcting the water bill for approval by the department head. The journal voucher is posted to the General Ledger and to the corresponding customer's water service record.

COLLECTION

The collection of water bills is scheduled on specific dates during the month. Due dates usually remain the same every month. Payments can be done either at the waterworks system's office or at the TO.

The waterworks should have a policy on delinquent accounts and disconnections. By strictly enforcing this policy, the waterworks will have a good collection efficiency record, and maintain a good cash balance to pay current obligations. Usually, a grace period of five days from the due date is tolerated before temporary disconnection is made. Permanent disconnection is made if the bill remains unpaid for another month.

All accountable officers and employees should be bonded. An official receipt should be issued by the bill collector/cashier for all collections. All collections are to be turned over to the city TO and to be deposited to the bank within the next banking day.

USE OF CUSTOMER ACCOUNT NUMBER

A customer account number is assigned to each customer indicating the location of the connection, classification of the customer, meter size, and account number.

The customer account number consists of eight digits (sequenced thus: 00-0-0-0000):

- The first two digits represent the zone number (or *barangay*).
- The third digit represents the customer classification code (for example, residential, commercial, institutional, and so on).
- The fourth digit represents the code for the meter size of the connection (for example, 1 for a ½-inch connection, 2 for a ¾-inch connection, and so on).
- The last four digits represent the customer's number.

Preferably, customers' numbers should be assigned in numerical sequence following the meter reading route. Vacant lots and houses without service connections are to be provided a reserved number to maintain the sequence. Account 0001 should be where the meter reader starts and the last number is where he ends his route for a particular zone.

A master list of service connections (Exhibit 52) can be maintained to keep track of the number of service connections made to date, and whether they are active or not.

CLASSIFICATION OF SERVICE CONNECTION

The classification of water service connection is basically divided into three groups (a) residential; (b) commercial; and (c) industrial. The definition of these customer categories vary among utilities but can be generally defined as:

- Residential usually pertains to private households which consume water for daily household activities such drinking, washing, cooking, and laundry.
- Commercial usually pertains to establishments where trade or business or professional service is carried out for profit. This may also include nonresidential or nonindustrial business enterprises and other establishments where the Government, by notification, declared such establishment as commercial.

The Commercial group could be further subdivided since this may involve diverse firms or establishments. This group can be categorized as Commercial A, B or C, where:

- Commercial A may include businesses that do not use water as part of their business, such as groceries, gift shops, photo services, offices, drugstores, wholesale and retail outlets, and furniture shops.
 - Commercial B may include businesses where their business uses water in their operations, such as restaurants, beauty salons, and car washes.
 - Commercial C may include apartments where there is only one central meter for all the households occupying the apartments.
- Industrial pertains to manufacturing or construction firms. This may also include mining, fishing, and forestry establishments.

There are other forms of selling water to special customers.

- There is wholesale or bulk sale, where water is sold to a customer who resells this water to other individual consumers within a specified service area.
- There are also sales to institutions like government offices, schools, churches and mosques and hospitals.
- Another form of water sale is for fire protection. This is a stand-by service that provides large quantities of water in the transmission lines for use in the event of fire or calamities.

Narrative Procedures

Meter Reading

See also Flow Chart 1: Meter Reading Procedures.

Responsible staff/unit	Activity
Billing/posting clerk	<ol style="list-style-type: none"> Based on the sequence of the meter reading route (Exhibit 44), prepares water bill (Exhibit 43) in triplicate by filling up these data: <ul style="list-style-type: none"> Address of customer; Name of consumer; and Customer account number. Retrieves the consumer's water service record (Exhibit 45) and copies these data into the water bill: <ul style="list-style-type: none"> Meter number; Previous month's meter reading; Amount of unpaid bills; Penalty on unpaid bills, if applicable; and Adjustments from previous bill. Fills up the due date for payment of the water bill.
Meter reader	<ol style="list-style-type: none"> Receives the partially filled up water bills from the billing/posting clerk. Reads the water meter and completes the water bill with these data: <ul style="list-style-type: none"> Current meter reading; Volume consumed this period, computed as: <ul style="list-style-type: none"> Current meter reading Less: Previous month's meter reading Amount due, by finding the equivalent water bill for the volume consumed in the water rates table (Exhibit 46); and Total amount due, by adding the amount due for this month and the amount of unpaid bills from previous months. Initials the water bill. Gives copy 1 of the water bill to the consumer. If the consumer is not around, leaves the water bill in a conspicuous place. At the end of the day, hands over to the billing/posting clerk copies 2 and 3 of water bills for water meters that have been read.

Billing

See Flow Chart 2: Billing Procedures.

Responsible staff/unit	Activity
Billing/posting clerk	<ol style="list-style-type: none"> Receives copies 2 and 3 of water bills served, from meter readers. Checks correctness of computation of volume used and amount of water bill due. Summarizes water bills issued in the report of daily water bills issued (Exhibit 36) in three copies. This report contains these data: <ul style="list-style-type: none"> Customer name, number, and type; Meter reading (m³) of current and previous month; Volume consumed;

Responsible staff/unit	Activity
	<ul style="list-style-type: none"> • Amount of water bill for above consumption; • Unpaid water bill, previous month; • Penalty charges on bills unpaid as of previous month; and • Total water bill due. <p>Then forwards, on a daily basis, this report and corresponding water bills (copy 2) to the waterworks head.</p> <p>3. Posts to the corresponding consumer's water service record (Exhibit 45) the following data from the water bill:</p> <ul style="list-style-type: none"> • Meter reading date; • Water bill number; • Current reading; • Consumption this period; and • Amount due this period. <p>4. Files copy 3 of water bills numerically and copy 3 of the daily water bills issued by date.</p>
Waterworks head	<p>5. Receives the daily water bills issued (two copies) and the corresponding water bills from the billing/posting clerk. Counts the water bills received and checks with the quantity in the daily water bills issued.</p> <p>6. Test checks correctness of water bills computation and penalty charges. A journal entry will be prepared to correct any error. The correction will be reflected in the succeeding month's water bill, and forwards the documents to:</p> <ul style="list-style-type: none"> • Bookkeeper: Daily water bills issued copy 1; and • Collector: Daily water bills issued copy 2, and all water bills copy 2.
Bookkeeper	<p>7. Receives from the waterworks head the daily water bills issued copy 1, records total amount of current water bills for the month in the bill register, and files the daily billing summaries by date.</p>

Billing Adjustments

These procedures apply to adjustments in water bills because of errors in meter reading and/or computation of the water bill.

Responsible staff/unit	Activity
Billing/posting clerk	<ol style="list-style-type: none"> 1. If there is a complaint on the billed consumption or in the computation of the water bill, investigates the meter reading and the computation. 2. If the complaint warrants an adjustment of the water bill, brings this to the attention of the bookkeeper.
Bookkeeper	<ol style="list-style-type: none"> 3. Verifies the complaint and the propriety of an adjustment of the water bill. 4. If warranted, adjusts the water bill by preparing a Journal Entry Voucher, or JEV (Exhibit 35), in two copies and submits this to the waterworks head.

Responsible staff/unit	Activity
Waterworks head	5. Reviews the propriety of the adjustment and approves the JEV. Returns both copies of the JEV and the supporting water bill and complaint document to the bookkeeper.
Bookkeeper	6. Forwards copy 2 of JEV to the billing/posting clerk, posts the JEV to the General Ledger, and files the JEV copy 1 with the supporting documents numerically.
Billing/posting clerk	7. Posts the JEV correcting the customer's water bill in the customer's water service record based on copy 2, and files the JEV by customer name. The correction is reflected in the succeeding water bill.

Collections

See also these flow charts:

- Flow Charts 3 and 4: Water Bill Collections: Daily Activities; and
- Flow Chart 5: Water Bill Collections: Monthly Activities.

Responsible staff/unit	Activity
Daily Activities	
Revenue collection clerk	<ol style="list-style-type: none"> 1. Daily, receives these reports from the waterworks head: <ul style="list-style-type: none"> • Daily water bills issued (copy 2); and • Water bills supporting each daily water bill issued. Then, checks completeness of water bills listed in the daily water bills issued, and correctness of amounts. 2. Records total number of water bills received and amount of these bills in collector's accountability report (two copies), Exhibit 47. 3. Sorts water bills numerically and files these temporarily awaiting their payment. 4. When a consumer comes to pay, receives copy 1 of the water bill from the consumer and the corresponding payment. Retrieves copy 2 from the numerical file. 5. Prepares an official receipt (Exhibit 33) in three copies, indicating these data in them: <ul style="list-style-type: none"> • Date of collection; • Name of customer; • Customer account number; • Amount received; • Form of payment – cash or check; and • Check number, if payment is by check. 6. Stamps copies 1 and 2 of the water bill with 'PAID', and distributes the official receipt and water bill as follows: <ul style="list-style-type: none"> • Official receipt copy 1: To consumer, together with copy 1 of the water bill;

Responsible staff/unit	Activity
	<ul style="list-style-type: none"> • Official receipt copy 2: To the municipal treasurer together with copy 2 of the water bill and abstract of daily collection; and • Official receipt copy 3: Stub file. <p>7. At the end of the day, summarizes water bills collected in the abstract of daily collections (Exhibit 48) in two copies, with the following data:</p> <ul style="list-style-type: none"> • Official number; • Water bill number; • Customer account number; • Customer name; and • Amount received, classified into: <ul style="list-style-type: none"> – Current bill; – Arrears—for consumption, penalties; and – Other charges. <p>8. Updates the collector’s accountability report for water bills collected.</p> <p>9. Remits all collections together with the abstract of daily collections (Exhibit 48) and the matching official receipts (copy 2) to the municipal treasurer for verification and approval.</p>
Municipal treasurer	<p>10. Checks that total cash received from water bills corresponds to total in abstract of daily collections.</p> <p>11. Deposits in the bank account of the waterworks all collections of water bills together with other nonwater bill collections.</p>
Billing/posting clerk	<p>12. Checks that the total in the abstract and the sum of the amounts in the official receipt tally. Posts each official Receipt and paid Water Bill to the corresponding Consumer’s Water Service Record.</p>
Monthly Activities	
Revenue collection clerk	<p>13. At the end of the month, summarizes water bills not collected in the report of unpaid bills (Exhibit 49) in three copies.</p> <p>14. Updates the collector’s accountability report for unpaid water bills and forwards these to the waterworks head:</p> <ul style="list-style-type: none"> • Collector’s accountability report (copy 1); • Report of unpaid bills (copy 1); and • Corresponding unpaid water bills (copy 2); <p>Then, files these reports by date:</p> <ul style="list-style-type: none"> • Collector’s accountability report (copy 2); and • Report of unpaid bills (copy 2).
Waterworks head	<p>15. Files unpaid water bills temporarily by water bill number, for inclusion in the next batch of water bills to be assigned to the bill collector, together with the next month’s collector’s accountability report.</p> <p>Forwards these to the municipal accountant to control water bills:</p> <ul style="list-style-type: none"> • Collector’s accountability report (copy 1); and • Report of unpaid bills (copy 1).
Municipal accountant	<p>16. Checks collector’s accountability report (copy 1) to ensure that the ending balance of the bill collector’s accountability is correct.</p>

Miscellaneous Receipts

Responsible staff/unit	Activity
Revenue collection clerk	<ol style="list-style-type: none"> 1. Asks payor for type of payment. 2. Receives payment from customer. 3. Issues official receipt in triplicate, indicating the nature of payment, and distributes these as follows: <ul style="list-style-type: none"> • Copy 1 to the payor; • Copy 2 to the cashier; and • Copy 3 into the stub file. 4. Includes the official receipts for this type of payment in the abstract of daily collections (Exhibit 48).

Service Application

Responsible staff/unit	Activity
Customer service clerk	<ol style="list-style-type: none"> 1. Receives service application form (Exhibit 50) from the applicant. 2. Verifies the name and address of the applicant and determines if the application is for a new connection or from a delinquent customer applying for a reconnection. <ul style="list-style-type: none"> • If application is for an entirely new location, forwards the service application form to the utility man for the next process. But if the applicant is not the owner of the property or building where the service will be installed, asks applicant to first secure approval and signature of owner of the property or building on the service application form. • If application is for reconnection of a previously disconnected line, asks applicant to settle the unpaid water bill and pay for the reconnection fee and other charges first. 3. When the above requirements are fulfilled, forwards the service application form to the utility man for an evaluation and assessment of the applicant's premises.
Utility man	<ol style="list-style-type: none"> 4. Receives the service application form in three copies from the customer service clerk. 5. Verifies the distribution system for adequacy of the network to reach and service the application. 6. If the site cannot be served by the network, fills up the appropriate box in the service application form 7. If the site is within the network, inspects the site of the service connection, and the adequacy of the plumbing and other materials of the applicant. 8. Returns the form to the customer service clerk to inform the applicant about the status of the application.

Responsible staff/unit	Activity
Customer service clerk	<p>9. If the proposed site of the connection cannot be served by the network, informs the applicant about this.</p> <p>10. If the proposed connection can be installed, writes the amount of fees and charges that have to be paid by the applicant, as follows:</p> <ul style="list-style-type: none"> • Installation fee; • Meter deposit; and • Guaranty deposit for future consumption. <p>11. Gives form to applicant.</p>
Applicant	<p>12. Pays the service connection fees and other charges.</p>
Revenue collection clerk	<p>13. Receives three copies of the service application form (Exhibit 50) from the applicant.</p> <p>14. Checks amount of assessment fees indicated in the form.</p> <p>15. Receives payment from customer and ties up the amount collected with the amount in the service application form.</p> <p>16. Issues official receipt in triplicate and distributes these as follows:</p> <ul style="list-style-type: none"> • Copy 1 to the payor; • Copy 2 to the cashier; and • Copy 3 into the stub file. <p>17. Writes down the payment details on the service application form:</p> <ul style="list-style-type: none"> • Official receipt number; • Date paid; and • Amount paid. <p>18. Includes the official receipts for this type of payment in the abstract of daily collections (Exhibit 48).</p> <p>19. Gives the service application form and applicant's copy of the official receipt to the applicant</p>
Customer service clerk	<p>20. Upon confirmation of payment of the application fees and other charges by the applicant, forwards the service application form to the water utility manager for approval of the installation.</p>
Water utility manager	<p>21. Approves and signs the service application.</p>
Utility man	<p>22. Writes down on the form the materials given free by the utility needed to install the connection.</p> <p>23. Withdraws these materials from the stock room.</p> <p>24. Installs the service connection.</p> <p>25. Fills up the new service connection data portion of the service application form:</p> <ul style="list-style-type: none"> • Water meter brand; • Water meter serial number; • Water meter size; and • Meter reading at the time of installation. <p>26. After the installation of the new service connection, returns the approved and fully filled up service application form, in three copies, to the customer service clerk.</p>

Responsible staff/unit	Activity
Customer service clerk	<p>27. When the new service connection has been installed, assigns the following to the new connection and writes these on the service application form:</p> <ul style="list-style-type: none"> • Service connection number; and • Customer account number. <p>28. Distributes the service application form as follows:</p> <ul style="list-style-type: none"> • Copy 1 to the billing/posting clerk, to prepare a new water service record for the new customer; • Copy 2 to the bookkeeper, as the basis for recording the materials used in installing the new connection; and • Copy 3 is filed based on the service connection number.
Billing/posting clerk	<p>29. Receives copy 1 of the service application form from the customer service clerk.</p> <p>30. Creates a new water service record for the new connection.</p> <p>31. Records the data of the new customer in the master list of service connections (Exhibit 52).</p>
Bookkeeper	<p>32. Receives copy 2 of the service application form from the customer service clerk.</p> <p>33. Accumulates these copies. At the end of the month, creates a journal entry for the cost of materials used in making new connections.</p> <p>34. Accounts for the numerical sequence of all accountable forms as follows:</p> <ul style="list-style-type: none"> • Official receipts; and • Water bills.

Service Disconnection

Responsible staff/unit	Activity
Revenue collection clerk	<ol style="list-style-type: none"> 1. Asks payor what the payment is for. 2. Receives payment from customer. 3. Issues official receipt in triplicate, indicating the nature of payment, and distributes these as follows: <ul style="list-style-type: none"> • Copy 1 to the payor; • Copy 2 to the cashier; and • Copy 3 into the stub file. 4. Includes the official receipts for this type of payment in the abstract of daily collections (Exhibit 48).

Meter Maintenance

Responsible staff/unit	Activity
Meter reader	<ol style="list-style-type: none"> 1. While doing his rounds in meter reading, fills up the meter maintenance order form (Exhibit 51) in two copies, when he notices instances needing repair or service. 2. Gives the filled up form to the customer service clerk for disposition of the service.
Customer service clerk	<ol style="list-style-type: none"> 3. Receives the maintenance order form. 4. Records this in a meter maintenance order logbook as a basis for monitoring action done on the order. 5. Assigns the meter maintenance order to the utility man.
Utility man	<ol style="list-style-type: none"> 6. Receives the maintenance order from the customer service clerk. 7. Acts on the meter maintenance order. 8. Informs the customer if meter dismounting or replacement is needed and schedules when this should be done. 9. Dismounts or replaces the meter on the scheduled date. 10. After completion of the order, returns the form to the customer service clerk to update the entry in the logbook.
Customer service clerk	<ol style="list-style-type: none"> 11. Records the action done on the meter maintenance order. 12. If the action involved the dismounting or replacement of the water meter, gives copy 2 of the meter maintenance order form to the billing/posting clerk. 13. Files copy 1 of the meter maintenance order form by number.
Billing/posting clerk	<ol style="list-style-type: none"> 14. Receives copy 2 of the meter maintenance order form for actions involving the dismounting or replacement of a water meter. 15. Updates the water service record of the concerned customer. 16. Files copy 2 of the meter maintenance order form by date.

Exhibit 43:
WATER BILL

Republic of the Philippines Municipality of Antequera, Bohol Antequera Waterworks System			
Account Number	Meter Serial Number	Water Meter Brand	Meter Reading Date
16-11-0149	12345	Asahi	1/5/2009
Customer Name			
Timbal, Abelio			
Customer Address			
11 Cabawan St.			
Customer Classification			Due Date
Public Tap	Residential / Institutional	Commercial / Industrial	1/20/2009
Our staff came by today to read your water meter and computed your consumption and water bill as follows:			
Consumption	Meter reading this month	1432	cubic meters
	Meter reading last month	- 1420	cubic meters
	Consumption this month	= 12	cubic meters
Amount Due	Water bill this month	54	Pesos
	Unpaid water bill as of last month *	+ 100	Pesos
	Penalty *	+ 10	Pesos
	TOTAL WATER BILL DUE	= 164	Pesos
* If the unpaid water bill last month has been settled, the amount due will only be the water bill for this month.			
<i>THIS IS NOT A PROOF OF PAYMENT.</i>			
Water Bill No. 201	Billing Clerk	Meter Reader	Bill Received by:

Distribution: 1 – Customer; 2 – Billing/Posting Clerk; 3 – Stub File

Exhibit 44:
METER READING ROUTE

Republic of the Philippines
Municipality of Antequera, Bohol
Antequera Waterworks System

Zone	Address	Consumer Name	Consumer Account Number
16	1 Cabawan St.	de Jesus, Celia	16-11-0923
16	2 Cabawan St.	Casas, Alberto	16-11-0951
16	3 Cabawan St.	King, Angela	16-11-0239
16	4 Cabawan St.	Lopez, Gabriel	16-11-0395
16	5 Cabawan St.	Aquino, Carlos	16-11-0159
16	6 Cabawan St.	Castro, Edgar	16-11-0593
16	7 Cabawan St.	Jorge, Miguel	16-11-0932
16	8 Cabawan St.	Paras, Rogelio	16-11-0403
16	9 Cabawan St.	Trinidad, Rafael	16-11-0743
16	10 Cabawan St.	Villanueva, Danilo	16-13-0343
16	11 Cabawan St.	Timbal, Abelio	16-11-0149
16	95 Cabawan St.	Estrella, Geronimo	16-11-0715

Exhibit 45:
WATER SERVICE RECORD

Republic of the Philippines
Municipality of Antequera, Bohol
Antequera Waterworks System

Account No:		16-11-0149		Zone	16	Meter Serial No.	12345
Consumer Name:		Timbal, Abello		Meter Size	1/2"	Meter Brand:	Asahi
Address:		11 Cabawan St.		Customer Classification:	Residential	Date Connection Started:	6/15/2000
Date	Reference	Meter Reading	Consumption (m ³)	Water Bill Amount	Penalty, Other Charges	Payment	Balance
6/1/2007		1407					
7/1/2007	WB 001	1420	13	65.00			65.00
7/20/2007	OR 222				-	20.00	45.00
7/31/2007				56.00			101.00
8/1/2007	OR 312					101.00	-
							-
							-
							-
							-
							-
							-
							-
							-
							-
							-

Exhibit 46:
WATER RATES TABLE

Antequera Waterworks System
Water Rates Table
Effective from January 1, 2000

Consumption (cu.m.)	Rate			
	Residential	Institutional	Commercial	Industrial
Minimum 0-8 cu. m.	37.00	37.00	80.00	80.00
9	42.00	42.00	90.00	90.00
10	47.00	47.00	100.00	100.00
11	52.00	52.00	110.00	110.00
12	57.00	57.00	120.00	120.00
13	62.00	62.00	130.00	130.00
14	67.00	67.00	140.00	140.00
15	72.00	72.00	150.00	150.00
16	77.00	77.00	160.00	160.00
17	82.00	82.00	170.00	170.00
18	87.00	87.00	180.00	180.00
19	92.00	92.00	190.00	190.00
20	97.00	97.00	200.00	200.00
21	103.00	103.00	210.00	210.00
22	109.00	109.00	220.00	220.00
23	115.00	115.00	230.00	230.00
24	121.00	121.00	240.00	240.00
25	127.00	127.00	250.00	250.00
26	133.00	133.00	260.00	260.00
27	139.00	139.00	270.00	270.00
28	145.00	145.00	280.00	280.00
29	151.00	151.00	290.00	290.00
30	157.00	157.00	300.00	300.00
31	164.00	164.00	310.00	310.00
32	171.00	171.00	320.00	320.00
33	178.00	178.00	330.00	330.00
34	185.00	185.00	340.00	340.00
35	192.00	192.00	350.00	350.00
36	199.00	199.00	360.00	360.00
37	206.00	206.00	370.00	370.00
38	213.00	213.00	380.00	380.00
39	220.00	220.00	390.00	390.00
40	227.00	227.00	400.00	400.00
41	235.00	235.00	410.00	410.00
42	243.00	243.00	420.00	420.00
43	251.00	251.00	430.00	430.00
44	259.00	259.00	440.00	440.00
45	267.00	267.00	450.00	450.00

Exhibit 47:

COLLECTORS' WATER BILLS ACCOUNTABILITY REPORT

Republic of the Philippines
Municipality of Antequera, Bohol
Antequera Waterworks System

Date	Received		Collected			Returned		Balance			
	No. of Bills	Amount	Collector's Initial	No. of Bills	Amount	Treasurer's Initial	No. of Bills	Amount	No. of Bills	Amount	Accountant's Initial
2-Jan-09	100	15,000		0	-			-	100	15,000	
5-Jan-09	95	14,250		13	1,950			-	182	27,300	
6-Jan-09	98	14,700		15	2,250			-	265	39,750	
7-Jan-09	102	15,300		17	2,550			-	350	52,500	
8-Jan-09	97	14,550		16	2,400			-	431	64,650	
9-Jan-09	95	14,250		10	1,500			-	516	77,400	
12-Jan-09	87	13,050		13	1,950			-	590	88,500	
13-Jan-09	78	11,700		12	1,800			-	656	98,400	
14-Jan-09	96	14,400		12	1,800			-	740	111,000	
15-Jan-09	100	15,000		12	1,800			-	828	124,200	
16-Jan-09	102	15,300		755	113,250			-	175	26,250	
19-Jan-09	104	15,600		135	20,250			-	144	21,600	
20-Jan-09	96	14,400		75	11,250			-	165	24,750	
21-Jan-09	97	14,550		64	9,600			-	198	29,700	
22-Jan-09	88	13,200		56	8,400			-	230	34,500	
23-Jan-09	86	12,900		189	28,350			-	127	19,050	
26-Jan-09	106	15,900		69	10,350			-	164	24,600	
27-Jan-09	100	15,000		54	8,100			-	210	31,500	
28-Jan-09	104	15,600		33	4,950			-	281	42,150	
29-Jan-09	97	14,550		45	6,750			-	333	49,950	
30-Jan-09	72	10,800		256	38,400		149	22,350	0	-	

Exhibit 48:

ABSTRACT OF DAILY COLLECTIONS

Republic of the Philippines
Municipality of Antequera, Bohol
Antequera Waterworks System
January 9, 2009

Water Bill No.	Official Receipt Number	Consumer Account No.	Amount Collected	Current	Arrears	Penalty	Others
Total Amount Collected							
Total Number of Water Bills Collected							
Prepared by:				Received by:			
Bill Collector				Municipal Treasurer			

Exhibit 50:
APPLICATION FOR SERVICE CONNECTION

Antequera Water Utility System Municipality of Antequera, Bohol			Application For Service Connection		
To Be Filled Up By Applicant					
Name of Applicant			Telephone No.		
Current Address of Applicant			Barangay		
Address where connection will be installed <i>Make a sketch of the location of the proposed service at the back of this form.</i>					
Type of Service Connection <input type="checkbox"/> Residential <input type="checkbox"/> Commercial <input type="checkbox"/> Institutional <input type="checkbox"/> Industrial			If applicant is not the owner of the building or property where the service connection will be installed, accomplish the boxes below.		
			Name of building/property owner		
Size of Service Connection Requested <input type="checkbox"/> 1/2" <input type="checkbox"/> 3/4" <input type="checkbox"/> 1" <input type="checkbox"/> Other			Address of building/property owner		
I hereby apply for a water service connection as stated above. I understand that the connection will be installed once it is approved and all charges have been paid by me. I assume responsibility for the water meter and all water that passes through the connection. I will conform to the rules and regulations prescribed by the Water utility System.			Telephone number of building/property owner I hereby bind myself to pay any unpaid water bills of the occupant in case he vacates the premises permanently.		
Signature of Applicant		Date	Signature of Building/Property Owner		Date
To Be Filled Up By The Water Utility System					
Investigation of Application			Amount of Charges Due		
System is <input type="checkbox"/> Adequate <input type="checkbox"/> Not adequate		Applicant's plumbing installation is <input type="checkbox"/> Available <input type="checkbox"/> Not available	Installation fee Meter deposit Guaranty deposit for future consumption Total Amount Due		
			Paid under OR#	Date Paid	Amount Paid
Investigated by: Date			Charges assessed by Date		
Approved for Installation Water utility Manager					
Materials Used				New Service Connection Data	
Description	Qty	Unit	Amount	Service Connection No.	
				Customer Account No.	
				Water Meter Serial No.	
				Water Meter Brand	
				Water Meter Size	
				Reading at time of installation	
				Installed by Date	
Total Cost of Materials					

Exhibit 51:

METER MAINTENANCE ORDER FORM

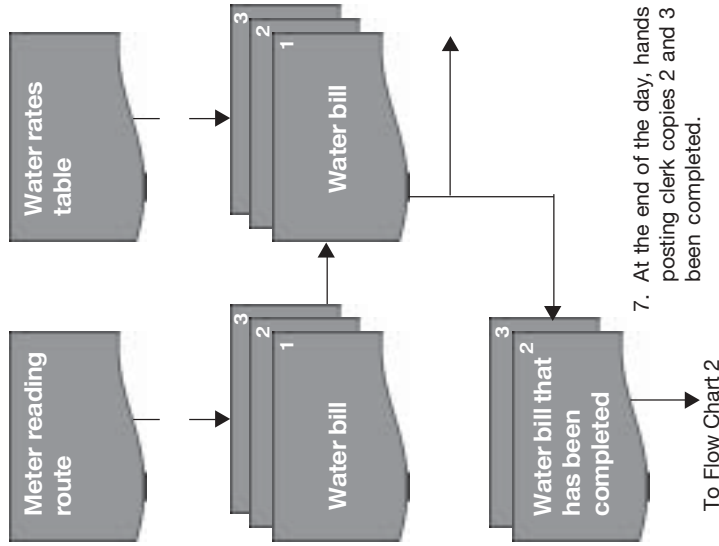
Antequera Water Utility System Municipality of Antequera, Bohol		METER MAINTENANCE ORDER		
Date prepared	Date forwarded to Maintenance Department		Date completed	
Customer name			Customer account no.	
Service address			Meter number	
			Meter brand	
Barangay		Zone	Meter size	
Condition of the water meter				
<input type="checkbox"/> Stuck <input type="checkbox"/> Leak before the meter <input type="checkbox"/> Leak after the meter <input type="checkbox"/> Cannot be read—blurred / dirty <input type="checkbox"/> Others (give details)				
Action required			Submitted by:	
<input type="checkbox"/> Test meter <input type="checkbox"/> Install meter <input type="checkbox"/> Repair leakage <input type="checkbox"/> Repair meter <input type="checkbox"/> Dismount meter <input type="checkbox"/> Calibrate <input type="checkbox"/> Others (give details)			_____ Meter reader Date	
To be filled up by Maintenance Department				
	Meter number	Meter brand	Meter size	Meter reading
Meter dismantled				
Meter installed				
Action done/remarks			Maintenance done by	
			_____ Utility man Date	

FLOW CHART 1: METER READING PROCEDURES

Billing/posting clerk | **Meter reader**

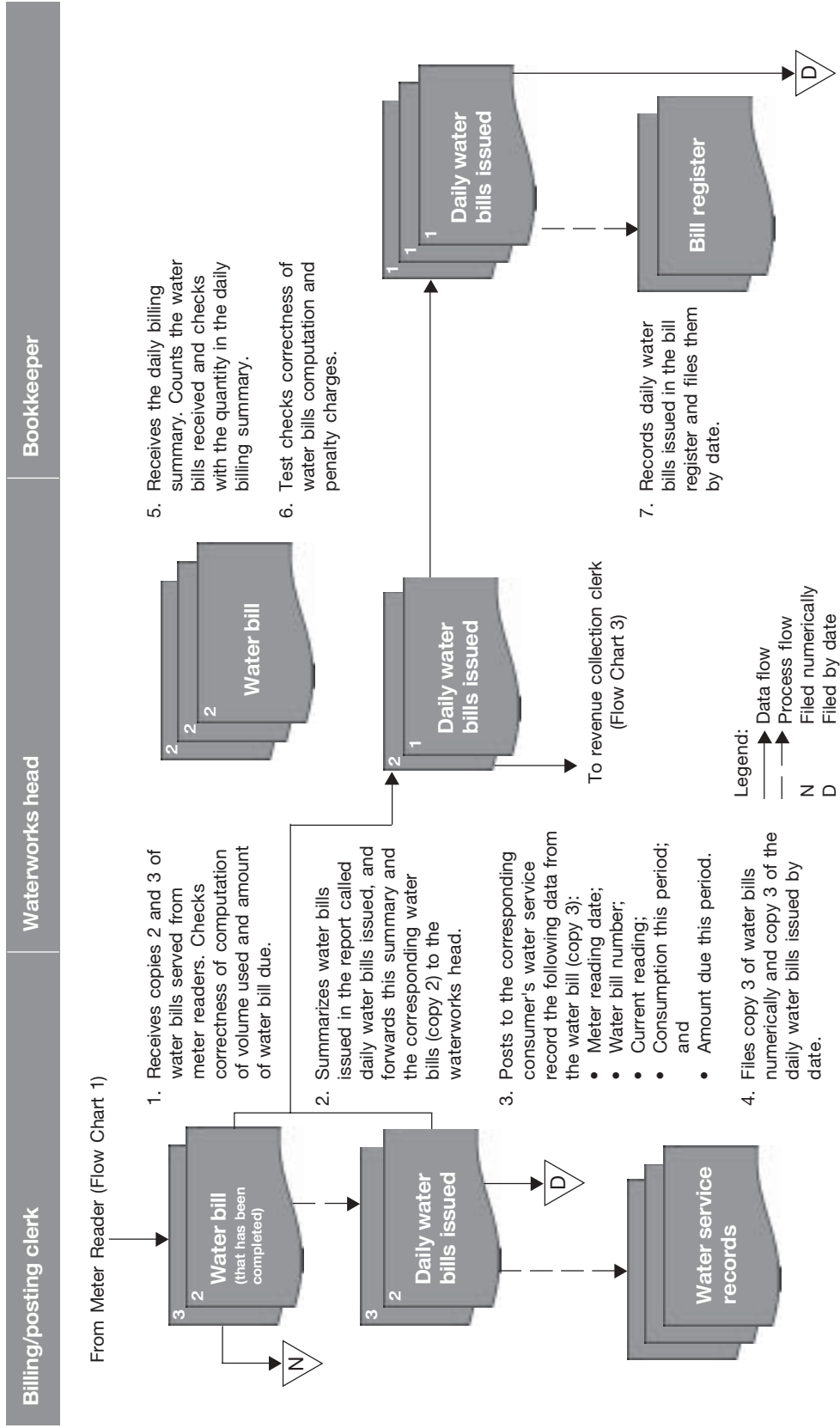
1. Based on the sequence of the meter reading route (Exhibit 44), prepares water bill (Exhibit 43) in triplicate by filling up these data coming from the consumer's water service record (Exhibit 45):
 - Address of customer;
 - Name of customer; and
 - Customer account number.
2. Retrieves the consumer's water service record and copies these data into the water bill:
 - Meter number;
 - Previous month's meter reading;
 - Amount of unpaid bills; and
 - Penalty on unpaid bills, if applicable.
3. Fills up the due date for payment of the water bill.

4. Receives the preaddressed water bills from the billing/posting clerk. Reads the water meter and completes the water bill with these data:
 - Current meter reading;
 - Volume consumed this period, computed as:
 - Previous month's meter reading
 - Less: Current meter reading
 - Amount due, by finding the equivalent water bill for the volume consumed in the water rates table (Exhibit 46); and
 - Total amount due, by adding the amount due for this month and the amount of unpaid bills from previous months.
5. Initials the water bill.
6. Gives copy 1 of the water bill to the consumer.
7. At the end of the day, hands over to the billing/posting clerk copies 2 and 3 of water bills that have been completed.



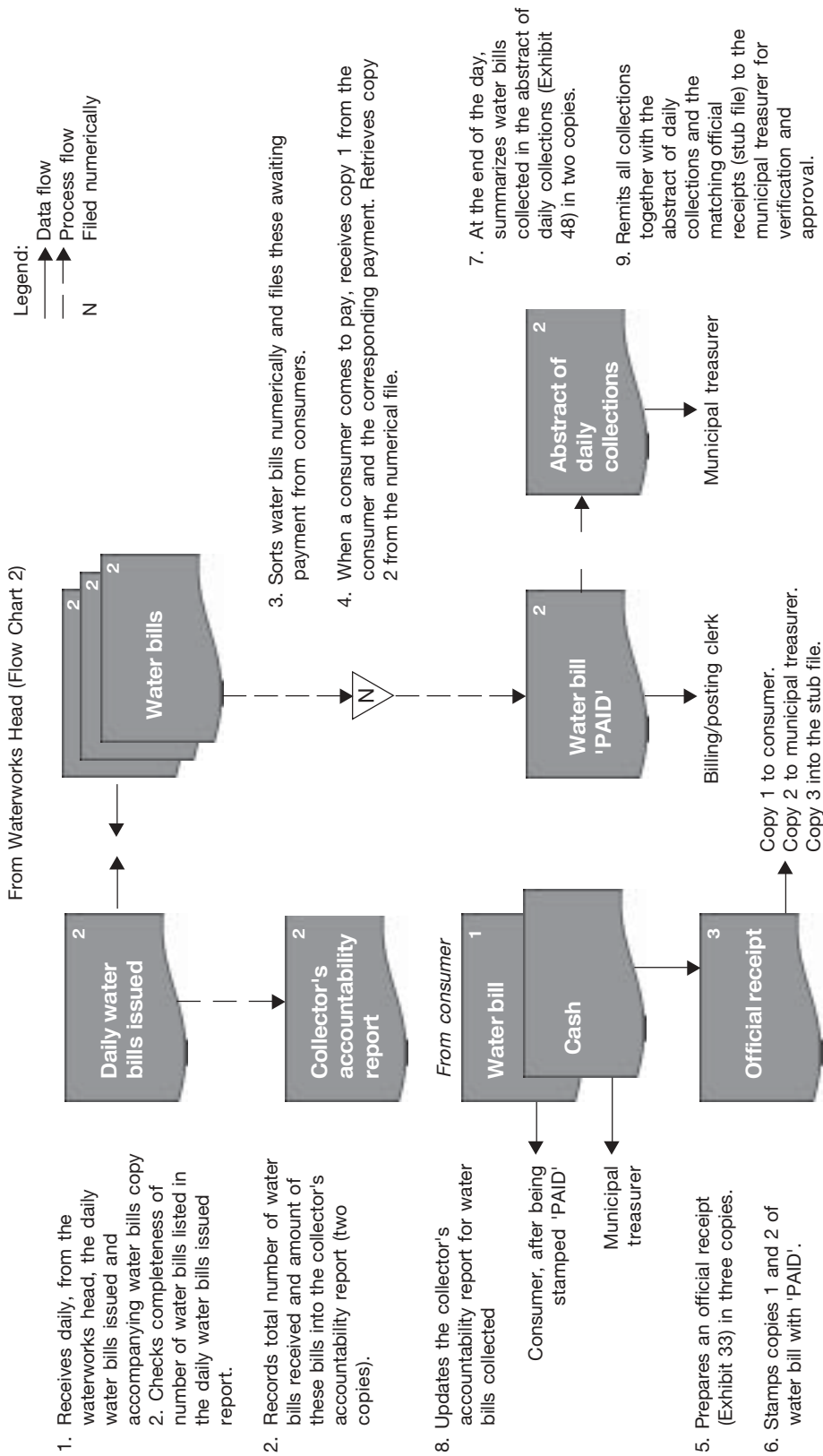
Legend:
 ———> Data flow
 ———> Process flow

FLOW CHART 2: BILLING PROCEDURES

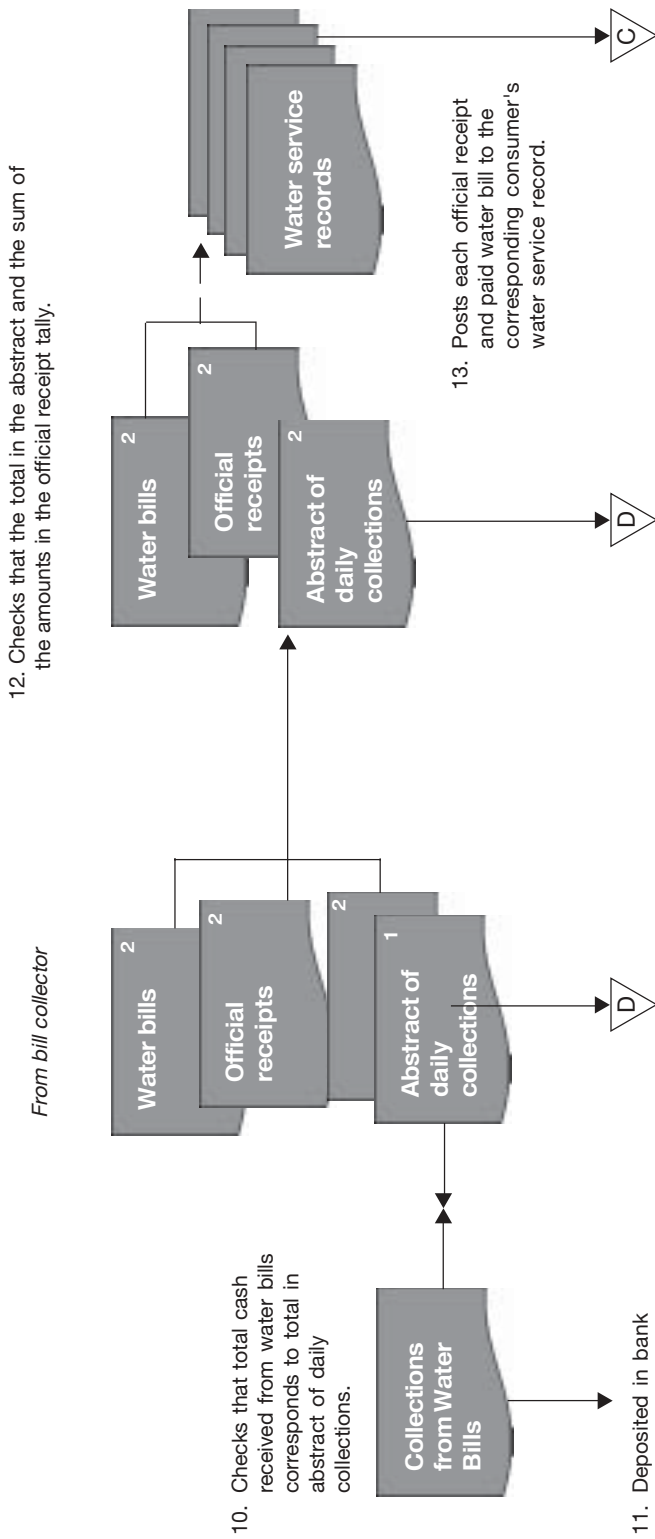


FLOW CHART 3: WATER BILL COLLECTIONS: DAILY ACTIVITIES (1)

Revenue collection clerk



FLOW CHART 4: WATER BILL COLLECTIONS: DAILY ACTIVITIES (2)



12. Checks that the total in the abstract and the sum of the amounts in the official receipt tally.

13. Posts each official receipt and paid water bill to the corresponding consumer's water service record.

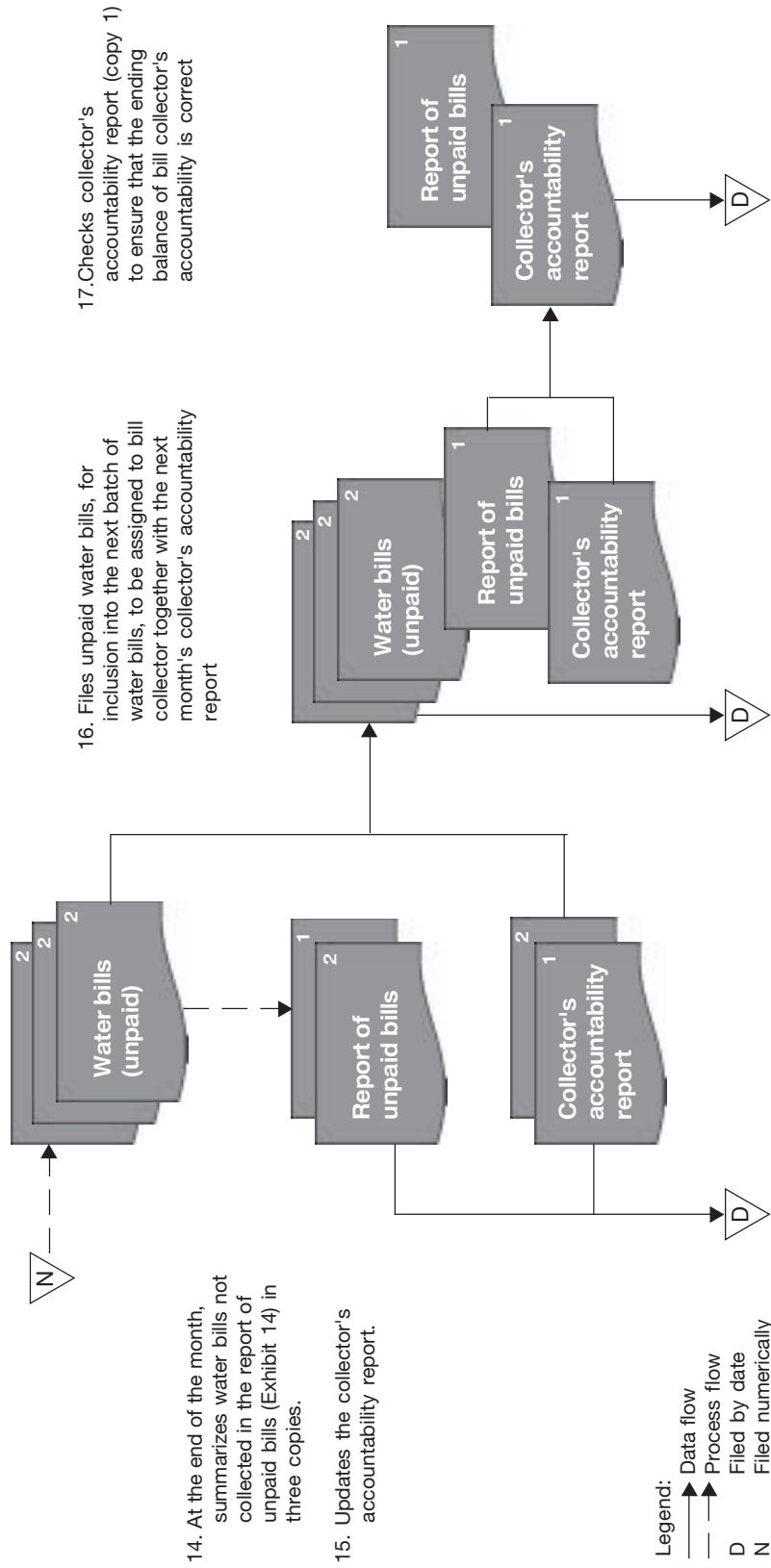
10. Checks that total cash received from water bills corresponds to total in abstract of daily collections.

11. Deposited in bank together with other nonwater bill collections.

- Legend:
- Data flow
 - Process flow
 - Comparison of data
 - D Filed by date
 - C Filed by consumer name

FLOW CHART 5: WATER BILL COLLECTIONS: MONTHLY ACTIVITIES

Bill collector	Waterworks head	Municipal accountant
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February 2009

The Water and Sanitation Program (WSP) is a multidonor partnership created in 1978 and administered by the World Bank to support poor people in obtaining affordable, safe, and sustainable access to water and sanitation services. WSP provides technical assistance, facilitates knowledge exchange, and promotes evidence-based advancements in sector dialogue. WSP has offices in 25 countries across Africa, East Asia and the Pacific, Latin America and the Caribbean, South Asia, and in Washington, D.C. WSP's donors include Australia, Austria, Canada, Denmark, Finland, France, the Bill and Melinda Gates Foundation, Ireland, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States, and the World Bank. For more information, please visit www.wsp.org

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