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DIOSCORO O. ODSINADA • Certified Public Accountants • Audit • Tax & Management Consulting

Report of Independent Auditor

The Board of Directors
BENQUET ELECTRIC COOPERATIVE, INC.
La Trinidad, Benquet
PHILIPPINES

Report on the Financial Statements

We have audited the accompanying financial statements of **Benquet Electric Cooperative, Inc.,** which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in equities and loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of materials, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements presents fairly, in all material respects, the financial position of **Benquet Electric Cooperative, Inc.** as of December 31, 2014 and 2013, and of its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards, with the Emphasis of Matter below.

Emphasis on Matter

We draw attention to the Notes to Financial Statements more particularly to the accumulated loss of P337,807,091 (Note 14) as of December 31, 2014, including the net loss of P1,952,229 for the year then ended.

This accumulated loss has impaired 14.9% of the total equity base of P2,260.457,444 and 9.9% of the total assets of P3,414,968,922. This includes the appraisal surplus of P787,608,968. This means that every peso of equity is already at the reduced worth of P0.85 centavos; whereas, every peso of asset is at the reduced worth of P0.90 centavos.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2014 required by the Bureau of Internal Revenue on taxes, duties and license fees disclosed in Note 35 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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CDA Accreditation No. CEA No. 0859
ERC Accreditation No. 1-13-028
PTR No. 0680105C, Jan. 13, 2015Quezon City

April 10, 2015
Quezon City, Philippines

BENGUET ELECTRIC COOPERATIVE, INC.

(A Nonstock, Not-for-Profit Electric Cooperative)

STATEMENT OF FINANCIAL POSITION

	Notes	As of December 31, 2014	2013
ASSETS			
Noncurrent Assets			
Property and equipment	8 & 15	2,222,086,691	2,124,790,218
Other non-current assets	10	126,851,253	152,422,796
Total Noncurrent Assets		2,348,937,944	2,277,213,014
Current Assets			
Cash and cash equivalents	4	465,397,376	174,943,704
Investments	6	30,085,431	186,505,754
Receivables, net	5	175,015,567	200,647,901
Materials and supplies inventories	9	29,568,468	34,333,937
Prepayments and other current assets	7	28,177,045	22,943,075
Total Current Assets		728,243,887	619,374,371
TOTAL ASSETS		**3,077,181,831**	**2,896,587,385**

	Notes	2014	2013
EQUITIES AND LIABILITIES			
Equities and Loss			
Membership	11	679,850	655,545
Donated capital	12	453,327,429	391,640,260
Reinvestment fund for sustainable CAPEX	13	1,018,741,196	941,192,287
Revaluation surplus	15	787,608,968	872,599,895
Accumulated loss	14	(337,807,091)	(597,798,158)
Total Equities and (Loss)		1,922,550,353	1,608,289,829
Noncurrent Liabilities			
Long-term debt	16	267,842,025	291,180,173
Consumers' deposit	17	204,780,465	194,440,797
Retirement liability	20	194,131,420	202,209,367
Total Noncurrent Liabilities		666,753,910	687,830,337
Current Liabilities			
Current portion of long-term debt	16	27,467,344	11,613,146
Accounts payables and accrued expenses	18 & 19	460,410,224	588,854,073
Total Current Liabilities		487,877,568	600,467,219
TOTAL LIABILITIES AND EQUITIES		**3,077,181,831**	**2,896,587,385**

See Accompanying Notes to Financial Statements

BENGUET ELECTRIC COOPERATIVE, INC.
(A Nonstock, Not-for-Profit Electric Cooperative)

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year Ended December 31, 2,014	2,013
NET ENERGY SALES	23	2,546,115,882	2,519,655,655
COST OF ENERGY SOLD	25	2,186,959,704	2,195,378,603
GROSS INCOME		359,156,178	324,277,052
OPERATING EXPENSES			
Administrative and general	27	112,943,442	110,025,397
Distribution	26	131,598,230	125,524,661
Consumers' accounts	26	58,943,626	57,928,604
		303,485,298	293,478,662
DEPRECIATION	8, 26 & 27	84,669,499	135,022,415
FINANCE COST	28	17,859,666	13,523,704
TOTAL EXPENSES		406,014,463	442,024,781
LOSS FROM OPERATIONS		(46,858,285)	(117,747,729)
Rental income		7,904,799	8,217,388
Interest income		2,674,904	1,756,486
Others, net		34,326,353	33,134,065
OTHER INCOME	24	44,906,056	43,107,939
NET LOSS		**(1,952,229)**	**(74,639,790)**

See Accompanying Notes to Financial Statements

BENGUET ELECTRIC COOPERATIVE, INC.

(A Nonstock, Not-for-Profit Electric Cooperative)

STATEMENT OF CHANGES IN EQUITIES AND LOSS

	Notes	As of December 31, 2,014	2,013
EQUITIES			
Membership	11		
Balance beginning		655,545	618,770
Receipt of additional membership		24,305	36,775
		679,850	655,545
Donated capital	12		
Balance, beginning		334,964,949	334,964,949
Receipt of additional donations		118,362,480	-
		453,327,429	334,964,949
Reinvestment fund for sustainable CAPEX	13		
Balance, beginning		941,192,287	866,716,279
Receipt of additional contributions		77,548,909	74,476,008
		1,018,741,196	941,192,287
LOSS	14		
Accumulated loss			
Balance, beginning		(597,798,158)	(438,519,330)
Prior period adjustment, net		261,943,296	(84,639,038)
Net loss		(1,952,229)	(74,639,790)
		(337,807,091)	(597,798,158)
REVALUATION SURPLUS	15		
Balance, beginning		872,599,895	922,179,502
Revaluation surplus adjustment		(84,990,927)	(49,579,607)
		787,608,968	872,599,895
TOTAL EQUITIES AND LOSS		**1,922,550,353**	**1,551,614,518**

See Accompanying Notes to Financial Statements

BENGUET ELECTRIC COOPERATIVE, INC.
(A Nonstock, Not-for-Profit Electric Cooperative)

STATEMENT OF CASH FLOWS

	Notes	As of December 31, 2,014	2,013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss		(1,952,229)	(74,639,790)
Depreciation and amortization	8, 26 & 27	84,669,499	135,022,415
Prior period adjustment	14	261,943,296	(84,639,039)
Revaluation surplus	15	(84,990,927)	(49,579,607)
Operating income before working capital changes		259,669,639	(73,836,021)
Decrease (increase) in:			
Receivables	5	25,632,334	(30,763,612)
Materials and supplies inventories	9	4,765,469	(12,787,433)
Other current assets	7	(5,233,970)	(7,654,046)
Other noncurrent assets	10	25,571,543	(27,632,411)
Increase (decrease) in:			
Trade payables and accrued expenses	18 & 19	(128,443,849)	190,508,453
Consumers' deposit	17	10,339,668	23,917,553
Other non current liability	20	(8,077,947)	32,868,176
Net cash provided by operating activities		184,222,888	94,620,659
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Property and equipment	8 & 15	(181,965,971)	(113,368,463)
Investments	6	156,420,323	(103,517,749)
Net cash used in investing activities		(25,545,648)	(216,886,212)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in:			
Long-term debt	16	(7,483,950)	93,448,093
Membership	11	24,305	36,775
Donated capital	12	61,687,169	-
Members' contibution for sustainable CAPEX	13	77,548,909	74,476,007
Net cash provided by (used in) financing activities		131,776,433	167,960,875
NET INCREASE (DECREASE) IN CASH		290,453,672	45,695,322
CASH AT BEGINNING OF YEAR	4	174,943,704	129,248,382
CASH AT END OF YEAR	4	465,397,376	174,943,704

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

1. COOPERATIVE INFORMATION AND AUTHORIZATION FOR ISSUE OF FINANCIAL STATEMENTS

- **Cooperative Information**

Benguet Electric Cooperative, Inc., (the "Cooperative") was incorporated on October 5, 1973 under the provisions of Republic Act (R.A.), No. 6038 which created the National Electrification (NEA), as amended by Presidential Decree Nos. 269 and 1645. Its primary purpose is to supply, promote, and encourage the fullest use of electric service to its members on an area of coverage basis. It was first energized on November 1973.

Its registered office address is Alapang, La Trinidad, Benguet. The cooperative's franchise area for electric distribution covers Baguio City and the 13 municipalities of Benguet.

As provided in R.A.9136 otherwise known as "Electric Power Industry Reform Act of 2001," the Cooperative opted as a non-stock cooperative registered with NEA and governed by the provisions of P.D.269.

- **Authorization for issue of financial statements**

The accompanying financial statements of the cooperative were approved and authorized for issue by the Board of Directors in its meeting on April 7, 2015.

- **Administrative Regulations**

R.A. 10531. "National Electrification Administration Reform Act of 2013".
Department Circular No. 2013-07 provides for the Implementing Rules and Regulations (IRR) of this law. The Rules are promulgated under the authority of the Department of Energy (DOE), to formulate, in coordination with NEA and the CDA, and in consultation with the electric cooperatives, to implement the act and to establish a framework for introducing structural, reforms in the NEA and the electric cooperatives. This Act further amends for the purpose P.D. 269, as amended, otherwise known as the "National Electrification Administration Decree."

Some salient points follow:

1. **Total Electrification.** Pursue a review and analysis of the Distribution Development Plan of the electric cooperatives, to confirm the viable and unviable areas that the electric cooperatives have electrified and will electrify.

2. **Supervisory Powers of NEA Over Electric Cooperatives.** (a) Issue orders, rules and regulations, *motu propio* or upon petition of third parties, to conduct investigations, referenda and other similar actions on all matters affecting the electric cooperative; (b) appoint independent board of directors in the electric cooperatives.

The supervisory and oversight functions of the NEA, as may be detailed in this Act and its IRR, shall be applicable to both stock and non-stock cooperatives.

Electric cooperatives which register with the CDA shall continue to enjoy the benefits under this Act. **Despite the registration of the electric cooperative under the CDA or SEC, the NEA shall retain its supervisory and disciplinary power over them** in the conduct of its operation as electric distribution utilities.

3. **NEA Orders, Rulings or Decisions Not Subject to Injunctive Orders.** Only the Court of Appeals may restrain, but only upon the posting of a bond sufficient to cover the liabilities and expenditures arising during the pendency of the writ or injunction or temporary restraining order; provided further, that the injunction shall only be effective for a period not exceeding sixty (60) days.

4. **NEA Step-in Rights in Cases of Ailing Cooperatives.** Immediate take over from the Board of Directors the operations of the ailing electric cooperative. Within a reasonable period after take over, the NEA may convert it to either a stock cooperative registered with the CDA or a stock cooperative registered with the SEC. The NEA may appoint or assign third persons to the Board or may create a management team for the purpose. In the exercise of step-in rights under this Act, the NEA follows the guidelines in determining ailing cooperatives, and shall strictly observe due process of law.

5. **NEA shall set guidelines for the minimum qualifications of the Board of Directors, disqualifications of a director,** and persons who shall be ineligible to be elected or be appointed as member or an officer to run the electric cooperative.

R.A. 9520, Philippine Cooperative Code of 2008

On February 17, 2009, R.A. 9520, otherwise known as the Philippine Cooperative Code of 2008, was enacted into law, amending various provisions in the 1990 Cooperative Code of the Philippines or R.A. 6938. The new cooperative code outlines in greater detail the requirements in professionalizing the management and operation of cooperatives, and provides a monitoring and evaluation tool for the cooperatives to conduct self-assessments in terms of its managerial, financial, and social objectives. Among the provisions introduced by R.A. 9520 applicable to electric cooperatives are as follows:

1.) All rates and tariffs of electric cooperatives registered under the Code shall be subject to the rules on application and approval of and by the Energy Regulatory Commission for distribution utilities;

2.) The Cooperative is entitled to congressional allocations, grants, subsidies and other financial assistance for rural electrification which can be coursed through the Department of Energy, the Authority and/or local government units. The electric cooperatives registered under this Code can avail of the financial services and technical assistance provided by the government financial institutions and technical development agencies on terms respecting their independence as autonomous cooperatives;

3.) All condoned loans, subsidies, grants and other assistance shall form part of the donated capital and funds of the electric cooperatives and as such, it shall not be sold, traded nor be divided into shareholdings at any time; these donated capital/fund shall be evaluated for the sole purpose of determining the equity participation of the members: *Provided,* that in the case of dissolution of the cooperative, said donated capital shall be subject to escheat;

4.) The electric cooperative shall issue and distribute shares certificates under the name of their members, taking into consideration their previous equity contributions, the amortization component through the payments made, capital build-up and other capital contributions.

R.A. 9136, EPIRA of 2001

On June 8, 2001, R.A. No. 9136 known as the "Electric Power Industry Reform Act of 2001" (EPIRA), was passed into law. The salient provisions on the Implementing Rules and Regulations of the Act, among others, are the following:

1.) Division of electric power industry into sectors, namely: generation, transmission, distribution and supply;

2.) Creation of the wholesale electricity spot market (WESM) which will provide the mechanism for determining the price of electricity not covered by bilateral contracts between sellers and purchasers of electricity;

3.) Condonation of all outstanding financial obligation of all electric cooperatives with the NEA and other government agencies incurred for the purpose of financing the rural electrification program as of June 26, 2001 through the assumption of Power Sector Assets Liabilities Management Corporation (PSALM) of the said loans, which shall be implemented and completed within 3 years from the effectivity of the Act;

4.) Unbundling of retail rate into 5 functions namely, generation, transmission, distribution, supply and metering, thereby making the rate components cost-based and transparent; and

5.) Granting the option to electric cooperatives to convert into either (1) a stock cooperative under the Cooperative Development Authority; (2) a stock corporation under the Corporation Code of the Philippines or; (3) remain as a nonstick cooperative registered with NEA and governed by the provisions of P.D. No. 269.

Also under the Act, a lifeline rate or a discounted rate is granted to residential consumers within 10 years who are considered low-income captive market end-users or to those who cannot afford to pay the electric bill. Consumers with minimum consumption per kilowatt hour are entitled to the lifeline rate as follows:

Consumption	Discount
20 & below	50%
21 to 25 kwh	40%
26 to 30 kwh	30%
31 to 35 kwh	20%
36 to 40 kwh	10%
41 to 45 kwh	5%

ERC Regulations, RSEC-WR

On September 23, 2009, the Energy Regulatory Commission issued Resolution No. 20, Series of 2009 – Rules for Setting the Electric Cooperative Wheeling Rates (RSEC-WR). The rule establishes a cap on the Distribution, Supply and Metering (DSM) charges that the electric cooperatives can charge to its customers. All on-grid electric cooperatives are classified into (7) groups depending on its size and structure. Group F, where the Cooperative belongs, charges its customers an average DSM charge of ₱0.9900 plus ₱.2178 mcc per kilowatt hour. This DSM cap will be reviewed by the ERC on the next regulatory period which is 2013

In compliance to the RSEC-WR, the Cooperative filed an application of the adjustment in rates last November 20, 2009 and filed an "Amended Application with Manifestation". A provisional authority was issued by ERC on January 11, 2010. The order authorizes the Cooperative to implement the difference in the existing and new DSM rate in three (3) phases. The first phase took effect on January 2010, second phase on January 2011, and the third phase is on January 2012.

- **Preferential Tax Treatments**

CDA, R.A. 9520
In addition, under this law, the Cooperative shall enjoy the following exemptions as provided in the Code:

1.) The transactions of members with the cooperative shall not be subject to any taxes and fees, including not limited to final taxes on members' deposits and documentary tax;

2.) Cooperatives with accumulated reserves and undivided net savings of not more than Ten million pesos (P10,000,000.00) shall be exempt from all national, city, provincial, municipal or barangay taxes of whatever name and nature for transacting business with non-members. Such cooperatives shall be exempt from customs duties, advance sales or compensating taxes on their importation of machineries, equipment and spare parts used by them and which are not available locally a certified by the Department of Trade and Industry (DTI), provided that such importation shall not be sold nor the beneficial ownership thereof be transferred to any person until after five (5) years;

3.) Cooperatives with accumulated reserves and divided net savings of more than Ten million pesos (P10,000,000.00) shall be exempt of the following taxes at the full rate:

   (a) Income Tax – On the amount allocated for interest on capitals: Provided, That the same tax is not consequently imposed on interest individually received by members: Provided, further, That cooperatives regardless of classification, are exempt income tax from the date of registration with the Authority;

   (b) Value-Added Tax – On transactions with non-members: *Provided, however,* That cooperatives duly registered with the Authority; are exempt from the payment of value-added tax; subject to Section 109, sub-sections L, M and N of Republic Act No. 9337, the National Internal Revenue Code, as amended: *Provided,* That the exempt transaction under Section 109 (L) shall include sales made by cooperatives duly registered with the Authority organized and operated by its member to undertake the production and processing of raw materials or of goods produced by its members into finished or process products for sale by the cooperative to its members and non-members: *Provided, further,* That any processed product or its derivative arising from the raw materials produced by its members, sold in the name and for the account of the cooperative: *Provided, finally,* That at least twenty-five *per centum* (25%) of the net income of the cooperatives is returned to the members in the form of interest and/or patronage refunds;

   (c) All other taxes unless otherwise provided herein; and

   (d) Donations to charitable, research and educational institutions and reinvestments to socioeconomic projects within the area of operation of the cooperative may be tax deductible.

4.) All cooperatives, regardless of the amount of accumulated reserves and undivided net savings shall be exempt from payment of local taxes and taxes on transactions with banks and insurance companies: *Provided,* That all sales or services rendered for non-members shall be

5.) subject to the applicable percentage taxes sales made by producers, marketing or service cooperatives: *Provided further,* That nothing in this article shall preclude the examination of the books of accounts or other accounting records of the cooperative by duly authorized internal revenue officers for internal revenue tax purposes only, after previous authorization by the Authority;

6.) In areas where there are no available notaries public, the judge, exercising his *ex officio* capacity as notary public, shall render service, free of charge, to any person or group of persons requiring the administration of oath or the acknowledgment of articles of cooperation and instruments of loan from cooperatives not exceeding Five Hundred Thousand Pesos (P500,000.00);

7.) Any register of deeds shall accept for registration, free of charge, any instrument relative to a loan made under this Code which does not exceed Two Hundred Fifty Thousand Pesos (P250,000.00) or the deeds of title of any property acquired by the cooperative or any paper or document drawn in connection with any action brought by the cooperative or with any court judgment rendered in its favor or any instrument relative to a bond of any accountable officer of a cooperative for the faithful performance of his duties and obligations;

8.) Cooperatives shall be exempt from the payment of all court and sheriff's fees payable to the Philippine Government for and in connection with all actions brought under this Code, or where such actions is brought by the Authority before the court, to enforce the payment of obligations contracted in favor of the cooperative;

9.) All cooperatives shall be exempt from putting up a bond for bringing an appeal against the decision of an inferior court or for seeking to set aside any third party claim: *Provided,* That a certification of the Authority showing that the net assets of the cooperative are in excess of the amount of the bond required by the court in similar cases shall be accepted by the court as a sufficient bond; and

10.) Any security issued by cooperatives shall be exempt from the provisions of the Securities Act provided such security shall not be speculative.

- **Permanent Income Tax Exemption Under P.D. 269**

Effective January 1, 2002, the Cooperative's tax and duty exemption privileges had expired after thirty (30) calendar years of operation pursuant to the provision of P.D. No. 269. Hence, the Cooperative has voluntarily subjected its operation to income tax beginning January 1, 2002. However, the Bureau of Internal Revenue in its opinion per Delegated Authority Ruling No. 108-2006 dated March 14, 2006, stated that the 30 year period or until completely free of indebtedness whichever comes first, prescription of tax exemption privileges enjoyed by electric cooperatives covers only franchise tax, value added tax, percentage tax and other taxes except income tax. . However, income derived from other sources not related to its primary purpose is subject to income tax.

As expressly provided in No. 1 of Section 39 (a) of P.D. No. 269, and in said Ruling, the exemption of Electric Cooperative from income tax is permanent in nature. As such, the Cooperative is covered by the exemption from income tax on its electric operation.

- **Other Tax Privileges / Limitations**

BIR Revenue Memorandum Circular No. 72-2003

This RMC, dated October 20, 2003, provides that electric cooperatives registered with the NEA are exempt from:

1.) Franchise tax under Section 119 of the Tax Code of 1997;

2.) Value added tax, on sales relative to the generation and distribution of electricity as well as their importation of machinery and equipment, including spare part, which shall be used in the generation and distribution of electricity;

3.) Income taxes for which they are already liable;

4.) 3% percentage tax under Section 116 of the Tax Code of 1997; and

5.) All national government taxes and fees, including franchise, filing, recordation, license or permit fees or taxes. Provided however, that the said exemption shall end on December 31 of the thirtieth full calendar year after the said date of cooperative's organization or conversion, or until it shall become completely free of indebtedness incurred by borrowing, whichever event first occurs. Provided further, that the period of exemption for a new cooperative formed by consolidation, as provided for in Section 29 of PD No. 269, to begin from as the date of the beginning of such period for the constituent consolidating cooperative which was most recently organized or converted under PD No. 269.

BIR Revenue Memorandum Circular No. 74-2013
This RMC, dated November 26 2013, provides that electric cooperatives registered with the NEA are subject to:

1.) Income tax from its electric service operations and all other national government taxes and fees, including VAT, filing, recordation, license or permit fees or taxes beginning the year after the thirtieth full calendar year after the cooperative's organization as stated in its registration papers or until it shall become completely free of indebtedness incurred by borrowing, whichever comes first;

2.) 20% final income tax on interest from any currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements and royalties derived from sources within the Philippines;

3.) 7.5% final income tax on interest income derived from a depository bank under the expanded foreign currency deposit system;

4.) Capital Gains Tax on sales or exchanges of real property classified as capital assets or shares of stocks;

5.) Documentary stamp taxes on transactions of cooperatives dealing with non-members, except with banks and insurance companies, Provided that whenever one party to the taxable document enjoys the exemption from DST, the other party who is not exempt shall be the one directly liable for the tax;

6.) VAT billed on purchase of goods and services;

7.) Value-added tax, on sales relative to the generation and distribution of electricity as well as their importation of machineries and equipment, including spare parts, which shall be directly used in the generation and distribution of electricity; and

8.) All other taxes for which the ECs are not otherwise expressly exempted by any law.

Limits of Exemption under R.A. 9337, EVAT 2005
On May 24, 2005, the President signed into law the Expanded Value Added Tax Law of 2005 (the "Act"), which took effect on November 1, 2005. The Act, among others, introduced the following changes:

1.) New transactions subject to VAT include, among others, sale of electricity by generation, transmission and distribution companies and services of franchise grantees of electric utilities.

2.) Power of the President upon the recommendation of the Secretary of Finance to increase the rate of the VAT to 12%, after any of the following conditions has been satisfied: (i) VAT collection as a percentage of gross domestic product (GDP) of the previous year exceeds 2 and 4/5%;or(ii) National government deficit as a percentage of GDP of the previous year exceeds 1 and ½%. On February 1, 2006, the President increased the 10% VAT rate to 12% as the conditions were met.

3.) Input VAT on capital goods should be spread evenly over the useful life or 60 months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds P1 million.

4.) Input VAT credit in every quarter shall not exceed 70% of the output VAT (amended to 100% under Revenue Regulation No. 2-2007).

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

(a) Statement of Compliance

The accompanying financial statements are prepared in conformity with Philippine Accounting Standards (PAS) for each type of assets, liabilities, income and expenses, and with the general practices on rural electric cooperatives as prescribed by the National Electrification Administration (NEA), and the Energy Regulatory Commission (ERC).

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and Presentation Currency

The financial statements are presented in Philippine peso, which is the Cooperative's functional currency. All financial information has been rounded to the nearest peso except as otherwise indicated.

(d) Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the new and amended PFRS and PIC Interpretations, when applicable, as follows:

(1) Effective in 2013

PAS 7	Amendments Financial Statements: Disclosures-Transfer of Financial
PAS 10	Consolidated Financial Statements
PAS 11	Joint Ventures/ Arrangements
PAS 12	Disclosures: Interest in other entities
PAS 13	Fair Value Measurements
PAS 19	Revised Standards on Fringe Benefits
PAS 28	Investments in Associates and Joint Ventures

PAS 7, ***Amendments Financial Statements: Disclosures – Transfers of Financial Assets –*** Transfers of Financial Assets (Amendments to PAS 7), require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. Earlier application is permitted. Entities are not required to provide the disclosures for any period that begins prior to July 1, 2011.

PAS 10, ***Consolidated Financial Statements:*** -- This establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This refers to the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity. Parent is an entity that controls one or more entities. Subsidiary is an entity that is controlled by another entity. An investor controls an investee when (a) the investor has power over the investee; (b) investor has exposure or rights, to variable returns from its involvement with the investee; (c) investor has the ability to use its power over the investee to affect the amount of the investor's returns. Under PAS 27, a parent that was a wholly-owned or a virtually wholly-owned subsidiary is not required to prepare consolidated financial statements (control is intended to be temporary).

PAS 11, ***Joint Arrangements:*** – This outlines the accounting by entities that jointly control an arrangement. Joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement (in writing) which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint control is classified: as joint venture (parties have rights to the net assets of the arrangements or joint operation (parties have rights to the assets, and obligations for liabilities, relating to the arrangements). Separate vehicle (outside of PFRS 11, not a joint arrangement) is a separately identifiable financial structure, including separate legal entities recognized by statute, regardless of whether those entities have a legal personality.

The core principle under this standard is that a party to a joint arrangement determines the type of joint arrangement in which it is involved, by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

PAS 12, ***Disclosures Interest in other Entities:*** – This standard provides ample disclosures on financial instruments and basic information on financial risk management objectives and policies, cash flow interest rate risk, credit risk, liquidity risk and capital management. Also, the standard requires disclosure of interests in other entities that have an interest in a subsidiary, a joint arrangements, an associate or an unconsolidated structural entity. An entity shall disclose the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss. The BOD reviews and agrees on the policies for managing each of these risks and the effects of such disclosures.

PAS 13, ***Fair Value Measurements:*** – This standard applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. To increase consistency and comparability in fair value measurement and related disclosures, this standard establishes a fair value hierarchy that categorises into 3 levels the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 inputs) and the lowest priority to unobservable inputs (Level 5 inputs).

PAS 19, ***Revised Defined Benefit Components:*** - The defined benefit cost comprises service cost and net interest on the defined benefit liability or asset (both in profit or loss); and the measurements recognized in OCI. The service cost comprises current service cost, past service cost, and gains or losses on curtailments and settlements. Net interest on defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate.Deferral of actual gains and losses (AGL) is not permitted. AGLs are recognized immediately in OCI. Reclassifications to profit or loss are not permitted. All changes in the net defined benefit liability (asset) which arise from changes in the defined benefit plan are included in "service cost" and recognized fully in profit or loss when they occur. Items of re-measurements include AGL, the differences between the return on plan assets and interest income on plan assets and changes in asset ceiling.

PAS 28, ***Investment in Associates & Joint Ventures:*** – This prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

(2) Effective in 2014

PAS 27	Amendments to (PAS 10, PAS 12 & PAS 27) Investment Entities
PAS 32	Amendments to Financial Instruments: Presentation
PAS 34	Amendments on Interim Financial Reporting
PAS 36	Amendments to Impairment of Assets
IFRIC 21	Levy-Imposed by Government

PAS 27 – ***Amendments*** **to (PAS 10, PAS 12 and PAS 27) Investment Entities.** These apply to the twin objectives of setting standards in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent; and in accounting for investment in subsidiaries, jointly controlled entities, and associates when an equity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. Intragroup balances, transactions, income and expenses should be eliminated in full. Intragroup losses may indicate that an impairment loss on the related asset should be recognized.

Consolidated financial statements must be prepared using uniform accounting policies for like transactions and other events in similar circumstances. Minority interests should be presented in the consolidated balance sheet within equity, but separate from the parent's stockholders' equity.

PAS 32 – *Amendments* to Financial Instruments: Presentation – Asset and Liability Offsetting. Offsetting, otherwise known as 'netting' takes place when entities present their rights and obligations to each other as a net amounts in their statements of financial position. It specifies that a financial asset and a financial liability should be offset and the net amount reported when, and only when, an entity currently has a legally enforceable right of set-off the amounts; and intends either to settle on a net basis or to realise the financial asset and settle the financial liability simultaneously. The costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity, net of any related income tax benefit.

PAS 34 – *Amendments* on Interim Financial Reporting. This standard applies when an entity prepares an interim financial report, without mandating when an entity should prepare such a report. Permitting less information to be reported than in annual financial statements (on the basis of providing an update to those financial statements), this standard prescribes the minimum content of an interim financial report. An interim period is a shorter than a full financial year (most typically a quarter or half-year). An interim financial report contains either a complete or condensed set of financial statements for an interim period.

If the financial statements are condensed, they should include, at a minimum, each of the headings and sub-totals included in the most recent annual financial statements and the explanatory notes required. Additional line-items or notes should be included if their omission would make the interim financial information misleading. If the annual financial statements were consolidated (group) statements, the interim statements should be group presentations as well. If the company's business is highly seasonal, the standard encourages disclosure of financial statements for the comparable year-to-date period of the immediately preceding financial year. Entities covered by such matters as interim financial reporting are decided by national governments, securities regulators, stock exchanges and accounting bodies.

PAS 36 – *Amendments* to Impairment of Assets. Recoverable Amount Disclosures for Non-Financial Assets. The objective of this standard is to ensure that assets are carried at no more than their recoverable amount, and to define how recoverable amount is determined. Impairment loss pertains to the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. An impairment loss is recognized whenever recoverable amount is below carrying amount. It is recognized as an expense (unless it relates to a revalued asset where the impairment loss is treated as a revaluation decrease. Adjust depreciation for future periods. If it is not possible to determine the recoverable amount (fair value less costs of disposal and value in use) for the individual asset, then determine recoverable amount for the asset's cash-generating unit. CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

IFRIC 21 – Levy Imposed by Government. This standard provides guidance on when to recognise a liability for levy, both for levies that are accounted for in accounted for as provisions, contingent liabilities and contingent assets and those where the timing and amount of the levy is certain. This interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. Also, this clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred. The liability is recognized progressively if the obligating event occurs over a period of time. If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. The same recognition principles are applied in interim financial reports.

(e) The Significant Accounting Policies Adopted Are Set Out Below

- **Cash and Cash Equivalents**

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less from date of acquisition and are subject to an insignificant risk of change in value. Cash in banks earns interest at respective bank deposit rates (Note 4).

- **Financial Instruments**

Financial assets are classified as either financial assets at fair value through profit or loss (FVPL) or at amortized cost. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate. The Cooperative determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at every statement of financial position date (Note 31).

Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

The Cooperative recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instruments or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Determination of Fair Value

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and ask price for short positions). When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques which include recent arm's length market transactions, net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Financial Assets or Financial Liabilities at FVPL

Financial assets or financial liabilities at FVPL include financial assets or financial liabilities held for trading and those designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Dividends, interests, and gains or losses on financial instruments held for trading are recognized in profit and loss.

Financial instruments may be designated at initial recognitions as at FVPL if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities re recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets and liabilities, or both financial assets and financial liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial instruments at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in trading gain – net on financial assets and financial liabilities designated at FVPL. Interest earned is recorded in interest income, while dividend income is recorded in other income according to the terms of the contract, or when the right of the payment has been established.

As of December 31, 2014 and 2013, the Cooperative has no financial asset or financial liability at FVPL.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit and loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the statement of financial position date. Otherwise, these are classified as noncurrent assets.

Investments

These assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Cooperative has the positive intention and ability to hold to maturity. Where the Cooperative sells other than an insignificant amount of investments, the entire category is deemed tainted and reclassified as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment in value.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the investments are derecognized and impaired, as well as through the amortization process (Note 6).

Other Financial Liabilities

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in profit and loss when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2014 and 2013, the Cooperative's other financial liabilities pertain to accounts payable and accrued expenses and loans.

Loans and Borrowings

These are classified in this category if these are not designated at FVPL under the fair value option upon inception. These include liabilities arising from operations or through borrowings.

Interest-bearing loans and borrowings are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortized cost using the EIR method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position.

Other financial liabilities are initially recognized at fair value less any direct transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through amortization process.

The Cooperative's power supply account and other payables, accrued expenses and other current liabilities, and long-term debts are classified under this category (Note 16).

- **Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements as the related assets and liabilities are presented gross in the statements of financial position.

Income and expenses are not offset unless required or permitted by an accounting standard or when the gains and losses arise from a group of similar transactions such as trading gains or losses and foreign exchange gains or losses.

- **Impairment of Financial Assets**

The Cooperative assesses at each statement of financial position date whether a financial asset or group of financial assets are impaired.

Impairment on Assets Carried at Fair Value

For assets carried at fair value, impairment is the difference between the cost and the fair value. For AFS investments, the cumulative loss that had been recognized directly in equity (resulting from decline in fair value) shall be removed from equity and recognized in profit and loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity and recognized in profit and loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit and loss.

Impairment losses recognized in profit and loss for an investment in an equity instrument classified as AFS shall not be reversed through profit and loss.

Impairment on Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of loss shall be recognized in "Other income (expenses)" in the statement of comprehensive income.

Impairment on Assets Carried at Cost

If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

- **Reversal of Impairment Loss**

  If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in "Other income" in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its cost or amortized cost at the reversal date.

- **Derecognition of Financial Assets and Financial Liabilities**

  Financial Assets

  A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

  (a) the rights to receive cash flows from the asset have expired;

  (b) the Cooperative retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or

  (c) the Cooperative has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

  When the Cooperative has transferred its rights to receive cash flows from an asset and has neither transferred or retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Cooperative's continuing involvement in the asset.

  A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

  When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

  Financial Liabilities

  A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

  When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a derecognition of the carrying value of the original liability and the recognition of a new liability at fair value, and any resulting difference is recognized in profit and loss.

- **Non-Financial Assets**

Inventories

Inventories, which comprise of raw materials (warehouse merchandise), are stated at the lower of cost or net realizable value (NRV). Cost of warehouse merchandise is the purchase cost and is determined using the weighted-average method; NRV is the current replacement cost of each inventory. As of December 31, 2014 and 2013, the Cooperative has inventory items on hand amounting to ₱29,568,468 and ₱34,333,937, respectively (Note 9).

Prepayments and Other Current Assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged against income as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the statement of financial position as current assets when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Cooperative's normal operating cycle, whichever is longer. Otherwise prepayments are classified as non-current assets (Note 7).

Prepaid Input Value-Added Taxes

Prepaid input value-added taxes (VAT) represent VAT imposed on the Cooperative by its suppliers for the acquisition of goods and services required under taxation laws and regulations. The input VAT is recognized as an asset and will be used to offset the Cooperative's current VAT liabilities and any excess will be claimed as tax credits. Input VAT is stated at their estimated net realizable values (Note 10).

Utility Plant, Property and Equipment

Utility plant (except land) is carried at cost less accumulated depreciation and impairment losses, if any. Land is carried at cost less impairment losses, if any (Note 8).

Initially, an item of utility plant is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Cooperative. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or term of the lease, whichever is shorter.

Category	Estimated Useful Life
Distribution plant	3.33 to 20 years
General Plant	10 to 25 years

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain and losses, arising from the retirement or disposal is recognized in the profit or loss.

Construction-in-Progress

Construction in progress represents utility plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment, and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use (Note 8).

- **Impairment of Non-Financial Assets**

The Cooperative assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an assets or group of assets may not be recoverable. The factors it considers in deciding when to perform impairment test, among others include the following:

- Significant under-performance of a business in relation to expectations; and
- Significant changes or planned changes in the use of the assets.

Determining the value in use of the assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires it to make estimates and assumptions that can materially affect the financial statements. Future events could cause it to conclude that the assets are impaired. Any resulting impairment loss could have a material impact on the Cooperative's financial condition and results of operations.

- **Consumers' Deposits**

Consumers' deposits include meter and energy deposits. Meter deposits cover the whole cost of metering equipment while the energy deposits guarantee payment of the monthly bills for the electricity consumption of consumers applying for temporary connection and are equivalent to the estimated consumption for three (3) months. The energy deposit is applied to the power bills of the consumer after applying for permanent connection or refunded to the consumer upon termination of the temporary contract for electric service connection. (Note 17).

- **Member's Equity**

Member's equity consists of members' contribution, donated capital, contribution for reinvestment and capital expenditure, and accumulated loss (Notes 11, 12, 13, 14 and 15).

Member's fee contribution

This account represents the face value of the amount received from member-consumers at the time of their membership to the Cooperative. A separate register was maintained showing the individual name, address, date of payment, amount paid and certificate number of each member (Note 11).

Donations, Grants and Subsidies

Donations and subsidies received from various sources are valued at fair market value at the time the donations and subsidies are received and credited directly to equity (Note 12).

- **Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Cooperative and the amount of revenue can be reliably measured. The revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

The following specific recognition criteria must also be met before revenue is recognized.

Net Energy Sales

Revenue from distribution of electricity are recognized upon supply of power to the consumers, net of portion allocated to capital contribution for reinvestment, based on rates established by the Energy Regulatory Commission (ERC) on consumption per individual Kwh meters (Note 23).

The Uniform Filing Requirements on the rate unbundling released by the ERC on October 30, 2001, specified that the billing will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, Interclass Cross-subsidies and lifeline (Discounts)/Subsidies. Power Act Reduction (for residential consumers) and the Universal Charge are also separately indicated in the customer's billing statements.

Interest

Interest income is recognized as the interest accrues, taking into account the principal amounts outstanding and the interest rates applicable (Note 24).

Interest income from bank deposits is recognized on a time proportion basis on the principal outstanding and at the rate applicable.

Miscellaneous Income

Miscellaneous income includes penalties and surcharges and other non-electrical revenues, which are recognized as revenue upon collection except for penalties on apprehension, which are recognized as revenue upon billing (Note 24).

Revenue is measured by reference to the fair value of the consideration received or receivable by the Cooperative for the services provided, excluding value-added tax (VAT) and discounts.

- **Cost and Expenses**

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Cost of Sales and Services

Cost from sales of energy is recognized when the goods are delivered to and accepted by customers (Note 25).

Cost of services is recognized when the related services are performed (Note 26).

Operating Expenses

Operating expenses constitute costs of administering the business and are expensed and recognized in the period in which they are incurred (Note 27).

- **Related Party Transactions**

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. This includes:

(1) individual owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Cooperative;
(2) associates; and
(3) individuals owning, directly or indirectly, an interest in the voting power of the Cooperative that gives them significant influence over the Cooperative and close members of the family of any such individual.

The key management personnel and the post-employment benefit plans are also considered to be related parties.

The compensation of the key management personnel pertains to the usual monthly salaries and government mandated bonuses; there are no other special benefits paid to management personnel (Note 29).

- **Retirement Benefit**

PAS 19 requires a defined benefit plan covering all qualified employees with contributions to be made to a separate fund administered by local banks. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Under this method, the cost of providing retirement benefits is determined on the basis of services rendered by employees at the date of the actuarial valuation.

Separation Benefits

Separation benefits are payable when employment is ended before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Cooperative recognizes separation benefits when it is demonstrably committed to either:

(a) providing separation benefits as a result of separation from employment of current employees according to a detailed formal plan without possibility of withdrawal; or
(b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the statement of financial condition date are discounted to present value.

Present Value of Retirement Benefit

Based on management's assessment, the effect on the financial statements of the difference between the retirement expense which the Cooperative may be under obligation under R.A.7641 and the required actuarially determined valuation under PAS 19 can be met (Note 20).

- **Estimation of Retirement Benefit**

The determination of the obligation and retirement benefits is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions normally include among others, discount rates per annum and salary increase rates. Actual results that differ from its assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods (Note 20).

- **Operating Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a.) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b.) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c.) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d.) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b. As of December 31, 2014, the Cooperative has no outstanding lease contracts that can be considered as a finance lease.

Cooperative as Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the profit or loss on a straight-line basis over the lease term or the useful life of the leased asset, whichever is shorter.

Cooperative as Lessor

If the Cooperative is also a party to operating leases as a lessor, initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rentals are recognized as income in the period in which they are earned.

- **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization (Note 16).

- **Income Taxes**

Current Income Tax

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute for the amount are those that are substantively enacted at the financial reporting date.

Deferred Income Tax

Deferred income, tax when provided, shall use the liability method, on all temporary differences at the financial reporting date between the tax bases of assets and liabilities and its carrying amounts for financial reporting purposes.

Deferred income tax liabilities shall be recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and NOLCO can be utilized.
Deferred income tax assets and deferred income tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the financial reporting date.

- **Provisions and Contingencies**

Provisions are recognized under the following conditions:

(a) the Cooperative has a present obligation (legal or constructive) as a result of a past event;
(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(c) a reliable estimate can be made of the amount of the obligation.

Where the Cooperative expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. (Note 30)

- **Foreign Currency-denominated Transactions and Translations**

Foreign currency-denominated transactions are recorded using the applicable exchange rate at the date of the transaction. Outstanding foreign currency-denominated monetary assets and liabilities are retranslated using the applicable closing exchange rate at the statement of financial position date. Foreign exchange gains and losses arising from foreign currency-denominated transactions are recognized in profit and loss.

- **Events After the Reporting Date**

  Post year-end events up to the date of the auditors' report that provide additional information about the Cooperative's position at financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements, when material.

3. SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATES

The preparation of the Cooperative's financial statements in conformity Philippine Financial Reporting Standards (PFRS) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates and will be adjusted accordingly.

- **Judgments**

  In the process of applying the Cooperative's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the financial statements:

  Determination of Functional Currency

  Based on management's assessment, the economic substance to its functional currency is determined to be the Philippine Peso (PHP). It is the currency that mainly influences its operations.

- **Estimates**

  The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are as follows:

  Valuation of Financial Assets and Financial Liabilities

  The Cooperative carries certain financial assets and financial liabilities at fair value, which requires use of accounting estimates. While significant components of fair value measurement were determined using verifiable and objective evidence (i.e., foreign exchange rates, interest rates), the amount of changes in fair value would differ if the Cooperative utilized a different valuation methodology. Any changes in fair value of these financial assets and financial would affect profit or loss, the statement of comprehensive income and equity.

  As of December 31, 2014 and 2013, financial assets recognized in the statement of financial position amounted to ₱ 742,290,861 and ₱679,568,989, respectively, and financial liabilities amounted to ₱ 1,154,631,478 and ₱1,288,297,556, respectively (Note 31).

  Allowance for Impairment Losses on Receivables

  The Cooperative maintains an allowance for impairment losses on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Cooperative on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Cooperative's relationship with its customers, their payment behavior and known market factors.

The Cooperative reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Cooperative made different judgments or utilized different estimates.

Given the nature of the Cooperative's business, the consumer receivables are appropriate for collective impairment assessment rather than specific. The policy in providing allowance for doubtful accounts is in accordance with regulatory policy:

Provision	Age of Account
1%	current to 90 days past due
2%	over 90 days past due
3%	over 180 days past due
4%	over 240 days past due
5%	over 1 year past due
100%	specifically identified accounts

The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made.

Provisions for doubtful accounts amounted to ₱2,188,371 in 2014. Consumer's receivable accounts, net of allowance for doubtful accounts, amounted to ₱175,015,567 in 2014. Previous year's balance amounted to ₱200, 647,901 (Note 5).

Estimation of Useful Lives of Property and Equipment

The estimated useful lives of the its property, plant and equipment are based on the period over which the property, plant and equipment are expected to be available for use, and on the collective assessments of the industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of property, plant and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits in the use of the property, plant and equipment. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned in the foregoing.

Utility plant, property and equipment, net of accumulated depreciation amounted to ₱2,222,086,691 as of December 31, 2014. This is accordance with an Independent Appraisal Report dated July 20, 2013 rendered by Cuervo Appraisers, Inc. (Note 15). Previous years balance amounted to ₱2,124,790,217 (Note 8).

Estimation of Retirement Benefits

The determination of the obligation and retirement benefits is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions normally include among others, discount rates per annum and salary increase rates. Actual results that differ from the Cooperative's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Cooperative believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations (Note 20).

Present Values of Retirement Benefits

Based on Management's assessment, the fair values of the Cooperative's retirement benefit approximate the carrying values of obligation already recognized amounting to ₱194,131,420 and ₱202,209,366 at December 31, 2014 and 2013, respectively (Notes 20).

Estimate of Income Taxes

During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Cooperative recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when its tax return positions are supportable, are likely to be challenged and may not be fully sustained upon review by tax authorities.

Based on management assessment, its accruals for tax liabilities are adequate for all open audit years. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different that the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

The Cooperative enjoys preferential tax treatment on income tax in accordance with P.D.269 and R.A.9520 (Note 1).

4. CASH AND CASH EQUIVALENTS

This account represents general and other funds maintained as follows:

Items	2014	2013
General and other funds		
General	462,600,324	171,675,299
Cash on hand	2,362,831	2,711,405
Revolving/Change fund	505,000	412,000
Petty cash fund	130,000	145,000
	2,997,831	3,268,405
Total	**465,598,155**	**174,943,704**

Cash in banks earn interest at the prevailing bank deposit rates. (Note 24).

5. RECEIVABLES - NET

This account represents the aggregate balances due from consumers for electric services, which have been billed, as follows:

Items	2014	2013
Consumers' accounts receivable	177,203,938	203,196,130
Less, allowance for doubtful/		
uncollectible accounts	2,188,371	2,548,229
Net Realizable Value	**175,015,567**	**200,647,901**

Management has provided an allowance for doubtful accounts amounting to ₱2,188,371 to cover normal losses that may be sustained from uncollectible accounts. This represents about 1.23% of consumers' accounts for collection.

6. INVESTMENTS

This account represents short-term investments made for varying periods of three months or less depending on the immediate cash operating requirements, and earns interest at the prevailing short-term investments rates, as follows:

Items	2014	2013
Temporary cash investment		
DBP/TD	26,617,000	-
BDO	3,409,031	57,831,098
TPEC SSLA	51,405	-
NEA	7,995	16,272,579
TPEC Line rental	-	72,528,493
Gratuity	-	39,873,583
Total	**30,085,431**	**186,505,754**

7. PREPAYMENTS AND OTHER CURRENT ASSETS

This account consists of restricted funds set aside for specific purposes intended, and are maintained in depository banks and prepaid items, as follows:

Items	2014	2013
Prepayments		
Various suppliers	26,522,761	14,275,442
Insurance	821,228	975,408
Others	515,402	7,016,425
	27,859,391	22,267,275
Restricted fund		
Membership (Note 11)	262,506	620,652
Members' contribution for CAPEX (Note 13)	55,148	55,148
	317,654	675,800
Total	**28,177,045**	**22,943,075**

Restricted funds consist of bank deposits and cash placements set aside for purposes intended. These are maintained in local depository banks to cover future refunds and intended disbursements.

8. PROPERTY, PLANT AND EQUIPMENT

This account consists of:

Items	2014	2013
Utility plant in-service	2,520,396,248	2,349,152,862
Appraisal Increase	2,494,435,577	2,494,435,577
	5,014,831,825	4,843,588,439
Less, accumulated depreciation	2,939,730,106	2,853,909,388
Net Book Value	2,075,101,719	1,989,679,051
Construction work in progress	146,984,972	135,111,166
Total	**2,222,086,691**	**2,124,790,217**

The utility plant, property and equipment tabulated below have been utilized as security to National Electrification Administration (NEA) loans. However, the substantial part is now restricted as security to the NEA loans condoned and assumed by the Power Sector Assets and Liabilities Management Corp. (PSALM) amounting to ₱134,891,822 in accordance to Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001 (Notes 12 and 21).

In 2014, depreciation charged to cost of service amounted to ₱ 66,811,239 and to operating expenses amounted to ₱ 17,858,260.

The details of utility plant in 2014 are recapitulated below:

Items	Depreciation Rate	Acquisition Cost	2014 Depreciation	Accumulated Depreciation	Net Book Value
DISTRIBUTION PLANT					
Station equipment	10%	393,407,860	5,229,328	306,240,590	87,167,270
Wooden poles and others	5%	871,701,071	11,883,004	640,648,591	231,052,480
Concrete poles	3.33%	267,207,232	3,753,404	161,361,996	105,845,236
Overhead conductors and devices	5%	776,529,985	18,113,603	357,760,980	418,769,005
Line transformers	3.33%	877,717,291	12,025,356	375,470,475	502,246,816
Meters	4%	924,008,039	12,657,031	618,095,661	305,912,378
Transportation equipment –heavy	20%	210,583,781	3,149,513	200,600,421	9,983,360
		4,321,155,259	66,811,239	2,660,178,714	1,660,976,545
GENERAL PLANT					
Land and land rights	-	320,354,038	-	-	320,354,038
Buildings	10%	17,307,333	337,469	1,406,435	15,900,898
Structures and improvements	10%	163,168,576	544,633	145,062,498	18,106,078
Office furniture and fixtures	20%	45,799,236	5,011,573	18,112,216	27,687,020
Transportation equipment - light	25%	107,664,152	2,640,879	101,042,146	6,622,006
Tools, shop & garage equipment	10%	27,537,446	4,970,920	9,209,975	18,327,471
Miscellaneous equipment	20%	11,845,785	4,352,786	4,718,122	7,127,663
		693,676,566	17,858,260	279,551,392	414,125,174
TOTALS		**5,014,831,825**	**84,669,499**	**2,939,730,106**	**2,075,101,719**

The details of additions, disposals and adjustments to utility plant in 2014 are recapitulated below:

Items	Balance Beginning	Additions	Adjustments/ Disposals	Balance Ending
DISTRIBUTION PLANT				
Station equipment	390,454,670	2,953,190	-	393,407,860
Wooden poles and others	853,420,483	19,906,001	1,625,413	871,701,071
Concrete poles	259,121,527	8,223,696	137,991	267,207,232
Overhead conductors and devices	702,463,386	74,066,599	-	776,529,985
Line transformers	815,970,098	61,898,301	151,108	877,717,291
Meters	915,620,485	8,426,188	38,634	924,008,039
Transportation equipment - heavy	210,583,781	-	-	210,583,781
	4,147,634,430	175,025,487	1,953,146	4,321,155,259
GENERAL PLANT				
Land and land rights	319,518,076	835,962	-	320,354,038
Buildings	17,307,333	-	-	17,307,333
Structures and improvements	163,168,576	-	-	163,168,576
Office furniture and fixtures	42,282,013	3,687,096	169,873	45,799,236
Transportation equipment - light	108,284,677	-	620,525	107,664,152
Tools, shop & garage equipment	23,903,759	3,633,687	-	27,537,446
Miscellaneous equipment	10,385,661	1,475,298	15,174	11,845,785
	684,850,095	9,632,044	805,572	693,676,566
COMPLETED CONSTRUCTION NOT CLASSIFIED	11,103,914	-	11,103,914	-
TOTALS	**4,843,588,439**	**184,657,531**	**13,862,632**	**5,014,831,825**

9. MATERIALS AND SUPPLIES INVENTORY

This account consists of inventoriable items, as follows:

Items	2014	2013
Electric distribution items	12,250,416	24,298,871
Housewiring	10,735,411	8,591,904
Others	6,582,641	1,443,161
Total	**29,568,468**	**34,333,937**

Electric distribution items represent cost of inventory of materials acquired primarily for use in the utility business, for construction, operation and maintenance purposes. These include book cost of materials recovered in connection with construction and maintenance, undistributed store expenses consisting cost of supervision, labor and expenses incurred in the operation of general storerooms, including purchasing, storage and handling, for distribution over issuances from storerooms.

Other materials and supplies represent cost of inventory of materials used in rewinding of transformers, motor vehicle spare parts, tires and maintenance items, and office and building maintenance materials.

Based on management's assessment, the inventory items are productive and useful; hence it was not necessary to provide for an allowance for obsolescence.

10. OTHER NON-CURRENT ASSETS

This account consists of:

Items	2014	2013
Other receivable		
Due from Other RECs	12,476,799	12,468,091
Other customer accounts		
Cost estimate	2,026,550	1,022,469
Pole rental	4,211,758	2,206,687
Penalty	1,193,541	1,186,557
Others	208,569	422,714
	7,640,418	4,838,427
Officers and employees' account		
Salary and other loans	6,751,187	1,971,551
RMBA	1,149,256	1,803,679
Others	5,689,696	5,066,384
	13,590,139	8,841,614
Other receivables	17,018,888	49,912,889
Total	**50,726,243**	**76,061,021**
Input VAT and other taxes	55,376,419	35,626,967
Security deposits -WESM (Note 18)	12,050,198	32,016,417
Security deposits-Transco (Note 18)	2,698,392	2,698,392
Telephone	-	20,000
	70,125,009	70,361,775
Total	**120,851,252**	**146,422,796**
Investment in equity securities		
Rural Electrification Financing Corporation	6,000,000	6,000,000
Total	**126,851,252**	**152,422,796**

11. MEMBERSHIP ACCOUNT

Membership equivalent to 135,970 members at ₱5 per member has already been subscribed. As at December 31, 2014 and 2013, this already amounted to ₱679,850 and ₱655,545; whereas, the balance of restricted fund with depository bank for this purpose amounted to ₱262,506 and ₱620,652 as of said dates (Note 7).

12. DONATED CAPITAL

This account consists of:

Items	2014	2013
PSALM	134,891,822	134,891,822
NEA	183,261,072	153,448,389
Subsidy	41,682,938	9,808,452
Team Phils.Energy Corp.	38,195,646	38,195,646
DOE	36,039,857	36,039,857
NPC	13,856,094	13,856,094
Provincial government	5,000,000	5,000,000
APEC party	400,000	400,000
	318,435,607	256,748,438
Total	**453,327,429**	**391,640,260**

The electric cooperative was recipient of these subsidies, grants, donations from government, and contributions from members and institutional consumers, for the development, construction and rehabilitation of its distribution lines and facilities, earthquake damage, etc.

The donated capital of ₱134,891,822 represents NEA loans condoned and assumed by the Power Sector Assets and Liabilities Management Corp. (PSALM), in accordance to Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001," (Note 21).

13. REINVESTMENT FUND FOR SUSTAINABLE CAPEX (RFSC)

Items	2014	2013
Reinvestment fund for sustainable CAPEX	1,018,314,367	940,765,457
Consumers capital contribution	426,829	426,829
Total	**1,018,741,196**	**941,192,287**

Contributions for reinvestment represent contributions from members and institutional consumers for a specific purpose described below, and included as a component of monthly billing.

On December 3, 2003, the Cooperative's application for unbundling of rates was approved by the Energy Regulatory Commission (ERC). From the unbundled rates, NEA requires the Cooperative to set-up a separate reinvestment fund to finance expansion and rehabilitation of existing electric power systems in accordance with the systems rehabilitation plan submitted by the Cooperative. These represent ₱0.236/kwh reinvestment costing the basic rate. However, starting February 2010, a ₱0.2178/kwh rate on RFSC CAPEX is used. At December 31, 2014, this already amounted to ₱1,018,314,367.

14. ACCUMULATED LOSS

The changes in the accumulated loss account follow:

Items	2014	2013
Accumulated loss, beginning	**(597,798,158)**	**(438,519,331)**
Prior period adjustment, net	261,943,297	(84,639,039)
Corrected balance, beginning	**(335,854,862)**	**(523,158,369)**
Net loss for the year	(1,952,229)	(74,639,789)
Accumulated loss, ending	**(337,807,091)**	**(597,798,158)**

The composition of prior period adjustments follows:

Items	
Refund of line rental	76,000,000
Revaluation surplus	74,371,409
NEA loans adjustment	(4,817,373)
Prudential deposit	2,698,391
Temporary cash investments	996,687
Others	112,694,183
Total	261,943,297

15. REVALUATION SURPLUS

The balance of this account resulted from the appraisal of properties of the Cooperative in various locations of the Province of Benguet and Baguio City performed by Cuervo Appraisers, Inc. The Appraisal Report dated July 20, 2013 present the reproduction costs (new)/ replacement costs (new) and sound values of the appraised properties consisting of land, buildings, other land improvements, condominium units, leasehold improvements, machinery and equipments, computer equipment, and furniture and office equipments.

As of December 31, 2014 and 2013, the carrying balance of revaluation increment amounted to ₱787,608,968 and ₱872,599,895 respectively.

16. LONG AND SHORT TERM DEBT

This account consists of:

Items	2014	2013
Long term loans		
LGUGC – BPI	151,235,650	163,498,000
NEA		
Construction loan	67,575,859	80,547,801
Calamity loan	20,356,197	21,965,206
Overseas Economic Cooperation Fund	18,773,155	20,218,983
Restructured	4,799,565	5,499,069
	262,740,426	291,729,0594
Matured long term debt and interest	24,279,313	1,569,264
	287,019,739	293,298,323
BDO		
Employees salary loan	-	657,954
Service vehicle loan	-	6,053,633
	-	6,711,587
DBP		
Motorcycle loan	3,767,000	-
Vehicle loan	600,000	-
Laptop loan	250,000	-
Loan takeout from BDO:		
Service vehicle	2,205,473	-
	6,822,475	-
Rural Electrification Financing Corp.	1,467,155	2,783,409
Others	-	290,063
	295,309,369	303,083,383
Current Portion	(27,467,344)	(11,903,209)
Total	**267,842,025**	**291,180,173**

The NEA loans bear interest of 8-12% per annum, payable at various intervals of quarterly payments for an average period of 5 to 20 years, and secured by a pledge on a portion of the utility plant of the electric cooperative (Note 8).

On June 15, 2008, Rural Electrification Financing Corporation (REFC) granted the cooperative a loan of P6,090,000 bearing 10% annual interest, payable in thirty six (36) consecutive monthly installments, each due on a repayment date set forth in the loan amortization schedule. The loan was intended to finance its hot line maintenance tools and live line training project for 2008.

The DBP loans are payable in equal monthly installments up to December 2015, renewable annually, and with annual interest rate of 0.05032%. This is secured by the Cooperative's restricted funds: whereas, the employee salary loans are guaranteed by the Cooperative but paid by the employees through salary deduction and issuance of postdated checks for their monthly amortizations.

17. CONSUMERS' DEPOSIT

This account consists of consumers' deposits for electric service items, as follows:

Items	2014	2013
Advances for construction	114,456,109	105,854,726
Meters and accessories	75,029,435	75,029,435
Energy	15,167,516	13,429,230
Others	127,405	127,405
Total	**204,780,465**	**194,440,797**

The member-consumers also provided capital and operating funds to hasten the construction and service installations including power supply accounts, by way of deposits for these accounts, with a restricted fund maintained (Note 7).

Meter deposits cover the cost of the metering equipment while the energy deposits secure payments of the monthly bills for electricity consumption. These deposits are refundable upon termination of the electric service contract, provided that the metering equipment is returned in good condition and all accounts in the name of the consumer have been paid.

On June 9, 2004, the ERC issued a Resolution authorizing the promulgation of the Magna Carta for Residential Electricity Consumers. Under the Magna Carta, all residential consumers shall be exempt from payment of meter deposits since distribution utilities have incorporated the cost of these electric watt-hour meters in their rate base. Electric cooperatives shall use their respective Reinvestment Funds to procure electric watt-hour meters for their consumers.

On October 27, 2004, the ERC issued Guidelines Implementing the Magna Carta. Among others, it provides for a cooperative's schedule of refund of the meter deposit to the residential customers.

18. POWER SUPPLY CONTRACT/ PAYABLE

This account consists of:

Accounts	2014	2013
Team Phils. Energy Corp.	109,060,272	132,011,846
PEMC- WESM	11,119,008	42,745,094
National Grid Corporation of the Phils.	32,308,242	28,612,894
LUELCO	193,472	412,964
Hedcor	-	183,846
Total	**152,680,994**	**203,966,644**

Team Philippines Energy Corp.

On May 29, 2003, the Cooperative entered into a memorandum of Agreement (MOA) with Mirant (now Team Phils. Energy Corp.) which committed to supply and deliver electricity to the Cooperative during the cooperation period. It also undertakes the upgrade of certain substations, the supply and delivery of protective equipment for the Cooperative's distribution lines, various high voltage testing equipment, and testing and commissioning of substation facilities. The MOA shall terminate on the date of the 20th anniversary of the commencement date. On February 19, 2004, the NPC ratified the MOA. Its power supply to the Cooperative commenced on March 13, 2004. Total power purchases in 2014 amounted to ₱1.53 Billion. At December 31, 2014, the outstanding power supply account amounted to ₱109,060,272.

PEMC- WESM

In May 2008, the Cooperative is registered as a direct participant in the Wholesale Electricity Spot Market (WESM) trading. As a direct participant, the Cooperative is given the opportunity to actually trade directly in the WESM market, and since it is a pass-through cost, the ERC has made a rule regarding this concept. The distribution utility records net settlement surplus from trading in the WESM as payable to consumers in which refund starts on June 2009. In relation with this "direct participant" registration, the Transition Supply Contract (TSC) with the NPC is reduced to maximize the Cooperative's participation to the WESM market. At December 31, 2014, the outstanding power supply account to WESM amounted to ₱11,119,008.

NTC/ NGCP

The Cooperative entered into a transmission service agreement with National Transmission Corp. (NTC), now National Grid Corporation of the Philippines (NGCP) for the transmission services, such as planning, construction and centralized operation and maintenance of high-voltage transmission facilities, including grid interconnection and ancillary services, for the provision of Open Access Transmission Service. Total billing for the year 2014 amounted to ₱396.13 Million. At December 31, 2014, outstanding transmission service account inclusive of VAT amounted to ₱32.3 Million.

Others

The unpaid power supply account with La Union Electric Cooperative, Inc. (LUELCO) pertains to billings for services rendered to an area of coverage of BENECO serviced by the former per agreement between the parties.

19. TRADE PAYABLES AND ACCRUED EXPENSES

This account consists of payables specified and described below, not yet paid at balance sheet date.

Accounts	2014	2013
Trade payables		
Net settlement – WESM	76,120,391	191,214,595
Various suppliers	133,657,151	19,188,608
	209,777,542	210,403,203
VAT payable		
System Loss	19,268,637	18,509,783
Transmission	6,840,731	8,221,248
Generation	2,785,730	71,919,329
BIR	2,065,839	1,522,297
VAT Refund	-	11,848,192
	30,960,937	112,020,850
Accrued Liabilities		
PSALM, Universal charges billed (Note 21)	28,312,916	30,331,100
EVAT billed to consumers	16,927,777	15,729,464
SSS, Philhealth, HDMF and taxes	7,632,065	5,638,795
Katas ng VAT	50,584	59,170
	52,923,342	51,758,529
Others		
Due to other RECs	5,154,285	5,154,285
Others	8,913,124	5,260,499
	14,067,409	10,414,785
Total	**307,729,230**	**384,597,367**

20. RETIREMENT BENEFIT PLAN

The Cooperative recognizes the retirement benefits required under R.A. No. 7641 to qualified employees.

Under PAS 19, Retirement Benefit Costs, pertain to the cost of defined retirement benefits, including those mandated under R.A. No. 7641. Such costs shall be determined using an accrued benefit valuation method or the projected benefit valuation method.

The Cooperative has registered with the BIR the BENECO Employees' Retirement Plan (BERP). The amount deposited at BDO for the plan is ₱ 8,740,000 with realized earnings of ₱ 24,168 as of December 31, 2014.

As per Board Resolution No. 28A-2011 dated June 22, 2011, the Cooperative's Board of Directors approved the request of the employees to use a portion of the retirement fund to purchase a lot amounting to P 78.5 million with an area of 21,495 sq.m. purposely for the employees housing needs.

At December 31, 2014 and 2013, the amounts of ₱194,131,420 and ₱202,209,366 have already been recognized as obligation for retirement benefits, respectively.

21. PSALM, UNIVERSAL CHARGES

PSALM charges the Cooperative certain fees referred to as universal charge. At December 31, 2014 and 2013 accrued fees to PSALM amounted to ₱ 28,312,916 and ₱ 30,331,100, respectively (Note 19).

The rates of universal charges billed follow:

	Rate
NPC Stranded Contract Costs	0.1938/kwh
Missionary electrification	
Effective January to July 2014	0.1163/kwh
Effective August 2014	0.1544/kwh
Environmental charges	0.0025/kwh
Cash Incentive for Renewable Energy Developers (RED)	0.0017/kwh

Details of universal charges follow:

	2014
Billings	91,838,269
Collections	63,777,950
Remittances	70,379,439

On February 8, 2013, the Energy Regulatory Commission (ERC) approved the provisional authority for the recovery of NPC Stranded Contract Costs portion of the universal charges (ERC Case No. 2011-091 RC) filed by PSALM on June 28, 2011.

On February 17, 2014, the Energy Regulatory Commission (ERC) directed NPC, PSALM and all distribution utilities (DUs) under ERC Case no. 2012-046 RC (Annex A) to defer the collection of the UC-ME equivalent to Php0.0381/kwh for the period February 2014 to July 2014, and to commence the collection of the said rate in August 2014. The total UC-ME rate to be collected from all electricity end-users for the period February 2014 to July 2014 shall be Php0.1180/kwh, and additional Php0.0381/kwh in August 2014.

22. GOVERNMENT SUBSIDY FOR CONSUMERS

This account represents government subsidy for consumers under the Pantawid Kuryente Katas ng VAT Program through the Department of Social Welfare and Development at ₱500 per consumer amounting to ₱50,584. The qualified consumers are those residential consumers consuming 100 KWH and less per month and be applied to their monthly bill starting August 2008 until fully applied.

23. ENERGY SALES

This account represents revenues generated from sale of energy follow:

Accounts	2014	2013
Residential	1,377,353,980	1,358,373,673
Commercial	984,830,346	980,113,510
Public building and facilities	111,065,921	110,524,390
Public street and highways	61,434,261	59,977,417
Industrial sales – LV	11,431,374	10,666,665
Total	**2,546,115,882**	**2,519,655,655**

24. OTHER INCOME

This account consists of:

Accounts	2014	2013
Rental income	7,904,799	8,217,388
Interest income (Note 4)	2,674,904	1,756,486
	10,579,703	9,973,874
Others		
Retrobilling	85,156	201,761
Penalties	265,900	317,500
Others,net	33,975,297	32,614,804
	34,326,353	33,134,065
Total	**44,906,056**	**43,107,939**

25. COST OF ENERGY SOLD

This account consists of:

Accounts	2014	2013
Power purchased	2,236,923,027	2,242,425,097
Less prompt payment discount		
	49,963,323	47,046,494
Total	**2,186,959,704**	**2,195,378,603**

Under Section 72 of the Act, the NPC is mandated to reduce its rates for residential end-users by thirty (30) centavos per kilowatt-hour upon the affectivity of the said law on June 26, 2001. To fulfill this mandate, the ERC approved ERC Resolution No. 2001-4, directing NPC to reduce its regular rates to electric distribution utilities sourcing their power supply entirely from NPC by thirty (30) centavos per kilowatt-hour.

The fifty percent (50%) of the prompt payment discount and is given back to consumers as direct reduction in their power bill through the Generation Rate Adjustment Mechanism and the unbundling of rates.

Details of kilowatt-hour sold and purchased follow:

	2014	2013
Kilowatt-hour sold	355,728,487	341,663,677
Kilowatt-hour purchased	393,399,817	377,680,618

26. COST OF SERVICES

This consists of:

Accounts	2014	2013
Distribution		
Structures	37,897,720	40,725,816
Overhead lines	34,132,852	26,083,864
Line transformer	17,849,848	13,360,067
Street lighting and signal system	9,707,233	9,276,593
Supervision and engineering	8,812,253	9,741,232
Station equipment	7,934,932	9,330,166
Meters	4,001,836	8,563,349
Consumer installation	4,070,585	1,921,644
Miscellaneous	7,190,971	6,521,930
	131,598,230	125,524,661
Consumers' accounts		
Meter reading	29,104,686	29,639,299
Records and collection	7,651,164	9,266,705
Supervision	2,390,408	3,951,313
Uncollectible accounts	608,459	272,265
Information, instructional & advertising	600,352	592,321
MECS and BAPA	421,615	534,223
Campus journalism	2,000	3,000
Miscellaneous consumer services	18,164,942	13,669,477
	58,943,626	57,928,604
Depreciation (Note 8)	66,811,239	113,668,621
Total	**257,353,095**	**297,121,886**

27. OPERATING EXPENSES

This account consists of:

Accounts	2014	2013
General and administrative		
Employees pension and benefits	28,021,971	22,150,608
Salaries	29,120,578	28,876,608
Outside services employed	12,476,808	12,865,042
Training and travel	10,165,048	9,384,863
Utilities	5,477,002	5,351,066
Maintenance of office and general plant	5,151,728	5,968,716
Office supplies	5,049,678	5,056,136
Regulatory	2,551,000	2,808,502
Employees insurance	2,489,982	263,240
Officers allowance and benefit	2,265,400	3,292,352
Property insurance	2,189,968	2,763,016
Rent	972,885	932,429
Taxes and licenses	815,285	1,811,196
Injuries and damages	345,892	139,127
Association and membership dues	82,000	111,858
Miscellaneous	5,768,217	8,250,637
	112,943,442	110,025,397
Depreciation (Note 8)	17,858,260	21,353,794
Total	**130,801,702**	**131,379,191**

28. FINANCE COST

This represents the following:

Items	2014	2013
NEA		
Overseas Economic Cooperation Fund	1,988,532	2,125,445
Construction loan	6,076,816	-
	8,065,348	2,125,445
Service vehicle loan	6,456,892	6,919,521
Rural Electrification Financing Corp. (REFC)	199,538	315,599
Others	3,137,888	4,163,139
	9,794,318	11,398,259
Total	**17,859,666**	**13,523,704**

29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influenced over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. The key management personnel of the Cooperative and post-employment benefit plans also considered to be related parties. Transactions between related parties are based in terms similar to those offered to non-related parties.

Compensation of Key Management Personnel

Key management personnel are individuals having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise.

The compensation of key management personnel included under "salaries and benefits" account follows:

Items	2014	2013
Short term employees' benefits		
Key management personnel	2,055,074	1,890,500
Directors	1,960,911	756,000
Total	**4,015,985**	**2,646,500**

30. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2014, the Cooperative has pending lawsuits and claims filed by and against third parties, the outcome of which is not presently determinable. It is the opinion of management and its legal counsel that the eventual disposition of such lawsuits and claims will not have a material adverse effect on its financial statements.

31. FINANCIAL INSTRUMENTS

The Cooperative carries certain financial assets and liabilities at fair value, which requires use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if it utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair value of the financial instruments approximate the carrying values as of December 31, 2014 and 2013, due to their relatively short-term maturities, as follows:

	December 31, 2014		December 31, 2013	
	Carrying Values	**Fair Values**	**Carrying Values**	**Fair Values**
Financial Assets:				
Cash and cash equivalents	465,397,376	465,397,376	174,943,704	174,943,704
Restricted funds	317,654	317,654	675,800	675,800
Consumer Receivables	175,015,567	175,015,567	200,647,901	200,647,901
Investments	30,085,431	30,085,431	186,505,754	186,505,754
Other receivables	71,474,833	71,474,833	116,795,830	116,795,830
	742,290,861	**742,290,861**	**679,568,989**	**679,568,989**

	December 31, 2014		December 31, 2013	
	Carrying Values	**Fair Values**	**Carrying Values**	**Fair Values**
Financial Liabilities:				
Interest bearing debts	295,309,369	295,309,369	302,793,320	302,793,320
Consumers deposits	204,780,465	204,780,465	194,440,797	194,440,797
Retirement liability	194,131,420	194,131,420	202,209,366	202,209,366
Trade and accrued expenses	307,729,230	307,729,230	384,887,429	384,887,429
Power supply payable	152,680,994	152,680,994	203,966,644	203,966,644
	1,154,631,478	**1,154,631,478**	**1,288,297,556**	**1,288,297,556**

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Cooperative has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Management ensures it has sound policies and strategies in place to minimize potential adverse effects of these risks on the Cooperative's financial performance.

Risk Management Structure

The Cooperative's BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of its approach to risk issues in order to make relevant decisions.

Financial Risk Management Objectives and Policies

The Cooperative is exposed to variety of financial risks, which result from both its operating and investing activities. Its principal financial instruments comprise of cash in banks, trade and other receivables and payables, interest bearing loans and borrowings and due to and from related parties. The main purpose of these financial instruments is to raise finance for the Cooperative's operations.

Cooperative's policies and guidelines cover credit risk, liquidity risk and market risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Cooperative's results and financial position. The Cooperative actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principles.

Credit Risk

Credit risk is the risk of financial loss if a consumer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from receivables from consumers. For risk management reporting purposes, the Cooperative considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

In monitoring contract owner's credit risk, contract owners are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile and maturity. A Statement of Account which serves as a Notice of Disconnection is given to the consumers based on the schedule of the Cooperative.

Exposure to Credit Risk

The carrying amounts of financial assets represent the Cooperative's minimum credit exposure. The maximum exposure to credit risk at the reporting date follow:

Accounts	2014	2013
Cash and cash equivalents	465,397,376	174,943,704
Restricted funds	317,654	675,800
Investments	30,085,431	186,505,754
Consumer Receivables	175,015,567	200,647,901
Other receivables	71,474,833	116,795,830
Total	**742,290,861**	**679,568,989**

Impairment Losses on Credit

At December 31, 2014 and 2013, management has already provided an allowance for probable losses amounting to ₱ 2,188,371 and ₱2,548,229 representing 1.23%% and 1.3%, respectively, of the accounts for collection.

Based on management's assessment, these rates of provision approximate the probable impairment losses which may be incurred as of financial position dates, tabulated as follows:

Movements in allowance for probable losses follow:

	2014	2013
Balance at beginning of year		
Receivables	2,275,964	2,275,964
Other assets	-	-
	2,275,964	2,275,964
Movement during the year		
Receivables	(359,858)	272,265
Other receivables	-	-
	(359,858)	272,265
Balance at end of year		
Receivables	2,188,371	2,548,229
Other assets	-	-
Total	**2,188,371**	**2,548,229**

Liquidity Risk

Liquidity risk is the risk arising from potential inability to meet all payment obligations when they become due. To limit potential risk, management arranges for diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The Cooperative's liquidity risk management framework is designed to identify measure and manage the liquidity risk position. The underlying policies are reviewed on a regular basis by key officers, for final approval by the Board.

The maturity of financial assets and liabilities based on contractual repayment arrangements, is tabulated below:

	December 31, 2014				
	Up to 1 Month	2 to 6 Months	6 to 12 Months	Over 1 year	Total
Financial Assets					
Cash and cash equivalents	465,397,376	-	-	-	465,397,376
Restricted funds	317,654	-	-	-	317,654
Investments	-	-	-	30,085,431	30,085,431
Receivables	100,773,700	11,685,555	7,377,990	57,366,693	177,203,938
Other receivables and other non-current	-	23,745,516	17,018,888	30,710,430	71,474,834
	566,488,730	**35,431,071**	**24,396,878**	**118,162,554**	**744,479,233**
Financial Liabilities					
Interest bearing debts	2,140,713	10,754,740	13,104,736	269,309,179	295,309,368
Consumer deposits				204,780,465	204,780,465
Retirement liability				194,131,420	194,131,420
Trade and accrued expenses		293,661,821	8,913,124	5,154,285	307,729,230
Power supply payable	152,680,994				152,680,994
	154,821,707	**304,416,561**	**22,017,860**	**673,395,349**	**1,154,631,477**
Net Liquidity (Gap)	**411,667,023**	**(268,985,490)**	**2,379,018**	**(555,232,795)**	**(410,152,244)**

	December 31, 2013				
	Up to 1 Month	2-3 to 6 Months	6 to 12 Months	Over 1 year	Total
Financial Assets					
Cash and cash equivalents	174,943,704	-	-	-	174,943,704
Restricted funds	675,800	-	-	-	675,800
Investments	-	-	-	186,505,754	186,505,754
Receivables	200,647,901	-	-	-	200,647,901
Other receivables and other non-current	-	-	-	116,795,830	116,795,830
	376,267,405	**-**	**-**	**303,301,584**	**679,568,989**
Financial Liabilities					
Interest bearing debts	3,477,884	3,614,986	4,520,276	291,180,174	302,793,320
Consumer deposits	-	-	-	194,440,797	194,440,797
Retirement liability	-	-	-	202,209,366	202,209,366
Trade and accrued expenses	-	-	384,887,429	-	384,887,429
Power supply payable	203,966,644	-	-	-	203,966,644
	207,444,528	**3,614,986**	**389,407,705**	**687,830,337**	**1,288,297,556**
Net Liquidity (Gap)	**168,822,877**	**(3,614,986)**	**(389,407,705)**	**(384,528,753)**	**(608,728,567)**

The fair values of financial instruments approximate their carrying value as of December 31, 2014.

Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimizing the return on risk.

The Cooperative is not exposed to foreign exchange and price risk because it does not have foreign currency denominated financial assets and liabilities nor holds investments in equity securities classified as available for sale or at fair value through profit or loss, respectively. The Cooperative is not engaged in commodity trading; hence, is not exposed to commodity price risk.

It follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Cooperative is not exposed to interest rate risk as its interest rate on bank loans is fixed.

33. CAPITAL MANAGEMENT

The primary objective of the Cooperative's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The BOD has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in its external environment and the risks underlying its business operations and industry.

The Finance function sets operational targets and performance indicators in order to assure that the capital and returns requirements are achieved. Appropriate monitoring and reporting systems accompany these targets and indicators to assess the achievement of goals, and institute appropriate action.

It monitors capital on the basis of the debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is equivalent to total liabilities shown in the statement of financial position. Total equity comprises all components of equity including membership and accumulated loss.

The Cooperative's debt-to-equity ratio is computed below.

	2014	2013
Debt	1,154,631,478	1,288,297,556
Cash	465,397,376	174,943,704
Net debt	689,234,102	1,113,353,852
Equity	1,922,550,353	1,608,289,829
Net debt to equity ratio	**0.36**	**0.69**

There were no changes in its approach to capital management during the period. The Cooperative is not subject to externally imposed capital requirements.

However, at December 31, 2014 and 2013, the electric cooperative was faced with accumulated losses of ₱ 337,807,091 and ₱597,798,158 including the net loss of ₱ 1,952,229 and ₱74,639,789 for the years then ended, respectively. These have already impaired 9.9% and 10.4% of the total assets of ₱3.41 Billion and ₱3.21 Billion, and by 14.9% and 10.4% of the total equity base of ₱2.26 Billion and ₱1.94 Billion as of said dates, respectively (Note 14).

34. KEY PERFORMANCE INDICATORS

The key financial performance indicators follow:

	2014	2013
Cost of power purchased ratio	86%	87%
Non-power cost ratio	14%	16%
Administrative and general	4%	6%
Distribution	5%	5%
Consumers' accounts	2%	2%
Days sales in receivables	25 days	29 days
Days payable – power	25 days	33 days
Net margin ratio	(0.08%)	(2.96%)

35. SUPPLEMENTARY INFORMATION REQUIRED UNDER BIR REVENUE REGULATION 15-2010

In accordance with BIR Revenue Regulation No. 15-2010 dated November 25, 2010, the following information were provided by and/or gathered from the cooperative, for the year 2014:

a. **VAT output tax** declared based on operating revenues on electricity distribution, supply, and metering services:

Particulars	Amount
VAT output	50,427,919
Operating revenues	420,232,660

b. VAT input taxes claimed:

Particulars	Amount
VAT input	16,555,518
Purchases	137,962,646

c. Withholding taxes:

Particulars	Base	Amount
Withholding tax on compensation	91,270,076	21,244,913
Creditable withholding tax	2,150,000,545	41,323,085
Total		**62,567,998**

d. **DST** on loan instruments, shares of stock and other transactions subject thereto:

Particulars	Amount
DST	2,325,564

BENECO
BENGUET ELECTRIC COOPERATIVE, INC.
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April 07, 2015

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of **BENGUET ELECTRIC COOPERATIVE, INC.** is responsible for all information and representations contained in the Financial Statements for the Year ended December 31, 2014. The Financial Statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

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

ODSINADA DIOSCORO & CO., the independent auditors and appointed by the BENECO Board, has examined the Financial Statements of the company in accordance with Generally Accepted Auditing Standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination in its report to General Membership.

The accompanying financial statements for the Year 2014 were approved and authorized for issue by the Board of Directors in its meeting on April 07, 2015.

GERARDO P. VERZOSA
General Manager

PETER R. BUSAING
President
BENECO Board of Directors

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April 07, 2015

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOMETAX RETURN

The Management of **BENGUET ELECTRIC COOPERATIVE, INC.** is responsible for all information and representations contained in the Annual Income Tax Return for the Year ended December 31, 2014. Management is likewise responsible for all information and representations contained in the Financial Statements accompanying the (Annual Income Tax Return or Annual Information Return) covering the same reporting period. Furthermore, the management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the Year ended December 31, 2014 and the accompanying Annual Income Tax Return are in accordance with the books and records of Benguet Electric Cooperative, Inc., complete and correct in all material respects. Management likewise affirms that:

a) the Annual Income Tax Returns has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
c) the Benguet Electric Cooperative, Inc., has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

GERARDO P. VERZOSA
General Manager

PETER B. BUSAING
President
BENECO Board of Directors