NATIONAL ELECTRIFICATION ADMINISTRATION
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2017

1. GENERAL INFORMATION/ENTITY PROFILE

The financial statements of the National Electrification Administration (NEA) were authorized for issuance on January 15, 2018 as shown in the Statement of Management's Responsibility for Financial Statements signed by Sonia B. San Diego, Deputy Administrator for Corporate Resources and Financial Services, Edgardo R. Masongsong, Administrator of NEA and Felix William Fuentebella, Alternate of the Chairman of the Board.

The National Electrification Administration (NEA) was originally created as a national government agency by virtue of Republic Act (RA) Nos. 2717 and 6038 dated June 19, 1960 and August 4, 1969, respectively. It existed as such for a period of more than ten (10) years. On August 6, 1973, Presidential Decree (PD) No. 269 was issued, converting NEA into a Government-Owned and Controlled Corporation (GOCC) with an authorized capital stock of P1 billion and declaring a national policy objective for the total electrification of the Philippines on an area coverage basis and the organization, promotion and development of viable rural Electric Cooperatives (ECs) to attain the said objective. Moreover, NEA is geared towards the uplifting of the standard of living in the rural areas through the service of electricity. PD No. 1370, issued on May 2, 1978, increased NEA's capital stock to P2 billion.

On October 8, 1979, PD No. 1645 amended certain provisions in PD Nos. 269 and 1370 which raised NEA's authorized capital stock to P5 billion and expanded its functions to include the development of mini-hydro and dendro thermal projects.

On June 8, 2001, RA No. 9136 or better known as the Electric Power Industry Reform Act (EPIRA) of 2001, was enacted. Section 58 of the said law gave NEA an additional mandate as follows:

a. To prepare the ECs in operating and competing under the deregulated electricity market within five (5) years from the effectivity of the act;

b. To strengthen the technical capability and financial viability of rural ECs; and

c. To review and upgrade regulatory policies with a view to enhancing the viability of the ECs as electric utilities.

The EPIRA increased NEA's authorized capital from P5 billion to P15 billion. However, no additional infusion was received from the National Government (NG).
Administrative Order (AO) No. 112 dated December 7, 2004 directed the NEA to take full and sole authority and responsibility in the conversion of ECs into stock cooperatives. Pursuant to the AO, the NEA Board of Administrators promulgated the Guidelines in the Conduct of ECs Referendum (GCECR) to convert into either

stock cooperative under the Cooperative Development Authority (CDA) or stock corporation under the Securities and Exchange Commission (SEC).

On September 2, 2005, Memorandum Order (MO) No. 187 was issued by the Office of the President setting the guidelines on the conversion of ECs. In compliance with the MO, the NEA Board of Administrators, in its Resolution No. 116 dated October 5, 2005, approved the amendment to the NEA GCECR.

On May 7, 2013, RA No. 10531, better known as the "National Electrification Administration Reform Act of 2013", was signed into law which aims to:

a. Promote the sustainable development in rural areas through rural electrification;

b. Empower and strengthen NEA to pursue the electrification program and bring electricity through the ECs as its implementing arm to the countryside and economically unviable areas; and

c. Empower and enable ECs to cope with the changes brought about by the restructuring of the electric power industry pursuant to RA 9136.

RA 10531 further increased NEA's authorized capital from P15 billion to P25 billion. However, as of December 31, 2017, the NG has made no additional subscription.

From April 1, 2000 to present, NEA's registered address and principal place of business is No. 57 NEA Building, NIA Road, Barangay Pinyahan, Diliman, Quezon City 1100.

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

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

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

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

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

Amounts are rounded off to the nearest peso unless otherwise presented in the report.

The preparation of financial statements in compliance with adopted PPSAS requires the use of certain accounting estimates. It also requires the entity to exercise judgment in applying the entity's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Notes 5, 6, 7 and 8.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Accounting

The financial statements are prepared on an accrual basis in accordance with PPSAS.

Since March 31, 2005, NEA has continuously used the Electronic New Government Accounting System (e-NGAS), an Accounting System developed by the COA.

3.2 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

In order to maximize interest income on deposits while funds are yet to be relent to the different ECs, these are temporarily placed in banks that offer the highest interest rate.

3.3 Receivables

Receivables which are expected to be realized within the normal operating cycle or one fiscal year are initially recognized at face value and subsequently measured at its net realizable value and classified as current assets in the statement of financial position. However, receivables beyond one year are classified as non-current assets.

An Allowance for Doubtful Accounts (ADA) at a rate of one percent (1%) of the estimated uncollectible receivables.

3.4 Inventories

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

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

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

Inventory is recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the NEA.

Further, since the adaption of the e-NGAS in 2005, Office Supplies Inventory is generated by the system and is automatically computed based on weighted average cost of the items.

3.5 Property, Plant and Equipment

a. Recognition

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

The characteristics of PPE are as follows:

i. Tangible items;

ii. Held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

iii. Expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

i. It is probable that future economic benefit or service potential associated with the item will flow to the entity;

ii. The cost or fair value of the item can be measured reliably.

iii. The cost is at least P15,000.00.

b. Measurement at Recognition

An item recognized as PPE is measured at cost.

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

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

Cost includes the following:

a. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

b. Expenditure that is directly attributable to the acquisition of the items; and

c. Initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

c. Measurement after Recognition

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

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

All other repair and maintenance costs are recognized as expense.

d. Depreciation

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

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

i. Initial Recognition of Depreciation

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

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

ii. Depreciation Method

The straight-line method of depreciation is adapted.

iii. Estimated Useful Life

The NEA uses the Schedule on the Estimated Useful Life of PPE by classification prepared by COA, as shown below:

Assets	Estimated Useful Life (In Years)
Buildings	30
Land Improvements	10
Furniture and Fixtures	10
Communication Equipment	10
Motor Vehicles	7
Office Equipment	5
IT Equipment and Software	5

iv. Residual Value

The NEA uses a residual value equivalent to ten percent (10%) of the cost of the PPE.

v. ***Derecognition***

The NEA derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. The difference between the net disposal proceeds and the carrying amount of the asset is treated as gain or loss when the asset is derecognized.

3.6 Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

a. Foreign currency monetary items are translated using the closing rate;

b. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

c. Nonmonetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise as those arising on a monetary item that forms part of a reporting entity's investment in a foreign operation.

Current portion of NEA's foreign and domestic loans as at end of December 31, 2017 was updated using the closing rate per Reference Exchange Rate Bulletin of the Bangko Sentral ng Pilipinas (BSP) as of December 29, 2017. Except for USAID Loan Nos. 492-T-034, 492-T-036, and 492-T-043, transactions are recorded at drawdown rates due to the provision in the Loan Agreement that the NG shall absorb Maintenance of Value Risks (MOV) in behalf of NEA.

3.7 Income and Expenses

Income includes both revenues and gains. Revenue arises in the course of the ordinary activities of the agency while gains include those arising on the disposal of non-current assets.

Income is recognized when earned or collected. It is measured at fair value of the consideration received or still collectible in the future. Interest income on overdue accounts is recognized only upon receipt of actual payment or when arrangements are formalized for its renewal, extension or restructuring.
Donations in cash or in kind are recognized as income upon receipt.

Expenses are recognized upon receipt of goods or utilization of services.

3.8 Budget Information

The annual budget is prepared on a cash basis and is published in the government website.
A separate Statement of Comparison of Budget and Actual Amounts (SCBAA) was prepared since the budget and the financial statements were not prepared on a comparable basis. The SCBAA was presented showing the original and final budget and the actual amounts in comparable basis to the budget.

4. CASH AND CASH EQUIVALENTS

Breakdown of this account is as follows:

Particulars	2017	2016
Cash on Hand		
Cash – Collecting Officers	**783,716**	3,730
Petty Cash Fund	**71,280**	118,369
Sub-Total	**854,996**	122,099
Cash in Bank		
Local Currency - Current Account	**6,213,075,348**	6,503,157,716
Local Currency - Savings Account	**1,508,615,619**	1,654,596,195
Foreign Currency - Savings Account	**877,340**	26,031,684

Particulars	2017	2016
Sub-Total	**7,722,568,307**	8,183,785,595
Cash Equivalents		
Foreign Currency - Time Deposits	**7,453,932**	6,975,859
Total	**7,730,877,235**	8,190,883,553

Local Currency – Current Account – this account is mainly for subsidy receipts from the NG for the Sitio Electrification Project (SEP), Barangay Line Enhancement Project (BLEP), Yolanda Resettlement and Rehabilitation Plan (YRRP), Modular Genset, Pamana Fund, Lanao del Sur Metering Program, and EC Trust Fund

Local Currency – Savings Account consists of various accounts maintained with Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), and Philippine Veterans Bank (PVB), mostly for loans to be granted to ECs.

Foreign Currency – Savings Account consists of LBP Dollar Account - NEA IFB 80 Bid Fund. Century Bank – Special Dollar Account (First Bank) was closed on October 9, 2017. Prior to the closing of this account, First Bank, in its letter dated February 13, 2017, advised NEA that the wire has been sent to the Bank of the Philippine Islands (BPI) Account No. 10934878 under Fed Acknowledgment IMAD No. 20170213H1B7011C000157 in the amount of US$232,510.52, net of US$11,621.48, representing legal and wire transfer fees. BPI sent NEA the following:

a. Manager's Check (MC) in the amount of US$66,926.68 which was deposited in DBP on September 08, 2017 with peso equivalent of P3,422,363 in favor of NEA.

b. BPI's Official Receipt No. 0017778 dated August 31, 2017, representing proceeds of letter of credit by Phil-Jian in favor of BPI in the amount of US$165,583.84.

Journal Entry Voucher (JEV) No. 2017-10-007685 dated October 09, 2017 was prepared to take-up the adjustment on the Foreign Currency Account – Century Bank – Special Dollar Account (First Bank) and to close the Guaranty Deposits Payable Account (Phil-Jian Development Corporation) in compliance to COA Audit Findings.

5. RECEIVABLES

This account is broken down as follows:

Particulars	2017	2016
Loans Receivables	**2,318,457,037**	2,248,189,584
Other Receivables	**3,191,456,563**	6,938,629,732
Total	**5,509,913,600**	9,186,819,316

5.1. **Loans Receivables**

This account represents portion of long-term loans receivables due within one year as follows:

Particulars	2017	2016
Loans Receivable – Power Sector Assets and Liabilities Management Corporation (PSALM)	**2,155,490,219**	2,155,490,219
Loans Receivable – EC	**403,586,249**	317,355,818
Loans Receivable - Municipal System	**7,251,389**	7,251,389
Loans Receivables - NEECO II	**11,681,333**	2,955,600
Matured Loans Receivable-Others	**13,116,862**	20,933,581
	2,591,126,052	2,503,986,607
Allowance for Impairment Loss	**(272,669,015)**	(255,797,023)
Total	**2,318,457,037**	2,248,189,584

Loan Receivable – PSALM, represents the matured portion of the ECs loans assumed by the PSALM in accordance with Section 60 of RA 9136. Non-payments of the accounts of some ECs are anchored on Section 5d of Executive Order No. 119, which states *"ECs must be current in payment and continue to be current in the payment of its obligations to the National Power Corporation (NPC) to be eligible for assumption by PSALM of its Rural Electrification Loan/s."* A total Allowance for Impairment Loss of P16,971,992 in 2017 was provided.

5.2. **Other Receivables**

This account consists of the following:

Particulars	2017	2016
Receivables from Various ECs	**3,160,928,542**	6,907,125,149
Receivables from NPC	**25,351,080**	25,351,080
Miscellaneous Receivables	**53,825,041**	57,525,383
	3,240,104,663	6,990,001,612
Less: Allowance for Impairment Loss	**(48,648,100)**	(51,371,880)
Total	**3,191,456,563**	6,938,629,732

Receivables from Various ECs consist of subsidy releases under "Pantawid Kuryente Katas ng VAT" funds, SEP and BLEP, and YRRP. Starting May 20, 2009, NEA implemented a new accounting treatment for the subsidy releases for rural electrification programs. Instead of recognizing as outright expense, these are now taken-up as Due from NGOs/POs and charged to Other Payables upon liquidation. The receivables from ECs consist of advances of P3.162 billion (including advance payment of interest receivable of P10.243 million) in 2017. As a result of the expeditious liquidation of receivables, the outstanding balances of SEP/BLEP, YRRP and PKKV were reduced to P3.161 billion, P4.290 million, and P79,500, respectively, as of December 31, 2017.

Receivables from NPC represent release of fund for OPAPP-PAMANA. On June 20, 2014, NEA entered into Memorandum of Agreement with NPC for the construction of Power Plant Facilities including supply, delivery, erection or installation test commissioning of Diesel Genset, and Auxilliaries for Languyan Town. On August 11, 2014, NEA released to NPC the amount of P25,351,080.

Miscellaneous Receivables substantially consist of advance payments made by NEA for and in behalf of the ECs for brokerage, handling, demurrage, storage and other charges incurred in the withdrawal from the Bureau of Custom's custody of various equipment and materials, such as STC 48 package Power Transformers, Wood Poles, Dodecagonal Distribution Poles–Galvanized, etc., and insurance premium.

6. INVENTORIES

This account consists of:

Particulars	**2017**	2016
Inventory Held for Sale	**4,876,379**	4,876,379
Inventory Held for Consumption		
Office Supplies Inventory	**955,337**	2,095,337
Other Supplies Inventory	**295,450**	567,588
Spare Parts Inventory	**4,484**	290,815
	1,255,271	2,953,740
Total	**6,131,650**	7,830,119

Inventory Held for Sale account pertains to the cost of equipment and materials damaged/burned in NUVELCO Staging Area amounting to P1,224,388. This also includes Merchandise Inventory in Transit pertaining to the Equipment and Materials In-Transit (EMIT) account amounting to P3,651,991 which remains dormant for more than 10 years. On September 14, 2010, NEA requested COA the relief from accountability for the loss of these equipment and materials. On December 23, 2013, NEA received COA Decision No. 2013-247 denying NEA's request for authority to write-off the EMIT account amounting to P3,651,991 which remains dormant for more than 10 years because of COA's existing regulations which pertains only to the write-off of unliquidated cash advances and dormant accounts receivable. Said amount was reinstated as EMIT account for adjustment.

Adjustments were effected closing the difference between the actual payments made by NEA to contractors against the rates used in costing equipment and materials under IFB 38, which was part of the COA Audit Observation Memorandum (AOM) No. 2007-016 dated March 12, 2007.

7. LONG-TERM LOANS RECEIVABLE

This account consists of the following receivables:

Particulars	2017	2016
Electric Cooperatives		
Rural Electrification (RE) Loans	**8,442,839,546**	7,268,665,982
Calamity Loans	**1,361,645,883**	532,739,424
Single Digit Systems Loss Program (SDSLP)	**442,751,410**	1,513,287,191
Working Capital/Relending Loans	**73,583,834**	73,951,611
Standby Credit Facility (SCF)	**10,009,227**	27,474,400
Power Use and Bliss I Loans	**768,606**	768,606
Equity Financing Scheme for ECs (EFSEC)	**(6)**	(10)
Others	**174,422**	174,422
Sub-Total	**10,331,772,922**	9,417,061,626
PSALM	**2,155,490,220**	2,155,490,220
Nueva Ecija II Electric Cooperative, Inc. (NEECO II) Loan	**282,649,447**	287,860,883
Private Franchise Loan	**3,927,998**	3,927,998
Philippine Rural Electrification Cooperative Association (PHILRECA) Loan	**0**	7,816,719
Municipal Loans	**7,251,389**	7,251,389
Others	**10,415,261**	10,415,262
Sub-Total	**2,459,734,315**	2,472,762,471
	12,791,507,237	11,889,824,097
Portion due within one year shown under current assets	**(2,451,145,170)**	(2,475,576,117)
Total	**10,340,362,067**	9,414,247,980

Rural Electrification (RE) Loans are loans intended to address the technical and operational requirements of the ECs and comprise the major lending concern of NEA. The amount represents releases after June 26, 2001.

a. *RE Loan-Working Capital for ECs*

Objective:

- To establish a credit facility for ECs to finance the prudential requirement and security payment with Wholesale Electricity Spot Market (WESM)/Power generation companies (GENCOs)/National Grid Corporation of the Philippines (NGCP);
- Timely payment of power account for special/retirement package of EC employees; and
- Tax obligations.

Terms:

- Five and a half percent (5 ½ %) interest rate per annum or NEA prevailing interest rate at the time of drawdown for repayment period up to two (2) years or 6% interest per annum or NEA prevailing interest rate at the time of drawdown for repayment period of three (3) to five (5) years
- Eighteen percent (18%) default charge per annum
- Maximum of five (5) years repayment period
- Validity period of two (2) years

b. *RE Loan – Capital Projects*

Objective:

- To finance the Capital Expenditures (CAPEX) projects of ECs

Terms:

- Six percent (6%) interest rate per annum NEA prevailing interest rate at the time of drawdown
- Twelve percent (12%) default charge per annum
- Maximum of 15 years repayment period but not to exceed the remaining franchise life of the EC
- Maximum of one (1) year grace period
- Validity period of three (3) to five (5) years

Single Digit System Loss Program (SDSLP) is a loan intended to assist the ECs in the reduction of the national average systems loss and to attain a single digit level. Loanable amount depends on NEA's evaluation of the project.

Terms:

- Five and a half percent (5 ½ %) interest rate per annum or NEA prevailing interest rate at the time of drawdown for repayment period up to two (2) years or six percent (6%) interest per annum or NEA prevailing interest rate at the time of drawdown for repayment period of three (3) to 10 years
- Maximum of 10 years repayment period but not to exceed the remaining franchise life of the EC
- Maximum of six (6) months grace period
- Validity period of two (2) years

Calamity Loans are loans granted to calamity-affected ECs for the immediate repair of damaged distribution lines and restoration of power.

Terms:

- Three and one fourth percent (3 ¼%) interest rate per annum
- Maximum of 10 years repayment period but not to exceed the remaining franchise life of the EC
- Maximum of one (1) year grace period
- Validity period of one (1) year

Stand-By Credit Facility (SCF) is a credit facility that would strengthen the ECs' credit worthiness with the GENCOs and Market Operator.

Terms:

- One (1) year credit line; renewable
- One half of one percent (½%) interest rate per month on the amount withdrawn
- One and a half percent (1 ½%) default charge per month
- Two percent (2%) service charge on the approved facility
- Payable within 90 days after each availment

Equity Financing Scheme for the ECs (EFSEC) *is* a credit facility that would finance the equity requirement of the ECs in the procurement of the distribution equipment and in the implementation of their rehabilitation and upgrading projects. Maximum loanable amount is the actual equity requirement or 20 percent of the total purchase price of the distribution equipment but not to exceed P8 million. Interest rate is six percent (6%) per annum, three (3) to five (5) years to pay with a grace period of six (6) months. *This facility is no longer active from 2012 to present.*

Power Use and Bliss I Loans are loans extended to cooperatives to support small scale industry projects intended to provide means of livelihood in rural bliss communities, payable in five (5) to 10 years after date of release, at five percent (5%) to 11 percent (11%) interest per annum and with grace period of one (1) to two (2) years. *This facility is no longer active since 2004.*

Receivables from PSALM arose by virtue of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act (EPIRA) of 2001, which was enacted on June 26, 2001. The RA provides that all outstanding financial obligations of the ECs to NEA and other government agencies incurred for the purpose of financing rural electrification program shall be assumed by PSALM in accordance with the program approved by the President of the Philippines. On August 28, 2002, Executive Order (EO) No. 119 was issued providing that the assumption by the PSALM of the EC's rural electrification loans from NEA is subject to compliance with some terms and conditions.

NEECO II Loan pertains to the sales price of the electric system of the defunct Nueva Ecija III Electric Cooperative, Inc. (NEECO III) which was taken over by NEA and later sold to NEECO II. The sales price consists of the book value of P208.4 million plus interest income of P111.8 million less payments previously made by NEECO III of P11.3 million. The Deed of Conditional Sale approved on January 24, 2006 provides that the sale price shall be payable over 25 years at seven percent (7%) interest per annum. Repayment of principal commenced on January 31, 2008 while payment of the monthly interest started in January 2006.

Private Franchise Loans pertain to loans granted to finance MERALCO's depressed area electrification project and Visayan Electric Company rural electrification extension projects. However on December 31, 2006, MERALCO pre-terminated their loan by paying the amount of P886.6 million. Both loans are no longer active since 2006.

Municipal Loans were granted in the early sixties to finance the construction and/or improvement of electric systems of about 91 municipalities all over the country. However, with the enactment of PD 269 mandating NEA to electrify the country through the different electric cooperatives, the franchise granted to the municipal electric systems was effectively cancelled. The cancellation of franchise did not stop NEA from demanding payments. In NEA's desire to collect these accounts, the NEA Board, in its meeting on November 29, 1990, agreed that the loans be settled under the government's Debt Relief Program (DRP). On April 28, 1994, NEA submitted to the Bureau of the Treasury (BTr) the certification needed under the DRP. Unfortunately, not a single LGU availed of the program.

In view of the failure to have the accounts settled under the DRP, the NEA Legal Services Office pursued collection of these accounts using legal remedies available under the Loan Contract. Again, on March 11, 2011, NEA sought the assistance of the DOF in the collection of the LGUs accounts through DRP.

The NEA Board, in its meeting on October 11, 2011 approved the request of government schools and municipalities for the condonation of interests and surcharges of their loans after they paid the principal subject to the approval by the COA.

8. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2017 and 2016 are as follows:

Particulars	Land and Land Improvements	Buildings	Office Equipment Furniture and Fixtures	Trans-portation Equipment	Machineries and Equipment	Other Property and Equipment	Total
Cost:							
At January 1, 2017	46,522,575	286,320,813	67,371,298	36,491,583	13,461,878	25,315,916	475,484,063
Additions	0	0	4,231,292	0	212,507	0	4,443,799
At December 31, 2017	46,522,575	286,320,813	71,602,590	36,491,583	13,674,385	25,315,916	479,927,862

Particulars	Land and Land Improvements	Buildings	Office Equipment Furniture and Fixtures	Trans-portation Equipment	Machineries and Equipment	Other Property and Equipment	Total
Accumulated depreciation:							
At January 1, 2017	695,330	146,377,201	44,020,572	23,860,188	5,277,427	22,802,325	243,033,043
Charge for the year	0	8,595,939	6,066,967	2,551,398	1,558,968	0	18,773,272
Disposal/retirements/Addition	0	0	0	0	(435)	0	(435)
At December 31, 2017	695,330	154,973,140	50,087,539	26,411,586	6,835,960	22,802,325	261,805,880
Net carrying amount, December 31, 2017	**45,827,245**	**131,347,673**	**21,515,051**	**10,079,997**	**6,838,425**	**2,513,591**	**218,121,982**
Cost:							
At January 1, 2016	46,522,575	286,320,813	90,556,558	43,984,573	10,187,654	25,315,916	502,888,089
Additions	0	0	8,803,665	832,554	5,482,426	0	15,118,645
Disposal/retirements	0	0	(31,988,925)	(8,325,544)	(2,208,202)	0	(42,522,671)
At December 31, 2016	46,522,575	286,320,813	67,371,298	36,491,583	13,461,878	25,315,916	475,484,063
Accumulated depreciation:							
At January 1, 2016	695,330	137,785,229	61,021,812	28,388,639	6,216,446	22,791,576	256,899,032
Charge for the year	0	8,595,939	6,547,216	2,964,538	750,146	10,749	18,868,588
Disposal/retirements/Addition	0	(3,967)	(23,548,456)	(7,492,989)	(1,689,165)	0	(32,734,577)
At December 31, 2016	695,330	146,377,202	44,020,572	23,860,187	5,277,427	22,802,325	243,033,043
Net carrying amount, December 31, 2016	**45,827,245**	**139,943,612**	**23,350,726**	**12,631,395**	**8,184,451**	**2,513,591**	**232,451,020**

Land consists of the following:

1. *Site of NEA building* under TCT No. 233258 acquired on January 11, 2002 from the National Housing Authority with an acquisition cost of P36.2 million.

2. Lot area of approximately 2.5 hectares located in *Tandang Sora, Quezon City* with TCT No. 26581 acquired in November 28, 1989 for P9.5 million. However, the said lot is subject to court litigation pending before the Supreme Court, docketed as G.R. No. 112876, entitled Manuel Silvestre Bernardo, et al vs. Court of Appeals, et al. The case is being handled for NEA by the Office of the Government Corporate Counsel (OGCC).

3. *Foreclosed Properties-Bani/Bolinao* with a book value of P25,800 were acquired in 1967 by virtue of Sheriff's Certificate of Sale issued by the Court of First Instance of Pangasinan. The corresponding Declaration of Real Property (DRP) was issued to NEA. Under the said DRP, most of the lands located at Catuday, Bolinao, Pangasinan are classified as forest and pasture lands. Verifications made on the records of the Regional Office I of the Department of Environment and Natural Resources (DENR) revealed that most of the properties are within the Alienable and Disposable (A and D) zones. The cluster on Utilization and Disposal of NEA's Acquired and Foreclosed Property is working on the possibility of titling or turnover of the same to the DENR.

4. Another property with a lot area of 6,384 square meters, located at Germinal District, Bolinao, Pangasinan is the subject of Civil Case No. 2881 – Entitled "Spouses Zoilo and Julieta Cedana vs. Rose Tabucol, NEA et al" and being handled by the OGCC. NEA through the OGCC is pursuing negotiation for compromise agreement.

Buildings represent the cost of the NEA building, which includes the costs of services related to the preparation of detailed engineering design, consultancy services and the actual construction cost of the building. The construction started sometime in June 1998 and was finished in late 2000.

9. **OTHER ASSETS**

This account includes:

Particulars	**2017**	2016
Current Assets		
Prepayments	**3,546,704**	1,858,446
Sub-Total	**3,546,704**	1,858,446
Non-Current Assets		
Deferred Charges	**2,386,909**	2,386,909
Receivables Included in NEA's Bail-Out Program	**1,285,594**	1,285,594
Investment in Gasifier and Equipment Manufacturing Corp. (GEMCOR)	**1,038,000**	1,038,000
Sub-Total	**4,710,503**	4,710,503
Total	**8,257,207**	6,568,949

Deferred Charges include miscellaneous deposits to PLDT, MERALCO and IFB incidental costs.

Investment in GEMCOR was an investment made in GEMCOR for 938 shares with P1,000 par value.

10. **FINANCIAL LIABILITIES**

This account represents various payables as follows:

Particulars	**2017**	2016
Due to Officers and Employees	**91,748,723**	75,838,567
Accrued Benefits Payable	**49,917,499**	34,752,128
Interest Payable on Foreign Loans	**11,786**	27,096
Total	**141,678,008**	110,617,791

Due to Officers and Employees represents the cash equivalent of the employees leave credits as of reporting date. The continuous provision for the leave credits is in accordance with the International Accounting Standard- IAS 19, Employee Benefits.

Accrued Benefits Payable pertains to accrual of expenses for 2017 and 2016.

11. **INTER-AGENCY PAYABLES**

This account consists of payables due to the following:

Particulars	**2017**	2016
Due to BTr	**18,233,921,102**	18,188,147,729
Due to BIR (Note 25.3)	**3,502,932**	5,254,451
Due to GSIS	**1,942,843**	1,651,854
Due to Pag-IBIG	**278,023**	252,428
Due to PHILHEALTH	**108,688**	102,838
Income Tax Payable	**70,891,354**	53,654,979
Total	**18,310,644,942**	18,249,064,279

Due to BTr are advances made by BTr on NEA's foreign loans from USAID, IBRD, OECF and OPEC; guaranteed loans from ADB, IBRD, EDC, UK, KFW, French, China and domestic loans from Citibank and Union/Filipinas Bank.

On February 24, 2016, NEA sent a letter to then Secretary Cesar V. Purisima informing him of NEA's intention of settling its obligations to the National Government (NG), in particular the BTR, through the conversion of NEA's outstanding NG advances to equity and subsidy totaling P18.267 billion.

Series of meetings were held between and among NEA, BTR, and DOF to discuss the said request for conversion, and other issues and concerns.
During our last meeting held on November 03, 2016, NEA and BTR agreed on the reconciled amount of P18,162,211,503 (from P20,294,511,601) total NG advances and interest as of June 30, 2016.

Based on the foregoing, the amount requested to DOF for the conversion of NG advances to equity and subsidy as reconciled with the BTR as of June 30, 2016, is as follows:

Equity	P11.617B
Subsidy	6.545B
Total	P18.162B

As of December 31, 2016, the Inter-Agency Payables- Due to National Treasury amounted to P18,188,147,729.18 as reconciled with BTR.

DOF, in its letter dated November 28, 2017, informed NEA that portion of its request for conversion into subsidy has been favorably endorsed to the DBM for the necessary cover as follows:

Amount requested		P18,162.21M
Less: DOF's approval		
Foreign Exchange Losses	P 8,100.00M	
Interest on NG Advances	6,815.57	
Balance		P 3,246.64M

The balance of P3,246.64 million shall be settled by NEA on staggered basis, payable in four (4) years. However, NEA is still waiting for the issuance of Special Allotment Release Order (SARO) by the DBM, and will include in the 2019 Cash Operating Budget (COB) of NEA.

JEV No. 2017-12-010264 dated December 31, 2017 was prepared taking up adjustment of Inter-Agency Payables – Due to National Treasury – BTr account as of December 31, 2017.

As of December 31, 2017, the Inter-Agency Payables – Due to National Treasury amounted to P18,233,921,102 as reconciled with BTr.

12. **LOANS PAYABLE**

This account represents current portion of foreign loans relent to NEA by the NG, detailed as follows:

CREDITOR/PROJECT	MATURITIES	INTEREST RATE	2017	2016
USAID 492 – T – 043- $19.9 million	1987 to 2017	Two percent (2%) for the first 10 years and 3 percent (3%) thereafter, with (one) 1 year grace period	**0**	3,797,336

13. **OTHER PAYABLES**

This account represents payables and trust liabilities for funds received from the National Government and other agencies. Details are as follows:

Particulars	2017	2016
Subsidy Receipts from the NG	**9,891,486,144**	13,441,443,626
EC Trust Fund - ALECO	**134,870,434**	142,662,059
DSWD - PKKV	**1,064,501**	1,043,404
Performance/Bidders Bonds	**1,069,825**	6,865,095
Retention Payable	**150,511**	5,443,774
Countrywide Development Funds	**1,393,020**	1,393,020
NPC SPUG	**51**	51
Miscellaneous Payables	**8,142,530**	4,722,048
Total	**10,038,177,016**	13,603,573,077

Subsidy Receipts from the NG consist of subsidy receipts for SEP and BLEP Projects, Calamity Fund - YRRP, Mindanao Modular Gensets and Lanao del Sur Metering Program Fund which were given by NG for release to various ECs.

EC Trust Fund - ALECO pertains to fund entrusted by Albay Electric Cooperative, Inc. (ALECO) to NEA.

DSWD PKKV represents the balance of the subsidy funds released but not yet liquidated by the ECs. The subsidy program is a joint undertaking of the

Department of Social Welfare and Development (DSWD) and the NEA (thru the 119 ECs all over the country). The P500 one-time subsidy aimed to help some 4.8 million electricity consumers cope up with the higher cost of electricity brought about by the rising cost of fuel. In the Memorandum of Agreement (MOA) with the DSWD, the latter released the funds to NEA, which in turn released the same to the different ECs. The ECs applied the amount to the accounts of their residential consumers consuming 100 kilowatt hour (kWh) and below.

Performance/Bidders Bonds - this account is used to record the incurrence of liability arising from the receipt of cash to guaranty that (a) that the winning bidder shall enter into contract with NEA; and (b) performance by the contractor of the terms of the contract

Retention Payable pertains to the retention money from payments made to contractors, suppliers and other creditors covering rural electrification, mini-hydro and dendro-thermal and other projects of NEA.

Countrywide Development Funds (CDF) pertain to funds received for financing electrification projects as identified by Congressmen and Senators. Per record of subsidy releases, the CDF were already released to the ECs. Verification of entries upon release of the funds is to be made to reconcile payable account to cash account.

Miscellaneous Payables include liabilities for amounts withheld in trust for the account of the NG, NPC and other entities intended to finance specific projects or activities or to pay specific obligations, such as the NPC O-Ilaw Project.

14. DEFERRED CREDITS

This account represents the balance of the advance payments made by ECs after June 26, 2001 (effectivity of the EPIRA) and unearned portion of service income from subsidy releases.

15. SERVICE AND BUSINESS INCOME

This account includes the following:

Particulars	**2017**	2016
Interest Income	**621,104,847**	599,957,048
Service Income	**54,307,328**	31,445,127
Total	**675,412,175**	631,402,175

Interest Income pertains to the interest earned on all interest-bearing loans for rural electrification purposes.

Service income pertains to the two percent service fees being charged on the subsidy releases to the ECs.

16. **PERSONNEL SERVICES**

This account consists of:

Particulars	2017	2016
Salaries and Wages	**133,208,818**	127,308,164
Other Compensation	**56,082,490**	79,997,612
Other Personnel Benefits	**31,848,951**	28,495,568
Personnel Benefits Contribution	**17,896,771**	17,175,494
Total	**239,037,030**	252,976,838

17. **MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)**

Breakdown of MOOE is as follows:

Particulars	2017	2016
Professional Services	**52,751,279**	45,108,824
Repairs and Maintenance	**23,410,124**	5,314,823
Depreciation	**18,698,351**	18,868,589
Impairment Loss	**16,871,992**	25,293,398
Training Expenses	**15,477,400**	12,537,767
Traveling Expenses	**15,414,480**	16,478,381
Utility Expenses	**9,997,231**	9,446,205
Supplies and Materials Expenses	**7,078,563**	7,120,195
Communication Expenses	**6,308,040**	6,177,473
Confidential, Intelligence, Extraordinary and Miscellaneous Expenses	**3,088,519**	3,111,951
Taxes and Licenses (Note 25.2)	**2,305,683**	4,704,354
Insurance Premiums and Other Fees	**1,410,894**	1,223,153
Other Maintenance & Other Operating Expenses	**4,146,495**	2,427,699
Total	**176,959,051**	157,812,812

18. **FINANCIAL EXPENSES**

This account consists of:

Particulars	2017	2016
Interest Expenses	**67,097,737**	93,772,040
Bank Charges	**615,925**	14,900
Total	**67,713,662**	93,786,940

19. **GAIN/(LOSS) ON FOREIGN EXCHANGE**

The foreign exchange loss in 2017 was the net effect of updating the Dollar Savings Account from 2016 BSP Reference Rate of P49.813/$1 to 2017 BSP rate of P49.923/$1 and the translation of foreign currency deposits as of reporting date and the take up of adjustment on the Foreign Currency Account-First Bank (Century Bank) in compliance to COA AOM No. 2017-26 (2016).

20. **OTHER NON-OPERATING INCOME**

This account consists of:

Particulars	2017	2016
Interest Income on Deposits	**10,484,320**	18,465,645
Miscellaneous Income	**22,181,954**	16,954,674
Total	**32,666,274**	35,420,319

Miscellaneous Income consists of income from training fees, space rental, photocopying, sales of RE Chronicle and other miscellaneous income.

21. **INCOME TAX EXPENSE**

Income Tax is computed at statutory tax rate of 30 percent for year 2017 of net taxable income from operation, as follows:

Particulars	2017	2016
Net income before income tax	**223,539,719**	163,047,342
Non-deductible expenses:		
Interest expense (33% of interest income subject to final tax)	**3,459,826**	6,093,663
Taxes, duties and licenses	**2,088,308**	3,682,609
Bad debts	**16,871,992**	25,293,398
Income not subject to tax:		
Interest income subject to final tax	**(10,484,320)**	(18,465,645)
Gain/Loss on foreign exchange	**828,987**	(801,439)
Net Income Subject to tax	**236,304,512**	178,849,928
	30%	30%
Income Tax	**70,891,354**	53,654,979

22. **CAPITAL STOCK**

This account consists of:

Particulars	2017	2016
Capital Stock NEA has an authorized capital of P15 billion divided into 150 million shares @ P100 par value per share.	**4,772,564,081**	4,772,564,081
Donated Capital	**177,560,561**	177,560,561
Total	**4,950,124,642**	4,950,124,642

Donated Capital account pertains to prior years' appropriation released by the Government of the Philippines to NEA under RA 2717 and RA 6038; proceeds from US-PL-480 and Reparation Commission; shares from BIR franchise taxes; and other funds received from various government agencies in support of the rural electrification project. The amount is net of the P50 million considered as initial capitalization of the Government of the Philippines with NEA under PD 269.

23. PRIOR PERIOD ADJUSTMENTS

The details of the account are as follows:

Particulars	2017	2016
Adjustment on Interest Income on Deposits	**3,458,707**	2,028,174
Interest on RE loans	**182,651,238**	9,379,665
Prior Year's Expenses	**0**	7,249,117
Other Prior Year's Adjustment	**4,331,447**	18,443,490
Adjustment on Conversion of Calamity Loan to Subsidy	**0**	21,767,216
Adjustment on Payables	**3,377,491**	0
GSIS All-Risk Insurance	**2,508,743**	4,106,732
Sub-Total	**196,327,626**	62,974,394
Interest on Net Lending- BTr	**0**	(10,016,987,097)
Adjustment on Doubtful Account	**0**	(55,753,668)
Adjustment of Semi Expendable- PPE	**0**	(8,553,066)
Adjustment on Interest Income on Loans	**0**	(6,180,814)
Prior Years' Expenses	**(2,930,777)**	(3,728,450)
Cancellation of Subsidy Checks	**0**	(2,124,265)
Liquidation of Subsidies Released to ECs	**(447,281)**	(805,397)
Adjustment on PHILRECA Account	**(6,458,707)**	0
Other Prior Years' Adjustment	**(9,782,979)**	(623,101)
Write-off Loans Receivable- LGUs	**0**	(617,871)
Sub-Total	**(19,619,744)**	(10,095,373,729)
Total	**176,707,882**	(10,032,399,335)

As a result, there was a P176,707,882 net deduction on the 2017 beginning balance of Retained Earnings. This was mainly due to the recognition of Interest from RE Loans amounting to P182,651,238.

24. DIVIDENDS

NEA paid 50 percent of its net earnings for 2016 and 2015 in the amount of P69,988,993 and P118,135,799, respectively, as dividends to the NG in compliance to R.A. 7656.

25. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION (RR) 15-2010

On November 25, 2010, the BIR issued RR No.15-2010, which requires certain information on taxes, duties and license fees paid or accrued during the taxable year be disclosed as part of the notes to financial statements. This supplemental information is an addition to the disclosures mandated under generally accepted state accounting principles in the Philippines, is presented as follows:

25.1. Output Value-Added Tax

The National Electrification Administration is a Non-VAT registered GOCC.

25.2. Taxes and Licenses

The details of Taxes and Licenses paid and accrued during the year are as follows:

Particulars	2017	2016
Withholding Tax on Interest on Deposits	**2,088,308**	3,682,609
Licenses	**0**	998,200
Real Estate Tax	**213,375**	22,275
Residence Tax	**3,500**	770
Non-VAT Registration	**500**	500
Total	**2,305,683**	4,704,354

25.3. Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2017 are shown below:

Withholding Taxes	Withheld	Remitted	Balance
Compensation and Benefits	34,476,982	31,588,424	2,888,558
Creditable	5,536,431	4,922,057	614,374
Total	**40,013,413**	**36,510,481**	**3,502,932**

The balance of withholding taxes as of December 31, 2017 was remitted to the BIR in January 2018.