**NATIONAL ELECTRIFICATION ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS**

*(Amount in Philippine Peso)*

|  |
| --- |
| 1. **CORPORATE INFORMATION** |

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 with an authorized capital stock of ₱1 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 by the service of electricity. PD 1370 issued on May 2, 1978 increased NEA’s capital stock to ₱2 billion.

On October 8, 1979, PD 1645 amended certain provisions of PD 269 and 1370 and 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 9136, 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:

1. To prepare the electric cooperatives in operating and competing under the deregulated electricity market within five (5) years from the effectivity of the Act;
2. To strengthen the technical capability and financial viability of rural electric cooperatives; and
3. To review and upgrade regulatory policies with a view to enhancing the viability of the electric cooperatives as electric utilities.

The EPIRA increased NEA’s authorized capital from ₱5 billion to ₱15 billion.

Administrative Order (AO) No. 112 dated December 7, 2004 directed the NEA to take full and sole authority and responsibility in the conversion of electric cooperatives 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 or stock corporation under the Securities and Exchange Commission.

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 10531, better known as the “National Electrification Administration Reform Act of 2013”, was signed into law which aims to:

1. promote the sustainable development in rural areas through rural electrification;
2. empower and strengthen the NEA to pursue the electrification program and bring electricity, through the electric cooperatives as its implementing arm, to the countryside even in missionary or economically unviable areas;
3. empower and enable electric cooperatives to cope with the changes brought about by the restructuring of the electric power industry pursuant to RA 9136.

RA 10531 had further increased NEA’s authorized capital from ₱15 billion to ₱25 billion. However, as of December 31, 2014, the National Government (NG) made no additional subscription.

From April 2000 to present, NEA’s registered address and principal place of business is #57 NEA Building, NIA Road, Barangay Pinyahan, Diliman, Quezon City 1100.

The NEA Board of Administrators authorized the NEA Administrator to issue NEA’s financial statements per Board Resolution No. 39 dated May 12, 2006. NEA’s financial statements for the calendar year ending December 31, 2014 was approved for issuance on February 12, 2015.

|  |
| --- |
| 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** |

## Accounting System

Starting March 31, 2005, NEA adopted the Electronic New Government Accounting System (e-NGAS), an Accounting System developed by the Commission on Audit (COA).

**Cash and Cash Equivalents**

Cash includes cash on hand and in banks. Cash equivalents are short-term, liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

**Receivables**

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

Bad debts expense are taken up at a rate of one percent (1%) of the estimated uncollectible receivables per year. Management recognized bad debts expense of ₱2.444 million and ₱6.072 million for estimated uncollectible receivables of ₱244.363 million and ₱607.195 million in 2014 and 2013, respectively.

### Inventories

Inventories are taken up in the books at Cost, Insurance and Freight (CIF) cost upon receipt and inspection, except for items under Invitation for Bid (IFB) Nos. 62,72,74,76, & 77, which are carried at Duties Delivered Unpaid (DDU) cost, which includes all local taxes, stamp duties, license fees, etc. incurred until delivery of the goods to the staging areas. Further, inventory unit costs are computed by converting the invoice amount in various foreign currencies to peso using the prevailing exchange rate at the time of shipment of the equipment and materials. Succeeding upward or downward movement of the peso vis-à-vis the foreign currencies is no longer considered.

Further, since the adoption of the e-NGAS in 2005, Office Supplies Inventory that are generated by the accounting system are automatically computed based on weighted average cost of the items.

**Property and Equipment**

Property and equipment are recorded at purchase price plus incidental costs and any other directly attributable costs.

Depreciation is provided starting the month following the date of purchase using the straight-line method and is computed over the estimated useful lives of the assets as follows:

| 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 |
| Library Books |  | 5 |

A residual value equivalent to ten percent (10%) of the purchase cost is set up. Effective July 1, 2005, based on COA Circular 2005-002 dated April 14, 2005, small tangible items with estimated useful life of more than one year are recorded as inventories upon acquisition and as expenses upon issuance.

**Presentation and Functional Currency**

The financial statements are presented in Philippine peso, which is also the functional currency of NEA. All amounts are rounded off to the nearest peso.

**Foreign Currency Transactions**

Current portions of foreign and domestic loans as of end of December 31, 2014 was updated using the closing rate per Reference Exchange Rate Bulletin of the Bangko Sentral ng Pilipinas (BSP) as of December 29, 2014 in accordance with paragraphs 23 and 29 of *International Accounting Standard (IAS) 21 – The Effects of Changes in Foreign Exchange Rates*, except for USAID Loan Nos. 492-T-034, 492-T-036,and 492-T-043, where 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.

Foreign currency deposits were also translated using the BSP Reference Exchange Rate as of December 29, 2014 and the resulting gain (loss) was taken up as Gain/Loss on Foreign Exchange.

**Income and Expense Recognition**

Income includes both revenues and gain. 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 arrangement is formalized for its renewal, extension/restructuring. Donations in cash or in kind are recognized as income upon receipt.

Expenses are recognized when incurred.

|  |
| --- |
| 1. **CASH AND CASH EQUIVALENTS** |

Breakdown of this account is as follows:

|  |  | **2014** |  | 2013 |
| --- | --- | --- | --- | --- |
| *Cash on Hand* |  |  |  |  |
| Cash – collecting officers |  | **170,330** |  | 5,209,008 |
| Petty cash fund |  | **145,236** |  | 126,770 |
|  |  | **315,566** |  | 5,335,778 |
| *Cash in Bank* |  |  |  |  |
| Local currency - current account |  | **8,150,859,349** |  | 4,010,214,947 |
| Local currency - savings account |  | **2,464,023,251** |  | 2,315,643,805 |
| Foreign currency - savings account |  | **24,299,617** |  | 24,062,347 |
|  |  | **10,639,182,217** |  | 6,349,921,099 |
| *Cash Equivalents* |  |  |  |  |
| Foreign currency - time deposits |  | **6,253,617** |  | 6,253,617 |
|  |  | **10,645,751,400** |  | 6,361,510,494 |

*Local currency – current account –* the account is mainly for subsidy receipts from the NG and the increase in 2014 was due to subsidy funds of ₱4.141billion for the Sitio Electrification Project (SEP), Barangay Line Enhancement Project (BLEP), Yolanda Rehabilitation Plan, Modular Genset, Pamana Fund and Lanao del Sur Metering Program.

*Local currency – savings account* – consists of various accounts maintained with Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), Philippine Veterans Bank (PVB) and Philippine National Bank (PNB), mostly for loans to be granted to ECs.

|  |
| --- |
| 1. **LOANS RECEIVABLE** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
| Loans receivable – PSALM |  | **2,155,490,233** |  | 2,201,096,183 |
| Loans receivable – EC |  | **375,706,130** |  | 509,620,182 |
| Matured loans receivable-others |  | **21,078,275** |  | 21,078,275 |
| Loans receivable - municipal system |  | **7,276,407** |  | 7,315,928 |
| Loans receivables - NEECO II |  | **2,570,520** |  | 2,214,663 |
|  |  | **2,562,121,565** |  | 2,741,325,231 |
| Allowance for doubtful accounts |  | **(172,431,362)** |  | (169,987,728) |
|  |  | **2,389,690,203** |  | 2,571,337,503 |

*Loans receivable – PSALM* represents the matured portion of the ECs loans assumed by the PSALM in accordance with Section 60 of RA 9136. Non-payment by PSALM for several ECs accounts is anchored on Section 5d of Executive Order No. 119, which states that*“ Each EC must be current 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.”*

Part of *Loans receivable - EC* in the amount of ₱117.699 million as of December 31, 2014 and ₱237.937 million as of December 31, 2013 pertains to Short Term Credit Facility, a loan granted to ECs to finance their monthly shortfall on the settlement of their power accounts with the National Power Corporation, National Grid Corporation of the Philippines, SN Aboitiz Power-Magat, Green Core Geothermal Inc., AP Renewable Inc., San Miguel Energy Corp., and Masinloc Power Partners Co. Ltd. Maximum loanable amount is equivalent to the ECs current Power minus 50% of its Average Monthly Cost (AMC) plus Average Monthly Non-Power Cost. Terms of this loan are 1% interest rate per month, payable within 30 days after each availment and 1.5% default charge per month.

|  |
| --- |
| 1. **OTHER RECEIVABLES** |

This account consists of:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **2014** | |  | | 2013 |
| Receivables from various ECs |  | | **14,401,857,025** | |  | 6,369,401,470 |
| Receivables from National Power Corp. |  | **60,676,963** | |  | | 35,325,883 |
| Miscellaneous receivables |  | **57,595,763** | |  | | 59,854,536 |
|  |  | **14,520,129,751** | |  | | 6,464,581,889 |
| Allowance for doubtful accounts |  | **(55,455,855)** | |  | | (55,455,855) |
|  | | **14,464,673,896** | | | | 6,409,126,034 |

*Receivables from various electric cooperatives (ECs)* consist of subsidy releases under the “Pantawid Kuryente Katas ng VAT” funds, Sitio Electrification Program (SEP) and Barangay Line Enhancement Program (BLEP) and Yolanda Rehabilitation and Recovery Program (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 other receivables and charged to expense upon liquidation. The receivables from ECs consist of advances of ₱14.402 billion (net of advance payment of interest receivable of ₱5.693 million) in 2014 and ₱6.368 billion and ₱4.569 million in 2013. On the other hand, because of the continuous liquidation of receivables, the Pantawid Kuryente “Katas ng VAT” funds has an outstanding balance of ₱.912 million in 2014 from₱89 million in 2013.

*Receivables from National Power Corporation* (NPC)represent the cost of various MAN gensets and 69 KV lines taken over by NPC from the different ECs and were correspondingly applied against ECs’ loans from NEA. Only the amount of ₱57.395 million was validated by NPC as TransCo account and included in the Asset-Debt Transfer made by NPC to PSALM books in October 2008.On May 10,2012, PSALM paid the amount of ₱22.069million, leaving a balance of ₱35.326 million as of December 31, 2013.

*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.

However, on June 20, 2014, NEA entered into Memorandum of Agreement with NPC for the construction of Power Plant Facilities including supply, delivery, erection/installation test commissioning of 2 x 200KW Diesel Genset and Auxilliaries for Languyan Town. On August 11, 2014 NEA released to NPC the amount of ₱25.351 million, increasing the receivables to ₱60.677 million as of December 31, 2014.

|  |
| --- |
| 1. **INVENTORIES** |

This account consists of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
| Merchandise inventory for sale |  | **5,211,786** |  | 5,211,786 |
| Merchandise inventory in transit |  | **(354,238)** |  | 3,651,991 |
| Office supplies inventory |  | **1,787,345** |  | 1,194.577 |
| Spare parts inventory |  | **193,142** |  | 185,789 |
| Other supplies inventory |  | **137,302** |  | 176,374 |
|  |  | **6,975,337** |  | 10,420,517 |

*Merchandise inventory for sale* account pertains to the cost of equipment and materials damaged/burned in NUVELCO Staging Area. On September 14, 2010, NEA requested for relief from accountability for the loss of these equipment and materials.

*Merchandise inventory in transit* account pertains to the Equipment and Materials In-Transit (EMIT) account amounting to ₱3.652 million which remained dormant for more than ten (10) years. NEA requested authority from COA to write-off the said account but the same was denied by the latter in its COA Decision No. 2013-247 dated December 23, 2013 because of COA’s existing regulations that only unliquidated cash advances and dormant account receivables are subject for write-off. Said amount was reinstated as EMIT account for adjustment.

Journal Entry Vouchers (JEVs) totaling ₱4.006 million were prepared to close the difference between actual payments made by NEA to contractors against the rates used in costing the equipment and materials under IFB 38 which is part of AOM No. 2007-016, dated March 12, 2007. This resulted in the negative balance of the Merchandise inventory-in transit account of ₱.354 million representing the unused balance of the Letters of Credit which will be adjusted in 2015.

|  |
| --- |
| 1. **LONG-TERM LOANS RECEIVABLE** |

This account consists of the following receivables:

|  |  | **2014** |  | 2013 |
| --- | --- | --- | --- | --- |
| *Electric Cooperatives* |  |  |  |  |
| Rural electrification loans |  | **6,426,568,835** |  | 6,227,577,052 |
| Calamity loans |  | **1,296,019,525** |  | 970,267,848 |
| Single digit systems loss program |  | **398,021,521** |  | 643,692,193 |
| Working capital/Relending loans |  | **79,877,227** |  | 86,417,526 |
| Standby credit facility |  | **27,500,897** |  | 80,050,731 |
| Power use and Bliss I loans |  | **1,115,067** |  | 1,645,921 |
| Equity financing scheme for ECs |  | **(11)** |  | 1,006,901 |
| Others |  | **174,423** |  | 174,422 |
|  |  | **8,229,277,484** |  | 8,010,832,594 |
| Power Sector Assets and Liabilities Management Corporation (PSALM) |  | **2,155,490,220** |  | 2,201,096,169 |
| Nueva Ecija III Electric Cooperative (NEECO II) loan |  | **295,026,240** |  | 298,509,525 |
| Private franchise loan |  | **3,927,998** |  | 60,942,373 |
| Philippine Rural Electrification Cooperative  Association (PHILRECA) loan | | **7,816,719** |  | 7,816,719 |
| Municipal loans |  | **7,276,407** |  | 7,315,928 |
| Others |  | **10,558,419** |  | 10,558,420 |
|  |  | **2,480,096,003** |  | 2,586,239,134 |
|  |  | **10,709,373,487** |  | 10,597,071,728 |
| Portion due within one year shown under current assets |  | **(2,444,422,361)** |  | (2,503,388,390) |
|  |  |  |  |  |
|  |  | **8,264,951,126** |  | 8,093,683,338 |

*Rural electrification 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. These are long-term loans with interest rate from 12% then reduced to 6.5% per annum, maturity period of more than five (5) years and a grace period of one (1) year.

*Single digit systems loss program* is a loan intended to assist the ECs in the reduction of the national average systems loss by at least 1% yearly starting 2004 and attain a single digit level before 2010. Loanable amount depends on NEA’s evaluation of the project. Terms of the loan are: 9% interest rate per annum, 5–10years repayment and 3–6 months grace period, and 8% per annum, if repayment period is 2 years. Interest rate was reduced from 6.5% to 6% per annum in September 2014.

*Calamity loans* are loans granted to calamity-affected ECs for the immediate repair of damaged distribution lines and restoration of power. Interest rate varies at 3.5% - 5% per annum, payable in 5-10 years with 5-12 months grace period.

*Standby credit facility* is a credit facility that would strengthen the ECs’ credit worthiness with the GENCOs and Market Operator. The loanable amount is equivalent to the average monthly power bill of the ECs with a 12% interest rate per annum. The maximum repayment period is 90 days after each availment, with a default charge of 18% per annum.

*Relending loans* are loans granted to ECs, specifically intended for the payment of their power arrearages with the NPC, thereby enabling the ECs to avail of NPC’s 3% prompt payment discount. The interest rate is 7% to 12% per annum and repayment period is based on arrears in months as follows:

|  |  |  |
| --- | --- | --- |
| above 12 months | - | 7 yrs. |
| 6 – 12 months | - | 6 yrs. |
| below 6 months | - | 5 yrs. |

*Relending loan* was changed to *Working capital* loans with the repayment period of 5 years and interest rate of 6.5% per annum.

*Equity financing scheme for ECs* 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% of the total purchase price of the distribution equipment but not to exceed ₱8 million. Interest rate is 12% per annum, 3-5 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 5 to 10 years after date of release, at 5% to 11% interest per annum and with grace period of 1 to 2 years. This facility is no longer active since 2004.

In its November 8, 2006 Board meeting, the NEA Board Administrators approved the Management’s recommendation for the reduction of NEA’s lending rate from 12% to 10%, effective January 2007, on all term loan approvals for both present and future, such as the following facilities:

Equity Financing Scheme for ECs (EFSEC),

Single Digit System Loss (SDSL),

69 KV Lines Sub-Transmission Acquisition; and

Regular Loan (RE)

To be afloat with the prevailing interest rates, the NEA Board, in its April 10, 2008 meeting, approved another reduction of the lending rate from 10% to 8% per annum, to wit: 9% interest per annum for the term loan approvals of 3-15 years repayment period and 8% interest per annum if 2 years repayment period, respectively, except for STCF. Further reduction was made in September 23, 2014 from 8%/7% to 6.5%/6%.

*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 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 ECs rural electrification loans from NEA is subject to compliance to 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 ₱208.4 million plus interest income of ₱111.8 million less payments previously made by NEECO III of ₱11.3 million. The Deed of Conditional Sale approved on January 24, 2006 provides that the sales price shall be payable over 25 years at 7% interest per annum. Repayment of principal commenced on January 31, 2008, while payment of the monthly interest started in January 2006.

*Private franchise loan* pertains to the loan granted to finance MERALCO’s depressed area electrification project and Visayan Electric Company rural electrification extension projects. However, on December 31, 2006, MERALCO has pre-terminated this loan by paying the amount of ₱886.6 million. This loan is no longer active since 2006.

*PHILRECA loan* represents the loan extended by NEA amounting to ₱10 million to the Philippine Rural Electrification Cooperative Association (PHILRECA) to finance the various projects of the association, e.g., livelihood projects, trust fund management insurance and printing program for rural ECs. In support of NEA’s collection efforts, some member cooperatives of the PHILRECA had agreed to pay portion of the loan by offsetting the same against their excess payments to NEA.

*Municipal loans* are loans 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 had effectively been 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 Treasury 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 pursued collection of these accounts using legal remedies available under the Loan Contracts. Again, on March 11, 2011, NEA sought the assistance of the Department of Finance (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 Commission on Audit.

|  |
| --- |
| 1. **PROPERTY AND EQUIPMENT** |

The movement of property and equipment for the year ended December 31, 2014 and 2013 are as follows:

|  |  | **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, 2014 | 46,522,575 | 286,266,813 | 77,240,065 | | 42,100,928 | 8,107,731 | 25,315,916 | 485,554,028 |
|  | Additions | 0 | 54,000 | 7,384,742 | | 0 | 1,117,610 | 0 | 8,556,352 |
|  | Disposal/retirements | 0 | 0 | (30,687) | | (1,467,871) | 0 | 0 | (1,498,558) |
|  | At December 31, 2014 | 46,522,575 | 286,320,813 | 84,594,120 | | 40,633,057 | 9,225,341 | 25,315,916 | 492,611,822 |
| Accumulated depreciation: | | | | | | | | | |
|  | At January 1, 2014 | 641,843 | 120,595,377 | | 58,315,523 | 24,231,965 | 2,230,945 | 22,754,176 | 228,769,829 |
|  | Charge for the year | 53,487 | 8,593,914 | | 3,947,978 | 2,702,970 | 412,044 | 18,932 | 15,729,325 |
|  | Disposal/retirements/  Addition | 0 | 0 | | (3,072,567) | (1,321,085) | 3,045,579 | 0 | (1,348,073) |
|  | At December 31, 2014 | 695,330 | 129,189,291 | | 59,190,934 | 25,613,850 | 5,688,568 | 22,773,108 | 243,151,081 |
| **Net carrying amount, December 31, 2014** | | **45,827,245** | **157,131,522** | | **25,403,186** | **15,019,207** | **3,536,773** | **2,542,808** | **249,460,741** |
|  | | | | | | | | | |
| Cost: | |  |  |  | |  |  |  |  |
|  | At January 1, 2013 | 46,522,575 | 286,266,813 | 67,174,255 | | 34,304,799 | 7,891,456 | 25,325,116 | 467,485,015 |
|  | Additions | 0 | 0 | 10,080,114 | | 8,190,000 | 216.275 | 0 | 18,486,389 |
|  | Disposal/retirements | 0 | 0 | (14,304) | | (393,871) | 0 | (9,200) | (417,375) |
|  | At December 31, 2013 | 46,522,575 | 286,266,813 | 77,240,065 | | 42,100,928 | 8,107,731 | 25,315,916 | 485,554,028 |
| Accumulated depreciation: | | | | | | | | | |
|  | At January 1, 2013 | 570,527 | 112,004,298 | 55,368,467 | | 22,614,013 | 1,898,891 | 22,726,831 | 215,183,027 |
|  | Charge for the year | 71,316 | 8,591,079 | 2,958,621 | | 1,972,436 | 332,054 | 30,519 | 13,956,025 |
|  | Disposal/retirements | 0 | 0 | ( 11,565) | | (354,484) | 0 | (3,174) | (369,223) |
|  | At December 31, 2013 | 641,843 | 120,595,378 | 58,315,523 | | 24,231,965 | 2,230,945 | 22,754,176 | 228,769,829 |
| **Net carrying amount, December 31, 2013** | | **45,880,732** | **165,671,435** | **18,924,543** | | **17,868,963** | **5,876,786** | **2,561,740** | **256,784,199** |

*Land* consists of the following:

* *Site of NEA building* under TCT No. 233258 acquired on January 11, 2002 from the National Housing Authority with an acquisition cost of ₱36.2 million.
* *Tandang Sora, Quezon City* with a lot area of approximately 2.5 hectares with TCT No. 26581, acquired on January 10, 2002 for ₱9.5 million. However, the said lot is subject to court litigation pending before the Supreme Court, docketed as G.R. No. 11276, 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.
* *Foreclosed Properties-Bani/Bolinao* with a book value of ₱25,800 which 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) were 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 & Natural Resources (DENR) revealed that most of the properties are within the Alienable & Disposable (A & D) zones. The cluster on Utilization and Disposal of NEA’s Acquired and Foreclosed Property is working on the possibility of titling/or turning over of the same to the DENR.
* 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 – A, 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.

|  |
| --- |
| 1. **OTHER ASSETS** |

This account includes:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
| Deferred charges |  | **2,386,909** |  | 2,386,909 |
| Receivables included in NEA’s Bail-  Out Program | | **1,285,594** |  | 1,285,594 |
| Investment in GEMCOR |  | **1,038,000** |  | 1,038,000 |
|  |  | **4,710,503** |  | 4,710,503 |

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

*Investment in GEMCOR* consists mainly of investment with Gasifier & Equipment Manufacturing Corporation for 938 shares at ₱1,000 par value.

|  |
| --- |
| 1. **PAYABLES** |

This account represents various payables as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
|  |  |  |  |  |
| Unliquidated obligations |  | **186,224,272** |  | 133,830,830 |
| Due to officers and employees |  | **55,080,089** |  | 52,209,768 |
| Interest payable on foreign loans |  | **221,418** |  | 5,681,241 |
| Miscellaneous |  | **13,476,274** |  | 13,476,274 |
|  |  | **255,002,053** |  | 205,198,113 |

*Unliquidated obligations* account pertains to accrual of expenses at end of reporting date.

*Due to officers and employees* represent 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.

|  |
| --- |
| 1. **PAYABLES TO GOVERNMENT AGENCIES** |

This account consists of payables due to the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
| Bureau of Treasury |  | **8,178,029,031** |  | 11,766,092,750 |
| Bureau of Internal Revenue (Note 26.3) |  | **7,414,436** |  | 5,625,255 |
| Government Service Insurance System |  | **1,717,962** |  | 1,635,924 |
| Pag-IBIG |  | **292,820** |  | 298,230 |
| PHILHEALTH |  | **108,076** |  | 106,851 |
|  |  | **8,187,562,325** |  | 11,773,759,010 |

*Payable to the Bureau of Treasury* (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.

The amount does not include the cumulative interest on net lending being charged by the BTr amounting to ₱6.6 billion as of December 31, 2014 and ₱6.5 billion as of December 31, 2013. NEA does not record in its books of accounts the interest on net lending in view of the letter from the Department of Finance (DOF) to the Department of Budget and Management (DBM) dated June 5, 1996 stating that BTr shall refrain from charging additional interest on NG advances to NEA pertaining to loans (1971-1989) included in the Bail-Out Program. NEA started recording in its books of account the interest on net lending in years 2010, 2011, 2012 and 2013 amounting to ₱216million under loans (1990-1994) not included in the Bail-Out Program.

|  |
| --- |
| 1. **LOANS PAYABLE – DOMESTIC** |

This account represents foreign loans relent to NEA by the NG, details are as follows:

| **CREDITOR/PROJECT** |  | **MATURITIES** | **INTEREST RATE** | **2014** |  | 2013 |
| --- | --- | --- | --- | --- | --- | --- |
| **OECF** |  |  |  |  |  |  |
| OECF PH- 138-Y11.4 billion |  | 2002 to 2014 | 4.7% with 8 years grace period | **0** |  | 339,499,893 |
| USAID 492 – T – 034-$17.9 million |  | 1985 to 2015 | 2% for the first 10 years and 3% thereafter, with 10 years grace period | **3,338,805** |  | 9,777,787 |
| USAID 492 – T – 036-$19.9 million |  | 1986 to 2016 | 2% for the first 10 years and 3% thereafter, with 10 years grace period | **10,717,126** |  | 17,602,275 |
| USAID 492 – T – 043-$19.9 million |  | 1987 to 2017 | 2% for the first 10 years and 3% thereafter, with 1 year grace period | **17,830,762** |  | 24,535,317 |
|  |  |  |  | **31,886,693** |  | 391,415,272 |
| Current portion |  |  |  | **(17,230,956)** |  | (20,028,686) |
|  |  |  |  | **14,655,737** |  | 371,386,586 |

|  |
| --- |
| 1. **LOANS PAYABLE – FOREIGN** |

This account is composed of foreign indebtedness, details are as follows:

| **CREDITOR/PROJECT** |  | **MATURITIES** |  | **INTEREST RATE** |  | **2014** |  | 2013 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **German Loans**  KFW Loan I Portion I -DM 35.8 million |  | 1989 to 2015 |  | 2% with 10 years grace period |  | **14,669,471** |  | 37,097,656 |
| KFW Loan II -DM 13.4 million |  | 1991 to 2015 |  | 2% with 10 years grace period |  | **4,000,765** |  | 13,227,018 |
|  |  |  |  |  |  | **18,670,236** |  | 50,324,674 |
| Current portion |  |  |  |  |  | **(18,670,236)** |  | (24,005,169) |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **0** |  | 26,319,505 |

|  |
| --- |
| 1. **OTHER PAYABLES** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
| Subsidy receipts from the NG |  | **22,503,586,732** |  | 9,867,665,414 |
| DSWD –Pantawid Kuryente:"Katas ng VAT" |  | **1,043,404** |  | 97,082,019 |
| DOE CARE Fund |  | **3,771,871** |  | 81,979,370 |
| Performance/bidders bonds |  | **34,783,982** |  | 32,552,990 |
| Retention payable |  | **5,443,774** |  | 5,443,774 |
| Countrywide Development Funds |  | **1,393,020** |  | 1,393,020 |
| DOE EREPP Fund |  | **330,872** |  | 723,732 |
| NPC SPUG |  | **51** |  | 51 |
| Miscellaneous payables |  | **2,581,328** |  | 3,417,851 |
|  |  | **22,552,935,034** |  | 10,090,258,221 |

*Subsidy Receipts from the NG* consist of subsidy receipts for the Sitio Electrification and Barangay Line Enhancement Projects, Calamity Fund - Yolanda Rehabilitation Plan, Mindanao Modular Gensets and Lanao del Sur Metering Program Fund which was given by the NG for release to various electric cooperatives.

*DSWD Pantawid Kuryente: “Katas ng VAT”* 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 ₱500 one-time subsidy aims 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 a Memorandum of Agreement (MOA) with the DSWD, the latter will release the funds to NEA, which in turn will release the same to the different ECs. The ECs will apply the amount to the accounts of their residential consumers consuming 100 KHW and below.

*DOE Calamity Assistance Rehabilitation Effort (CARE) Fund* pertains to the amount allocated by the DBM in the amount of ₱500 million intended for the completion of the rehabilitation of distribution lines of the ECs damaged by typhoons Milenyo, Paeng, Reming and Seniang in Regions III, IV-A, IV-B, V, VI and VIII. It was approved that 75% of the allocated amount from CARE shall be allocated for the Bicol Region, while the remaining 25% of the total amount will be distributed to the other regions also affected by the typhoons as detailed in the NEA Rehabilitation Plan.

*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. The account balance substantially pertains to the cash to pay-off the 10% retention payable to Phil Jian amounting to ₱5.2 million, which is maintained with First Bank. The amount was withheld by First Bank (formerly Century Bank) because it claimed that Phil Jian sold/assigned to Far East Bank (now BPI) its right to make presentment to First Bank.

*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.

*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.

|  |
| --- |
| 1. **DEFERRED CREDITS** |

This account represents the balance of the advance payments made by ECs after June 26, 2001 (effectivity of the EPIRA). For 2014, some ECs opted to draw from this account their current year’s amortization, thus, the reduction of ₱5.705 million, or from ₱49.701 million at the end of 2013 to ₱43.996 million, as of December 31, 2014.

|  |
| --- |
| 1. **GENERAL INCOME** |

This account includes:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
|  |  |  |  |  |
| Interest income |  | **726,017,392** |  | 612,362,328 |
| Service income |  | **205,689,255** |  | 112,418,033 |
|  |  |  |  |  |
|  |  | **931,706,647** |  | 724,780,361 |

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

*Service income* pertains to the services income on subsidy releases to ECs. This income represents the 2% service fees being charged on the subsidy releases to the ECs. This year’s service income of almost ₱205.689 million is ₱93.271 million more than the 2013 figures of ₱112.418 million. The increase is attributed to the increase in the amount of releases of subsidy to ECs for Sitio Electrification Program (SEP) and Barangay Line Enhancement Program (BLEP) and the Yolanda Rehabilitation Plan in 2014. In 2014, NEA received a total subsidy of ₱13.788 billion from the NG, through the DBM, for the electrification of un-energized sitios all over the country.

|  |
| --- |
| 1. **PERSONAL SERVICES** |

This account consists of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
|  |  |  |  |  |
| Salaries and wages |  | **119,574,591** |  | 119,062,427 |
| Other compensation |  | **68,927,355** |  | 48,424,094 |
| Other personnel benefits |  | **26,217,351** |  | 18,841,308 |
| Personnel benefits contribution |  | **17,701,403** |  | 14,912,873 |
|  |  | **232,420,700** |  | 201,240,702 |

|  |
| --- |
| 1. **MAINTENANCE AND OTHER OPERATING EXPENSES** |

Breakdown of this account is as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | |  | **2014** |  | 2013 |
| Professional services | |  | **42,218,995** |  | 38,167,616 |
| Traveling expenses | |  | **17,178,881** |  | 15,871,804 |
| Utilities expenses | |  | **11,822,162** |  | 13,426,069 |
| Depreciation | |  | **15,729,325** |  | 13,956,024 |
| Supplies and materials expenses | |  | **6,655,445** |  | 7,060,822 |
| Training expenses | |  | **11,321,907** |  | 7,669,289 |
| Taxes and licenses (Note 26.2) | |  | **6,880,741** |  | 6,616,737 |
| Bad debts | |  | **2,443,634** |  | 6,071,949 |
| Communication expenses | |  | **6,098,809** |  | 5,673,247 |
| Confidential, intelligence, extraordinary and miscellaneous expenses | | | **3,654,337** |  | 5,436,546 |
| Insurance premiums and other fees | |  | **1,151,992** |  | 3,546,291 |
| Repairs and maintenance | |  | **3,369,995** |  | 2,205,904 |
| Rent expenses | |  | **785,360** |  | 887,151 |
| Representation | |  | **405,962** |  | 689,833 |
| Advertising | |  | **930,440** |  | 413,038 |
| Printing and binding | |  | **359,755** |  | 373,478 |
| Subscriptions | |  | **227,576** |  | 212,329 |
| Membership dues & contributions to organizations | | | **32,150** |  | 76,100 |
| Transportation and delivery |  | | **838** |  | 831 |
| Other maintenance &other operating expenses | | | **1,193,138** |  | 1,030,441 |
|  |  | | **132,461,442** |  | 129,385,499 |

|  |
| --- |
| 1. **GAIN ON FOREIGN EXCHANGE** |

The foreign exchange gain in 2014 was a result of updating the current portion of foreign and domestic loans from 2004 BSP Reference Rate of ₱56.2670/$1 to 2014 BSP rate of P44.617/$1 and the translation of foreign currency deposits as of reporting date.

|  |
| --- |
| 1. **FINANCIAL EXPENSES** |

This account consists of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
|  |  |  |  |  |
| Interest expenses |  | **29,045,996** |  | 27,582,354 |
| Bank charges |  | **1,000** |  | 21,153 |
| Other financial charges |  | **601** |  | 113,484 |
|  |  | **29,047,597** |  | 27,716,991 |

|  |
| --- |
| 1. **OTHER INCOME** |

This account consists of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
|  |  |  |  |  |
| Interest income on deposits |  | **34,556,106** |  | 33,167,197 |
| Miscellaneous income |  | **13,097,400** |  | 11,157,743 |
|  |  | **47,653,506** |  | 44,324,940 |

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

|  |
| --- |
| 1. **INCOME TAX EXPENSE** |

*Income tax* is computed at statutory tax rate of 30% for 2014 and 2013 of net taxable income from operation, as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
|  |  |  |  |  |
| Net income before income tax |  | **587,185,454** |  | 494,469,714 |
|  |  |  |  |  |
| Non-deductible expenses: |  |  |  |  |
| Interest expense (33% of interest  income subject to final tax) |  | **11,403,515** |  | 10,945,175 |
| Taxes, duties and licenses |  | **6,880,741** |  | 6,616,737 |
| Bad debts |  | **2,443,634** |  | 6,071,949 |
|  |  |  |  |  |
| Income not subject to tax: |  |  |  |  |
| Interest income subject to final tax |  | **(34,556,106)** |  | (33,167,197) |
| Gain/loss on foreign exchange |  | **(1,230,826)** |  | (83,711,992) |
|  |  | **572,126,412** |  | 401,224,386 |
|  |  | **30%** |  | 30% |
|  |  | **171,637,923** |  | 120,367,316 |

|  |
| --- |
| 1. **CAPITAL STOCK** |

This account consists of:

|  |  | **2014** |  | 2013 |
| --- | --- | --- | --- | --- |
| Capital stock |  |  |  |  |
| NEA has an authorized capital of  P15 billion divided into 150 million shares @ P100 par value per share |  | **4,772,564,081** |  | 4,970,461,025 |
| Donated capital | **177,560,561** | |  | 177,560,561 |
|  |  | **4,950,124,642** |  | 5,148,021,586 |

*Donated capital* account pertains to prior years’ appropriation released by the Government of the Philippines to NEA under RA 2717 and RA 6038; proceeds fromUS-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 ₱50 million considered as initial capitalization of the Government of the Philippines with NEA under PD 269.

|  |
| --- |
| 1. **PRIOR PERIOD ADJUSTMENTS** |

Details of the accounts are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2014** |  | 2013 |
|  |  |  |  |  |
| Foreign currency adjustment on  updating of loans |  | **3,499,863,535** |  | 0 |
| Adjustment on Paid-in-capital |  | **197,896,944** |  | 0 |
| Adjustment on liquidation of Care Fund |  | **30,856,504** |  | 0 |
| Adjustment on interest income on deposits |  | **8,897,519** |  | 16,229,774 |
| Adjustment on payables |  | **68,979** |  | 71,734 |
| Unused subsidy fund balance |  | **20,815,198** |  | 615,177 |
| Interest on RE loans |  | **2,346,884** |  | 10,469,323 |
| Other prior year’s adjustment |  | **1,242,436** |  | 2,532,023 |
|  |  | **3,761,987,999** |  | 29,918,031 |
|  |  |  |  |  |
| Other prior years’ adjustments |  | **(3,672,297)** |  | 0 |
| Difference on the amount paid by BTr |  |  |  |  |
| against take up in the books |  | **0** |  | (308,535) |
| Adjustment on interest income on loans |  | **(16,180,741)** |  | (659,309) |
| Adjustment on inventory |  | **0** |  | (1,024,396) |
| Prior years’ expenses |  | **(14,081,344)** |  | (7,626,145) |
| Liquidation of subsidies released to ECs |  | **(3,860,446)** |  | (44,295,680) |
| Adjustment on loans payable |  | **(4,066,394)** |  | (143,097,509) |
|  |  | **(41,861,222)** |  | (197,011,574) |
|  |  | **3,720,126,777** |  | (167,093,543) |

The foreign currency adjustment on prior years to update NEA loans was taken up under JEV No. 2014-10-009391, dated October 30, 2014, due to the significant Effect of Change in Accounting Method of Updating from outstanding balance (Statement of Financial and Accounting Standards - SFAS No. 8) to current maturities (International Accounting Standard – IAS 21, *The Effects of Changes in Foreign Exchange Rates*).

|  |
| --- |
| 1. **DIVIDENDS** |

NEA paid fifty percent (50%) of its net earnings for 2013 and 2012 in the amount of ₱148.231 million and ₱136.548 million, respectively, as dividends to the NG in compliance with RA 7656.

|  |
| --- |
| 1. **SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION 15-2010** |

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued   
Revenue Regulation (RR) 15-2010, which require certain information on taxes, duties and license fees paid or accrued during the taxable year to be disclosed as part of the notes to financial statements. This supplemental information, which is an addition to the disclosures mandated under generally accepted state accounting principles in the Philippines, is presented as follows:

* 1. **Output Value-Added Tax**

NEA is a Non-VAT registered Government-Owned and Controlled Corporation.

* 1. **Taxes and Licenses**

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

|  |  |  |
| --- | --- | --- |
|  | **2014** | 2013 |
| Withholding tax on interest on deposits | **6,839,571** | 6,593,192 |
| Authority to print | **21,000** | 0 |
| Real estate tax | **18,900** | 22,275 |
| Residence tax | **770** | 770 |
| Non-VAT registration | **500** | 500 |
|  | **6,880,741** | 6,616,737 |

**26.3** **Withholding Taxes**

The details of total withholding taxes for the year ended December 31, 2014 are shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| Withholding Taxes | Withheld | Remitted | Balance |
|  |  |  |  |
| Compensation and benefits | 39,902,748 | 32,893,873 | 7,008,875 |
| Creditable | 5,458,253 | 5,052,692 | 405,561 |
|  | 45,361,001 | 37,946,565 | 7,414,436 |

Balance of withholding taxes as of December 31, 2014 was remitted to the Bureau of Internal Revenue in January 2015.