BENGUET ELECTRIC COOPERATIVE, INC.
Alapang, La Trinidad, Benguet
PHILIPPINES

REPORT ON EXAMINATION

OF

FINANCIAL STATEMENTS
December 31, 2011

Philippine Currency

ODSINADA RIVERA
PHILIPPINES

ODSINADARIVERA
PHILIPPINES

ODSINADA, RIVERA & Co. • Certified Public Accountants • Tax & Management Consulting

Report of Independent Auditor

The Board of Directors
BENGUET ELECTRIC COOPERATIVE, INC.
Alapang, La Trinidad, Benguet
PHILIPPINES

Report on the Financial Statements

We have audited the accompanying financial statements of **BENGUET ELECTRIC COOPERATIVE INC.,** which comprise the statements of financial position as of December 31, 2011 and 2010, and the related statements of comprehensive income, changes in equities and loss, and cash flows for the years ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **BENGUET ELECTRIC COOPERATIVE INC.**, as of December 31, 2011 and 2010, and of its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

Emphasis on Matter

Attention is drawn to Notes 14 and 35 to the Notes to Financial Statements, relative to the large accumulated losses of ₱526,412,916 and ₱528,387,828 as of December 31, 2011 and 2010, respectively, including the net losses of ₱5,013,730 and ₱42,996,762 for the years then ended.

Said losses already impaired about 47.2% of its equity base of ₱1,114,643,218 in 2011 and 50.5% of its equity base of ₱1,045,228,251 in 2010, and may have consequent effect on the financial condition and viability of operation of the electric cooperative.

In a subsequent Independent Appraisal Report dated July 20, 2011, the resulting appraisal increment of P999,933,487 as of December 31, 2011 was recognized by the electric cooperative as revaluation surplus in its equity account. This restored the equity base to P1,588,163,789 as of December 31, 2011 (Note 15).

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2011 required by the Bureau of Internal Revenue on taxes, duties and license fees disclosed in Note 36 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ODSINADA, RIVERA & CO.

DIOSCORO O. ODSINADA
Partner
CPA License No. 18098
TIN 113-345-240 (Individual)
TIN 300-916-661 (Firm)
PRC/BOA Accreditation No. 2677
SEC Accreditation No. 0235-F (Firm)
SEC Accreditation No. 1162-A (Individual)
PTR No. 6239959B, Jan. 29, 2012
Quezon City

August 7, 2012
Quezon City, Philippines

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

STATEMENT OF FINANCIAL POSITION

	Notes	As of December 31, 2011	2010
ASSETS			
Noncurrent Assets			
Property and equipment	8 & 15	2,109,263,632	951,422,100
Other non-current assets	10	92,473,212	70,512,705
Total Noncurrent Assets		2,201,736,844	1,021,934,805
Current Assets			
Cash and cash equivalents	4	102,137,381	145,947,617
Held to maturity investments	6	42,459,652	288,928,015
Receivables	5	175,787,074	160,112,564
Materials and supplies inventories	9	18,803,755	7,741,083
Prepayments and other current assets	7	28,277,564	37,839,371
Total Current Assets		367,465,426	640,568,650
TOTAL ASSETS		**2,569,202,270**	**1,662,503,455**

	Notes	2011	2010
EQUITIES AND LIABILITIES			
Equities			
Membership	11	600,520	579,540
Donated capital	12	318,387,440	318,387,440
Miscellaneous contributed capital	13	795,655,258	726,261,271
Accumulated loss	14	(526,412,916)	(528,387,828)
Revaluation surplus	15	999,933,487	-
Total Equities and (Loss)		1,588,163,789	516,840,423
Noncurrent Liabilities			
Long-term debt	16	159,031,811	324,548,314
Consumers' deposit	17	150,497,820	136,365,215
Retirement liability	20	147,787,780	143,537,489
Total Noncurrent Liabilities		457,317,411	604,451,018
Current Liabilities			
Accounts payables and accrued expenses	18 & 19	523,721,070	541,212,014
Total Current Liabilities		523,721,070	541,212,014
TOTAL LIABILITIES AND EQUITIES		**2,569,202,270**	**1,662,503,455**

See Accompanying Notes to Financial Statements

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

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year Ended December 31, 2011	2010
NET ENERGY SALES	23	2,244,470,805	1,965,755,444
COST OF ENERGY SOLD	25	1,920,444,535	1,723,747,915
GROSS INCOME		324,026,270	242,007,529
OPERATING EXPENSES			
Administrative and general	27	136,429,412	119,743,793
Distribution	26	100,013,170	83,566,332
Consumers' accounts	26	44,473,272	42,883,696
		280,915,854	246,193,821
DEPRECIATION	8, 26 & 27	76,608,805	69,208,056
FINANCE COST	28	15,777,009	17,858,727
		373,301,668	333,260,604
LOSS FROM OPERATION		(49,275,398)	(91,253,075)
OTHER INCOME	24	44,261,668	48,256,313
NET LOSS		(5,013,730)	(42,996,762)

See Accompanying Notes to Financial Statements

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

STATEMENT OF CHANGES IN EQUITIES AND LOSS

	Notes	Year Ended December 31, 2011	2010
EQUITIES			
Membership	11		
Balance beginning		579,540	557,485
Receipt of additional membership		20,980	22,055
		600,520	579,540
Donated capital	12		
Balance, beginning		318,387,440	317,617,440
Receipt of additional donations		-	770,000
		318,387,440	318,387,440
Miscellaneous contributed capital	13		
Balance, beginning		726,261,271	657,898,859
Receipt of additional contributions		69,393,988	68,362,412
		795,655,258	726,261,271
LOSS	14		
Accumulated loss			
Balance, beginning		(528,387,828)	(483,989,203)
Prior period adjustment, net		6,988,642	(1,401,863)
Net loss for the year		(5,013,730)	(42,996,762)
		(526,412,916)	(528,387,828)
REVALUATION SURPLUS	15		
Balance, beginning		-	-
Revaluation surplus adjustment		999,933,487	-
		999,933,487	-
TOTAL EQUITIES AND LOSS		**1,588,163,789**	**516,840,423**

See Accompanying Notes to Financial Statements

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

STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss		(5,013,730)	(42,996,762)
Depreciation and amortization	8, 26 & 27	76,608,805	69,208,056
Prior period adjustment	14	6,988,642	(1,401,863)
Revaluation surplus	15	999,933,487	-
Operating income before working capital changes		1,078,517,204	24,809,431
Decrease (increase) in:			
Receivables	5	(15,674,510)	(50,185,862)
Materials and supplies inventories	9	(11,062,672)	8,540,394
Other current assets	7	9,561,807	(12,843,149)
Other noncurrent assets	10	(21,960,507)	(9,658,099)
Increase (decrease) in:			
Trade payables and accrued expenses	18 & 19	(17,256,925)	165,864,634
Consumers' deposit	17	14,132,605	7,559,916
Other non current liability	20	4,250,291	3,752,729
Net cash provided by operating activities		1,040,507,293	137,839,994
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Property and equipment	8 & 15	(1,234,450,337)	(319,965,469)
Held to maturity investments	6	246,468,363	26,452,184
Net cash used in investing activities		(987,981,974)	(293,513,285)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in:			
Long-term debt	16	(165,624,514)	168,244,651
Obligation under finance lease	19 & 29	(126,008)	500,729
Membership	11	20,980	22,055
Donated capital	12	-	770,000
Miscellaneous contributed capital	13	69,393,987	68,362,412
Net cash provided by (used in) financing activities		(96,335,555)	237,899,847
NET INCREASE (DECREASE) IN CASH		(43,810,236)	82,226,556
CASH AT BEGINNING OF YEAR	4	145,947,617	63,721,061
CASH AT END OF YEAR	4	102,137,381	145,947,617

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
December 31, 2011

1. COOPERATIVE INFORMATION AND AUTHORIZATION FOR ISSUE OF FINANCIAL STATEMENTS

- **Cooperative Information**

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

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

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

- **Authorization for issue of financial statements**

  The accompanying financial statements of the cooperative were approved and authorized for issue by the Board of Directors in its meeting on August 7, 2012.

- **Administrative Regulations**

  R.A. 6938, 1990 Cooperative Code of the Philippines
  On February 10, 1994, the Omnibus Rules and Regulations on the registration of electric cooperatives under RA No. 6938 were approved. As a result, the Cooperative shall have a three-year transition period from the effectivity of the Omnibus Rules before it can qualify for permanent registration with the Cooperative Development Act (CDA). On October 20, 1997, the transition was extended for another three years, which already expired on May 4, 2000.

  The Cooperative did not register with the CDA and remained on the organizational set-up under NEA.

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

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

2.) NEA shall no longer exercise regulatory or supervisory powers on electric cooperatives duly registered with the Authority;

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

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

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

R.A. 9136, EPIRA of 2001

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

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

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

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

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

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

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

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

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users equivalent to ₱0.0601/kwh.

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

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

On December 29, 2003, the Energy Regulatory Commission (ERC) has approved the unbundled rates. Furthermore, the ERC has permitted a rate reduction of ₱0.0221 per kilowatt hour due to condonation of long-term debt with NEA.

- **Preferential Tax Treatments**

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

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

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

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

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

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

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

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

4.) All cooperatives, regardless of the amount of accumulated reserves and undivided net savings shall be exempt from payment of local taxes and taxes on transactions with banks and insurance companies: *Provided,* That all sales or services rendered for non-members shall be subject to the applicable percentage taxes sales made by producers, marketing or service cooperatives: *Provided further,* That nothing in this article shall preclude the examination of the books of accounts or other accounting records of the cooperative by duly authorized internal revenue officers for internal revenue tax purposes only, after previous authorization by the Authority;

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

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

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

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

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

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

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

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

- **Other Tax Privileges / Limitations**

  BIR Revenue Memorandum Circular Bo. 72-2003

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

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

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

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

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

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

Limits of Exemption under R.A. 9337, EVAT 2005

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

(a) Statement of Compliance

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

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Changes in Accounting Policies

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

(1) *Effective in 2010*

PAS 1	Financial Statements Presentation
PAS 7	Statement of Cash Flows
PAS 36	Impairment of Assets
PAS 39	Financial Instruments: Recognition and Measurement

The standards are described below:

PAS 1 (Amendment), ***Presentation of Financial Statements (effective from January 1, 2010)*** – The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. Assets and liabilities classified as held for trading are not automatically classified as current in the Statements of Financial Position.

PAS 7, (issued April 2009), ***Statement of Cash Flows*** **– Amendments resulting from April 2009 Annual Improvements to IFRSs** ***(effective January 1, 2010)*** – This explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

PAS 36, (issued April 2009), ***Impairment of Assets (effective from January 1, 2010)*** – This standard is to prescribe the procedures that the entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the standard requires the entity to recognize an impairment loss.

PAS 39, (issued April 2009), ***Financial Instruments: Recognition and Measurement*** **– Amendments resulting from April 2009 Annual Improvements to IFRSs** ***(effective from January 1, 2010)*** – The standards amends the definition "originated loans and receivables" to become "loans and receivables". Under the revised definition, an entity is permitted to classify as loans and receivables purchased loans that are not quoted in an active market.

(2) *Effective in 2011*

PAS 1	Presentation of Financial Statements
PAS 24	Related Party Disclosures
PAS 32	Presentation of Financial Instruments
IFRIC 13	Customer Loyalty Programs
IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

These standards or interpretations are described below:

PAS 1, ***Presentation of Financial Statements (issued May 2010)*** **Amendments resulting from May 2010 Annual Improvements to IFRSs (effective January 1, 2011)** – The objective of this standard is to clarify that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

PAS 24 (Amended), ***Related Party Disclosures*** – The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 32, ***Financial Instruments: Presentation (Amendment) – Classification of Rights Issues*** – The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010. The amendment changed the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Philippine Interpretation IFRIC 13 (Customer Loyalty Programmes) – The amendment to Philippine Interpretation IFRIC 13 clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Philippine Interpretation IFRIC 14 (Amendment) – ***Prepayments of a Minimum Funding Requirement*** – The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Philippine Interpretation IFRIC 19, ***Extinguishing Financial Liabilities with Equity Instruments*** – This is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

(3) Effective in 2012

PFRS 7	Financial Statements: Disclosures
PAS 12	Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets
IFRIC 15	Agreements for the Construction of Real Estate

These standards or interpretations are described below:

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

PAS 12, *Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets* – The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

Philippine Interpretation IFRIC-15, Agreements for the Construction of Real Estate – This applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, Construction Contracts, or PAS 18, Revenue, and the timing of revenue recognition. The interpretation is effective for annual periods beginning on or after January 1, 2012.

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

- **Cash and Cash Equivalents**

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

- **Financial Instruments**

Financial assets are classified as either financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, or AFS investments, as appropriate. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate. The Cooperative determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at every statement of financial position date (Note 33).

Initial Recognition of Financial Instruments

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

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

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

Determination of Fair Value

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

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

Financial Assets or Financial Liabilities at FVPL

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

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

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

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

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

As of December 31, 2011 and 2010, the Cooperative has no financial asset or financial liability at FVPL.

An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid or combined instrument is not recognized at FVPL.

The Cooperative assesses whether embedded derivatives are required to be separated from host contracts when the Cooperative first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in profit and loss.

As of December 31, 2011 and 2010, the Cooperative has no free-standing and embedded derivatives.

Loans and Receivables

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

As of December 31, 2011 and 2010, the Cooperative's cash, receivables, due from a related party and advances to officers and employees are classified as loans and receivables.

Held-to-Maturity (HTM) Investments

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

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

Other Financial Liabilities

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

As of December 31, 2011 and 2010, the Cooperative's other financial liabilities pertain to accounts payable and accrued expenses and loans.

Loans and Borrowings

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

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

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

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

- **Offsetting Financial Instruments**

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

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

- **Impairment of Financial Assets**

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

Impairment on Assets Carried at Fair Value

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

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

Impairment on Assets Carried at Amortized Cost

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

Impairment on Assets Carried at Cost

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

- **Reversal of Impairment Loss**

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

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

Financial Assets

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

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

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

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

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

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

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

Financial Liabilities

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

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

- **Non-Financial Assets**

Inventories

Inventories, which comprise of raw materials (warehouse merchandise), are stated at the lower of cost or net realizable value (NRV). Cost of warehouse merchandise is the purchase cost and is determined using the weighted-average method; NRV is the current replacement cost of each inventory. As of December 31, 2011 and 2010, the Cooperative has inventory items on hand amounting to ₱18,803,755 and ₱7,741,083, respectively (Note 9).

Prepayments and Other Current Assets

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

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

Prepaid Input Value-Added Taxes

Prepaid input value-added taxes (VAT) represent VAT imposed on the Cooperative by its suppliers for the acquisition of goods and services required under taxation laws and regulations. The input VAT is recognized as an asset and will be used to offset the Cooperative's current VAT liabilities and any excess will be claimed as tax credits. Input VAT is stated at their estimated net realizable values (Note 7).

Investment Property

Investment properties, including those acquired from foreclosure, are initially measured at cost including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of each asset cannot be measured; in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value, if any. Land, on the other hand, is carried at cost less impairment in value.

Repairs and maintenance costs relating to investment properties are normally charged to profit or loss in the period when the costs are incurred.

Depreciation is calculated on a straight-line basis based on the useful lives of the assets, which ranges from 5 to 20 years from the time of acquisition. The period and method of depreciation are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of investment properties.

An investment property is derecognized when it has either been disposed of or when it is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on derecognition of an investment property is recognized in profit or loss in the period of derecognition.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the start of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the start of owner-occupation or of development with a view to sell.

At December 31, 2011 and 2010, the Cooperative has no property under this category.

Utility Plant, Property and Equipment

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

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

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

Category	Estimated Useful Life
Distribution plant	5 to 30 years
General Plant	4 to 10 years

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

Construction-in-Progress

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

- **Impairment of Non-Financial Assets**

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

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

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

- **Consumers' Deposits**

Consumers' deposits include meter and bill deposits. Meter deposits cover the whole cost of metering equipment while the bill deposits guarantee payment of the monthly bills for electricity consumption and are equivalent to estimated bill for one month. These meter deposits will be converted into capital share. The bill deposits are refundable upon request of the consumers, who has paid electric bills on or before its due date for three (3) consecutive years. If the bill deposits and related accrued interest already exceeded the consumer's current monthly bills, a refund of the excess can be also be made upon the consumer's request. But in some cases, additional deposit will be demanded from the consumers when the amount of deposit falls below the average monthly bill (Note 17).

- **Member's Equity**

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

Member's Contribution

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

Donations, Grants and Subsidies

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

- **Revenue Recognition**

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

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

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

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

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

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

Miscellaneous Income
Miscellaneous income includes penalties and surcharges, income from sale of duplex wires, merchandising jobs and other non-electrical revenues, which are recognized as revenue upon collection except for penalties on apprehension, which are recognized as revenue upon billing (Note 24).

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

- **Cost and Expenses**

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

Cost of Sales and Services

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

Cost of services is recognized when the related services are performed.

Operating Expenses

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

- **Related Party Transactions**

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

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

The key management personnel of the Cooperative and post-employment benefit plans for the benefit of Cooperative's employees, if any, are also considered to be related parties.

The Cooperative's related parties include the Cooperative's Key Management. The compensation of the key management personnel of the Cooperative pertains to the usual monthly salaries and government mandated bonuses; there are no other special benefits paid to management personnel (Note 30).

- **Retirement Benefit**

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

Separation Benefits

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

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

Present Value of Retirement Benefit

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

- **Estimation of Retirement Benefit**

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

- **Operating Leases**

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

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

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b. As of December 31, 2011and 2010, the Cooperative has outstanding lease contracts that can be considered as a finance lease amounting to P1,151,742 and P1,277,750 respectively (Note 29).

Cooperative as Lessee

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

Cooperative as Lessor

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

- **Borrowing Costs**

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

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

- **Income Taxes**

Current Income Tax

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

Deferred Income Tax

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

Deferred income tax liabilities shall be recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized before their reversal or expiration. Unrecognized deferred income tax assets are reassesses at each statement of financial position date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the financial reporting date.

- **Provisions and Contingencies**

Provisions are recognized under the following conditions:

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

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

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

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

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

- **Events After the Reporting Date**

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

3. SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATES

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

- **Judgments**

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

Determination of Functional Currency

Based on management's assessment, the economic substance of the underlying circumstances relevant to the Cooperative, the Cooperative's functional currency is determined to be the Philippine Peso (PHP), which is also the Cooperative's presentation currency. It is the currency that mainly influences the its operations.

- **Estimates**

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

Valuation of Financial Assets and Financial Liabilities

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

As of December 31, 2011 and 2010, financial assets recognized in the statement of financial position amounted to ₱441,134,883 and ₱703,340,272, respectively, and financial liabilities amounted to ₱981,038,481 and ₱1,145,663,032, respectively (Note 33).

Allowance for Impairment Losses on Receivables

The Cooperative maintains an allowance for impairment losses on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Cooperative on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Cooperative's relationship with its customers, their payment behavior and known market factors. The Cooperative reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Cooperative made different judgments or utilized different estimates.

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

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

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

Provisions for doubtful accounts amounted to ₱1,517,843 in 2011. Consumer's receivable accounts, net of allowance for doubtful accounts, amounted to ₱175,787,074 in 2011. Previous year's balance amounted to ₱160,112,564 (Note 5).

Estimation of Useful Lives of Property and Equipment

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

Utility plant, property and equipment, net of accumulated depreciation amounted to ₱2,018,017,196 as of December 31, 2011. This is accordance with an Independent Appraisal Report dated July 20, 2012 rendered by Cuervo Appraisers, Inc. (Note 15). Previous years balance at historical cost amounted to ₱895,434,101 (Note 8).

Estimation of Retirement Benefits

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

Present Values of Retirement Benefits

Based on Management's assessment, the fair values of the Cooperative's retirement benefit approximate the carrying values of obligation already recognized amounting to ₱147,787,780 and ₱143,537,489 at December 31, 2011 and 2010, respectively (Notes 20).

Estimate of Income Taxes

The Cooperative is subject to income tax and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Cooperative recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Cooperative's belief that its tax return positions are supportable, the Cooperative believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Cooperative believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different that the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

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

4. CASH AND CASH EQUIVALENTS

This account represents general and other funds maintained as follows:

Items	2011	2010
General and other funds		
General fund	99,157,100	143,306,760
Share capital	1,076,845	1,065,758
	100,233,945	144,372,518
Cash on hand	1,304,709	976,372
Petty cash fund	134,727	144,727
Revolving/Change fund	464,000	454,000
	1,903,436	1,575,099
Total	**102,137,381**	**145,947,617**

Cash in banks earn interest at the prevailing bank deposit rates. Interest earned amounted to ₱2,528,041 in 2011 and ₱5,957,685 in 2010 (Note 24).

5. RECEIVABLES - NET

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

Items	2011	2010
Consumers' accounts receivable	177,304,917	163,360,432
Less, allowance for doubtful/ uncollectible accounts	1,517,843	3,247,868
Net Realizable Value	**175,787,074**	**160,112,564**

Management has provided an allowance for doubtful accounts amounting to ₱1,517,843 to cover normal losses that may be sustained from uncollectible accounts. This represents about 0.85% of consumers' accounts for collection.

6. HELD-TO-MATURITY INVESTMENTS

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

Items	2011	2010
Temporary cash investment (MBTC)	3,575,679	251,481,177
Treasury bills (DBP)	38,883,973	37,446,838
Total	**42,459,652**	**288,928,015**

7. PREPAYMENTS AND OTHER CURRENT ASSETS

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

Items	2011	2010
Prepayments		
Various suppliers	20,039,338	29,653,159
Insurance	835,873	788,138
Others	7,020,724	7,021,324
	27,895,935	37,462,621
Restricted fund		
Membership (Note 11)	326,692	322,032
Reinvestment	54,937	54,718
	381,629	376,750
Total	**28,277,564**	**37,839,371**

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

8. PROPERTY, PLANT AND EQUIPMENT

This account consists of utility plants, as follows:

Items	2011	2010
Utility plant in-service	4,609,188,549	1,914,796,593
Less, accumulated depreciation	2,591,171,353	1,019,362,493
Net Book Value	2,018,017,196	895,434,100
Construction work in progress	91,246,436	55,988,000
Total	**2,109,263,632**	**951,422,100**

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

Additions during the year, net of adjustments and disposals amounted to ₱2,694,391,955, including appraisal increment of P999,933,487 arising from the July 20, 2012 Independent Appraisal Report by Cuervo Appraisers, Inc. (Note 15).

In 2011, depreciation charged to cost of service amounted to ₱57,848,441 and to operating expenses amounted to ₱18,760,364.

The details of utility plant are recapitulated below:

Items	Depreciation Rate	Acquisition Cost	2011 Depreciation	Accumulated Depreciation	Net Book Value
DISTRIBUTION PLANT					
Overhead conductors and devices	5%	645,968,084	13,011,580	277,278,151	368,689,933
Line transformers	3.33%	739,281,836	8,682,397	317,757,886	421,523,950
Meters	4%	886,746,615	11,410,619	559,114,793	327,631,822
Wooden poles and others	5%	830,969,203	10,546,438	585,793,021	245,176,182
Concrete poles	3.33%	247,769,455	3,257,644	144,921,342	102,848,113
Station equipment	10%	381,111,279	7,098,570	267,340,279	113,771,000
Transportation equipment –heavy	20%	210,583,781	3,841,193	180,758,781	29,825,000
		3,942,430,253	57,848,441	2,332,964,253	1,609,466,000
GENERAL PLANT					
Land and land rights	-	331,436,996	-	-	331,436,996
Buildings	10%	14,456,033	274,740	318,033	14,138,000
Transportation equipment - light	25%	107,266,978	6,654,730	79,930,677	27,336,301
Tools, shop & garage equipment	10%	3,019,395	2,771,866	1,686,595	1,332,800
Office furniture and fixtures	20%	32,755,199	4,663,142	26,182,800	6,572,399
Communication equipment	10%	1,849,761	795,730	862,761	987,000
Structures and improvements	10%	162,448,446	1,155,078	136,808,846	25,639,600
Laboratory equipment	10%	2,273,518	764,754	1,253,018	1,020,500
Miscellaneous equipment	20%	148,056	1,680,324	60,456	87,600
		655,654,382	18,760,364	247,103,186	408,551,196
COMPLETED CONSTRUCTION NOT CLASSIFIED		11,103,914	-	11,103,914	-
TOTALS		**4,609,188,549**	**76,608,805**	**2,591,171,353**	**2,018,017,196**

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

Items	Balance Beginning	Additions	Adjustments/ Disposals	Balance Ending
DISTRIBUTION PLANT				
Meters	350,868,173	27,453,363	508,425,079	886,746,615
Wooden poles and others	341,179,587	9,550,242	480,239,374	830,969,203
Line transformers	263,826,144	36,716,359	438,739,333	739,281,836
Overhead conductors and devices	256,214,457	11,869,880	377,883,747	645,968,084
Concrete poles	100,667,159	4,376,571	142,725,725	247,769,455
Station equipment	97,570,423	1,728,559	281,812,297	381,111,279
Transportation equipment - heavy	80,871,129	411,092	129,301,560	210,583,781
	1,491,197,072	92,106,066	2,359,127,115	3,942,430,253
GENERAL PLANT				
Land and land rights	199,396,401	11,924,920	120,115,675	331,436,996
Buildings	12,488,177	-	1,967,856	14,456,033
Office furniture and equipment	57,954,369	3,511,221	(28,710,391)	32,755,199
Transportation equipment – light	47,111,634	8,317,670	51,837,674	107,266,978
Tools, shop and garage equipment	41,171,376	4,847,435	(42,999,416)	3,019,395
Structures and improvements	22,746,952	890,636	138,810,858	162,448,446
Communication equipment	10,558,840	596,403	(9,305,482)	1,849,761
Laboratory equipment	10,061,910	-	(7,788,392)	2,273,518
Miscellaneous	11,005,949	68,078	(10,925,971)	148,056
	412,495,608	30,156,363	213,002,411	655,654,382
COMPLETED CONSTRUCTION NOT CLASSIFIED	11,103,914	-	-	11,103,914
TOTALS	**1,914,796,594**	**122,262,429**	**2,572,129,526**	**4,609,188,549**

9. MATERIALS AND SUPPLIES INVENTORY

This account consists of inventoriable items, as follows:

Items	2011	2010
Electric distribution items	12,586,282	3,176,708
Housewiring	5,822,698	5,636,648
Others	394,775	151,129
	18,803,755	8,964,485
Less, allowance to reduce value to NRV	-	1,223,402
Total	**18,803,755**	**7,741,083**

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

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

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

At examination date, management was in process of reconciling the differences between balance per book and balance per count amounting to P18,217,404 (materials and supplies), P41,534 (electric and housewiring) and P7,965,677 (special equipment).

10. OTHER NON-CURRENT ASSETS

This account consists of other accounts receivables, as follows:

Items	2011	2010
Other accounts receivable		
Other customer accounts	9,431,363	9,065,370
Officers and employees' account	10,739,805	6,462,737
Others	55,766,311	44,607,961
	75,937,479	60,136,068
Less, allowance for probable loss	-	8,116,140
Net Realizable Value	75,937,479	52,019,928
Input VAT and other taxes	3,892,641	4,630,624
Mini hydro-project	1,400,000	1,400,000
Telephone	20,000	20,000
Security deposits-Transco (Note 18)	2,698,391	2,698,391
Other assets	2,524,701	3,743,762
	10,535,733	12,492,777
Total	**86,473,212**	**64,512,705**
Investment in equity securities		
Rural Electrification Financing Corporation	**6,000,000**	**6,000,000**
Total	**92,473,212**	**70,512,705**

11. MEMBERSHIP ACCOUNT

Membership equivalent to 120,104 members at ₱5 per member has already been subscribed. As at December 31, 2010, this already amounted to ₱600,520, from the previous year's balance of ₱579,540. The amount is maintained in a restricted fund with its depository bank (Note 7).

12. DONATED CAPITAL

This account consists of the following:

Items	2011	2010
PSALM	134,891,822	134,891,822
NEA	96,773,078	96,773,078
Team Phils.Energy Corp.	38,195,646	38,195,646
DOE	29,270,800	29,270,800
NPC	13,856,094	13,856,094
Provincial government	5,000,000	5,000,000
APEC party	400,000	400,000
	183,495,618	183,495,618
Total	**318,387,440**	**318,387,440**

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

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

13. MISCELLANEOUS CONTRIBUTED CAPITAL

This account consists of the following:

Items	2011	2010
Contributions for reinvestment	663,684,856	663,684,856
Members' contribution for CAPEX	131,543,573	62,149,586
Consumers capital contribution	426,829	426,829
Total	**795,655,258**	**726,261,271**

Contributions for reinvestment represent contributions from members and institutional consumers for a specific purpose described below, and included as a 5% component of monthly billing.

On December 3, 2003, the Cooperative's application for unbundling of rates was approved by the Energy Regulatory Commission (ERC). From the unbundled rates, NEA requires the Cooperative to set-up a separate reinvestment fund equivalent to 5% of gross revenue to finance expansion and rehabilitation of existing electric power systems in accordance with the systems rehabilitation plan submitted by the Cooperative. These represent ₱0.236/kwh reinvestment costing the basic rate. At December 31, 2011, this already amounted to ₱663,684,856.

However, starting February 2010, a ₱0.2178/kwh rate on members' contribution to CAPEX is used. At December 31, 2011, this already amounted to ₱131,543,573.

14. ACCUMULATED LOSS

The changes in the accumulated loss account follow:

Items	2011	2010
Accumulated loss, beginning	**(528,387,828)**	**(483,989,203)**
Correction of prior years, net	6,988,642	(1,401,863)
Corrected balance, beginning	**(521,399,186)**	**(485,391,066)**
Net loss for the year	(5,013,730)	(42,996,762)
Accumulated loss, ending	**(526,412,916)**	**(528,387,828)**

As provided in the electric cooperative's By-Laws, its operations shall be conducted that members and non-members alike will, through their patronage, furnish capital for the cooperative. Towards this end, the cooperative is obliged to account on a patronage basis, to all its patrons, all amounts received in excess of operating costs and expenses and to pay by credits to capital accounts for each patron such excess amounts. Its disposal is however, subject to regulatory policies. At December 31, 2011, the electric cooperative was faced with accumulated losses of ₱526,412,916, including the net loss for the year of ₱5,013,730, as explained and tabulated above.

The composition of prior period adjustments follows:

Items	2011	2010
Power bill adjustments	6,317,836	(12,190,470)
Retirement liability	10,385,237	5,912,242
Provision for depreciation	-	3,308,753
Provision for probable loss on consumers' Accounts for collection	11,364,008	1,539,800
Loan condonation refund	(29,590,460)	-
Meter deposit refund	5,984,283	-
Accrued benefit adjustments	2,820,392	-
Others	(292,654)	27,812
Total	**6,988,642**	**(1,401,863)**

15. REVALUATION SURPLUS

The balance of this account resulted from the appraisal of properties of the Cooperative in various locations of the Province of Benguet and Baguio City performed by Cuervo Appraisers, Inc. The Appraisal Report dated July 20, 2012 present the reproduction costs (new)/ replacement costs (new) and sound values of the appraised properties consisting of land, buildings, other land improvements, condominium units, leasehold improvements, machinery and equipments, computer equipment, and furniture and office equipments. Accordingly, total sound value of these properties amounted to P2,018,017,196 as of December 31, 2011. The proportionate method in recognizing changes in the value of these properties was used resulting to an increment in the acquisition cost and accumulated depreciation amounting to P2,494,435,577 and P1,494,502,360, respectively and a revaluation surplus of P999,933,487 (Note 8).

16. LONG TERM DEBT

This account consists of balances of loans, as follows:

Items	2011	2010
NEA		
Restructured loan	21,617,078	23,134,173
Construction loan	88,301,223	85,594,619
Calamity loan	24,767,901	23,846,698
Overseas Economic Cooperation Fund	1,095,802	1,133,329
	135,782,004	133,708,819
Matured long term debt and interest	5,177,955	-
	140,959,959	133,708,819
BDO (formerly EPCIB)		
Car loan	18,826,293	20,045,005
Employee salary loan	-	(10,899)
Transformer loan	-	17,714,502
	18,826,293	37,748,608
Metropolitan Bank & Trust Co.	-	150,448,200
Rural Electrification Financing Corp.	6,645,687	10,150,826
	166,431,939	332,056,453
Current Portion	7,400,128	7,508,139
Total	**159,031,811**	**324,548,314**

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

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

On July 28, 2009, the cooperative obtained a construction loan from NEA amounting to P50M bearing 9% annual interest, payable in ten (10) years for forty (40) equal quarterly payments. The loan was intended to cover the cost of procurement of required materials including labor and hauling costs for line extension to one hundred six (106) sitios/puroks in Benguet province.

Also on November 6, 2009, the NEA granted the Electric cooperative a calamity loan of P23M for the rehabilitation and upgrading of distribution line damaged by typhoon "Pepeng".

On July 1, 2011, NEA granted an additional construction loan amounting to P6.3M at an interest rate of 9% per annum payable within nine (9) years starting March 2012 for the rehabilitation of secondary lines and replacement of kwhr-meters at Cooperative's coverage areas

The BDO (EPCIB) car loans are payable in equal monthly installments up to 2014, with annual interest rates from 6.96% - 8.03%. This is secured by the Cooperative's restricted funds, real estate and chattel mortgage, and guaranteed by the members of the BOD; whereas, the employee salary loans are guaranteed by the Cooperative but paid by the employees through salary deduction.

17. CONSUMERS' DEPOSIT

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

Items	2011	2010
Meters and accessories	75,044,955	75,052,424
Advances for construction	64,975,033	52,099,798
Energy	10,350,427	9,085,588
Others	127,405	127,405
Total	**150,497,820**	**136,365,215**

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

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

On June 9, 2004, the ERC issued a Resolution authorizing the promulgation of the Magna Carta for Residential Electricity Consumers. This took effect on July 19, 2004, 15 days after its publication in a newspaper of general circulation. Under the Magna Carta, all residential consumers shall be exempt from payment of meter deposits since distribution utilities have incorporated the cost of these electric watt-hour meters in their rate base. Electric cooperatives shall use their respective Reinvestment Funds to procure electric watt-hour meters for their consumers.

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

18. POWER SUPPLY CONTRACT/ PAYABLE

This account consists of payables, as follows:

Accounts	2011	2010
Mirant (now Team Phils. Energy Corp.)	111,909,778	226,567,449
PEMC- WESM	26,514,139	10,722,082
National Grid Corporation of the Phils.	57,475,564	23,653,473
Asin Hydro	2,849,770	3,182,082
LUELCO	604,245	543,521
Hedcor	287,781	249,150
Total	**199,641,277**	**264,917,757**

MIRANT (now Team Philippines Energy Corp.)
On May 29, 2003, the Cooperative entered into a memorandum of Agreement (MOA) with Mirant (now Team Phils. Energy Corp.) which committed to supply and deliver electricity to the Cooperative during the cooperation period. It also undertakes the upgrade of certain substations, the supply and delivery of protective equipment for the Cooperative's distribution lines, various high voltage testing equipment, and testing and commissioning of substation facilities. The MOA shall terminate on the date of the 20th anniversary of the commencement date. On February 19, 2004, the NPC ratified the MOA. Its power supply to the Cooperative commenced on March 13, 2004. Total power purchases in 2011 amounted to P1.39463 Billion. At December 31, 2011,the outstanding power supply account amounted to P111.91 Million, included under "trade payable and accrued expenses" account.

NPC / PSALM
In June 2003, the Cooperative entered into a transmission supply contract with National Power Corp. (NPC) for the supply of electric power to the Cooperative's substations. The contract shall remain in full force and effect for a period of one year from the effectivity date. Unless otherwise provided, the applicable provisions shall be deemed modified by the applicable Wholesale Electricity Spot Market (WESM) rules, upon the commercial operation of WESM, as declared by DOE.

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

At December 31, 2011, the outstanding power supply account to WESM amounted to P26.51 Million.

NTC/ NGCP
The Cooperative entered into a transmission service agreement with National Transmission Corp. (NTC), now National Grid Corporation of the Philippines (NGCP) for the transmission services, such as planning, construction and centralized operation and maintenance of high-voltage transmission facilities, including grid interconnection and ancillary services, for the provision of Open Access Transmission Service. Total billing for the year 2011 amounted to ₱297.47 Million. At December 31, 2011, outstanding transmission service account inclusive of VAT amounted to ₱57.48 Million included under "accounts payable and accrued expenses" account in the statement of financial position.

At December 31, 2011, the Cooperative has a security deposit with TRANSCO amounting to ₱2,698,391 (Note 10).

Others
The account with Asin Hydro pertains to billings for services rendered through the existing 23KV system of Beneco specifically Feeder three (F3) of the BENECO 10 MVA, 69Kv-23kV Irisan substation.

The unpaid power supply account with La Union Electric Cooperative, Inc. (LUELCO) pertains to billings for services rendered to an area of coverage of BENECO serviced by the former per agreement between the parties, whereas, the account with Hedcor pertains to load center consumption in Bakun/LHC, Asin and Bineng areas.

19. TRADE PAYABLES AND ACCRUED EXPENSES

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

Accounts	2011	2010
Trade payables		
Net settlement – WESM	108,764,468	113,875,482
Various suppliers	23,715,092	11,929,662
	132,479,560	125,805,144
VAT payable		
Generation	89,959,628	71,917,257
Transmission	11,862,879	6,359,310
System Loss	17,152,398	5,876,560
BIR	(589,645)	2,884,703
	118,385,260	87,037,830
Accrued Liabilities		
EVAT billed to consumers	15,367,827	16,079,740
PSALM, Universal charges billed (Note 21)	17,411,101	15,260,228
Katas ng VAT	120,611	340,379
SSS, Philhealth, HDMF and taxes	1,364,023	1,505,427
	34,263,562	33,185,774
Others		
Current portion of Long-term debt	7,400,128	7,508,139
Current portion of obligation under finance lease	1,151,742	1,277,750
VAT Refund	11,848,192	11,848,192
Due to other ECs	5,154,285	5,154,285
Others	13,397,064	4,477,143
	38,951,411	30,265,509
Total	**324,079,793**	**276,294,257**

20. RETIREMENT BENEFIT PLAN

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

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

The Cooperative has a funded, noncontributory defined benefit retirement plan provided for under policy No.1-86 dated December 18, 1986, which was amended in January 1992, and was further amended under Board Resolution 50-97 on June 7, 1997. The plan covers all regular and permanent employees, computed on a graduated basis on years of service ranging from 1-20 years and over. Annual increments are charged to operations and availments of benefit are debited to the accrued liability account.

At December 31, 2011 and 2010, the Cooperative has already recognized the amount of ₱147,787,780 and ₱143,537,489, respectively, as obligation for retirement benefit.

21. PSALM, UNIVERSAL CHARGES

The Power Sector Assets and Liabilities Management Corp. (PSALM) assumed NEA condoned loan amounting to ₱134,891,822 and recognized by the cooperative in its financial statements as part of donated capital (Notes 12 and 16) under certain terms and conditions and restrictions.

In consideration, for such assumption of loan, PSALM charges the Cooperative certain fees referred to as universal charge. The rates of universal charges billed by the Cooperative for 2011 are as follows:

	Rate
Missionary electrification	
January to August	.0454/kwh
September to December	.1163/kwh
Environmental charges	.0025/kwh

Details on universal charges for the years ended December 31 follow:

	2011	2010
Billings	22,833,683	11,632,255
Collections	22,263,174	10,176,619
Remittances	22,263,174	10,176,619

As of December 31, 2011 and 2010, accrued fees due to PSALM already amounted to ₱17,411,101 and P15,260,228, respectively (Note 19).

22. GOVERNMENT SUBSIDY FOR CONSUMERS

This account represents government subsidy for consumers under the Pantawid Kuryente Katas ng VAT Program through the Department of Social Welfare and Development at ₱500 per consumer amounting to ₱35,665,500. The qualified consumers are those residential consumers consuming 100 KWH and less per month and be applied to their monthly bill starting August 2008 until fully applied. As of December 31, 2011, the amount applied amounted to ₱35,544,389.

23. ENERGY SALES

This account represents revenues generated during the years 2011 and 2010 from sale of energy, as follows:

Accounts	2011	2010
Residential	1,204,297,339	1,061,700,362
Commercial	859,270,761	675,392,026
Public building and facilities	120,032,886	169,414,257
Public street and highways	48,623,220	42,681,529
Industrial sales	12,246,599	16,567,270
Total	**2,244,470,805**	**1,965,755,444**

24. OTHER INCOME

This account includes the following:

Accounts	2011	2010
Interest income (Note 4)	2,528,041	5,957,685
Rental income	4,158,763	3,948,218
	6,686,804	9,905,903
Others		
Surcharges	30,262,985	32,138,422
Transformer rental,etc	4,207,408	3,970,863
Retrobilling	595,028	674,922
Penalties	487,831	569,665
Others,net	2,021,612	996,538
Total	**44,261,668**	**48,256,313**

25. COST OF ENERGY SOLD

This account consists of:

Accounts	2011	2010
Power purchased	1,960,168,722	1,764,107,206
Less prompt payment discount net Power Act reduction	39,724,187	40,359,291
Total	**1,920,444,535**	**1,723,747,915**

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

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

Details of kilowatt-hour sold and purchased for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Kilowatt-hour sold	318,654,476	311,705,481
Kilowatt-hour purchased	353,797,371	344,685,792

26. COST OF SERVICES

The compositions of cost of services follow:

Accounts	2011	2010
Distribution		
Structures	33,910,682	30,402,066
Overhead lines	24,900,179	18,903,776
Meters	9,977,964	8,628,887
Line transformer	8,456,412	7,063,497
Station equipment	6,798,209	5,661,750
Supervision and engineering	5,303,270	4,188,728
Street lighting and signal system	4,125,762	3,409,434
Consumer installation	406,432	170,776
Miscellaneous	6,134,260	5,137,418
	100,013,170	83,566,332
Consumers' accounts		
Meter reading	13,055,037	12,189,642
Records and collection	7,532,071	7,406,837
Supervision	2,931,561	2,313,407
Information, instructional & advertising	1,435,604	2,120,767
MECS and BAPA	1,169,147	306,057
Campus journalism	-	7,400
Miscellaneous consumer services	16,832,009	17,104,340
Uncollectible accounts	1,517,843	1,435,246
	44,473,272	42,883,696
Depreciation (Note 8)	57,848,441	54,481,579
Total	**202,334,883**	**180,931,607**

27. OPERATING EXPENSES

The compositions of operating expenses follow:

Accounts	2011	2010
General and administrative		
Employees pension and benefits	38,797,694	37,703,782
Salaries	37,379,478	31,312,166
Training and travel	11,217,339	9,747,381
Outside services employed	10,655,737	10,233,339
Officers allowance and benefit	8,304,433	6,489,491
Office supplies	7,102,673	3,846,070
Utilities	4,633,803	4,262,688
Maintenance of office and general plant	2,772,773	3,103,365
Property insurance	2,709,436	2,504,550
Injuries and damages	2,232,136	704,746
Regulatory	2,051,608	3,205,593
Employees insurance	1,610,025	1,479,893
Donation	1,504,879	135,457
Rent	903,489	724,125
Financial Assistance	731,792	296,569
Taxes and licenses	268,467	-
Chattel mortgage fee	109,798	-
Association and membership dues	92,900	81,800
Miscellaneous	3,350,952	3,912,778
	136,429,412	119,743,793
Depreciation (Note 8)	18,760,364	14,726,477
Total	**155,189,776**	**134,470,270**

28. FINANCE COST

This represents the following:

Items	2011	2010
NEA		
Overseas Economic Cooperation Fund	6,439,628	5,120,033
Construction loan	2,773,151	2,198,221
Restructured loan	2,298,784	-
	11,511,563	7,318,254
BDO (formerly EPCIB)		
Car loan	2,649,220	1,973,127
Metropolitan Bank & Trust Co.	536,056	7,705,634
Rural Electrification Financing Corp.	804,023	388,155
LTD-Service	-	16,364
Others	276,147	457,193
	1,616,226	8,567,346
Total	**15,777,009**	**17,858,727**

29. LEASES

This account consists of loans with Banco De Oro, for various transportation including motorcycles, with 2 to 5 year terms, and distribution equipment, with 2 to 4 month terms.

As of December 31, 2011 and 2010, the balance of obligation amounted to P1,151,742 and P1,277,750, respectively.

30. RELATED PARTY TRANSACTIONS

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

Compensation of Key Management Personnel

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

The compensation of key management personnel included under "salaries and fringe benefits" account in the statements of comprehensive income follows.

Items	2011	2010
Short term employees' benefits		
Key management personnel	P1,973,434	P1,891,229
Directors	P3,608,750	P3,105,000
Total	**P5,582,184**	**P4,996,229**

31. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2011, the Cooperative has pending lawsuits and claims filed by and against third parties, the outcome of which is not presently determinable. It is the opinion of management and its legal counsel that the eventual disposition of such lawsuits and claims will not have a material adverse effect on the Cooperative's financial statements.

	Case Title	Nature of the case	Amount involved
1	BENECO V. LA TRINIDAD Petition for review with the court of tax appeals	Appeal on the dismissal by the RTC BENECO's case questioning the garnishment of BENECO's bank deposit by the Municipality of La Trinidad.	18,039,448.63
2	BENECO V. LA TRINIDAD Appeal under sec.195 of the local government code RTC	The case was filed to question the legality of the notice of assessment for business taxes issued by the Municipality of La Trinidad to BENECO.	34,666,665.03
3	BENECO V. MANKAYAN Appeal under sec.195 of the local government code RTC	The case was filed to question the legality of the notice of assessment for business taxes issued by the Municipality of Mankayan to BENECO.	3,240,490.00
4	BENECO V. NPC Injunction- Court of Appeals	NPC is claiming additional payment from BENECO due to an error in its multiplier in its billing. RTC dismissed the case in favor of BENECO but NPC appealed to the	157,740,000.00

32. KEY PERFORMANCE INDICATORS

The key financial performance indicators as of and for the year's ended December 31, 2011 and 2010 follow:

	2011	2010
Cost of power purchased ratio	86%	88%
Non-power cost ratio	15%	14%
Administrative and general	6%	6%
Distribution	4%	4%
Consumers' accounts	2%	2%
Days sales in receivables	28 days	29 days
Days payable – power	37 days	55 days
Net margin ratio	(0.22%)	(2%)

33. FINANCIAL INSTRUMENTS

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

The fair value of the financial instruments approximate the carrying values as of December 31, 2011 and 2010, due to their relatively short-term maturities, as follows:

	December 31, 2011		December 31, 2010	
	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets:				
Loans and receivables				
Cash and cash equivalents	102,137,381	102,137,381	145,947,617	145,947,617
Restricted funds	381,629	381,629	376,750	376,750
HTM investments	42,459,652	42,459,652	288,928,015	288,928,015
Consumer Receivables	175,787,074	175,787,074	160,112,564	160,112,564
Other receivables and other non-current	92,473,212	92,473,212	70,512,705	70,512,705
Prepayments and other current assets	27,895,935	27,895,935	37,462,621	37,462,621
	441,134,883	**441,134,883**	**703,340,272**	**703,340,272**

	December 31, 2011		December 31, 2010	
	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Liabilities:				
Loans and borrowings				
Interest bearing debts	166,431,939	166,431,939	332,056,453	332,056,453
Consumers deposits	150,497,820	150,497,820	136,365,215	136,365,215
Retirement liability	147,787,780	147,787,780	143,537,489	143,537,489
Trade and accrued expenses	316,679,665	316,679,665	268,786,119	268,786,119
Power supply payable	199,641,277	199,641,277	264,917,756	264,917,756
	981,038,481	**981,038,481**	**1,145,663,032**	**1,145,663,032**

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

- Credit risk
- Liquidity risk
- Market risk

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

Risk Management Structure

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

Financial Risk Management Objectives and Policies

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

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

Credit Risk

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

In monitoring contract owner's credit risk, contract owners are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile and maturity.

The Statement of Account which serves as Notice of Disconnection is given to the consumers based on the schedule of the coop. Consumers are given a five day period (date of actual receipt shall be excluded) within which to settle their current power bills. Within the five day-day period or before the expiration of the due date, a collector may visit the consumer for follow-up payment/s. Actual disconnection will be made if no payment is made two days after the receipt of the notice.

Exposure to Credit Risk

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

Accounts	**2011**	**2010**
Cash and cash equivalents	102,137,381	145,947,617
Restricted funds	381,629	376,750
HTM investments	42,459,652	288,928,015
Consumer Receivables	175,787,074	160,112,564
Other receivables and other non-current assets	92,473,212	70,512,705
Prepayments and other current assets	27,895,935	37,462,621
Total	**441,134,883**	703,340,272

Impairment Losses on Credit

As of report date, the Cooperative was still in process of generating an ageing of consumer's accounts; hence, the extent of possible impairment losses could not be determined and disclosed more appropriately.

At December 31, 2011 and 2010, management has already provided an allowance for probable losses amounting to ₱1,517,843 and ₱3,247,868 representing 0.9% and 2.0%, respectively, of the consumers' receivable for collection.

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

Movements in allowance for probable losses follow:

	2011	2010
Balance at beginning of year		
Receivables	11,364,008	11,376,165
Other assets	1,223,403	1,223,403
	12,587,411	12,599,568
Movement during the year		
Receivables	(9,846,165)	(12,157)
Other receivables	(1,223,403)	-
		(12,157)
Balance at end of year		
Receivables	1,517,843	11,364,008
Other assets	-	1,223,403
Total	**1,517,843**	**12,587,411**

Liquidity Risk

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

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

The maturity of the Cooperative's financial assets and liabilities as of December 31, 2011 and 2010, based on contractual repayment arrangements, is tabulated below:

	December 31, 2011				
	Up to 1 Month	2-3 to 6 Months	6 to 12 Months	Over 1 year	Total
Financial Assets					
Cash and cash equivalents	102,137,381				102,137,381
Restricted funds	381,629				381,629
HTM investments	38,883,973	3,575,679			42,459,652
Receivables	175,787,074				175,787,074
Other receivables and other non-current assets				92,473,212	92,473,212
Prepayments and other current assets			27,895,935		27,895,935
	317,190,057	**3,575,679**	**27,895,935**	**92,473,212**	**441,134,883**
Financial Liabilities					
Interest bearing debts	596,875	3,023,402	3,779,851	159,031,811	166,431,939
Consumer deposits				150,497,820	150,497,820
Retirement liability				147,787,780	147,787,780
Trade and accrued expenses			316,679,665		316,679,665
Power supply payable	199,641,277				199,641,277
	200,238,152	**3,023,402**	**320,459,516**	**457,317,411**	**981,038,481**
Net Liquidity (Gap)	**116,951,905**	**552,277**	**(292,563,581)**	**(364,844,19**	**(539,903,598**

	December 31, 2010				
	Up to 1 Month	2-3 to 6 Months	6 to 12 Months	Over 1 year	Total
Financial Assets					
Cash and cash equivalents	145,947,617				145,947,617
Restricted funds	376,750				376,750
HTM investments	37,446,838	251,481,177			288,928,015
Receivables	160,112,564				160,112,564
Other receivables and other non-current assets				70,512,705	70,512,705
Prepayments and other current assets			37,462,621		37,462,621
	343,883,769	**251,481,177**	**37,462,621**	**70,512,705**	**703,340,272**
Financial Liabilities					
Interest bearing debts	514,052	2,603,830	4,390,257	324,548,314	332,056,453
Consumer deposits				136,365,215	136,365,215
Retirement liability				143,537,489	143,537,489
Trade and accrued expenses			268,786,119		268,786,119
Power supply payable	264,917,756				264,917,756
	265,431,808	**2,603,830**	**273,176,376**	**604,451,018**	**1,145,663,03**
Net Liquidity (Gap)	**78,451,961**	**248,877,347**	**(235,713,755)**	**(533,938,31**	**(442,322,760**

The fair values of financial instruments approximate their carrying value as of December 31, 2011.

Market Risk

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

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

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

Interest Rate Risk

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

35. CAPITAL MANAGEMENT

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

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

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

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

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

	2011	2010
Debt	981,038,481	1,145,663,032
Cash	102,137,381	145,947,617
Net debt	878,901,100	999,715,415
Equity	1,588,163,789	516,840,423
Net debt to equity ratio	**0.55**	**1.93**

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

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

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

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

Particulars	Amount
VAT output	48,947,669
Operating revenues	407,897,238

b. VAT input taxes claimed:

Particulars	Amount
VAT input	23,164,046
Purchases	193,033,718

c. Withholding taxes:

Particulars	Base	Amount
Withholding tax on compensation	58,860,546	11,907,186
Creditable withholding tax	33,811,856	1,690,593
Final withholding tax	37,206,009	1,516,011
Tax in banks	748,286	148,982
Total	**130,626,697**	**15,262,772**

d. **DST** on loan instruments, shares of stock and other Transactions subject thereto; **500,926**

e. Taxes, licenses, and fees:

Particulars	Amount
Real Estate Tax	267,783
Licenses and Permit Fees	732,565
Total	**1,000,348**

BENGUET ELECTRIC COOPERATIVE, INC.
Alapang, La Trinidad, Benguet, Philippines 2601
Tel. Nos.:(074) 422-2000; (074) 422-2110; (074) 422-5671; (074) 422-5672; (074) 422-5673
Fax Nos.: (074) 422-2848; (074) 443 - 9601

August 07, 2012

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Benguet Electric Cooperative, Inc. is responsible for all information and representations in the financial statements for the year ended December 31, 2011. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

The accounting office prepares the monthly financial and statistical reports (MFSR), checked by the Corporate Services Manager, audited by the Internal Auditor before the same is submitted to the General Manager for approval. The Board of Directors are furnished copies of the MFSR every month for their information and perusal.

Odsinada, Rivera & Co., the independent auditor appointed by the Board of Directors, has audited the financial statements of the cooperative in accordance with the generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such audit.

The accompanying financial statements for the year 2011 were approved and authorized for issue by the Board of Directors in its meeting August 07, 2012.

JOEY JL. MARRERO
President, BENECO Board of Directors

GERARDO P. VERZOSA
General Manager