REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Members of
BATANGAS II ELECTRIC COOPERATIVE, INC.
Antipolo del Norte, Lipa City, Batangas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **BATANGAS II ELECTRIC COOPERATIVE, INC.** which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income, statement of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **BATANGAS II ELECTRIC COOPERATIVE, INC.** as at December 31, 2023 and 2022 and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Cooperative in accordance with the Code of Ethics for Professional Accountants in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Cooperative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Cooperative or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Cooperatives financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Cooperative's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Coóperative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Cooperative to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information 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 whole.

DELIO I. SAMULDE & ASSOCIATES, CPAs

DELIO I. SAMULDE
Managing Partner
CPA Cert. No. 107411
PTR No. 10091416MN issued at Makati City on 1/17/2024
TIN 223-837-688(Individual)
TIN 243-774-610 (Partnership)
BOA Accreditation No. 2446 valid until July 18, 2025
BIR Accreditation No. 07-000040-003-2022 valid until March 1, 2025
NEA Accreditation No. 2022-06-00085 valid until June 28, 2025

February 26, 2024
Makati City

BATANGAS II ELECTRIC COOPERATIVE, INC.
(A Non-stock, Not-for-Profit Rural Electric Cooperative)

STATEMENTS OF FINANCIAL POSITION

	Notes	As of December 31 2023	2022
ASSETS			
Non-current Assets			
Property, plant and equipment, net	7	**2,890,002,078**	2,709,834,940
Other non-current assets	9	**1,716,053,244**	1,243,177,292
Total Non-current Assets		**4,606,055,323**	3,953,012,232
Current Assets			
Cash	4	**1,221,867,454**	1,015,729,976
Receivables	5	**1,819,700,681**	2,233,397,312
Materials and supplies inventories	8	**743,494,801**	726,451,713
Prepayments and other current assets	6	**5,865,070**	6,786,891
Total Current Assets		**3,790,928,005**	3,982,365,892
TOTAL ASSETS		**8,396,983,328**	7,935,378,124
EQUITIES AND LIABILITIES			
Equities			
Membership	10	**1,766,168**	1,699,388
Donated capital	11	**776,834,556**	770,458,059
Consumer's contribution for capital expenditure	12	**4,406,444,759**	4,028,147,728
Revaluation increment		**537,012,151**	582,240,852
Accumulated loss	13	**(272,445,400)**	(403,605,636)
Total Equities		**5,449,612,234**	4,978,940,391
Non-current Liabilities			
Long-term debt	14	**62,187,340**	82,124,547
Consumers deposit	15	**393,380,632**	323,188,798
Retirement liability	19	**550,328,068**	563,964,358
Other non-current liabilities	18	**328,985,139**	295,083,009
Total Non-current Liabilities		**1,334,881,179**	1,264,360,713
Current Liabilities			
Power supply payable	16	**622,688,835**	891,934,549
Current portion of long-term debt	14	**19,000,986**	21,958,061
Accounts payable and accrued expenses	17	**970,800,094**	778,184,410
Total Current Liabilities		**1,612,489,914**	1,692,077,020
TOTAL EQUITIES AND LIABILITIES		**8,396,983,328**	7,935,378,124

See Accompanying Notes to Financial Statements

BATANGAS II ELECTRIC COOPERATIVE, INC.
(A Non-stock, Not-for-Profit Rural Electric Cooperative)

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year Ended December 31	
		2023	2022
REVENUES			
PASS-THRU REVENUE			
Generation	21	**7,044,831,764**	7,955,997,018
Transmission	21	**819,418,288**	1,033,613,477
System loss	21	**928,316,041**	1,050,286,106
Lifeline discount	21	**(451,016)**	28,373
Senior citizen discount	21	**(594,819)**	(1,581,994)
		8,791,520,258	10,038,342,981
COOP REVENUE			
Distribution	21	**383,981,299**	363,614,537
Supply	21	**217,074,437**	208,851,074
Metering	21	**207,779,741**	199,800,769
		808,835,476	772,266,380
TOTAL REVENUES		**9,600,355,735**	10,810,609,361
COST OF ENERGY SOLD	23	**8,623,659,775**	10,026,218,605
GROSS INCOME		**976,695,960**	784,390,756
OPERATING EXPENSES			
General and administrative	24	**224,185,648**	190,165,256
Consumers' accounts	25	**203,842,349**	186,266,958
Distribution	26	**408,843,554**	370,679,674
		836,871,551	747,111,888
DEPRECIATION EXPENSES	24 & 26	**127,341,768**	128,057,336
FINANCING COSTS	27	**9,034,733**	10,874,832
TOTAL EXPENSES		**973,248,052**	886,044,055
INCOME (LOSS) FROM OPERATIONS		**3,447,908**	(101,653,299)
OTHER INCOME (CHARGES)	22	**127,712,328**	122,194,784
NET INCOME		**131,160,235**	20,541,485

See Accompanying Notes to Financial Statements

BATANGAS II ELECTRIC COOPERATIVE, INC.
(A Non-stock, Not-for-Profit Rural Electric Cooperative)

STATEMENTS OF CHANGES IN EQUITIES AND LOSS

	Notes	As of December 31 2023	2022
EQUITIES			
Membership	10		
Balance beginning		**1,699,388**	1,641,403
Receipt of additional membership		**66,780**	57,985
		1,766,168	1,699,388
Donated capital	11		
Balance, beginning		**770,458,059**	759,880,839
Addition during the year		**9,909,574**	13,551,118
Recognition of income from government grant		**(3,533,076)**	(2,973,899)
		776,834,556	770,458,059
Consumer's Contribution for Capex	12		
Balance, beginning		**4,028,147,728**	3,667,284,801
Receipt of additional contributions		**378,297,031**	360,862,928
		4,406,444,759	4,028,147,728
Revaluation Increment			
Balance, beginning		**582,240,852**	627,469,553
Realized portion on revalued assets		**(45,228,701)**	(45,228,701)
		537,012,151	582,240,852
LOSS			
Accumulated loss, restated	13		
Balance, beginning		**(403,605,636)**	(424,147,121)
Prior period adjustment		**(0)**	0
Net income (loss)		**131,160,235**	20,541,485
		(272,445,400)	(403,605,636)
TOTAL EQUITIES AND LOSS		**5,449,612,234**	4,978,940,391

See Accompanying Notes to Financial Statements

BATANGAS II ELECTRIC COOPERATIVE, INC.
(A Non-stock, Not-for-Profit Rural Electric Cooperative)

STATEMENTS OF CASH FLOW

	Notes	As of December 31 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)		**131,160,235**	20,541,485
Depreciation and amortization	24 & 26	**127,341,768**	128,057,336
Prior period adjustment, net	13	**(0)**	-
Operating income before working capital changes		**258,502,004**	148,598,821
Decrease (increase) in:			
Receivables	5	**413,696,631**	(620,151,056)
Materials and supplies inventories	8	**(17,043,088)**	(144,870,923)
Prepayments and other current assets	6	**921,821**	19,655
Increase (decrease) in:			
Power supply payable	16	**(269,245,714)**	153,352,592
Accounts payable and accrued expenses	17	**192,615,683**	134,638,600
Net cash provided by (used in) operating activities		**579,447,338**	(328,412,312)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase (decrease) in noncurrent asset			
Additions to plant, property and equipment	7	**(307,508,906)**	(105,925,062)
Other non current assets	9	**(472,875,952)**	11,089,063
		(780,384,859)	(94,835,999)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in:			
Long-term debt	14	**(22,894,282)**	(21,039,071)
Consumers' deposit	15	**70,191,834**	55,500,586
Other non-current liabilites	18	**33,902,130**	48,626,365
Retirement liability	19	**(13,636,291)**	10,241,094
Membership	10	**66,780**	57,985
Donated capital	11	**6,376,498**	10,577,219
Consumer's contribution for Capex	12	**378,297,031**	360,862,928
Revaluation increment		**(45,228,701)**	(45,228,701)
Net cash used in financing activities		**407,074,999**	419,598,405
NET INCREASE (DECREASE) IN CASH		**206,137,478**	(3,649,906)
CASH AT BEGINNING OF YEAR	4	**1,015,729,976**	1,019,379,882
CASH AT END OF YEAR		**1,221,867,454**	1,015,729,976

See Accompanying Notes to Financial Statements

BATANGAS II ELECTRIC COOPERATIVE, INC.
(A Non-stock, Non-profit Membership Electric Cooperative)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

1 COOPERATIVE INFORMATION AND AUTHORIZATION FOR ISSUE OF FINANCIAL STATEMENTS

· **Cooperative Information**

Batangas II Electric Cooperative, Inc., (the "Cooperative") was incorporated on August 12, 1977 under the provisions of Republic Act (R.A.) No. 6038 which created the National Electrification Administration (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.

Its distribution of electricity covers the cities of Lipa and Tanauan and municipalities of Talisay, Laurel, Malvar, Balete, Rosario, Padre Garcia, Taysan, San Juan, Lobo, San Jose, Alitagtag, Mataas Na Kahoy, Cuenca, Mabini, and Tingloy and any additional area which thereafter be serviced by the cooperative. Its registered office address is Barangay Antipolo del Norte, Lipa City, Batangas, Philippines.

· **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 February 26, 2024.

· **Administrative Regulations**

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

Some salient points follow:

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

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

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

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

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

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

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

R.A. 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 CDA; (2) a stock corporation under the Corporation Code of the Philippines or; (3) remain as a non-stock 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:

kWh Consumption per lifeline level	Discount (%)
0-15	50%
16-20	45%
21-25	40%
26-30	35%
31-35	20%
36-40	10%
41-45	5%

ERC Regulations, RSEC-WR

On September 23, 2009, the Energy Regulatory Commission issued Resolution No. 20, Series of 2009 - Rules for Setting the Electric Cooperative Wheeling Rates (RSEC-WR). The rule establishes a cap on the Distribution, Supply and Metering (DSM) charges that the electric cooperatives can charge to its customers. All on-grid electric cooperatives are classified into (7) groups depending on its size and structure. The Cooperative belongs to Group G and charges its customers P.3216 RFSC per kilowatt hour.

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

Preferential Tax Treatments

Permanent Income Tax Exemption Under P.D. 269

Effective January 1, 2007, 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. However, the Bureau of Internal Revenue (BIR) in its opinion per Delegated Authority Ruling No. 108-2006 dated March 14, 2006, stated that the 30 year period or until completely free of indebtedness whichever comes first, prescription of tax exemption privileges enjoyed by electric cooperatives covers only franchise tax, value added tax, percentage tax and other taxes except income tax. However, income derived from other sources not related to its primary purpose is subject to income tax.

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

- **Other Tax Privileges / Limitations**

BIR Revenue Memorandum Circular No. 72-2003

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

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

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

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

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

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

BIR Revenue Memorandum Circular No. 74-2013

This RMC, dated November 26 2013, provides that electric cooperatives registered with the NEA are subject to:

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

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

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

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

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

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

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

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

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

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

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

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

3.) Input VAT on capital goods should be spread evenly over the useful life or 60 months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds P1 million. Starting 2022, input vat on capital goods exceeding P1 million will claimed immediately.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

(a) *Statement of Compliance*

The accompanying financial statements are prepared in conformity with Philippine Accounting Standards (PAS) for each type of assets, liabilities, income and expenses, and with the general practices on rural electric cooperatives as prescribed by the NEA, the 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 PAS and PIC Interpretations, when applicable, as follows:

(1.1) Adoption of New and Amended PFRS

Effective for annual periods beginning on or after January 1, 2022:

Amendments to PFRS 3, *Business Combinations - Reference to the Conceptual Framework* - The amendments add an exception to the recognition principle of PFRS 3 to avoid the issue of potential "day 2" gains or losses arising from liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21, Levies, if incurred separately. It also clarifies that contingent assets do not qualify recognition at the acquisition date.

Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Costs of Fulfilling a Contract* - The amendments specify the costs a Cooperative includes when assessing whether a contract will be loss-making and is therefore recognized as an onerous contract. The amendments apply a "directly related approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.

Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use* - The amendments prohibit the entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management. Instead, the entity recognizes such sales proceeds and any related costs in the profit or loss.

Effective for annual periods beginning on or after January 1, 2023:

PFRS 17, *Insurance Contracts* - This standard will replace PFRS 4, *Insurance Contracts*. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. In June 2020, the IASB issued amendments to the standard, including a deferral of its effective date to 1 January 2023

Amendments to PAS 1, *Presentation of Financial Statements* - The amendments to PAS 1 specify the requirements for classifying current and noncurrent liabilities. The amendments will clarify that a right to defer must exist at the end of reporting period and the classification is unaffected by the likelihood that an entity will exercise its deferral right. The issuance of amendments was deferred until January 1, 2023 as a result of COVID-19 pandemic.

Effective for annual periods beginning on or after January 1, 2024:

Ammendment to PFRS 16, *Leases on sale and leaseback* - These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

Ammendment to PAS 7 and PFRS 7, *Supplier finance* - TThese amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Cooperative.

(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 or at amortized cost. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate.

The Cooperative determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at every statement of financial position date (Note 30).

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, are 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 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, 2023 and 2022, the Cooperative has no financial asset or financial liability at FVPL.

Trade and Other 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, 2023 and 2022, the Cooperative's receivables, due from a related party and advances to officers and employees are classified as loans and receivables (Note 5).

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, 2022 and 2021, the Cooperative's other financial liabilities pertain to accounts payable and accrued expenses and loans (Note 30).

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.

·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 first-in, first-out method; NRV is the current replacement cost of each inventory. As of December 31, 2022 and 2021, the Cooperative has inventory items on hand amounting to ₱726,451,713 and ₱581,580,790, respectively (Note 8).

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 6).

Prepaid Input Value-Added Taxes

Prepaid input 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 9).

Utility Plant, Property and Equipment
Utility plant (except land) is carried at cost less depreciation and impairment losses, if any. Land is carried at cost less impairment losses, if any (Note 7).

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
Production Plant	33 years
Distribution Plant	33 years
General Plant	10 to 25 years

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

Construction Work-in-Progress

Construction work-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 work-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use (Note 7).

·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 special lighting and bill deposits. Special lighting deposits guarantee payment of electricity consumption for the duration of the temporary lighting contract while the bill deposits guarantee payment of the monthly bills for electricity consumption and are equivalent to estimated bill for one month.

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 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 15).

·Member's Equity

Member's equity consists of members' contribution, donated capital, contribution for reinvestment and capital expenditure, and accumulated loss (Notes 10, 11, 12, and 13).

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 10).

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. Such amounts were treated first as liabilities and credited only to equity upon approval of liquidation by the NEA (Note 11).

Revaluation Surplus

Revaluation surplus arises from appraisal increment of the assets subjected to appraisal conducted by an independent appraiser. It is the difference between the carrying value and the fair market value of the assets appraised. This account is recognized in the equity account with corresponding asset "Appraisal Increase" and is subject to depreciation based on the remaining life of the related assets appraised. Depreciation on appraisal increase is recognized in the statement of financial position as a debit to revaluation increment and the corresponding decrease in revaluation surplus is credited directly to Accumulated Depreciation - Appraisal Increase on systematic basis.

·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 ERC on consumption per individual KW meter (Note 21).

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 Charges, Feed-In Tariff Allowance and Tax Recoveries 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 22).

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

Income from government grant

Income from government grant represents the amount deducted from donated capital account to subsidize depreciation charges on property and equipment funded by donation and grant. Government grants shall be recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

Miscellaneous Income

Miscellaneous income includes revenue from pole rental, reconnection and other fees, 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 22).

Revenue is measured by reference to the fair value of the consideration received or receivable by the Cooperative for the services provided, excluding 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, Distribution and Consumer accounts expense

Cost of energy sold is recognized when the billing of power supply entity is delivered to and accepted by cooperative (Note 23).

Distribution and Consumer accounts expense are recognized when the related services are performed (Notes 25 and 26).

Operating Expenses

Operating expenses constitute costs of administering the business and are expensed and recognized in the period in which they are incurred (Note 24).

·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 (Note 28). 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 28).

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.

At December 31, 2023, the Cooperative has obtained an actuarial valuation for its retirement plan using the Projected Unit Credit Method. It has already established a retirement plan under Board policy direction (Note 19).

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 19).

·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 19).

·**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.

When 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, 2023 and 2022, the Cooperative has no outstanding lease contracts that can be considered as a finance lease.

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

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

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

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

All other borrowing costs are recognized in profit or loss in the period in which they are incurred. At December 31, 2022 and 2021, the Cooperative has no borrowings secured by qualifying assets under this category of obligation.

·**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 reassessed 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 with 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 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 liabilities would affect profit or loss, the statement of comprehensive income and equity.

As of December 31, 2023 and 2022, financial assets recognized in the statement of financial position amounted to ₱3,041,568 and ₱3,249,127,288 respectively, and financial liabilities amounted to ₱1,492,722,366 and ₱1,790,666,349, respectively (Note 29).

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.

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 P 29,011,468 was maintained in 2023. Consumer's receivable accounts, net of allowance for doubtful accounts, amounted to P947,227,204 in 2023 and 1,399,378,698 in 2022 (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 P2,890,002,078 in 2023 and P2,709,834,941 in 2022 (Note 7).

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 19).

Present Values of Retirement Benefits

As of December 31, 2023 and 2022, management has recognized retirement obligation. A restricted fund has been set aside for this purpose already amounting to P531,925,143 and P368,447,883 as of December 31, 2023 and 2022, respectively (Notes 9 & 19). The Cooperative is extending retirement loans to qualified employees based on its Retirement Loan policy taken from the retirement fund. Loan amortizations together with the interest earned are returned back to the fund. As of December 31, 2023 and 2022, Accounts Receivable-Retirement Loan amounted to P33,319,367 and P33,244,373, respectively.

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 its 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

4 CASH

This account represents funds maintained as follows:

		2023		2022
General and other funds				
Cash in Bank-savings	P	**1,226,650,925**	P	927,826,140
Loan Fund		**41,005,753**		19,556,452
Cash in Bank-current		**(100,951,975)**		(6,903,548)
Cash on Hand		**54,375,273**		74,517,454
Working Fund		**489,000**		435,000
Temporary cash investment		**298,478**		298,478
Total		**1,221,867,454**		1,015,729,976

Cash in banks earns interest at the prevailing bank deposit rates (Note 22)

5 RECEIVABLES - NET

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

		2023		2022
Consumers' accounts receivable	P	**973,238,673**	P	1,428,390,167
Less: Allowance for doubtful/ uncollectible accounts		**29,011,468**		29,011,468
Net Realizable Value		**944,227,204**		1,399,378,698
Accounts Receivable				
Interest on overdue Ingasco accounts		**219,218,625**		207,250,069
BOM		**102,371,482**		94,370,285
Retirement and medical loan		**33,829,595**		33,630,153
PEMC-WESM Operations		**17,128,752**		10,170,849
Returned checks		**1,524,383**		1,578,015
Pole rental		**38,648,929**		30,981,257
Employee benefits		**2,285,072**		1,445,098
Supplier (Private Contractor)		**82,630,209**		48,717,495
Telephone/ cell phone bill		**602,505**		602,476
Others		**358,241,811**		366,300,916
		856,481,363		795,046,613
Notes Receivable				
Apprehended consumers		**13,934,541**		16,942,099
Powerbill restructuring		**1,677,299**		18,453,627
Meter loan		**1,269,234**		1,617,030
Energy deposits		**795,313**		795,313
Pole rental		**616,627**		618,388
		18,293,013		38,426,457
Advances to officers and employees		**699,100**		545,544
	P	**1,819,700,681**	P	2,233,397,312

Management has provided an allowance for doubtful accounts amounting to P29,011,468 to cover normal losses that may be sustained from uncollectible accounts. This represents 2.03% of consumers' accounts for collection.

6 PREPAYMENTS AND OTHER CURRENT ASSETS

This account consists of:

		2023	2022
Rice allowance	P	0	P 1,687,500
Insurance		1,020,401	922,848
Others		4,844,668	4,176,543
	P	5,865,070	P 6,786,891

7 PROPERTY, PLANT AND EQUIPMENT

This account consists of utility plants, as follows:

	2023	2022
Utility plant in-service	3,725,571,472	3,569,615,022
Appraisal increase	1,767,852,709	1,767,852,709
	5,493,424,181	5,337,467,731
Less: Accumulated Depreciation		
At cost	1,767,514,949	1,666,997,211
Appraisal increase	1,235,763,207	1,190,534,506
	3,003,278,155	2,857,531,717
Net Book Value	2,490,146,026	2,479,936,015
Construction work in progress	399,856,053	229,898,926
	2,890,002,078	2,709,834,940

	December 31, 2022	Additions	(Disposal) Revaluation Reclassification	December 31, 2023
Cost				
Production Plant				
Fuel holders, producers	1,467,129	-		1,467,129
Clearing land and rights of way	833,212	-		833,212
Distribution Plant				-
Land & land rights	51,674,280	-		51,674,280
Structures & improvement	1,730,087	62,500		1,792,587
Station equipment	426,225,481	65,501,626		491,727,106
Poles, towers & fixtures	1,112,616,880	30,698,881	(11,354,900)	1,131,960,861
Overhead conductors & devices	507,443,827	718,539		508,162,366
Line transformers	332,009,710	3,100,078		335,109,788
Services	44,315,178	1,423,421		45,738,599
Meters	305,904,111	26,278,219	(1,018,331)	331,163,998
Leased property	55,695	-		55,695
Street lighting and signal system	954,948	-		954,948
Distribution Plant-SFP				-
Station equipment		8,115		8,115
Poles, towers & fixtures	69,343,657	1,403,561		70,747,217
Overhead conductors & devices	16,841,076	286,234		17,127,310
Line transformers	11,122,236	138,878		11,261,114
Services	7,565	2,818		10,383
Meters	3,271,068	101,842		3,372,910
Solar Power Facilities-SFP	10,856,938	-		10,856,938
General Plant				-
Information system	39,897,138	17,750,265		57,647,403
Miscellaneous intangible plant	3,922,278	-		3,922,278
Land & land rights	69,471,559	2,952,232		72,423,791
Buildings	88,976,574	19,000		88,995,574
Structures & improvement	41,992,779	282,021		42,274,800
Office furniture & equipment	129,091,999	3,217,871	(1,863,387)	130,446,482
Transportation equipment	164,008,826	5,312,843	(11,792,387)	157,529,282
Stores equipment	426,282	-		426,282
Tools, shop & garage equipment	53,461,902	2,307,451	(1,229,018)	54,540,335
Laboratory equipment	42,606,782	54,151		42,660,933
Power-operated Equipment	20,383,811	21,396,429		41,780,240
Communication equipment	15,681,569	197,499		15,879,068
Miscellaneous equipment	3,020,445	-		3,020,445
Total	3,569,615,022	183,214,472	(27,258,022)	3,725,571,472

Less: Accumulated Depreciation				
Production Plant				
Fuel holders, producers & accessories	773,684	64,849	(20,835)	**817,698**
Clearing land and rights of way				
Distribution Plant				
Land & land rights				
Structures & improvement	927,768	53,465		**981,233**
Station equipment	215,100,184	13,852,520		**228,952,704**
Poles, towers & fixtures	414,365,474	35,811,601	(11,354,900)	**438,822,176**
Overhead conductors & devices	255,206,278	15,837,318	(2,817,311)	**268,226,285**
Line transformers	209,799,605	13,144,737		**222,944,343**
Services	23,315,977	1,346,654		**24,662,631**
Meters	67,798,265	9,983,244	(1,018,331)	**78,799,841**
Leased property	55,695			**55,695**
Street lighting and signal system	657,933	28,648		**686,581**
Distribution Plant-SFP				
Poles, towers & fixtures	15,935,905	2,244,619		**18,180,524**
Overhead conductors & devices	4,064,442	509,392		**4,573,834**
Line transformers	1,872,028	333,825		**2,205,853**
Services	852	21,387		**22,239**
Meters	189,749	98,146		**287,896**
Solar Power Facilities-SFP	108,569	325,708		**434,278**
General Plant				
Information system	31,519,333	8,796,959		**40,316,291**
Buildings	48,272,123	3,560,781		**51,832,904**
Structures & improvement	34,116,544	1,553,074		**35,669,617**
Office furniture & equipment	117,411,945	2,731,326	(1,863,387)	**118,279,885**
Transportation equipment	117,368,259	10,226,813	(12,374,997)	**115,220,075**
Stores equipment	430,976	4,812		**435,788**
Tools, shop & garage equipment	41,203,792	2,335,136	(907,154)	**42,631,773**
Laboratory equipment	32,316,959	1,915,988	1,496,222	**35,729,169**
Power-operated Equipment	19,372,426	1,775,784		**21,148,210**
Communication equipment	12,345,449	654,423		**12,999,872**
Miscellaneous equipment	2,466,996	130,559		**2,597,555**
Total	1,666,997,211	127,341,768	(28,860,693)	**1,767,514,949**
	1,902,617,812			**1,958,056,523**

The utility plant, property and equipment have been utilized as security to NEA loans. However, the substantial part is now restricted as security to the NEA loans condoned and assumed by the PSALM amounting to ₱516,794,701 in accordance to Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001 (Notes 11).

Depreciation charged to distribution expenses amounted to P93,643,768 and to operating expenses amounted to P33,698,000 (Notes 24 and 26).

8 MATERIALS AND SUPPLIES INVENTORY

This account consists of inventory items, as follows:

		2023		2022
Special equipment	P	**396,683,065**	P	466,056,167
Electric		**230,448,683**		150,171,003
Housewiring		**23,310,269**		23,177,694
Office supplies		**9,875,155**		8,590,021
Stores expense undistributed		**809,845**		757,487
Others		**82,367,784**		77,699,341
	P	**743,494,801**	P	726,451,713

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.

9 OTHER NON-CURRENT ASSETS

This account consists of:

		2023		2022
Restricted fund				
Retirement fund	P	**531,925,143**	P	368,447,883
Sinking fund for reinvestment		**131,553,905**		164,032,116
Resiliency fund		**39,690,025**		21,984,028
Under/Over Recovery Fund		**140,330,251**		0
Membership		**2,016,835**		1,949,806
		845,516,159		556,413,833
Deferred debits				
Prudential requirement - WESM		**106,344,523**		105,818,946
Security deposit - Transco		**20,766,169**		20,531,348
Preliminary survey and investigation Charges		**6,177,346**		6,177,346
Input tax		**19,433,287**		11,744,174
Creditable withholding tax		**77,617,483**		53,393,104
Advance rental deposit		**623,297**		623,297
Miscellaneous deferred debits		**362,877,845**		397,710,298
		593,839,950		595,998,513
Other investment				
Investment in Government Securities		**0**		10,000,000
Investment in Special Trust Fund -BDO		**90,000,000**		20,000,000
Investment in REFC Shares of Stocks		**39,836,000**		39,836,000
Time deposits-Membership Fund		**1,630,687**		1,630,687
Others		**145,230,448**		19,298,259
		276,697,135		90,764,946
TOTAL	P	**1,716,053,244**	P	1,243,177,292

The account security deposit with TRANSCO is required based on the Transmission Service Agreement (TSA) between National Transmission Corporation and the cooperative as provided under Sec. A8.1 of the Open Access Transmission Service (OATS). The purpose is to guarantee the continuous and uninterrupted supply and delivery of electric power and energy by TRANSCO to the electric cooperatives.

The account security deposit with WESM is a prudential requirement prior to participation of the Cooperative to purchase electricity through Wholesale Electricity Spot Market, with the condition of non-payment of the cooperative the Philippine Electricity Market Corporation has the right to use the said investment.

Restricted fund consists 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.

10 MEMBERSHIP ACCOUNT

Membership equivalent to 353,234 members at ₱5 per member has already been subscribed at the end of December 31, 2023. As of December 31, 2023 and December 31, 2022, this amounted to ₱1,766,168 and ₱1,699,388 respectively. The balance of restricted fund maintained with its depository bank for the purpose amounted to P2,016,635 and ₱1,949,806 respectively (Note 9). The balance of Time Deposits-Membership Fund as of December 31, 2023 and December 31, 2022 amounted to ₱1,630,687 and ₱1,630,687 respectively(Note 9).

11 DONATED CAPITAL

This account consists of:

		2023	2022
PSALM	P	**516,794,701** P	516,794,701
Subsidy		**154,199,906**	147,823,409
Subsidy- Calamity		**24,160,000**	24,160,000
Liquidation of Projects-NEA		**79,373,843**	79,373,843
USAID		**2,306,106**	2,306,106
	P	**776,834,556** P	770,458,059

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 ₱516,794,701 represents NEA and DBP 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".

12 MISCELLANEOUS CONTRIBUTED CAPITAL

This account consists of:

		2023	2022
Consumer's contribution for expansion	P	**4,393,307,989** P	4,015,010,959
Contribution in aid of construction		**13,136,770**	13,136,770
	P	**4,406,444,759** P	4,028,147,728

On December 29, 2003, the Cooperative's application for unbundling of rates was approved by the 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 ₱0.3216/kwh reinvestment costing the basic rate. At December 31, 2023 and 2022, the balance of restricted fund amounted to P131,553,905 and ₱164,032,116 respectively (Note 9).

13 ACCUMULATED LOSS

The changes in the accumulated loss account follow:

		2023	2022
Accumulated loss, beginning	P	**(403,605,636)** P	(424,147,121)
Correction of prior years, net		**(0)**	0
Corrected balance, beginning		**(403,605,636)**	(424,147,121)
Net income for the year		**131,160,235**	20,541,485
Accumulated loss, ending	P	**(272,445,400)** P	(403,605,636)

14 LONG-TERM DEBT

This account consists of balances of loans, as follows:

		2023	2022
Reloan R (Capex Loan)	P	**70,571,990** P	79,405,078
Reloan P (PL Loan)		**14,940,270**	20,045,596
Reloan O (PL Loan)		**7,851,168**	10,534,024
Reloan K (Meter Clustering Loan)		**0**	3,623,046
Reloan M (Meter Clustering Loan)		**626,433**	2,997,320
Computerization		**2,924,832**	2,924,832
Calamity loan		**738,441**	1,017,494
		97,653,134	120,547,389
Less: Current portion		**19,000,986**	21,958,061
Advance loan amortization		**16,464,807**	16,464,781
Net Balance	P	**62,187,340** P	82,124,547

The NEA loans bear interest of 3-12% per annum, payable at various intervals of quarterly payments for an average period of 5 to 15 years, and secured by a pledge on a portion of the utility plant of the electric cooperative (Note 11).

In accordance with Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001", all outstanding financial obligations of the Cooperative to NEA and other government agencies as of June 26, 2001, incurred for the purpose of financing Rural Electrification Program, were assumed by PSALM under certain terms and conditions, This amounted to ₱516,794,701, recognized by the cooperative as donated capital, in accordance with said law (Note 11).

15 CONSUMERS' DEPOSIT

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

		2023		2022
Bill deposit	P	**352,899,230**	P	289,878,160
Special lighting		**28,341,660**		25,242,454
Power bill		**11,198,831**		7,127,273
Energy		**791,146**		791,146
Transformer		**148,027**		148,027
Housewiring		**1,737**		1,737
	P	**393,380,632**	P	323,188,798

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 9).

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. 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.

16 POWER SUPPLY ACCOUNT PAYABLE

This account consists of:

		2023		2022
GMCP	P	**296,947,245**	P	546,419,495
NGCP		**85,497,233**		103,013,001
PEMC/IEMOP		**238,280,779**		223,970,247
NPC - Spug		**1,963,577**		1,430,102
BACMAN		**0**		14,335,920
APRI		**0**		2,765,785
	P	**622,688,835**	P	891,934,549

17 TRADE PAYABLES AND ACCRUED EXPENSES

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

		2023		2022
Accounts payable				
Suppliers	P	**162,954,578**	P	157,949,355
Output tax		**47,517,220**		25,229,194
Expanded withholding tax		**11,651,715**		19,571,916
Over recoveries		**468,577,008**		397,491,959
Others		**111,828,219**		27,392,098
		802,528,739		627,634,523
Accrued liabilities				
Universal Charge		**125,300,510**		95,886,253
Feed In Tariff Allowance (FIT-ALL)		**10,415,442**		13,781,776
Accrued payroll		**16,417,257**		15,699,621
BEMCO		**2,723,747**		5,567,045
SSS and Medicare contribution		**2,989,204**		2,431,446
Pag-ibig		**524,956**		571,876
Insurance		**10,519**		10,519
Others		**9,889,720**		16,601,352
		168,271,354		150,549,887
Total	P	**970,800,094**	P	778,184,410

18 OTHER NON-CURRENT LIABILITIES

This account consists of:

		2023	2022
Performance bond	P	**30,131,400** P	22,214,611
Bond/Bid bond		**13,588,476**	12,865,856
Retention fee		**1,094,535**	1,094,535
		44,814,411	36,175,002
Deferred revenues - Private Construction		**197,484,428**	171,395,229
Consumer energy prepayments		**18,662,220**	19,675,548
Consumer advances for construction		**24,282,639**	24,587,169
Other deferred credits		**8,651,866**	8,537,106
		249,081,152	224,195,052
Distribution & other charges		**35,089,575**	34,712,955
Total	P	**328,985,139** P	295,083,009

19 RETIREMENT BENEFIT PLAN

As per Policy no. 03-003, the Cooperative recognizes the retirement benefits to qualified employees required under R.A. 7641. Said policy was approved by the management on its Board Resolution no. 087-2003 dated September 20, 2003.

Under PAS 19, Retirement Benefit Costs pertains 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. Both methods require an actuarial valuation which the Cooperative has undertaken.

An Actuarial Valuation Report dated January 31, 2024 was rendered by independent actuaries to determine the retirement expense and liability to be recognized in the financial statements for the period ending December 31, 2023 with estimated expense for the year 2024.

As of December 31, 2023 and 2022, the Cooperative has already recognized the amounts of ₱550,328,068 and ₱563,964,358 as estimated obligation for retirement benefits, respectively. The balance of the restricted fund maintained with depository bank for the purpose amounted to ₱531,925,143 and ₱368,447,883 net Accounts Receivable-Retirement Loan in the amount of ₱33,319,367 and ₱33,244,373 respectively, as of said dates.

20 PSALM, UNIVERSAL CHARGES

In consideration for such assumption of NEA condoned loans, PSALM charges the Cooperative certain fees referred to as universal charge. The rates of universal charges billed follow:

	Rate
NPC Stranded Debts	0.0428/kwh
Missionary electrification	
Effective January to July 2014	0.1163/kwh
Effective August 2014	0.1544/kwh
Effective September 2022	0.1783/kwh
Cash Incentive for Renewable Energy Developers (RED)	0.0017/kwh

Details of universal charges follow:

	2023
Billings	305,392,679
Collections	286,785,834
Remittances	275,838,269

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

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

At December 31, 2023 and 2022 accrued fees to PSALM amounted to ₱125,300,510 and ₱95,886,253 respectively (Note 17).

21 REVENUES

This account represents revenue generated from sales of energy, as follows:

		2023		2022
Pass-thru revenue				
Generation	P	**7,044,831,764**	P	7,955,997,018
Transmission		**819,418,288**		1,033,613,477
System loss		**928,316,041**		1,050,286,106
Lifeline discount		**(451,016)**		28,373
Senior citizen discount		**(594,819)**		(1,581,994)
		8,791,520,258		10,038,342,981
Coop revenue				
Distribution		**383,981,299**		363,614,537
Supply		**217,074,437**		208,851,074
Metering		**207,779,741**		199,800,769
		808,835,476		772,266,380
Total	P	**9,600,355,735**	P	10,810,609,361

22 OTHER INCOME (CHARGES)

This account consists of:

		2023		2022
Other electric revenue	P	**54,683,189**	P	45,985,352
Non-operating income				
Sale of meters		**8,908,277**		9,669,321
Rent from electric property		**31,632,300**		32,816,515
Interest and dividend income		**24,264,643**		26,497,084
Income from government grant		**3,533,076**		2,973,899
Miscellaneous non-operating income		**7,652,808**		13,481,332
		130,674,293		131,423,503
Non-operating expense				
Cost of meters		**473,465**		571,037
Civic, social and other related activities Expenses		**1,233,312**		6,831,474
Cost for private construction		**1,255,188**		1,826,207
		2,961,966		9,228,718
Total	P	**127,712,328**	P	122,194,784

23 COST OF ENERGY SOLD

This account consists of:

		2023		2022
Power purchased	P	**8,623,659,775**	P	10,026,218,605
Total	P	**8,623,659,775**	P	10,026,218,605

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.

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

Kilowatt-hour sold and purchased follow:

	2023	2022
Kilowatt-hour sold	**1,176,810,639**	1,122,572,646
Kilowatt-hour purchased	**1,288,604,962**	1,229,579,988
Kilowatt-hour generated	**3,235,726**	2,942,906

24 OPERATING EXPENSES

This account consists of:

Accounts		2023	2022
General and administrative			
Employees pensions and benefits (Note 19)	P	**54,186,446** P	57,030,175
Outside services employed		**44,005,957**	37,169,988
Administrative & general salaries		**62,823,300**	38,810,708
Taxes		**4,125,059**	3,736,204
Office supplies and expenses		**18,562,682**	22,053,988
Officers allowance and benefits		**12,788,609**	10,128,440
Maintenance		**5,989,680**	6,659,226
Travel		**3,858,974**	1,007,440
Injuries and damages		**2,044,840**	434,585
Franchise requirements & regulatory		**1,458,060**	978,470
Training		**4,014,497**	1,759,678
Rents		**405,274**	738,164
Association and membership dues		**417,694**	359,071
Property insurance		**60,621**	60,621
Miscellaneous		**9,443,957**	8,441,500
Social and Community Service		**-**	797,000
		224,185,648	190,165,256
Depreciation (Note 7)		**33,698,000**	30,566,814
	P	**257,883,649** P	220,732,070

25 CONSUMER ACCOUNTS EXPENSES

This account consists of:

	2023	2022
Records and collection	**76,423,227**	71,839,220
Info & instructional adv.	**46,144,983**	42,394,929
Meter reading	**53,596,428**	47,047,378
Supervision	**27,677,711**	24,985,430
Consumer prompt payment	**0**	0
Uncollectible accounts	**0**	0
	203,842,349	186,266,958

26 DISTRIBUTION EXPENSES

This account consists of:

	2023	2022
Overhead lines	**272,626,153**	238,207,048
Meters	**43,877,383**	40,029,745
Station	**43,241,596**	43,587,090
Supervision and engineering	**26,058,904**	24,821,787
Consumer installation	**5,256,877**	5,569,385
Line transformer	**2,202,237**	2,678,888
Load dispatching	**3,649,838**	3,767,192
Miscellaneous	**11,930,566**	12,018,540
	408,843,554	370,679,674
Depreciation (Note 7)	**93,643,768**	97,490,522
Total	**502,487,321**	468,170,196

27 FINANCE COST

This represents interests and surcharges on NEA loans (Note 15), as follows:

	2023	2022
Interest on LTD & STD		
ILTD -RE Loan R (CAPEX Loan)	**6,091,784**	6,764,465
Re Loan P (PL Loan)	**1,634,994**	2,069,746
Re Loan O (PL Loan)	**859,192**	1,087,655
Loan K	**206,064**	514,593
Loan M	**191,225**	393,123
ILTD - Calamity Loan	**29,691**	38,579
Other interest charges	**21,783**	6,671
Total	**9,034,733**	10,874,832

28 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 influence 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.

		2023		2022
Short term employees' benefits				
Key management personnel	P	**25,471,931**	P	22,581,762
Directors		**11,817,342**		5,956,500
	P	**37,289,273**	P	28,538,262

29 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, 2023 and 2022, due to their relatively short-term maturities, as follows:

	December 31, 2023		December 31, 2022	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets:				
Receivables	1,819,700,681	1,819,700,681	2,233,397,312	2,233,397,312
Cash and cash equivalents	1,221,867,454	1,221,867,454	1,015,729,976	1,015,729,976
	3,041,568,135	3,041,568,135	3,249,127,288	3,249,127,288

	December 31, 2023		December 31, 2022	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities:				
Loan and borrowings				
Interest bearing debts	81,188,326	81,188,326	104,082,608	104,082,608
Trade and accrued expenses	970,800,094	970,800,094	778,184,410	778,184,410
Power supply payable	622,688,835	622,688,835	891,934,549	891,934,549
	1,674,677,255	1,674,677,255	1,774,201,568	1,774,201,568

30 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. A Statement of Account which serves as Notice of Disconnection is given to the consumers based on the schedule of the Cooperative.

Exposure to Credit Risk

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

	2023	2022
Cash in banks and cash equivalents	**1,221,867,454**	1,015,729,976
Consumer and other receivables	**1,819,700,681**	2,233,397,312
	3,041,568,135	3,249,127,288

Impairment Losses on Credit

At December 31, 2023 and 2022, an allowance for probable loss has been provided amounting to P29,011,468 representing 2.98% and 2.03% 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.

Movements in allowance for probable losses follow:

	2023	2022
Balance at beginning of year		
Receivables	**29,011,468**	29,011,468
Other assets		-
	29,011,468	29,011,468
Movement during the year		
Receivables	**0**	**0**
Other receivables		-
	0	0
Balance at end of year		
Receivables	**29,011,468**	29,011,468
Other assets	-	-
Total	**29,011,468**	29,011,468

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, 2023 and 2022, based on contractual repayment arrangements, is tabulated below:

			December 31, 2023		
	Up to 1 Month	**2-3 to 5 Months**	**6 to 12 Months**	**Over 1 year**	**Total**
Financial Assets					
Cash and cash equivalents	1,221,867,454				1,221,867,454
Receivables	1,819,700,681				1,819,700,681
	3,041,568,135	-	-	-	**3,041,568,135**
Financial Liabilities					
Interest bearing debts	1,847,813	7,469,472	12,640,776	98,589,328	120,547,389
Trade and accrued expenses	970,800,094				970,800,094
Power supply payable	622,688,835				622,688,835
	1,595,336,741	**7,469,472**	**12,640,776**	**98,589,328**	**1,714,036,318**
Net Liquidity (Gap)	**1,446,231,393**	**(7,469,472)**	**(12,640,776)**	**(98,589,328)**	**1,327,531,817**

			December 31, 2022		
	Up to 1 Month	**2-3 to 5 Months**	**6 to 12 Months**	**Over 1 year**	**Total**
Financial Assets					
Cash and cash equivalents	1,015,729,976				1,015,729,976
Receivables	2,233,397,312				2,233,397,312
	3,249,127,288	-	-	-	3,249,127,288

Financial Liabilities					
Interest bearing debts	1,847,813	7,469,472	12,640,776	98,589,328	120,547,389
Trade and accrued expenses	792,520,330				792,520,330
Power supply payable	877,598,629				877,598,629
	1,671,966,772	7,469,472	12,640,776	98,589,328	1,790,666,349
Net Liquidity (Gap)	1,577,160,516	(7,469,472)	(12,640,776)	(98,589,328)	1,458,460,939

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.

31 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 its business operations and industry.

In managing its capital structure (total equity), the Cooperative makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, it may adjust or delay the dividend payment to shareholders, and appropriate a percentage of retained earnings towards expansion and capital expenditures.

Its 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.

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

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

	2023	2022
Debt	**2,947,371,094**	2,956,437,733
Cash	**1,221,867,454**	1,015,729,976
Net debt	**1,725,503,640**	1,940,707,757
Equity	**5,449,612,234**	4,978,940,391
Net debt to equity(capital deficiency) ratio	**0.32**	0.39

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 (Note 13).

32 SUPPLEMENTARY INFORMATION REQUIRED UNDER BIR REVENUE REGULATION 15-2010

In compliance with the Revenue Regulations No. 15-2010 which became effective on December 28, 2010 and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. In Section 2 of RR No. 21-2002, it was further amended to include in the notes to financial statements information on taxes, duties and license paid or accrued during the year in addition to what is mandated by Philippine Financial Reporting Standards.

Below is the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not required part of the basic financial statements.

I. Output VAT

Output VAT declared for the year ended December 31, 2023 consists of:

	Gross Revenues	Output VAT
Subject to 12% VAT		
Vatable Receipt - Private	775,410,367	93,049,244
Vatable Receipt - Government	624,062,583	74,887,510
Total	**1,399,472,950**	**167,936,754**

II. Input VAT

Input VAT movements for the year ended December 31, 2023 as follows:

Add: Domestic purchases/payments for:

III. Withholding Taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2023 consists of:

	Paid	Accrued	**Total**
Withholding tax on compensation - employees	30,911,404	18,145,059	**49,056,463**
Withholding tax- expanded	149,784,752	9,852,019	**159,636,770**
	180,696,156	27,997,078	**208,693,234**