

PEOPLE'S TELEVISION NETWORK, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

People's Television Network, Incorporated (PTNI), located at the Broadcast Complex, Visayas Avenue, Diliman, Quezon City, is a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 7306 dated March 26, 1992.

On March 14, 2013, Republic Act No. 10390 entitled "An Act Revitalizing the People's Television Network, Incorporated" was approved by the President amending RA No. 7306.

The new charter increases the authorized capital stock of the Network to P6 billion. Of the additional authorized capital of P5 billion, P2 billion shall be taken from the proceeds of the privatization of Radio Philippines Network (RPN 9) and Intercontinental Broadcasting Corporation (IBC 13). The remaining P3 billion shall be appropriated under the General Appropriations Act.

PTNI provides broadcast support to the government through a balanced programming of high quality news, public affairs, entertainment, educational, cultural and sports and by responding to information needs utilizing its modern broadcast technology. Its mission is to deliver news and information that leads to a responsible and enlightened Filipino. As provided in its charter, PTNI has the following functions:

- a. To serve primarily as a vehicle for the State for purposes of education, science and technology, arts, culture, and sports in order to foster national pride and identity;
- b. To serve as a vehicle for bringing the Government closer to the people in order to enhance their awareness of the programs, policies, thrusts, and directions of the Government;
- c. To ensure that the programs broadcast by the Network maintain a high general standard in all respects, and in particular, in respect to their content and quality and proper balance of educational, news, public affairs, entertainment, and sports programs;
- d. To serve as an effective outlet for alternative programming;
- e. To provide subsidized air time to legitimate people's organizations and Non-Government Organizations (NGOs) in the promotion of their programs and projects;
- f. To serve as an effective medium for national unity and political stability by reaching as much of the Filipino population as possible through the effective use of modern broadcasting technology; and

- g. To ensure that nothing is included in the programs broadcast by the Network which shall:
- 1) offend public morals, good taste, or decency;
 - 2) offend any racial group or promote ill-will between different races or different groups, prescribing such programs as would promote strictly partisan policies and propaganda;
 - 3) offend the followers of any religious faith, sect, or order; or
 - 4) outrage public feeling in general.

The Network is governed by a Board of Directors whose members are appointed by the President of the Philippines.

PTNI operates under the control and supervision of the Presidential Communications Operations Office (PCOO) in accordance with Section 4 of Executive Order No. 4 dated July 30, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Accounting

The New Government Accounting System (NGAS) was adopted by the Network effective September 2005. Reclassification of several accounts and the use of account codes were made to conform with the New Chart of Accounts created by the Commission on Audit.

Prior to the implementation of the NGAS, the Network was using Commercial Accounting System.

2.2 Conformity with Bureau of Internal Revenue Regulations (BIR)

Being a withholding agent, the Network conforms to the changing tax regulations of the government. It deducts the following taxes per Revenue Regulation No. 14-2003:

- ◆ 3 per cent final tax on Non VAT purchases or 5 per cent final VAT on VAT purchases
- ◆ 2 per cent expanded withholding tax for all purchases
- ◆ 10 – 15 per cent on professional services
- ◆ 5 per cent for rentals

2.3 Compliance with Department of Budget and Management (DBM) Requirements

As a government-owned corporation with its original charter, the Network submits its annual budget proposal to the DBM. Having been provided with its seed capital in 1993, the Network makes yearly request with the DBM to facilitate partial releases of its capitalization. At present, its capitalization of

One Billion Pesos (P1,000,000,000) has been paid in full by the Philippine government.

The Network does not receive regular subsidy for its operations but from time to time requests budgetary support from the national government to augment its resources.

In accordance with the revitalization program approved by the President on September 5, 2012, funding for the operating requirements of PTNI starting July 2012 was coursed through the PCOO through a Memorandum of Agreement between PTNI and PCOO dated October 25, 2012.

2.4 Revenue and Receivable Accounts

Sales Revenue and the related Trade Receivable accounts are derived from Programs and Commercial Spots aired and billed to the clients. Recognition of these accounts are based on the Sales Invoices, supported with Certificates of Performance.

Sales Revenue is taken up net of the 15 per cent agency commission for Agency Accounts. The Receivables are recorded inclusive of the 12 percent output tax to be remitted to the BIR upon collection of the receivable account.

2.5 Property, Plant and Equipment

These are recorded at acquisition cost less accumulated depreciation. The straight line method of computation for depreciation is being used. The residual value and useful life of the property is based on the guidelines on the computation of depreciation expense for property, plant and equipment pursuant to COA issuances on the subject.

2.6 In House Programs

Production of programs is stated at cost which includes supplies and materials, talent fees and other overhead expenses. These production expenses are reflected under Other Maintenance and Operating Expenses.

2.7 Allowance for Doubtful Accounts

A Board Resolution was approved in 2008 adjusting the allowance for doubtful accounts from its previous rate of 10 per cent of the total receivables to a pro-rated percentage based on the age of the receivables per year. The allowance was adjusted accordingly to present a more realistic net realizable value of the trade receivables account. The new rates of allowance for doubtful accounts adopted by the Network are as follows:

Age of receivables	1 to 3 years	4 years	5 to 6 years	7 to 10 years	10 years and more
Rate of allowance	10 per cent	20 per cent	25 per cent	50 per cent	98 per cent

3. CASH AND CASH EQUIVALENTS

This account consists of:

	2015	2014
Cash on Hand	1,276,965	1,943,979
Cash in Bank	152,291,523	208,042,607
Total Cash and Cash Equivalents	153,568,488	209,986,586

The Network maintains its general fund account including the payroll account with the Land Bank of the Philippines, Quezon City Circle Extension Branch.

A Philippine National Bank (PNB) Dollar-Savings Account is also being maintained to accommodate foreign currency payments by some clients.

4. TRADE AND OTHER RECEIVABLES – NET

This account consists of the following:

	2015	2014
<u>Current</u>		
Trade Accounts Receivable	18,553,439	14,546,641
Due from Officers and Employees	43,882,062	16,297,684
Other Receivables	606,902	3,580
Total	63,042,403	30,847,905
Allowance for Doubtful Accounts	1,855,344	1,454,664
Current Receivables - Net	61,187,059	29,393,241
	2015	2014
<u>Non-Current</u>		
Trade Accounts Receivable	593,238,564	548,657,993
Receivables – Disallowances and Charges	68,525,701	68,525,701
Other Receivables	56,013,583	56,616,905
Total	717,777,848	673,800,599
Allowance for Doubtful Accounts	444,104,538	430,153,198
Non-current Receivables - Net	273,673,310	243,647,401

4.1 Trade Accounts Receivable includes:

- Ex-deal accounts otherwise known as barter transactions refer to the direct exchange of goods or services with media and advertising agencies without the use of money in exchange for available “open” airtime;
- The 12 per cent output tax due from clients

4.2 Due from Officers and Employees consists of:

- Cash advances to officers and employees;
- Network loans to officers and employees; and
- Advances to officers and employees – GSIS loans of employees paid by the Network through an exchange deal arrangement with the GSIS

4.3 Receivables – Disallowances/Charges refer to the contingent receivables for COA disallowances of various disbursements.

4.4 Non-current Other Receivables include:

	2015	2014
Accounts Receivable – Co-Production	36,068,672	36,068,672
Accounts Receivable – Others	12,876,672	13,479,994
Advances to PBA	5,369,206	5,369,206
Advances to SEA Games Gen Fund– Infra	522,999	522,999
Advances to SEA Games	359,546	359,546
Accounts Receivable – NVMM	231,656	231,656
Accounts Receivable – Visayan Electric	177,800	177,800
Accounts Receivable – Thomson Broadcast	174,619	174,619
Accounts Receivable-Procurement Serv.-DBM	120,456	120,456
Accounts Receivable – Non-Trade	111,957	111,957
	56,013,583	56,616,905

5. OTHER CURRENT ASSETS

This account is composed of the following:

	2015	2014
Other Supplies Inventory	2,829,352	2,829,352
Prepaid Rent	515,027	13,200
Advances to Contractors	44,455,557	14,622,343
Guaranty Deposits	14,976	14,976
Other Current Assets	154,097,038	92,123,742
	201,911,950	109,603,613

Other Current Assets account includes input taxes and deposits with Meralco for application for new electric services; service rental of transmitter and two parking units at Strata Tower; and rental deposit for the Naga Station.

6. PROPERTY, PLANT AND EQUIPMENT – NET

Included in this account are the following:

	Land, Building and Structure, Construction In Progress	Office / IT Equipment, Furniture and Fixtures	Communication, Other Machinery and Equipment, Tools and Motor Vehicles	Property, Plant and Equipment- Unaccounted	Total
<u>Cost</u>					
Balance, January 1, 2015	388,004,400	57,991,748	944,766,529	161,399,195	1,552,161,872
Additions	389,758,842	3,854,407	54,173,403	-	447,786,652
Adjustment	-	(114,920)	-	-	(114,920)
Balance, December 2015	777,763,242	61,731,235	998,939,932	161,399,195	1,999,833,604
<u>Accumulated Depreciation</u>					
January 1, 2015	114,693,881	69,931,089	708,743,073	18,559,622	911,927,665
Adjustment		11,963			11,963
Depreciation	7,650,185	3,118,540	15,573,219	-	26,341,944
Balance, December 31, 2015	122,344,066	73,061,592	724,316,292	18,559,622	938,281,572
Net Book Value Dec. 31, 2015	655,419,176	(11,330,357)	274,623,640	142,839,573	1,061,552,032
Net Book Value Dec. 31, 2014	273,310,518	(11,939,341)	236,023,456	142,839,573	640,234,206

The Network received various technical equipment amounting to approximately \$4 million from the Ministry of Internal Affairs and Communications of Japan in 2010 as part of the latter's objective to promote Japanese Digital Terrestrial Broadcasting standards in the Philippines.

7. PAYABLES

This account consists of the following:

	2015	2014
Accounts Payable	1,329,880	1,329,880
Vouchers Payable	47,055,084	50,772,913
Sales Commission Payable	15,486,158	15,486,159
Accrued Blocktime Payable	43,789,764	9,852,566
Accrued Expenses	5,888,570	5,657,076
	113,549,456	83,098,594

Accounts Payable refers to obligations to Philippine Multi Media Systems, Inc. for the unpaid portion of the P25 million cash advances used in 2002 Asian Games held in Busan, South Korea.

Vouchers Payable consists of various liabilities duly supported by vouchers and required documents awaiting payments.

Sales Commission Payable refers to commission due to individuals/agencies for sales made from airtime or commercial spots.

Accrued Blocktime Payable pertains to balance of arrearages of GSIS premiums from July 2002 to December 2005 to be paid through airing of Media Value Package for GSIS covered by a new Memorandum of Agreement between GSIS and the Network.

8. INTER-AGENCY PAYABLES

This account represents amounts withheld for remittance to other government agencies as follows:

	2015	2014
Due to BIR	372,713,661	336,389,536
Due to GSIS	5,098,908	46,133,168
Due to PhilHealth	6,252,652	5,855,237
Due to Pag-IBIG	220,111	299,822
Due to Other GOCCs (PAGCOR)	15,000,000	15,000,000
	399,285,332	403,677,763

Due to BIR refers to the Network's accumulated tax arrearages since 2003.

The Network remitted its current liabilities to BIR for Expanded and Final VAT Withheld from Suppliers last October 2014 amounting to P954,706.

The Network has updated its current remittances for GSIS premiums only while loan payments of employees have remained unremitted pending the outcome of the reconciliation of the Network's records with those of the GSIS.

The Network's remittances to Philhealth for the current year are updated. However, the unpaid remittances for the years 2009-2011 have remained unsettled.

The account Due to PAGCOR (Other GOCC) refers to the balance of the P30 million loan which was used for Network operations during the last quarter of CY 2007.

9. OTHER CURRENT LIABILITIES

This account includes the following:

	2015	2014
Trust Fund Others	20,554,382	15,995,636
Advances from Clients	3,358,060	3,352,770
Amounts Withheld from Salaries and Wages	-	1,150,369
Tax Refund Payable	59,965	59,965
Retention Payable	20,311,631	1,486,689
	44,284,038	22,045,429

Trust Fund Others pertains to funds received from various sources to cover the cost of production for TV programs/project utilization.

Amounts withheld from salaries and wages are for remittances to various entities in payment of officers/employees capital shares, medical health card, employees union membership dues and contributions, as well as cooperative loans.

10. NON-CURRENT LIABILITIES

This account consists of the following:

	2015	2014
Deferred Output Tax	50,664,840	50,253,375
Unearned Income	4,775,072	16,751,001
	55,439,912	67,004,376

Deferred Output Tax corresponds to the 12 per cent tax on sales billed as part of the trade receivables. Upon billing, these are recorded as deferred taxes and upon collection of receivables, this account is debited and the proper liability account or the output tax account is then set up.

Unearned income refers to various overpayments of bartered goods/services delivered and from delivered goods or cash payments identified without corresponding billings. It also includes the financial assistance received from PAGCOR which is being paid through media value packages.

11. CAPITAL STOCK

The authorized capital stock of the Network is One Billion Pesos (P1,000,000,000), divided into one million (1,000,000) shares, with par value of One Thousand Pesos (P1,000) per share, subscribed and paid in full by the Government of the Republic of the Philippines on December 31, 2008.

12. INVESTED SURPLUS

The account consists of cost of equipment amounting to P449,760,093 purchased by the National Government through the RP-French Protocol Agreement in 1989.

13. PERSONAL SERVICES

	2015	2014
Salaries and Wages		
Regular	67,089,306	71,691,902
Contractual	5,281,960	5,515,138
	72,371,266	77,207,040
Other Compensation		
Personnel Economic Relief Allowance (PERA)	6,224,333	6,554,091
Year End Bonus	5,916,214	6,468,082
Overtime and Night Pay	3,312,212	1,180,343
Productivity Incentive Allowance	516,000	560,000
Clothing/Uniform Allowance	2,570,000	1,395,000
Cash Gift	1,196,917	1,368,875
Transportation Allowance (TA)	371,500	221,000
Representation Allowance (RA)	371,500	221,000
Subsistence, Laundry and Quarters Allowances	8,220	6,900
Honoraria	315,000	155,000
Other Bonuses and Allowances	12,143,266	11,880,800
	32,945,162	30,011,091
Personnel Benefits Contribution		
Life and Retirement Insurance Contribution	8,806,975	9,240,788
PhilHealth Contributions	1,086,089	1,148,950
Pag-IBIG Contributions	311,050	328,800
ECC contributions	312,600	330,100
	10,516,714	11,048,638
Other Personnel Benefits		
Terminal Leave Benefits	1,462,600	1,441,372
Other Personnel Benefits	41,000	5,272,538
	1,503,600	6,713,910
Total Personal Services	117,336,742	124,980,679

14. MAINTENANCE AND OTHER OPERATING EXPENSES

	2015	2014
Professional Services	55,618,447	64,918,163
Depreciation Expense	26,341,944	35,942,153
Utility Expenses	18,486,820	24,164,594
Bad Debts Expense	14,352,019	8,161,963
Communication Expenses	10,371,284	6,774,073
Supplies and Materials	5,757,778	7,754,658
Traveling Expenses	2,039,142	3,680,614
Rent Expenses	1,496,104	1,648,513
Repairs and Maintenance	1,287,903	1,318,845
Advertising Expenses	737,544	2,102,859
Taxes, Ins. Premiums & Other Fees	616,062	535,694
Subscription Expenses	475,385	359,489
Transportation and Delivery Expenses	199,724	126,801
Training and Scholarship Expenses	197,614	955,942
Printing and Binding Expenses	45,571	40,066
Membership Dues	17,805	705
Representation Expenses	-	1,065,174
Other MOOE	6,510,086	5,052,196
Total MOOE	144,551,232	164,602,502

15. OTHER INCOME

	2015	2014
Foreign Exchange Gain (Loss)	(70,194)	(20,745)
Other Income	3,549,403	6,243,983
	3,479,209	6,223,238

16. SUBSIDY FROM NATIONAL GOVERNMENT

This account pertains to funds received as a budgetary support from the National Government for the following purposes:

	2015	2014
PTNI revitalization program	100,000,000	75,844,830
Personal Services, MOOE and Capital Outlay	483,682,886	390,794,325
	583,682,886	466,639,155