

PEOPLE'S TELEVISION NETWORK, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

(All amounts in Philippine Pesos unless otherwise stated)

1. GENERAL INFORMATION

People's Television Network, Incorporated (PTNI), located at the Media Complex, Visayas Avenue, Diliman, Quezon City, is a government-owned and controlled corporation with thirteen (13) provincial stations engaged in television broadcasting in the Philippines. It came into existence by virtue of Republic Act No. 7306 dated March 26, 1992. 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 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. On June 29, 2001, the Board of Directors approved the adoption of the National Broadcasting Network (NBN) as the new station identification (ID) of PTNI.

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 BIR Regulations

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

2.3 Compliance with 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.

2.4 Revenue and Receivable Accounts

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

Sales Revenue is taken up net of the 15 percent 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 adjusting the allowance for doubtful accounts from its previous rate of 10 percent of the total receivables to a pro-rated percentage based on the age of the receivables per year was approved by the Board during the 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%	20%	25%	50%	98%

3. CASH AND CASH EQUIVALENTS

This account consists of:

	2011	2010 (As restated)
Cash on hand	533,082	985,782
Cash in bank	6,337,501	8,533,455
	6,870,583	9,519,237
Cash equivalents	-	-
Total Cash and cash equivalents	6,870,583	9,519,237

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

A 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:

	2011	2010 (As restated)
Trade accounts receivable	555,175,658	567,000,100
Due from officers and employees	15,119,273	14,819,776
Receivables - disallowances and charges	68,579,685	68,579,685
Other receivables	56,044,443	56,044,443
Total	694,919,059	706,444,004
Allowance for doubtful accounts	365,404,318	370,026,711
Receivables - net	329,514,741	336,417,293

4.1 In conformity with PAS No. 8, Trade Accounts Receivable and Due from Officers and Employees for CY 2010 were restated as follows:

Unrestated Trade accounts receivable amount as of December 31, 2010	606,409,514
Unrecorded receivables	59,018
Adjustment of barter receivables	(35,907,753)
Cancellation of prior year receivables	(3,560,679)
Restated amount as of December 31, 2010	567,000,100

Unrestated Due from officers and employees amount as of December 31, 2010	17,107,343
Liquidation of prior years due from officers and employees	(2,287,567)
Restated amount as of December 31, 2010	14,819,776

4.2 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 for the “open” airtime available;
- Dormant accounts outstanding (1986 – 2000) totaling P284 million; and
- The 12 percent output tax due from clients

4.3 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

4.4 Receivables – Disallowances/Charges refer to the contingent receivables for COA disallowances of various disbursements for the period 1992-1999.

4.5 Other Receivables include:

	2011	2010
Accounts receivable - Co-production	36,068,672	36,068,672
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 - Non-trade	111,957	111,957
Accounts receivable - Procurement Services, DBM	30,600	30,600
Accounts receivable - Others	12,997,388	12,997,388
Advances to PBA	5,369,206	5,369,206
Advances to SEA games general fund - infra	522,999	522,999
Advances to SEA games	359,546	359,546
	56,044,443	56,044,443

5. OTHER CURRENT ASSETS

This account is composed of the following:

	2011	2010 (As restated)
Input tax	58,504,960	55,788,562
Creditable withholding tax	15,679,221	12,255,514
Advances to contractors	6,935,685	6,935,685
Other deposits	1,228,020	1,271,840
Other supplies inventory	136,356	66,200
Guaranty deposits	14,976	14,976
	82,499,218	76,332,777

Input Tax refers to the 12 percent VAT on purchases which are creditable against the Network's output taxes on trade receivables.

Other Deposits include the following:

	2011	2010
Deposits with Meralco for PTNI's application for new electric services	1,097,820	1,097,820
Two months service rental of transmitter and equipment room, two parking units, Genset area and portion of tower at Strata	117,000	117,000
Prepaid rent for Naga station at new site in PNB, Naga City	13,200	13,200

	2011	2010
Bill and meter deposit with Meralco and installation of power supply at Strata	-	43,820
	1,228,020	1,271,840

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, 2011	239,312,514	52,918,431	809,270,388	161,399,195	1,262,900,528
Additions	-	373,947	50,946	-	424,893
Adjustment	(397,052)	-	-	-	(397,052)
Balance, December 31, 2011	238,915,462	53,292,378	809,321,334	161,399,195	1,262,928,369
<u>Accumulated Depreciation</u>					
January 1, 2011, as restated	86,801,967	51,060,083	497,594,759	18,559,622	654,016,431
Depreciation	6,865,625	6,083,871	22,122,142	-	35,071,638
Balance, December 31, 2011	93,667,592	57,143,954	519,716,901	18,559,622	689,088,069
Net Book Value Dec. 31, 2011	145,247,870	(3,851,576)	289,604,433	142,839,573	573,840,300
Net Book Value Dec. 31, 2010	152,510,547	1,858,348	311,675,629	142,839,573	608,884,097

Various technical equipment approximately amounting to \$4 million were received at no cost 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 standard in the Philippines. These remained unrecorded pending completion of required documents.

7. PAYABLES

This account consists of the following:

	2011	2010 (As restated)
Accounts payable	1,329,880	6,767,380
Vouchers payable	73,489,666	44,183,015
Sales commission payable	15,486,159	15,486,159
Accrued block time payable	35,967,722	43,215,723

	2011	2010 (As restated)
Accrued expenses	5,755,005	4,823,836
	132,028,432	114,476,113

In conformity with PAS No. 8, Vouchers Payable was restated as follows:

Unrestated vouchers payable amount, December 31, 2010	45,440,576
Prior year's charges	1,956,837
Adjustment of prior year's obligation	<u>(3,214,398)</u>
Restated amount, December 31, 2009	<u>44,183,015</u>

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 already duly supported by vouchers and required documents awaiting payments.

Sales Commission Payable refers to commission due to individuals/agencies who made sales, 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.

	2011	2010
Due to BIR	241,920,292	220,151,552
Due to PhilHealth	45,674,241	1,191,123
Due to Pag-IBIG	5,278,331	1,248,780
Due to GSIS	342,574	11,773,360
Due to PAGCOR (other GOCCs)	15,000,000	15,000,000
	308,215,438	249,364,815

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

In April 2009, the Network started its reconciliation meetings with BIR official for the settlement of its 2003 accounts. The Network's proposal for a staggered payment scheme and the writing off of penalties, surcharges, interests and other increments

on its tax liabilities was approved in July 2009. Such approval was formalized by a letter from Regional Director Antonio F. Montemayor.

The payment schedule for the total 2003 tax obligations of P58,853,080 is for a period of one year starting July 31, 2009 at P4,904,423.33 per month. The first installment payment was made last October 2009 and no other payment was made thereafter.

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.

The Network was unable to fully settle its obligations to Philhealth for its arrearages up to 2009 based on the Agreement executed in 2010. In view of this, Philhealth was willing to amend the previous Agreement. However, nothing materialized since there were no available funds yet for a new payment scheme.

The Network will negotiate for another Memorandum of Agreement with the GSIS for the settlement of its arrearages since 2010 which aims to settle the premiums due to update the records of the Network's employees with the GSIS.

This year, the Network has settled and updated its obligations with Pag-IBIG.

9. OTHER CURRENT LIABILITIES

This account includes the following:

	2011	2010 (As restated)
Trust fund others	16,690,636	16,296,373
Advances from clients	3,352,770	3,352,770
Amounts withheld from salaries and wages	946,167	926,741
Tax refund payable	59,965	59,965
Retention payable	(681,131)	(681,131)
	20,368,407	19,954,718

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:

	2011	2010
Deferred output tax	48,004,920	49,111,886
Unearned income	51,873,326	66,374,763
	99,878,246	115,486,649

Deferred Output Tax corresponds to the 12 percent 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.

The unearned income refers to various overpayments of cost of bartered goods/services delivered and from delivered goods or cash payments identified without corresponding billings.

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 P394,918,382 purchased by the National Government through the RP-French Protocol Agreement in 1989.

13. RETAINED EARNINGS

Retained Earnings for CY 2010 was restated to conform with Philippine Accounting Standard No. 8 as follows:

Unrestated beginning balance	(667,994,485)
Adjustments for CY 2009 and prior years:	
Adjustment of barter agreement with GSIS	(35,907,752)
Liquidation of prior years cash advances	(225,586)
Beginning balance as restated	<u>(704,127,823)</u>
Unrestated net loss	(139,409,509)
Adjustments for CY 2010:	
Adjustment of rent expenses	1,676,129
Adjustment of utilities expenses	1,504,353
Adjustment of other income	278,625

Adjustment of repairs and maintenance exp.	7,279
Adjustment of depreciation expenses	(9,521,453)
Unrecorded personal services	(6,344,856)
Unrecorded travelling expenses	(2,061,982)
Unrecorded professional services	(1,956,837)
Adjustment of prior year's sales revenue	(1,804,964)
Adjustment of other MOOE	(1,214,360)
Unrecorded communications exp.	(39,534)
Unrecorded subscription expenses	(32,341)
Net loss as restated	<u>(158,919,450)</u>
Ending balance as restated	<u>(863,047,273)</u>

14. PERSONAL SERVICES

	2011	2010 (As restated)
Salaries and Wages		
Regular	85,531,915	89,629,638
Contractual	6,593,622	6,942,686
	<u>92,125,537</u>	<u>96,572,324</u>
Other Compensation		
Personnel Economic Relief Allowance (PERA)	7,783,636	4,060,869
Year End Bonus	7,689,651	8,030,145
Overtime and Night Pay	2,011,011	3,155,916
Cash Gift	1,633,125	1,704,125
Clothing/Uniform Allowance	1,312,000	1,376,000
Representation Allowance (RA)	359,000	495,375
Transportation Allowance (TA)	359,000	485,000
Honoraria	75,000	20,000
Subsistence, Laundry and Quarters Allowances	8,250	6,465
Additional Compensation (ADCOM)	-	4,060,869
Productivity Incentive Allowance	-	696,000
Other Bonuses and Allowances	16,658,254	11,460,514
	<u>37,888,927</u>	<u>35,551,278</u>
Personnel Benefits contribution		
Life and Retirement Insurance Contribution	10,957,655	11,617,542
PhilHealth Contributions	1,118,830	1,168,876
ECC contributions	389,381	406,600
Pag-IBIG Contributions	388,250	405,800
	<u>12,854,116</u>	<u>13,598,818</u>
Other Personnel Benefits		
Terminal Leave Benefits	1,650,464	1,001,240
Other Personnel Benefits	3,235,914	13,940,470

	2011	2010 (As restated)
	4,886,378	14,941,710
Total Personal Services	147,754,958	160,664,130

15. MAINTENANCE AND OTHER OPERATING EXPENSES

	2011	2010 (As restated)
Depreciation expense	35,071,638	35,992,042
Professional services	33,343,228	12,304,201
Utility expenses	19,900,528	27,108,645
Communication expenses	10,322,853	4,521,932
Supplies and materials	3,766,905	5,060,493
Traveling expenses	1,753,331	6,286,814
Repairs and maintenance	1,160,233	466,894
Taxes, insurance, premiums & other fees	549,649	1,109,407
Representation expenses	508,498	117,214
Rent expenses	180,000	7,702,504
Miscellaneous expenses	129,684	1,059,554
Subscription expenses	126,681	146,562
Transportation and delivery expenses	59,242	1,324,059
Training and scholarship expenses	14,940	44,120
Printing and binding expenses	63	148,025
Bad debts expense	(4,622,393)	(8,349,508)
Membership, dues and contributions	-	976,456
Advertising expenses	-	98,120
Other MOOE	1,557,858	51,904,571
Total MOOE	103,822,938	148,022,105

16. OTHER INCOME

	2011	2010 (As restated)
Foreign exchange gain (loss)	648	-
Interest income	370	110,237
Other income	2,430,113	937,367
	2,431,131	1,047,604

17. SUBSIDY FROM NATIONAL GOVERNMENT

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

	2011	2010
Subsidy for maintenance and other operating expenses	41,612,648	-
Subsidy for payment of half of the 13 th month and cash gift of PTNI employees for 2010	-	4,038,703
	41,612,648	4,038,703