

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 Broadcast Complex, Visayas Avenue, Diliman, Quezon City, is a government-owned and controlled corporation created 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.

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. EVENTS AFTER BALANCE SHEET DATE

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 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.

3.2 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

3.3 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.

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.

3.4 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.

3.5 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.

3.6 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.

3.7 Allowance for Doubtful Accounts

A Board Resolution was approved in 2008 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. 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%

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2012	2011 (As restated)
Cash on Hand	668,856	533,082
Cash in Bank	70,709,485	21,589,274
Total Cash and Cash Equivalents	71,378,341	22,122,356

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.

5. TRADE AND OTHER RECEIVABLES – NET

This account consists of the following:

	2012	2011 (As restated)
<u>Current</u>		
Trade Accounts Receivable	24,486,051	5,057,007
Due from Officers and Employees	14,149,259	13,498,013
Other Receivables	120,456	30,600
Total	38,755,766	18,585,620
Allowance for Doubtful Accounts	2,448,605	505,701
Current Receivables - Net	36,307,161	18,079,919

	2012	2011 (As restated)
<u>Non-Current</u>		
Trade Accounts Receivable	544,741,047	548,956,734
Receivables – Disallowances and Charges	68,579,685	68,579,685
Other Receivables	56,013,843	56,013,843
Total	669,334,575	673,550,262
Allowance for Doubtful Accounts	380,404,021	364,898,618
Non-current Receivables - Net	288,930,554	308,651,644

5.1 In conformity with Philippine Accounting Standard (PAS) No. 8, Due from Officers and Employees and Trade Accounts Receivable for CY 2011 were restated as follows:

Unrestated Due from Officers and Employees as of December 31, 2011	15,119,273
Liquidation of prior years cash advances	<u>(1,621,260)</u>
Restated amount as of December 31, 2011	<u><u>13,498,013</u></u>

Unrestated Non-current Trade Accounts Receivable as of December 31, 2011	550,118,651
Adjustment of receivables - airtime	<u>(1,161,917)</u>
Restated amount as of December 31, 2011	<u><u>548,956,734</u></u>

5.2 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;
- The 12 percent output tax due from clients

5.3 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

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

5.5 Non-current Other Receivables include:

	2012	2011
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 – Others	12,997,388	12,997,388
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
	<u><u>56,013,843</u></u>	<u><u>56,013,843</u></u>

6. OTHER CURRENT ASSETS

This account is composed of the following:

	2012	2011 (As restated)
Other Supplies Inventory	149,656	127,756
Prepaid Rent	13,200	13,200
Advances to Contractors	6,935,685	6,935,685
Guaranty Deposits	14,976	14,976
Other Current Assets	50,656,432	42,648,932
	57,769,949	49,740,549

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.

7. 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, 2012	238,915,462	53,292,378	809,321,334	161,399,195	1,262,928,369
Additions	3,000,000	1,321,216	15,557,820	-	19,879,036
Adjustment	-	(65,479)	51,238,631	-	51,173,152
Balance, December 2012	241,915,462	54,548,115	876,117,785	161,399,195	1,333,980,557
<u>Accumulated Depreciation</u>					
January 1, 2012 as restated	93,667,592	57,112,523	638,512,470	18,559,622	807,852,207
Adjustments	-	(27,500)	(1,971,945)	-	(1,999,445)
Depreciation	6,924,589	4,686,240	22,600,200	-	34,211,029
Balance, December 31, 2012	100,592,181	61,771,263	659,140,725	18,559,622	840,063,791
Net Book Value Dec. 31, 2012	141,323,281	(7,223,148)	216,977,060	142,839,573	493,916,766
Net Book Value Dec. 31, 2011	145,247,870	(3,820,145)	170,808,864	142,839,573	455,076,162

The Network received various technical equipment approximately amounting to \$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. These remained unrecorded pending completion of required documents.

8. PAYABLES

This account consists of the following:

	2012	2011 (As restated)
Accounts Payable	1,329,880	1,329,880
Vouchers Payable	64,601,804	61,185,782
Sales Commission Payable	15,486,159	15,486,159
Accrued Blocktime Payable	26,649,974	35,967,722
Accrued Expenses	8,143,204	5,755,005
	116,211,021	119,724,548

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

Unrestated Vouchers Payable amount, December 31, 2011	73,489,666
Prior year's charges	2,450,645
Adjustment of prior year's obligation	<u>(14,754,529)</u>
Restated amount, December 31, 2011	<u>61,185,782</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 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.

9. INTER-AGENCY PAYABLES

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

	2012	2011
Due to BIR	264,754,572	241,920,292
Due to GSIS	52,958,003	45,674,241
Due to PhilHealth	5,338,594	5,278,331
Due to Pag-IBIG	276,580	342,574
Due to Other GOCCs (PAGCOR)	15,000,000	15,000,000
	338,327,749	308,215,438

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. However, starting October 2012, the Network has been remitting its current tax obligations to the BIR.

The Network entered into another Memorandum of Agreement with the GSIS for the settlement of its arrearages for premium contributions of PTNI employees covering the period January 2006 to February 2012. As to the unremitted loan payments of employees, reconciliation of records with the GSIS is being undertaken.

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. On the other hand, regular remittances were made for CY 2012 contributions.

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.

10. OTHER CURRENT LIABILITIES

This account includes the following:

	2012	2011
Trust Fund Others	18,690,637	16,690,636
Advances from Clients	3,352,770	3,352,770
Amounts Withheld from Salaries and Wages	1,133,573	946,167
Tax Refund Payable	59,965	59,965
Retention Payable	(681,131)	(681,131)
	22,555,814	20,368,407

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.

11. NON-CURRENT LIABILITIES

This account consists of the following:

	2012	2011
Deferred Output Tax	49,965,023	48,004,920
Unearned Income	38,811,601	51,873,326
	88,776,624	99,878,246

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.

Unearned income refers to various overpayments of cost 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.

12. 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.

13. 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.

14. RETAINED EARNINGS

Retained Earnings for CY 2011 was restated to conform with Philippine Accounting Standard No. 8 as follows:

Unrestated beginning balance	(863,047,273)
Adjustments for CY 2010 and prior years:	
Adjustment of prior year's sales revenue	15,498,455
Adjustment of prior year's MOOE	3,074,866
Adjustment of other current assets	36,000
Adjustment of prior years' depreciation	(118,825,221)
Prior year's travelling expenses	(246,814)
Prior year's personal services	(28,478)
<hr/> Beginning balance as restated	<hr/> (963,538,465)
Unrestated net loss	(99,636,790)
Adjustments for CY 2011:	
Overstated personal services	9,353,900
Adjustment of other income	235,083
Adjustment of prior year's sales revenue	149,036
Unrecorded interest income	142,168
Adjustment of depreciation expenses	61,083
Adjustment of professional services	18,954
Adjustment of utilities expenses	(1,923,545)
Unrecorded travelling expenses	(490,702)
Unrecorded communications exp.	(225,974)
Unrecorded subscription expenses	(45,977)
Adjustment of supplies expenses	(45,329)
Adjustment of repairs and maintenance exp.	(7,350)
Unrecorded financial expenses	(1,586)
Adjustment of transportation expenses	(1,554)
Adjustment of other MOOE	(743,781)
<hr/> Net loss as restated	<hr/> (93,162,364)
<hr/> Ending balance as restated	<hr/> (1,056,700,829)

15. PERSONAL SERVICES

	2012	2011 (As restated)
Salaries and Wages		
Regular	78,678,607	85,532,938
Contractual	5,953,842	6,593,622
	84,632,449	92,126,560
Other Compensation		
Personnel Economic Relief Allowance (PERA)	7,227,273	7,783,636
Year End Bonus	6,928,804	7,689,651
Overtime and Night Pay	3,283,238	1,957,216
Productivity Incentive Allowance	2,031,500	804,300
Clothing/Uniform Allowance	1,564,000	1,312,000
Cash Gift	1,480,875	1,633,125
Transportation Allowance (TA)	234,000	333,500
Representation Allowance (RA)	228,500	333,500
Subsistence, Laundry and Quarters Allowances	6,540	68,850
Honoraria	-	75,000
Other Bonuses and Allowances	1,858,200	6,152,953
	24,842,930	28,143,731
Personnel Benefits contribution		
Life and Retirement Insurance Contribution	10,133,634	10,957,655
PhilHealth Contributions	1,112,488	1,118,830
Pag-IBIG Contributions	390,150	388,250
ECC contributions	364,827	389,381
	12,001,099	12,854,116
Other Personnel Benefits		
Terminal Leave Benefits	1,894,275	2,040,737
Other Personnel Benefits	1,211,069	3,235,914
	3,105,344	5,276,651
Total Personal Services	124,581,822	138,401,058

16. MAINTENANCE AND OTHER OPERATING EXPENSES

	2012	2011 (As restated)
Depreciation Expense	34,211,029	35,010,556
Professional Services	38,259,890	33,324,273
Utility Expenses	21,649,418	21,824,073
Communication Expenses	8,433,130	10,548,827
Supplies and Materials	4,886,999	3,812,234
Traveling Expenses	1,588,593	2,244,033
Repairs and Maintenance	808,062	1,167,583
Taxes, Ins. Premiums & Other Fees	664,213	549,649
Representation Expenses	562,329	508,498
Rent Expenses	199,765	180,001
Advertising Expenses	130,157	-
Miscellaneous Expenses	-	129,684
Subscription Expenses	207,532	172,658
Transportation and Delivery Expenses	64,922	60,796
Training and Scholarship Expenses	190,884	14,940
Printing and Binding Expenses	7,793	63
Bad Debts Expense	17,448,308	(4,622,393)
Storage Expenses	11,125	-
Other MOOE	4,005,382	2,301,639
Total MOOE	133,329,531	107,227,114

17. OTHER INCOME

	2012	2011 (As restated)
Interest Income	203	142,538
Foreign Exchange Gain (Loss)	(9,158)	648
Other Income	3,355,765	2,665,197
	3,346,810	2,808,383

18. SUBSIDY FROM NATIONAL GOVERNMENT

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

	2012	2011
Subsidy for maintenance and other operating expenses	79,830,203	41,612,648
Subsidy for personal services	73,004,351	-
	152,834,554	41,612,648