

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 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 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 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 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:

	2013	2012 (As restated)
Cash on Hand	773,016	668,856
Cash in Bank	54,223,627	58,437,701
Total Cash and Cash Equivalents	54,996,643	59,106,557

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:

	2013	2012 (As restated)
<u>Current</u>		
Trade Accounts Receivable	14,525,851	24,230,371
Due from Officers and Employees	21,145,775	13,483,689
Other Receivables	482,585	120,456
Total	36,154,232	37,834,516
Allowance for Doubtful Accounts	1,452,585	2,448,605
Current Receivables - Net	34,701,647	35,385,911

	2013	2012 (As restated)
<u>Non-Current</u>		
Trade Accounts Receivable	545,750,751	544,741,047
Receivables – Disallowances and Charges	68,525,701	68,579,685
Other Receivables	56,134,299	56,025,837
Total	670,410,751	669,346,569
Allowance for Doubtful Accounts	421,993,314	380,404,021
Non-current Receivables - Net	248,417,437	288,942,548

4.1 In conformity with Philippine Accounting Standard (PAS) No. 8, Due from Officers and Employees and Trade Accounts Receivable for CY 2012 were restated as follows:

Unrestated Current Trade Accounts Receivable as of December 31, 2012	24,486,051
Adjustment of receivables – airtime	(96,400)
Adjustment of receivables – ex-deal	(159,280)
<u>Restated amount as of December 31, 2012</u>	<u>24,230,371</u>

Unrestated Non-current Trade Accounts Receivable as of December 31, 2012	56,013,843
Adjustment of receivables - airtime	11,994
<u>Restated amount as of December 31, 2012</u>	<u>56,025,837</u>

Unrestated Due from Officers and Employees as of December 31, 2012	14,149,259
Liquidation of prior years' cash advances	(665,570)
<u>Restated amount as of December 31, 2012</u>	<u>13,483,689</u>

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;
- The 12 per cent output tax due from clients

4.3 Due from Officers and Employees consists of:

4.3.1 Cash advances to officers and employees;

4.3.2 Network loans to officers and employees; and

4.3.3 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 Non-current Other Receivables include:

	2013	2012 (As restated)
Accounts Receivable – Co-Production	36,068,672	36,068,672
Accounts Receivable – Others	13,479,994	13,009,382
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	-
Accounts Receivable – Non-Trade	111,957	111,957
	<u>56,616,905</u>	<u>56,025,837</u>

5. OTHER CURRENT ASSETS

This account is composed of the following:

	2013	2012 (As restated)
Other Supplies Inventory	2,717,352	149,656
Prepaid Rent	13,200	13,200
Advances to Contractors	17,467,660	6,935,685
Guaranty Deposits	14,976	14,976
Other Current Assets	69,344,119	51,306,933
	89,557,307	58,420,450

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, 2013	241,915,462	54,548,115	876,117,785	161,399,195	1,333,980,557
Additions	30,029,420	2,503,038	37,992,193	-	70,524,651
Adjustment	7,168,703	-	(10,810,011)	-	(3,641,308)
Balance, December 2013	279,113,585	57,051,153	903,299,967	161,399,195	1,400,863,900
<u>Accumulated Depreciation</u>					
January 1, 2013	100,592,181	61,771,263	659,140,725	18,559,622	840,063,791
Depreciation	6,885,466	4,616,191	24,420,065	-	35,921,722
Balance, December 31, 2013	107,477,647	66,387,454	683,560,790	18,559,622	875,985,513
Net Book Value Dec. 31, 2013	171,635,938	(9,336,301)	219,739,177	142,839,573	524,878,387
Net Book Value Dec. 31, 2012	141,323,281	(7,223,148)	216,977,060	142,839,573	493,916,766

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. These remained unrecorded pending completion of required documents.

7. PAYABLES

This account consists of the following:

	2013	2012 (As restated)
Accounts Payable	1,329,880	1,329,880
Vouchers Payable	69,549,965	66,537,315
Sales Commission Payable	15,486,159	15,486,158
Accrued Blocktime Payable	23,792,934	26,649,974
Accrued Expenses	6,157,817	8,143,204
	116,316,755	118,146,531

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

Unrestated Vouchers Payable amount, December 31, 2012	64,601,804
Adjustment of prior year's obligation	1,935,511
Restated amount, December 31, 2012	<u>66,537,315</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.

8. INTER-AGENCY PAYABLES

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

	2013	2012 (As restated)
Due to BIR	296,267,195	265,931,666
Due to GSIS	55,804,303	52,957,713
Due to PhilHealth	5,718,892	5,254,732
Due to Pag-IBIG	898,354	247,330
Due to Other GOCCs (PAGCOR)	15,000,000	15,000,000
	373,688,744	339,391,441

In conformity with PAS No. 8, the following accounts were restated as follows:

Unrestated Due to BIR amount, December 31, 2012	264,754,572
Adjustment of prior year's obligation	1,177,094
<u>Restated Amount, December 31, 2012</u>	<u>265,931,666</u>
Unrestated Due to GSIS amount, December 31, 2012	52,958,003
Adjustment of prior year's obligation	(290)
<u>Restated Amount, December 31, 2012</u>	<u>52,957,713</u>
Unrestated Due to Philhealth amount, December 31, 2012	5,338,594
Adjustment of prior year's obligation	(83,862)
<u>Restated Amount, December 31, 2012</u>	<u>5,254,732</u>
Unrestated Due to Pag-ibig amount, December 31, 2012	276,580
Adjustment of prior year's obligation	(29,250)
<u>Restated Amount, December 31, 2012</u>	<u>247,330</u>

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

The Network remitted its current liabilities to BIR for January and February 2013 only. Last May 2013, partial payments of P1.5 million each were made for delinquent accounts covering the years 2007 and 2008 for basic taxes only.

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'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:

	2013	2012 (As restated)
Trust Fund Others	16,611,628	18,690,636
Advances from Clients	3,352,770	3,352,770
Amounts Withheld from Salaries and Wages	1,069,926	1,135,632
Tax Refund Payable	59,965	59,965
Retention Payable	(681,131)	(681,131)
	<u>20,413,158</u>	<u>22,557,872</u>

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:

	2013	2012
Deferred Output Tax	49,524,151	49,965,023
Unearned Income	27,381,561	38,811,601
	76,905,712	88,776,624

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. RETAINED EARNINGS

Retained Earnings for CY 2012 was restated to conform with Philippine Accounting Standard No. 8 as follows:

Unrestated beginning balance	(1,056,700,829)
Adjustments for CY 2011 and prior years:	
Interest Income	7,267
Personal Services	(448,944)
Professional Services	(267,049)
Travelling Expenses	(190,412)
Utilities Expenses	(206,278)
Communications Expenses	(1,800)
Bank Charges	(31,552)
Other MOOE	(11,139)
<hr/> Beginning balance as restated	<hr/> (1,057,850,736)
Unrestated net income	22,105,861
Adjustments for CY 2012:	
Personal Services	(6,476,619)
Adjustment of Other Income	25,000
Rent Expenses	(3,867,043)
Interest Income	35
Representation Expenses	(533,981)
Professional Services	(1,012,552)
Utilities Expenses	(37,339)
Travelling Expenses	(299,978)
Communication Expenses	(2,001,591)
Training Expenses	(2,500)
Donations and Charitable Contributions	(1,500)
Taxes, Duties and Licenses	(3,719)
Supplies Expenses	28,979
Repairs and Maintenance Expenses	(11,892)
Bank Charges	(2,500)
Transportation Expenses	(12,601)
Adjustment of Other MOOE	(172,091)
<hr/> Net income as restated	<hr/> 7,723,969
<hr/> Ending balance as restated	<hr/> (1,050,126,767)

14. PERSONAL SERVICES

	2013	2012 (As restated)
Salaries and Wages		
Regular	74,863,092	78,678,913
Contractual	5,630,124	5,953,843
	80,493,216	84,632,756
Other Compensation		
Personnel Economic Relief Allowance (PERA)	6,833,182	7,227,273
Year End Bonus	6,759,370	6,928,804
Overtime and Night Pay	2,003,981	5,661,013
Productivity Incentive Allowance	600,000	2,031,500
Clothing/Uniform Allowance	1,450,000	1,564,000
Cash Gift	1,434,000	1,480,875
Transportation Allowance (TA)	206,000	234,000
Representation Allowance (RA)	206,000	228,500
Subsistence, Laundry and Quarters Allowances	7,620	6,540
Other Bonuses and Allowances	6,266,300	6,069,600
	25,766,453	31,432,105
Personnel Benefits contribution		
Life and Retirement Insurance Contribution	9,693,054	10,133,634
PhilHealth Contributions	1,089,803	1,028,825
Pag-IBIG Contributions	342,650	360,950
ECC contributions	343,100	364,827
	11,468,607	11,888,236
Other Personnel Benefits		
Terminal Leave Benefits	912,574	1,894,275
Other Personnel Benefits	-	1,211,069
	912,574	3,105,344
Total Personal Services	118,640,850	131,058,441

15. MAINTENANCE AND OTHER OPERATING EXPENSES

	2013	2012 (As restated)
Professional Services	63,137,609	39,272,442
Bad Debts Expense	40,593,273	17,448,308
Depreciation Expense	35,921,722	34,211,029
Utility Expenses	22,304,962	21,686,757
Communication Expenses	10,494,715	10,434,721
Rent Expenses	7,193,718	4,066,808
Supplies and Materials	6,720,504	4,858,020
Traveling Expenses	1,564,375	1,888,571
Representation Expenses	897,210	1,096,310
Repairs and Maintenance	814,006	821,454
Training and Scholarship Expenses	697,887	193,384
Taxes, Ins. Premiums & Other Fees	512,864	667,932
Advertising Expenses	316,200	130,157
Subscription Expenses	147,857	207,532
Transportation and Delivery Expenses	72,523	77,524
Miscellaneous Expenses	53,000	-
Printing and Binding Expenses	9,177	7,793
Storage Expenses	-	11,125
Other MOOE	16,420,580	4,177,473
Total MOOE	207,872,182	141,257,340

16. OTHER INCOME

	2013	2012 (As restated)
Interest Income	-	238
Foreign Exchange Gain (Loss)	(82,377)	(9,158)
Other Income	5,522,710	3,380,766
	5,440,333	3,371,846

17. SUBSIDY FROM NATIONAL GOVERNMENT

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

	2013	2012
PTNI revitalization program	169,160,520	107,504,382
Personal Services, MOOE and Capital Outlay	13,580,460	45,330,172
	182,740,980	152,834,554

18. REPORT ON THE SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR UNDER REVENUE REGULATION NO. 15-2010

On November 25, 2010, the BIR issued Revenue Regulation (RR) No. 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying tax returns. Under the said RR, it is required that in addition to the disclosures mandated under the Philippine Financial Reporting Standards, and such other standards and/or conventions as may be adopted, the Notes shall include information on taxes, duties and license fees paid or accrued during the taxable year.

In compliance with the requirements set forth by RR No. 15-2010, the information on taxes, duties and licenses paid or accrued during the taxable year is as follows:

18.1 Value Added Tax (VAT)

	2013	2012
Vatable Sales/Receipts of Services-Private	P63,086,872	P56,536,729
Sale to Government	62,278,165	61,334,939
Total Sales/ Receipts(Total Vatable Gross Receipts)	125,365,037	117,871,668
Multiply by: Tax rate	12%	12%
Total Output VAT for the year	P15,043,804	P14,144,600
Allowable Input Tax – Input Tax Carried Over from Previous Period	P63,749,883	P58,504,960
Current Year's Domestic Purchases of:		
Goods Other than Capital Goods	355,224	153,278
Services	2,562,017	793,243
	2,917,241	946,521
Total Available Input Tax	P66,667,124	P59,451,482
Total Output VAT for the year	P15,043,804	P14,144,600
Less Total Available Input Tax	66,667,124	59,451,482
Tax Credits / Payments	5,569,531	2,737,471
Total Amount Payable (Overpayment) For the Year	(P57,192,850)	(P48,044,352)

18.2 Excise Taxes

There are no transactions subject to excise taxes for CYs 2013 and 2012.

18.3 Other taxes, local and national

This account consists of taxes and licenses paid for the years ended December 31, 2013 and 2012 as follows:

	2013	2012
Under Taxes, Insurance Premiums and other Fees:		
Insurance Premium on Property, Plant and Equipment	P280,523	P154,409
Premiums on Bonds	78,723	156,050
Business Permits and Licenses	153,618	353,754
Total	P512,864	P664,213

18.4 Withholding Taxes

The Agency's withholding taxes for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
I. Withholding Tax on Compensation		
Total tax withheld for the year	P7,151,346	P7,331,018
Less: Payments made from January to December	2,055,368	1,550,745
Withholding tax still due and payable	P5,095,978	P5,780,273
II. Expanded Withholding Tax		
Total tax withheld for the year	P6,465,604	P1,027,067
Less: Payments made from January to December	1,216,107	768,347
Withholding tax still due and payable	P5,249,497	P 258,720
III. Final tax withheld (G.M.P.)		
Total tax withheld for the year	P5,284,426	P674,298
Less: Payments made from January to December	898,540	549,154
Withholding tax still due and payable	P4,385,886	P125,144