

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:

	2014	2013 (As restated)
Cash on Hand	1,943,979	458,028
Cash in Bank	208,042,607	41,127,126
Total Cash and Cash Equivalents	209,986,586	41,585,154

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:

	2014	2013 (As restated)
<u>Current</u>		
Trade Accounts Receivable	14,546,641	13,061,601
Due from Officers and Employees	16,297,684	13,103,885
Other Receivables	3,580	482,585
Total	30,847,905	26,648,071
Allowance for Doubtful Accounts	1,454,664	1,306,161
Current Receivables - Net	29,393,241	25,341,910

	2014	2013 (As restated)
<u>Non-Current</u>		
Trade Accounts Receivable	548,657,993	544,947,763
Receivables – Disallowances and Charges	68,525,701	68,525,701
Other Receivables	56,616,905	56,134,320
Total	673,800,599	669,607,784
Allowance for Doubtful Accounts	430,153,198	422,139,739
Non-current Receivables - Net	243,647,401	247,468,045

4.1 In conformity with Philippine Public Sector Accounting Standard (PPSAS) No. 3, Due from Officers and Employees and Trade Accounts Receivable for CY 2013 were restated as follows:

Unrestated Current Trade Accounts Receivable as of December 31, 2013	14,525,851
Adjustment of receivables – Spots Ex-deal	(1,464,250)
<u>Restated amount as of December 31, 2013</u>	<u>13,061,601</u>

Unrestated Non-current Trade Accounts Receivable as of December 31, 2013	545,750,752
Adjustment of receivables – Spots Ex-deal	(802,371)
<u>Restated amount as of December 31, 2013</u>	<u>544,948,381</u>

Unrestated Due from Officers and Employees as of December 31, 2013	21,145,775
Liquidation of prior years' cash advances	(8,041,890)
<u>Restated amount as of December 31, 2013</u>	<u>13,103,885</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 in exchange for available “open” airtime;
- The 12 per cent 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.

4.5 Non-current Other Receivables include:

	2014	2013 (As restated)
Accounts Receivable – Co-Production	36,068,672	36,068,672
Accounts Receivable – Others	13,479,994	12,997,409
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
	<u>56,616,905</u>	<u>56,134,320</u>

5. OTHER CURRENT ASSETS

This account is composed of the following:

	2014	2013 (As restated)
Other Supplies Inventory	2,829,352	2,717,352
Prepaid Rent	13,200	13,200
Advances to Contractors	14,622,343	17,467,660
Guaranty Deposits	14,976	14,976
Other Current Assets	92,123,742	69,522,347
	109,603,613	89,735,535

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, 2014	279,113,585	57,051,153	903,299,967	161,399,195	1,400,863,900
Additions	137,353,619	1,180,773	42,216,562	-	180,750,954
Adjustment	(28,462,804)	(240,178)	(750,000)	-	(29,452,982)
Balance, December 2014	388,004,400	57,991,748	944,766,529	161,399,195	1,552,161,872
<u>Accumulated Depreciation</u>					
January 1, 2014	107,477,647	66,387,454	683,560,790	18,559,622	875,985,513
Depreciation	7,216,234	3,543,636	25,182,283	-	35,942,153
Balance, December 31, 2014	114,693,881	69,931,090	708,743,073	18,559,622	911,927,666
Net Book Value Dec. 31, 2014	273,310,519	(11,939,342)	236,023,456	142,839,573	640,234,206
Net Book Value Dec. 31, 2013	171,635,937	(9,336,300)	219,739,177	142,839,573	524,878,387

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:

	2014	2013 (As restated)
Accounts Payable	1,329,880	1,329,880
Vouchers Payable	50,772,913	76,520,477
Sales Commission Payable	15,486,159	15,486,158
Accrued Blocktime Payable	9,852,566	16,909,718
Accrued Expenses	5,657,076	6,157,817
	83,098,594	116,404,050

In conformity with PPSAS No. 3, Vouchers Payable was restated as follows:

Unrestated Vouchers Payable amount, December 31, 2013	69,549,965
Adjustment of prior year's obligation	6,970,512
Restated amount, December 31, 2013	76,520,477

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:

	2014	2013 (As restated)
Due to BIR	336,389,536	297,219,029
Due to GSIS	46,133,168	55,804,303
Due to PhilHealth	5,855,237	5,718,892
Due to Pag-IBIG	299,822	898,354
Due to Other GOCCs (PAGCOR)	15,000,000	15,000,000
	403,677,763	374,640,578

In conformity with PPSAS No. 3, Due to BIR account was restated as follows:

Unrestated Due to BIR amount, December 31, 2013	296,267,195
Adjustment of prior year's obligation	951,834
<u>Restated Amount, December 31, 2013</u>	<u>297,219,029</u>

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:

	2014	2013 (As restated)
Trust Fund Others	15,995,636	16,520,249
Advances from Clients	3,352,770	3,352,770
Amounts Withheld from Salaries and Wages	1,150,369	1,069,926
Tax Refund Payable	59,965	59,965
Retention Payable	1,486,689	(681,131)
	<u>22,045,429</u>	<u>20,321,779</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:

	2014	2013 (As restated)
Deferred Output Tax	50,253,375	49,524,151
Unearned Income	16,751,001	27,381,561
	67,004,376	76,905,712

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 2013 was restated to conform with PPSAS No. 3 as follows:

Beginning balance January 1, 2014	(1,050,126,767)
Adjustments for CY 2012 and prior years:	
Personal Services	(12,493,634)
Travelling Expenses	(465,754)
Rent Expenses	(178,866)
Advertising Expenses	(10,511)
Other MOOE	(987,222)
<hr/> Beginning balance as restated	<hr/> (1,064,262,754)
Unrestated net income	(1,672,712)
Adjustments for CY 2012:	
Sales Revenue	6,883,216
Personal Services	(10,118,640)
Advertising Expenses	(1,199,361)
Rent Expenses	(1,062,230)
Insurance Expenses	107,738
Professional Services	(6,234)
Utilities Expenses	(33,328)
Travelling Expenses	(2,853,743)
Communication Expenses	25,367
Training Expenses	(319,863)
Taxes, Duties and Licenses	(61,825)
Supplies Expenses	(315,340)
Repairs and Maintenance Expenses	(10,000)
Printing Expenses	(566)
Transportation Expenses	(53,935)
Other MOOE	(1,426,788)
<hr/> Net income as restated	<hr/> (12,118,244)
<hr/> Ending balance as restated	<hr/> (1,076,380,998)

14. PERSONAL SERVICES

	2014	2013 (As restated)
Salaries and Wages		
Regular	71,691,902	74,863,092
Contractual	5,515,138	5,630,124
	77,207,040	80,493,216
Other Compensation		
Personnel Economic Relief Allowance (PERA)	6,554,091	6,833,182
Year End Bonus	6,468,082	6,759,370
Overtime and Night Pay	1,180,343	4,934,579
Productivity Incentive Allowance	560,000	600,000
Clothing/Uniform Allowance	1,395,000	1,450,000
Cash Gift	1,368,875	1,434,000
Transportation Allowance (TA)	221,000	206,000
Representation Allowance (RA)	221,000	206,000
Subsistence, Laundry and Quarters Allowances	6,900	7,620
Honoraria	155,000	235,500
Other Bonuses and Allowances	11,880,800	12,848,100
	30,011,091	35,514,351
Personnel Benefits contribution		
Life and Retirement Insurance Contribution	9,240,788	9,693,054
PhilHealth Contributions	1,148,950	1,089,803
Pag-IBIG Contributions	328,800	342,650
ECC contributions	330,100	343,100
	11,048,638	11,468,607
Other Personnel Benefits		
Terminal Leave Benefits	1,441,372	1,281,816
Other Personnel Benefits	5,272,538	1,500
	6,713,910	1,283,316
Total Personal Services	124,980,679	128,759,490

15. MAINTENANCE AND OTHER OPERATING EXPENSES

	2014	2013 (As restated)
Professional Services	64,918,163	63,143,842
Bad Debts Expense	8,161,963	40,593,273
Depreciation Expense	35,942,153	35,921,722
Utility Expenses	24,164,594	22,338,290
Communication Expenses	6,774,073	10,469,348
Rent Expenses	1,648,513	8,255,948
Supplies and Materials	7,754,658	7,124,585
Traveling Expenses	3,680,614	4,418,117
Representation Expenses	1,065,174	897,210
Repairs and Maintenance	1,318,845	824,007
Training and Scholarship Expenses	955,942	1,017,750
Taxes, Ins. Premiums & Other Fees	535,694	466,951
Advertising Expenses	2,102,859	1,515,561
Subscription Expenses	359,489	147,857
Transportation and Delivery Expenses	126,801	202,523
Miscellaneous Expenses	-	53,000
Printing and Binding Expenses	40,066	9,743
Membership Dues	705	-
Other MOOE	5,052,197	17,682,563
Total MOOE	164,602,503	215,082,290

16. OTHER INCOME

	2014	2013 (As restated)
Foreign Exchange Gain (Loss)	(20,745)	(82,377)
Other Income	6,243,983	5,522,710
	6,223,238	5,440,333

17. SUBSIDY FROM NATIONAL GOVERNMENT

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

	2014	2013
PTNI revitalization program	75,844,830	169,160,520
Personal Services, MOOE and Capital Outlay	390,794,325	13,580,460
	466,639,155	182,740,980

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)

	2014	2013
Vatable Sales/Receipts of Services-Private	P53,534,280	P63,086,872
Sale to Government	66,517,037	62,278,165
Total Sales/ Receipts(Total Vatable Gross Receipts)	120,051,317	125,365,037
Multiply by: Tax rate	12%	12%
Total Output VAT for the year	P14,406,158	P15,043,804
Allowable Input Tax – Input Tax Carried Over from Previous Period	P76,868,038	P63,749,883
Current Year's Domestic Purchases of:		
Goods Other than Capital Goods	836,535	355,224
Services	1,298,737	2,562,017
	2,135,272	2,917,241
Total Available Input Tax	P79,003,310	P66,667,124
Total Output VAT for the year	P14,406,158	P15,043,804
Less Total Available Input Tax	79,003,311	66,667,124
Tax Credits / Payments	4,369,378	5,569,531
Total Amount Payable (Overpayment) For the Year	(P68,966,531)	(P57,192,851)

18.2 Excise Taxes

There were no transactions subject to excise taxes for CYs 2014 and 2013.

18.3 Other taxes, local and national

This account consists of taxes and licenses paid for the years ended December 31, 2014 and 2013 as follows:

	2014	2013
Under Taxes, Insurance Premiums and other Fees:		
Insurance Premiums on PPE	P281,757	P280,523
Premiums on Bonds	26,512	78,723
Business Permits and Licenses	227,425	153,618
Total	P535,694	P512,864

18.4 Withholding Taxes

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

	2014	2013
I. Withholding Tax on Compensation		
Total tax withheld for the year	P8,705,965	P7,151,346
Less: Payments made from January to December	-	2,055,368
Withholding tax still due and payable	P8,705,965	P5,095,978
II. Expanded Withholding Tax		
Total tax withheld for the year	P5,314,409	P6,465,604
Less: Payments made from January to December	272,773	1,216,107
Withholding tax still due and payable	P5,041,636	P5,249,497
III. Final tax withheld (G.M.P.)		
Total tax withheld for the year	P1,594,323	P5,284,426
Less: Payments made from January to December	681,933	898,540
Withholding tax still due and payable	P912,390	P4,385,886