



*Republic of the Philippines*

**COMMISSION ON AUDIT**

*Commonwealth Avenue, Quezon City, Philippines*

**INDEPENDENT AUDITOR'S REPORT**

**The Board of Directors**

Philippine Amusement and Gaming Corporation  
PAGCOR Corporate Office  
Hyatt Hotel and Casino Manila  
M.H. Del Pilar cor. Pedro Gil Streets, Malate, Manila

We have audited the accompanying financial statements of the Philippine Amusement and Gaming Corporation (PAGCOR), which comprise the balance sheet as of December 31, 2010, and the statement of income and expenses, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with State accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

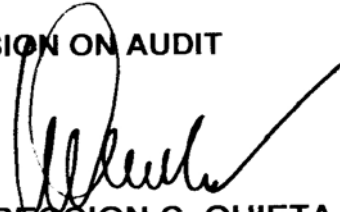
*Opinion*

In our opinion, the financial statements present fairly, in all material respects the financial position of the Philippine Amusement and Gaming Corporation as of December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with State accounting principles.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Notes to the Financial Statements Nos. 22 and 23. While the issues involved are pending resolution, the decision of the Supreme Court on the payment of corporate income tax, as well as ruling from government agencies mandated to decide on taxes, and the composition of gross income and income from related services might affect the financial position and the results of the financial performance of PAGCOR.

**COMMISSION ON AUDIT**



**ATTY. RESURRECCION C. QUIETA**  
Supervising Auditor – Audit Group D  
Cluster C – Corporate Government Sector

June 1, 2011

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**

**BALANCE SHEET**

**December 31, 2010**

(With corresponding figures for 2009)

(In Philippine Peso)

	<b>Notes</b>	<b>2010</b>	<b>2009 (As Restated)</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	5,726,896,540	3,167,589,762
Receivables - Net	4	992,277,928	2,076,006,326
Inventories	2.5, 2.6 & 5	355,466,375	423,260,718
Prepayments	6	243,924,321	297,442,240
<b>Total Current Assets</b>		<b>7,318,565,164</b>	<b>5,964,299,046</b>
<b>Non-Current Assets</b>			
Investments	7	143,108,780	143,108,780
Receivables	8	75,301,058	91,682,627
Property, Plant and Equipment - Net	2.7 & 9	18,032,316,723	18,130,060,332
Other Assets	10	2,982,701,579	2,404,608,189
<b>Total Non-Current Assets</b>		<b>21,233,428,140</b>	<b>20,769,459,928</b>
<b>TOTAL ASSETS</b>		<b>28,551,993,304</b>	<b>26,733,758,974</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts Payable	11	1,585,500,140	1,563,290,728
Inter-Agency Payables	12	2,797,519,988	2,393,285,167
Intra-Agency Payables	13 & 25 d	267,080,647	66,599,323
Other Liability Accounts	14	778,947,423	656,764,023
<b>Total Current Liabilities</b>		<b>5,429,048,198</b>	<b>4,679,939,241</b>
<b>Non-Current Liabilities</b>			
Long-Term Liabilities	15	12,775,586,963	14,541,927,510
Deferred Credits	16	56,158,163	2,639,849
<b>Total Non-Current Liabilities</b>		<b>12,831,745,126</b>	<b>14,544,567,359</b>
<b>TOTAL LIABILITIES</b>		<b>18,260,793,324</b>	<b>19,224,506,600</b>
<b>EQUITY</b>		<b>10,291,199,980</b>	<b>7,509,252,374</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>28,551,993,304</b>	<b>26,733,758,974</b>

The notes on pages 7 to 30 form part of these financial statements.

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**  
**STATEMENT OF INCOME AND EXPENSES**  
**For the year ended December 31, 2010**  
(With corresponding figures for 2009)  
(In Philippine Peso)

	Notes	2010	2009 (As Restated)
<b>Income</b>			
Income from Gaming Operations			
Winnings	2.4	21,763,589,281	23,209,723,174
Income from Other Related Services	2.9 & 18	9,167,290,075	6,506,131,566
Other Income	2.9, & 19	545,271,482	667,864,268
Gain/(Loss) on Foreign Exchange	2.8	(15,493,912)	1,146,736
<b>Total Income</b>		<b>31,460,656,926</b>	<b>30,384,865,744</b>
<b>Expenses</b>			
Operating Expenses	2.9 & 20	14,129,175,548	14,706,213,978
5% Franchise Tax	22	1,093,772,636	1,160,553,801
		<b>15,222,948,184</b>	<b>15,866,767,779</b>
Contributions to the Government	24		
50% Government Share	22	10,390,840,044	11,025,261,110
Office of the President		1,612,662,533	1,222,817,477
5% Philippine Sports Commission's Share		519,542,002	551,263,056
Subsidy to LGUs: Host Cities' Share		507,720,000	487,320,000
Early Childhood Care and Development Fund		152,412,032	402,196,053
National Book Development Trust Fund		50,000,000	-
Museum Endowment Fund		178,000,000	-
1% Board of Claims' Share		27,819,476	5,330,000
Mandated Contribution to the National Government-Others		16,765,049	20,372,259
<b>Total Contributions to the Government</b>		<b>13,455,761,136</b>	<b>13,714,559,955</b>
<b>Total Expenses</b>		<b>28,678,709,320</b>	<b>29,581,327,734</b>
<b>NET INCOME</b>		<b>2,781,947,606</b>	<b>803,538,010</b>

The notes on pages 7 to 30 form part of these financial statements.

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2010**  
(With corresponding figures for 2009)  
(In Philippine Peso)

	Notes	2010	2009 (As Restated)
<b>Capital Stock</b>		71,430,752	71,430,752
<b>Restricted Capital</b>			
Balance, Beginning		1,754,241,530	1,158,251,530
Current Appropriations		1,427,109,807	595,990,000
Balance, End		3,181,351,337	1,754,241,530
<b>Retained Earnings</b>			
Balance, Beginning	26	5,598,073,637	5,390,525,627
Current Appropriations			
Slot Machine Demo Units - Net of Reversions		(262,773,000)	(148,890,000)
Reversion of appropriation for ECCD		135,000,000	75,000,000
Acquisition of Other Property, Plant & Equipment		(1,299,336,807)	(522,100,000)
Total Current Appropriations		(1,427,109,807)	(595,990,000)
Net Income for the Year		2,781,947,606	803,538,010
Balance, End		6,952,911,436	5,598,073,637
<b>Appraisal Capital</b>	17	85,506,455	85,506,455
<b>TOTAL EQUITY</b>		<b>10,291,199,980</b>	<b>7,509,252,374</b>

The notes on pages 7 to 30 form part of these financial statements.

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**

**CASH FLOW STATEMENT**

**For the year ended December 31, 2010**

(With corresponding figures for 2009)

(In Philippine Peso)

	<b>Note</b>	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>			
Income from Casino Customers		21,763,589,281	23,209,723,174
Income from Chip Washing Operations, Non-casino Customers and Other Income		9,412,627,683	6,765,900,071
Interest Income		98,123,190	77,632,914
Payments to Employees, Suppliers, Lessors and Other Creditors		(13,911,920,553)	(14,448,464,086)
50% Government Income Share		(10,404,203,435)	(11,104,100,712)
Other Mandated Contributions		(2,806,894,093)	(2,360,053,188)
Other Operating Disbursements (net of non-cash transactions)		2,046,840,948	(237,670,951)
Various Taxes Paid to the Bureau of Internal Revenue		(940,140,613)	(1,080,438,883)
Interest Paid on Loans		(323,131,738)	(282,712,805)
Gain / (Loss) on Foreign Exchange		(15,493,912)	1,146,735
<b>Net Cash Provided by Operating Activities</b>		<b>4,919,396,758</b>	<b>540,962,269</b>
<b>Cash Flows from Investing Activities</b>			
Proceeds from Sale of Marketable Stocks and Bonds		-	-
Proceeds from Sale of Property, Plant and Equipment		-	(111,177)
Purchase of Property, Plant and Equipment		(1,489,018,172)	(1,872,833,102)
Proceeds/Purchase of Other Investments and Marketable Securities		-	80,000,000
Investment in Stocks/Bonds/Treasury Bills		-	-
<b>Net Cash Used in Investing Activities</b>		<b>(1,489,018,172)</b>	<b>(1,792,944,279)</b>
<b>Cash Flows from Financing Activities</b>			
Loan Proceeds		-	1,025,000,000
Payment of Loans		(871,071,808)	(297,166,113)
<b>Net Cash (Used in)/Provided by Financing Activities</b>		<b>(871,071,808)</b>	<b>727,833,887</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>2,559,306,778</b>	<b>(524,148,123)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3</b>	<b>3,167,589,762</b>	<b>3,691,737,885</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>3</b>	<b>5,726,896,540</b>	<b>3,167,589,762</b>

The notes on pages 7 to 30 form part of these financial statements.

# PHILIPPINE AMUSEMENT AND GAMING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

(All amounts in Philippine Peso unless otherwise indicated)

### 1. General Information

The Philippine Amusement and Gaming Corporation (PAGCOR), with business address at Hyatt Hotel and Casino Manila, M. H. Del Pilar cor. Pedro Gil Streets, Malate, Manila, is a 100 percent government-owned and controlled corporation domiciled in the Republic of the Philippines. It was created on January 1, 1977 by virtue of Presidential Decree (PD) No. 1067-A. This was amended under PD Nos. 1067-B, 1067-C, 1399 and 1632 which were subsequently consolidated into one statute, PD No. 1869 (PAGCOR's Charter), on July 11, 1983. PAGCOR was created with a three-pronged mandate: to regulate all games of chance, particularly casino gaming in the country, to raise funds for the government's socio-civic and national developmental efforts, and to help boost the country's tourism industry. PAGCOR's 25-year franchise, which expired on July 11, 2008, has been renewed by Congress for another 25 years or until July 11, 2033 under Republic Act No. 9487.

PAGCOR operates 13 casino branches in major cities in the country, aside from slot machine arcades and PAGCOR clubs. These casinos are CF-Heritage in Pasay City, CF-Hyatt and CF-Pavilion in Manila, CF-Paranaque, CF-Angeles, CF-Bacolod, CF-Cebu, CF-Davao, CF-Laoag, CF-Olongapo, and CF-Tagaytay. CF-Mimosa was integrated to CF-Angeles and CF-Mactan was integrated to CF-Cebu on November 11, 2010 and December 15, 2010, respectively.

### 2. Summary of Significant Accounting Policies

#### 2.1 Basis of Accounting

From July 15 to December 31, 1986, PAGCOR followed the accrual basis of accounting. However, in 1987 the Corporation shifted to the modified cash basis of accounting on account of its commitment to directly transfer its net cash income to the Social Fund under the Office of the President. Under this method of accounting, the company recognized winnings, rental and other income when collected, regardless of when they were earned. Likewise, operating and other expenses were generally recognized when paid regardless of when they were incurred. Capital expenditures were also charged outright to expenses so that depreciation was no longer provided.

Subsequently, in compliance with (a) COA Circular No. 2004-002 dated April 29, 2004 - Prescribing the Chart of Accounts Under the New Government Accounting System (NGAS) for Government-Owned and/or Controlled Corporations and (b) COA Circular Letter No. 2004-001 dated May 7, 2004 - Accounting Guidelines and Procedures on the Adoption of the Chart of Accounts under the New Government Accounting System (NGAS) by Government-Owned and/or Controlled Corporations, PAGCOR adopted the NGAS and shifted from the modified cash to accrual basis of accounting effective January 1, 2005 which was approved by the Board of Directors on May 25, 2004.

## **2.2 Combined Financial Statements**

The combined financial statements of PAGCOR reflect the financial position and results of operations of the Home Office and its branches. Inter-branch accounts have been eliminated in the consolidation.

## **2.3 Presentation Currency**

PAGCOR's financial statements are presented/reported in Philippine peso, its functional currency, or the currency of the primary economic environment in which the company operates.

## **2.4 Revenue Recognition**

Income is generally recognized when realized or earned, except for revenues where the accrual method is impractical, such as table games and slot machine winnings, since these cannot be measured reliably until cash is actually received. Recorded revenue is net of rebates and commissions granted to qualified players/agents under the following rebate programs: (a) Local High Roller's Program, (b) Rebate on Actual Loss, (c) Rebate Cash Coupons, (d) Cash Rebate Program Using Non-Negotiable Chips, (e) Foreign Incentive Program, and (f) Agent's Commission.

## **2.5 Inventory Procedure and Valuation Method**

Supplies and materials purchased for stock, whether they are consumed or not within the accounting period, are recorded using the Perpetual Inventory System. The cost of inventory issued and its ending balance is computed using the Moving Average Method.

## **2.6 Change in Accounting Policy for Chips and Tokens**

Under the modified cash basis of accounting adopted by PAGCOR prior to CY 2005, purchases of chips and tokens were immediately charged to expense upon payment. Subsequently, when PAGCOR shifted to the accrual basis of accounting under NGAS on January 1, 2005, purchases of chips and tokens were capitalized under the account Other Property, Plant and Equipment: Chips and Tokens.

This accounting policy was further amended in CY 2007 when all chips and tokens actually on hand at the Corporate Vaults and Tokens Storeroom as of September 30, 2007 were taken up in PAGCOR's books of accounts as Other Supplies Inventory: Chips and Tokens. The book value of said inventory was determined based on the following:

- a. Physical count per Finance and Treasury Department's (FTD's) Location Summary Report generated from its Vault Inventory System for Chips and Tokens as of September 30, 2007.



- b. Insurable value per unit of chips and tokens based on FTD's memo to Accounting Department (AD) dated September 5, 2007 on the subject Supplies Inventory – Vault Inventory System Interface (SIS-VIS), submitting to AD the summary of estimated purchase cost of chips and tokens used by FTD in computing insurable value as of May 23, 2007.

Insurable value per unit was adopted by PAGCOR as basis since no complete records of the acquisition costs of chips and tokens are available. Insurable value is either the actual acquisition cost, if available, or an estimated cost based on the latest purchase price for similar items.

After the booking as inventory of chips and tokens on hand at Corporate as of September 30, 2007, all issuances starting October 1, 2007 are now being charged to the receiving branches using weighted average cost and taken up as Other Supplies Expenses: Chips and Tokens. Any returns from the branches to Corporate are added back at zero cost to the quantity on hand at FTD.

## 2.7 Property, Plant and Equipment

Depreciation Method - As required under NGAS, particularly COA Circular No. 2003-007 dated December 11, 2003, the straight line method of computing depreciation for property, plant and equipment is followed by PAGCOR.

Subsequent Acquisitions - Except for the initial set-up of existing property, plant and equipment following the shift from modified cash to accrual basis of accounting on January 1, 2005, property, plant and equipment are recorded at historical cost.

Estimated Useful Lives - PAGCOR has generally complied with COA Circular No. 2003-007 on the Revised Estimated Useful Life in Computing Depreciation for Government Property, Plant and Equipment (PPE). However, in view of the nature of the company's business and specialized equipment used (e.g. CCTV, slot machines and gaming tables), different estimated useful lives for certain assets have been adopted. The Commission on Audit's approval has been sought on this in PAGCOR's memo to COA - PAGCOR dated October 29, 2004. The schedule of estimated useful lives of PPE is shown below:

Particulars	Estimated Useful Life (in years)
Buildings	30 *
Leasehold Improvements	30, or term of lease, or expiry of PAGCOR's franchise on July 11, 2033, whichever is shorter
Office Equipment	5 to 10
Office Furniture and Fixtures	10
Gaming Furniture and Fixtures	4 to 10
Communication Equipment	10
Firefighting Equipment and Accessories	10
Medical, Dental and Laboratory Equipment	10
Military and Police Equipment	10

Particulars	Estimated Useful Life (in years)
Sports Equipment	10
Gaming Equipment	4 to 5
Bingo Equipment	5
Other Machinery and Equipment	10
Transportation Equipment	7 to 10
Other Property, Plant and Equipment - Others	5

\* For subsequent acquisitions after PAGCOR's shift to the New Government Accounting System (NGAS)/Accrual Basis of Accounting effective January 1, 2005, estimated useful life is 30 years. Existing buildings and structures as of December 31, 2004 were set up in our books of accounts in January, 2005 using appraised values and estimated remaining useful lives, per Appraisal Reports of Land Bank of the Philippines dated August 6 and 7, 2004, which ranged from 25 to 35 years for buildings and from 20 to 32 years for other structures.

## **2.8 Foreign Exchange Transactions**

Foreign currency transactions, such as dollar table winnings, are recorded on initial recognition in PAGCOR's functional currency (Philippine peso) by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the transaction, which is defined as the date on which the transaction first qualifies for recognition in accordance with Philippine Financial Reporting Standards (PFRS). In the case of dollar pit winnings, this is the actual date on which the winnings are generated from the tables.

At each subsequent balance sheet date thenceforth, foreign currency monetary items, such as Cash in Bank – Foreign Currency and dollar-denominated Treasury Capital and Guarantee Deposits Payable accounts are revalued/translated using the closing rate (spot exchange rate at the balance sheet date), with the difference recognized in our books as Foreign Exchange Gain or Foreign Exchange Loss.

## **2.9 Change in Accounting Policy on Recording of Various Income and Related Expenses**

Effective January 1, 2009, in compliance with COA recommendations and as provided under PAS 1, expenses relative to Bingo Operations, Hotel Operations, Gasoline Service Operations, Entertainment, and other revenue-generating activities are no longer offset against the income account but recorded separately under the corresponding proper accounts.

Moreover, effective January 1, 2010, for alignment to PAGCOR income definition, various income accounts and categories were created, renamed and reclassified, as follows:

From	To
<p><b>Business Income</b></p> <p>01. Winnings - Table Games  02. Winnings - Slot Machines  03. Winnings - Dollar Pit  04. Winnings - Intercity/Casino Link  05. Winnings - Electronic Gaming</p> <p><b>Other Business Income:</b></p> <p>06. Bingo Operations In-House  (a) Regular  (b) Instant Bingo I  (c) Instant Bingo II  (d) Pop Pera  (e) Mobile</p> <p>07. Bingo Franchisees - Traditional  08. Bingo Franchisees - Electronic  09. Management Fees  10. Rent Income</p> <p>11. Entertainment  12. Gasoline Service Operations  13. Hotel Operations  14. Others <sup>1]</sup></p> <p><b>Other Income</b></p> <p>01. Interest - Peso Accounts  02. Interest - Dollar Accounts  03. Dividend Income  04. Miscellaneous Income  05. Other Fines and Penalties</p> <p><b>Gain/Loss</b></p> <p>01. Gain/Loss on Foreign Exchange (FOREX)  02. Gain/Loss on Sale of Disposed Assets <sup>2]</sup>  03. Gain/Loss on Sale of Securities <sup>2]</sup></p>	<p><b>Income from Gaming Operations</b></p> <p>01. Winnings - Table Games  02. Winnings - Slot Machines  03. Winnings - Dollar Pit  04. Winnings - Intercity/Casino Link  05. Winnings - Electronic Gaming</p> <p><b>Income from Other Related Services</b></p> <p>01. Bingo Operations In-House  (a) Regular  (b) Instant Bingo I  (c) Instant Bingo II  (d) Pop Pera  (e) Mobile</p> <p>02. Bingo Operations - Franchisees  (a) Traditional  (b) Electronic</p> <p>03. Management Fees  04. Rent Income  05. Others  (a) Internet Gaming Operations  (b) Licensed Casinos  (c) Mobile Gaming Operations  (d) Poker Operations  (e) Income from SM Demo Units</p> <p><b>Other Income</b></p> <p>01. Entertainment  02. Gasoline Service Operations  03. Hotel Operations  04. Minimum Guaranteed Fee  05. Reimbursement of Manpower Costs  06. Interest - Peso Accounts  07. Interest - Dollar Accounts  08. Dividend Income  09. Miscellaneous Income  10. Other Fines and Penalties</p> <p>11. Gain/Loss on Foreign Exchange (FOREX)</p>
<p>1] For deletion  2] For classification under Miscellaneous Income</p>	

### 3. Cash and Cash Equivalents

Cash and Cash Equivalents include time deposits with maturities of three months or less and treasury fund capital for PAGCOR's gaming operations.

Particulars	2010	2009
Cash on Hand	38,690,570	69,631,331
Cash in Bank – Local Currency	4,890,522,063	2,351,821,515
Cash in Bank – Foreign Currency	205,340,050	76,838,054
Treasury Fund Capital	592,343,857	669,298,862
<b>Total Cash and Cash Equivalents</b>	<b>5,726,896,540</b>	<b>3,167,589,762</b>

- a. Cash on Hand – This consists of collections and deposits made by Collecting Officers, amount of cash advances granted to Regular and Special Disbursing Officers for payment of salaries and disbursements made in payment of authorized official expenditures, including Intelligence Fund and Discretionary Fund. It also includes Petty Cash Funds and various revolving funds maintained in the Home Office and branches.
- b. Cash in Bank – Local/Foreign Currency - This account represents the bank accounts with the Philippine National Bank, Hong Kong and Shanghai Banking Corporation, Philippine Veterans Bank, Philippine Postal Savings Bank and Land Bank of the Philippines maintained by the Home Office and branches. It includes placements in time deposits which can be pre-terminated when necessary.
- c. Treasury Fund Capital - This account pertains to the cash capital for gaming operations kept in the vault of the branches' Treasury and back-up capital deposited in the banks.

#### 4. Current Receivables, Net

This pertains to the current portion of amounts owed to PAGCOR, as follows:

Particulars	2010	2009 (As Restated)
<b>Receivable Accounts</b>		
Officers and Employees	2,280,127	6,365,588
Others	1,116,832,999	940,336,381
Allowance for Doubtful Accounts – Others	(341,463,767)	(335,126,309)
Net	777,649,359	611,575,660
<b>Due from Officers and Employees</b>	91,817,151	44,584,069
<b>Interests Receivable</b>	2,958,452	1,881,823
	<b>872,424,962</b>	<b>658,041,552</b>
<b>Inter-Agency Receivables</b>		
Due from National Government Agencies		
Philippine Sports Commission	-	14,244,218
Others	275,800	1,000,002,098
Due from GOCCs – SSS	3,705,731	1,781,932
	<b>3,981,531</b>	<b>1,016,028,248</b>
<b>Other Receivables</b>		
Advances to Officers and Employees	4,546,524	21,403,760
Others	111,324,911	380,532,766
	<b>115,871,435</b>	<b>401,936,526</b>
<b>Total Current Receivables - Net</b>	<b>992,277,928</b>	<b>2,076,006,326</b>

In conformity with Philippine Accounting Standard (PAS) No. 8, the current receivables accounts are restated as follows:

Unrestated Amount as of December 31, 2009	6,365,088
Bingo sales adjustment	500
<b>Restated as of December 31, 2009 – Accounts Receivable – Officers and Employees</b>	<b>6,365,588</b>

Unrestated Amount as of December 31, 2009	895,921,474
Collectibles from franchisees, licensees and Flow ticket sales	44,414,907
<b>Restated as of December 31, 2009 – Accounts Receivable – Others</b>	<b>940,336,381</b>
Unrestated Amount as of December 31, 2009	(324,775,324)
Adjustment for account with pending court case	(10,350,985)
<b>Restated as of December 31, 2009 – Allowance for Doubtful Accounts: Others</b>	<b>(335,126,309)</b>
Unrestated Amount as of December 31, 2009	44,519,547
Unliquidated PCF / Disallowed expense / Reclassification	64,522
<b>Restated as of December 31, 2009 – Due from Officers and Employees</b>	<b>44,584,069</b>
Unrestated Amount as of December 31, 2009	1,285,889
Additional 4 <sup>th</sup> quarter interest income / Adjustment (actual)	595,934
<b>Restated as of December 31, 2009 – Interests Receivable</b>	<b>1,881,823</b>
Unrestated Amount as of December 31, 2009	14,176,686
Interest earned on PSC advances	67,532
<b>Restated as of December 31, 2009 – Due from National Government Agencies - Philippine Sports Commission</b>	<b>14,244,218</b>
Unrestated Amount as of December 31, 2009	22,059,992
Liquidation of cash advance for MWR / Reclassification	(656,232)
<b>Restated as of December 31, 2009 – Advances to Officers and Employees</b>	<b>21,403,760</b>
Unrestated Amount as of December 31, 2009	379,605,992
Receivables from separated personnel, concessionaires and others	926,774
<b>Restated as of December 31, 2009 – Other Receivables - Others</b>	<b>380,532,766</b>

Accounts Receivable–Officers and Employees – This account represents amounts due from officers and employees for the sale of bingo and show tickets and souvenir shop items.

Accounts Receivable – Others – This refers to trade receivables from other companies, individuals and organizations, such as gasoline/oil withdrawals by the National Parks Development Committee and amounts due from bingo franchisees.

Due from Officers and Employees – This includes the personal accounts of officers and employees such as death benefits, telephone charges and meal charges.

Interests Receivable – This represents accrued interest income from Peso and Dollar time deposits as of December 31, 2010.

Due from National Government Agencies - This account consists of the outstanding balance of qualifying fees doubly remitted to the National Treasury.

Due from GOCCs – This account pertains to the amount advanced by PAGCOR for the maternity and sickness benefits of officers and employees from the Social Security System.

Advances to Officers and Employees – This pertains to cash advances granted for official travel and other special purpose/time-bound undertakings to establish the accountability of the recipient.

Other Receivables – This account consists of amounts due from the following:

Particulars	2010	2009 (As Restated)
Healthcare	65,996,117	71,689,751
National Broadcasting Network	15,000,000	30,000,000
Employee-Funded Mutual Assistance Fund (EFMAP)	7,899,876	30,338,071
Adriatico Consortium, Inc.	7,667,520	7,667,520
Car Plan / Comprehensive Insurance	692,399	173,282,318
Waterfront Cebu City Hotel	514,936	34,269,480
Century Resort Hotel Corporation	86,840	200,913
Megaworld Corporation	-	13,432,500
Lucky Star International Hotel and Resort Corporation	-	8,858,738
Others	13,467,223	10,793,475
<b>Total Other Receivables</b>	<b>111,324,911</b>	<b>380,532,766</b>

## 5. Inventories

This account consists of the following inventories:

Particulars	2010	2009 (As Restated)
Chips and Tokens	189,559,705	193,560,359
Gaming Supplies	66,079,472	117,275,277
Spare Parts	19,817,671	20,666,140
Office Supplies	19,306,854	25,690,658
Food Supplies	11,380,465	15,744,679
Merchandise	8,359,070	7,484,698
Raw Materials	4,131,026	5,663,388
Construction Materials	3,933,934	5,081,815
Finished Goods	3,443,062	1,949,413
Work-In-Process	1,747,338	2,524,539
Drugs and Medicines	1,481,235	3,961,967
Accountable Forms	908,798	801,371
Medical, Dental and Laboratory Supplies	515,568	701,212
Other Supplies	24,802,177	22,155,202
<b>Total Inventories</b>	<b>355,466,375</b>	<b>423,260,718</b>

In conformity with PAS No. 8, the inventory accounts are restated as follows:

Unrestated Amount as of December 31, 2009	117,864,304
Adjustment on issuance of playing cards	(589,027)
<b>Restated as of December 31, 2009 – Other Supplies Inventory : Gaming</b>	<b>117,275,277</b>
Unrestated Amount as of December 31, 2009	20,672,748
Adjustment on stock items / Reclassification	(6,608)
<b>Restated as of December 31, 2009 – Spare Parts Inventory</b>	<b>20,666,140</b>

Unrestated Amount as of December 31, 2009	23,033,789
CF-Paranaque, CF-Heritage and Corporate reclassification	2,656,869
<b>Restated as of December 31, 2009 – Office Supplies Inventory</b>	<b>25,690,658</b>
Unrestated Amount as of December 31, 2009	15,277,117
CF-Paranaque reclassification	467,562
<b>Restated as of December 31, 2009 – Food Supplies Inventory</b>	<b>15,744,679</b>
Unrestated Amount as of December 31, 2009	6,965,110
Adjustment on issuance of bingo cards/tickets	519,588
<b>Restated as of December 31, 2009 – Merchandise Inventory</b>	<b>7,484,698</b>
Unrestated Amount as of December 31, 2009	5,526,309
Adjustment on stock items	137,079
<b>Restated as of December 31, 2009 – Raw Materials Inventory</b>	<b>5,663,388</b>
Unrestated Amount as of December 31, 2009	5,003,269
Adjustment on issuance / returned items	78,546
<b>Restated as of December 31, 2009 – Construction Materials Inventory</b>	<b>5,081,815</b>
Unrestated Amount as of December 31, 2009	2,568,702
Corporate reclassification	(44,163)
<b>Restated as of December 31, 2009 – Work-In-Process Inventory</b>	<b>2,524,539</b>
Unrestated Amount as of December 31, 2009	3,826,706
Adjustment on CCSD stocks / CF-Pavilion reclassification	135,261
<b>Restated as of December 31, 2009 – Drugs and Medicines Inventory</b>	<b>3,961,967</b>
Unrestated Amount as of December 31, 2009	731,514
Reclassification (TFC checks and official receipts) and inventory adjustments	69,857
<b>Restated as of December 31, 2009 – Accountable Forms Inventory</b>	<b>801,371</b>
Unrestated Amount as of December 31, 2009	697,043
Adjustment / Reclassification	4,169
<b>Restated as of December 31, 2009 – Medical, Dental, and Laboratory Supplies Inventory</b>	<b>701,212</b>
Unrestated Amount as of December 31, 2009	8,806,761
Adjustment on CCSD stocks / Reclassification	13,348,441
<b>Restated as of December 31, 2009 – Other Supplies Inventory</b>	<b>22,155,202</b>

The following issuances from inventory during CY 2010 were recognized as expense and charged to various accounts:

<b>Particulars</b>	<b>Amount</b>
Other Supplies – Gaming	83,203,189
Food Supplies	79,573,107
Office Supplies	48,179,872
Merchandise	38,894,317
Other Supplies – Others	34,814,328
Other Supplies – Chips and Tokens	9,081,226
Drugs and Medicines	9,081,114
Construction Materials	8,037,840
Spare Parts – Slot Machine	7,746,053
Medical, Dental and Laboratory Supplies	1,028,183
Spare Parts - Vehicle	658,024
Accountable Forms	444,972
Other Supplies – Bingo	343,630
Spare Parts – Others	331,531
Spare Parts – CCTV	307,449
Military and Police Supplies	61,954
<b>Total Issuances from Inventory</b>	<b>321,786,789</b>

## 6. Prepayments

This account includes the following:

<b>Particulars</b>	<b>2010</b>	<b>2009 (As Restated)</b>
Rent	86,826,722	184,367,344
Deferred Charges	72,762,784	100,421,080
Insurance	14,881,736	11,703,064
Advances to Contractors	11,052,115	-
Others	58,400,964	950,752
<b>Total Prepayments</b>	<b>243,924,321</b>	<b>297,442,240</b>

In conformity with PAS No. 8, the Deferred Charges and Prepaid Insurance accounts are restated as follows:

Unrestated Amount as of December 31, 2009	100,325,080
Car plan adjustment (from terminated to retired status)	96,000
<b>Restated as of December 31, 2009 – Deferred Charges</b>	<b>100,421,080</b>

Unrestated Amount as of December 31, 2009	11,844,558
Amortization of Fidelity Bond and MSPR Insurance Premium	(141,494)
<b>Restated as of December 31, 2009 – Prepaid Insurance</b>	<b>11,703,064</b>



## 7. Investments

This pertains to the following:

Particulars	2010	2009
<b>A. Investments in Stock</b>		
Wack-Wack Golf and Country Club	20,500,000	20,500,000
Rockwell Land Corporation	4,222,000	4,222,000
Cebu Golf and Country Club	2,500,000	2,500,000
Alabang Country Club	2,167,500	2,167,500
Tagaytay Highlands International Golf Club	1,475,000	1,475,000
The Orchard Golf and Country Club	1,350,000	1,350,000
Alta Vista Golf and Country Club/Vista Mar Beach Resort	1,070,000	1,070,000
Baguio Country Club/Golfers Club Shares, Inc.	1,067,000	1,067,000
Tagaytay Midlands Golf Club	950,000	950,000
Riviera Golf and Country Club	910,000	910,000
Manila Southwoods Golf and Country Club	900,000	900,000
Banyan Tree Nasugbu Evercrest	800,000	800,000
Subic Bay Country Club	726,400	726,400
Fairways and Bluewater Resort and Country Club	704,000	704,000
Eagle Ridge Golf and Country Club	640,000	640,000
Mimosa Golf and Country Club	622,500	622,500
Apo Golf and Country Club	400,000	400,000
Tagaytay Royale Estate	148,500	148,500
Greenland Sports Resort	70,000	70,000
Romeo G. Guanzon Recreation Center	50,000	50,000
Philippine Columbian Association	32,000	32,000
<b>Total Investments in Stock</b>	<b>41,304,900</b>	<b>41,304,900</b>
<b>B. Other Investments and Marketable Securities</b>		
DBP – Money Placements	100,000,000	100,000,000
Philippine Long Distance Telephone Co.	1,790,500	1,790,500
Pilipino Telephone Corporation	13,380	13,380
<b>Total Other Investments and Marketable Securities</b>	<b>101,803,880</b>	<b>101,803,880</b>
<b>Total Investments</b>	<b>143,108,780</b>	<b>143,108,780</b>

## 8. Non-Current Receivables

This account consists of the following:

Particulars	2010	2009
Grand Boulevard Hotel – Rental Deposits	42,247,047	42,247,047
Century Resort Hotel Corporation – remaining balance of financial accommodation for the general finishing works on the new building of PAGCOR Angeles	13,399,940	26,255,082
Romeo Bauzon – advance rental and deposits and payment of real estate tax	12,794,281	12,803,208
Century Resort Hotel Corporation-financial accommodation for the construction of the rent-free basement parking area	6,000,000	9,000,000
Felina Luna - remaining balance of account which is being paid in monthly amortizations of P43,125 per Compromise Agreement of Civil Case No. 97-31299	172,500	690,000
Pryce Plaza – rental deposit	687,290	687,290
<b>Total Non-Current Receivables</b>	<b>75,301,058</b>	<b>91,682,627</b>

## 9. Property, Plant and Equipment

Property, Plant and Equipment (PPE) includes the following:

	Land and Improvements	Buildings and Other Structures	Leasehold Improvements	Construction in Progress	Furniture and Equipment	Total
<b>COST</b>						
Jan. 1, 2010, As Restated	15,033,945,447	97,244,710	380,519,082	52,000,365	4,573,929,654	20,137,639,258
Additions	51,609,417	-	65,497,464	16,703,269	660,486,318	794,296,468
Disposals/ Retirement	-	-	-	-	(3,991,211)	(3,991,211)
Reclassification	(27,517,196)	-	(2,913,924)	(30,848,269)	(20,086,830)	(81,366,219)
Dec. 31, 2010	15,058,037,668	97,244,710	443,102,622	37,855,365	5,210,337,931	20,846,578,296
<b>ACCUMULATED DEPRECIATION</b>						
Jan.1, 2010, As Restated	-	13,080,998	53,266,434	-	1,941,231,494	2,007,578,926
Depreciation	53,844	3,093,602	23,598,416	-	780,002,985	806,748,847
Disposals/ Retirement	-	-	-	-	(131,506)	(131,506)
Reclassification	-	-	-	-	65,306	65,306
Dec. 31, 2010	53,844	16,174,600	76,864,850	-	2,721,168,279	2,814,261,573
<b>NET BOOK VALUE, December 31, 2010</b>	<b>15,057,983,824</b>	<b>81,070,110</b>	<b>366,237,772</b>	<b>37,855,365</b>	<b>2,489,169,652</b>	<b>18,032,316,723</b>
<b>NET BOOK VALUE, December 31, 2009 As Restated</b>	<b>15,033,945,447</b>	<b>84,163,712</b>	<b>327,252,648</b>	<b>52,000,365</b>	<b>2,632,698,160</b>	<b>18,130,060,332</b>

In conformity with PAS No. 8, PPE and accumulated depreciation accounts are restated as follows:

	Land and Improvements	Buildings and Other Structures	Leasehold Improvements	Construction in Progress	Furniture and Equipment	Total
Unrestated Cost						
Dec. 31, 2009	15,006,480,749	97,244,710	380,519,082	53,139,780	4,573,252,361	20,110,636,682
Various Adjustments	27,464,698	-	-	(1,139,415)	677,293	27,002,576
Restated Cost						
Dec. 31, 2009	15,033,945,447	97,244,710	380,519,082	52,000,365	4,573,929,654	20,137,639,258
Unrestated Accumulated Depreciation						
Dec. 31, 2009	-	13,080,998	53,266,434	-	1,941,165,294	2,007,512,726
Various Adjustments	-	-	-	-	66,200	66,200
Restated Accumulated Depreciation						
Dec. 31, 2009	-	13,080,998	53,266,434	-	1,941,231,494	2,007,578,926
<b>RESTATED NET BOOK VALUE,</b>						
<b>Dec. 31, 2009</b>	<b>15,033,945,447</b>	<b>84,163,712</b>	<b>327,252,648</b>	<b>52,000,365</b>	<b>2,632,698,160</b>	<b>18,130,060,332</b>

Moreover, the capitalization of borrowing costs amounting to P47,213,250.44 pertaining to the 150,000 sq. m. land located at the Nayong Pilipino Theme Park that was acquired on April 22, 2009 is in compliance with PAS No. 23.

## 10. Other Assets

This account consists of the following:

Particulars	2010	2009 (As Restated)
Real Estate for Employees' Housing	1,170,901,810	1,175,370,690
Miscellaneous Deposits	729,613,380	709,434,674
Deferred Charges	584,656,417	215,175,311
Advances to Provident Fund	456,597,078	280,481,438
Intangible Assets	88,627,668	71,078,484
Accumulated Amortization – Intangible Assets	(67,513,070)	(51,495,794)
Guaranty Deposits	-	311,974
Fixed Assets for Disposition	19,718,296	4,151,412
Others	100,000	100,000
<b>Total Other Assets</b>	<b>2,982,701,579</b>	<b>2,404,608,189</b>

In conformity with PAS No. 8, various other assets accounts, including the accumulated amortization account, are restated as follows:

Unrestated amount as of December 31, 2009	710,334,389
MERALCO refund for JAD (security deposit/meter)	(899,715)
<b>Restated as of December 31, 2009 – Miscellaneous Deposits</b>	<b>709,434,674</b>

Unrestated amount as of December 31, 2009	214,744,310
Car plan adjustment (from terminated to retired status)	431,001
<b>Restated as of December 31, 2009 – Deferred Charges:</b>	
<b>Non-Current</b>	<b>215,175,311</b>
<hr/>	
Unrestated amount as of December 31, 2009	280,550,777
Releases for regularized employees after closing of provision	(69,339)
<b>Restated as of December 31, 2009 – Advances to Provident Fund</b>	<b>280,481,438</b>
<hr/>	
Unrestated amount as of December 31, 2009	71,127,910
Reclassification ISO 2700 Tool Kit	(49,426)
<b>Restated as of December 31, 2009 – Intangible Assets</b>	<b>71,078,484</b>
<hr/>	
Unrestated amount as of December 31, 2009	(51,508,150)
Reclassification ISO 2700 Tool Kit	12,356
<b>Restated as of December 31, 2009 – Accumulated Amortization-Intangible Assets</b>	<b>(51,495,794)</b>
<hr/>	
Unrestated amount as of December 31, 2009	284,532
Reclassification per COA Audit Observation	3,866,880
<b>Restated as of December 31, 2009 – Fixed Assets for Disposition</b>	<b>4,151,412</b>
<hr/>	

## 11. Accounts Payable

These consist of the following:

<b>Particulars</b>	<b>2010</b>	<b>2009 (As Restated)</b>
Accounts Payable -		
Contractors/Suppliers	611,528,708	560,032,242
Proponents	338,895,406	350,937,619
Others	343,721,774	373,229,109
Due to Officers and Employees – Provision for		
Bonuses and Other Employees' Benefits	237,595,684	218,404,891
Unclaimed Salaries and Wages	10,144,780	5,379,045
Salaries and Other Employees' Benefits	3,032,836	7,035,042
Interest Payable	40,580,952	48,272,780
<b>Total Accounts Payable</b>	<b>1,585,500,140</b>	<b>1,563,290,728</b>

In conformity with PAS No. 8, Payable accounts are restated as follows:

Unrestated amount as of December 31, 2009	555,749,988
Payable to suppliers and contracted obligations	4,282,254
<b>Restated as of December 31, 2009 – Accounts Payable – Contractors/Suppliers</b>	<b>560,032,242</b>

Unrestated amount as of December 31, 2009	349,244,595
Adjustments – JBIG Minimum Guaranteed Fee	1,693,024
<b>Restated as of December 31, 2009 – Accounts Payable – Proponents</b>	<b>350,937,619</b>
Unrestated amount as of December 31, 2009	486,869,843
Interests on unreturned deposit applied against Waterfront rentals	(19,944,995)
Voided APVs (Subsidies, Donations, etc)	(93,695,739)
<b>Restated as of December 31, 2009 – Accounts Payable-Others</b>	<b>373,229,109</b>
Unrestated amount as of December 31, 2009	253,035,722
Closing of provision for bonuses and other benefits	(34,630,831)
<b>Restated as of December 31, 2009 – Due to Officers and Employees : Provision for Bonuses</b>	<b>218,404,891</b>
Unrestated amount as of December 31, 2009	5,465,648
Last salary adjustments	(86,603)
<b>Restated as of December 31, 2009 – Due to Officers and Employees : Unclaimed Salaries</b>	<b>5,379,045</b>
Unrestated amount as of December 31, 2009	6,598,182
Benefits paid after closing of provision (included in regular payroll)	436,860
<b>Restated as of December 31, 2009 – Due to Officers and Employees : Salaries and Other Benefits</b>	<b>7,035,042</b>
Unrestated amount as of December 31, 2009	48,382,640
Loan interest adjustment (actual payment)	(109,860)
<b>Restated as of December 31, 2009 – Interest Payable</b>	<b>48,272,780</b>

## 12. Inter-Agency Payables

This account pertains to the following:

Particulars	2010	2009 (As Restated)
Due to Other National Government Agencies	1,167,828,034	925,705,698
Due to National Treasury	838,490,071	851,675,170
Due to Bureau of Internal Revenue	735,705,741	560,553,775
Due to Local Government Units	22,667,500	20,941,250
Due to Other Government-Owned and/or- Controlled Corporations	22,322,244	24,695,855
Due to Pag-IBIG	6,601,098	5,820,444
Due to PHILHEALTH	3,905,300	3,892,975
<b>Total Inter-Agency Payables</b>	<b>2,797,519,988</b>	<b>2,393,285,167</b>

In conformity with PAS No. 8, Due to National Government Agencies, Due to National Treasury and Due to Bureau of Internal Revenue are restated as follows:

Unrestated amount as of December 31, 2009	925,703,972
PSC Share adjustment due to winnings adjustment / restitution	1,726
<b>Restated amount as of December 31, 2009 – Due to Other National Government Agencies</b>	<b>925,705,698</b>
Unrestated amount as of December 31, 2009	851,640,661
Adjustment due to winnings adjustment / restitution	34,509
<b>Restated amount as of December 31, 2009 – Due to National Treasury</b>	<b>851,675,170</b>
Unrestated amount as of December 31, 2009	560,211,303
Franchise and Withholding tax (Expanded, GMP, VAT) adjustments	342,472
<b>Restated amount as of December 31, 2009 – Due to Bureau of Internal Revenue</b>	<b>560,553,775</b>

Aging of the Due to Bureau of Internal Revenue account as of December 31, 2010 is presented below:

Nature	Balance	Date Remitted*	Reference Code	Amount Remitted
Franchise Tax	655,835,878	Jan. 19, 2011 Various Dates	321100004409345 / Manual Payment	655,836,277
Compensation**	29,222,578	Jan. 20, 2011	11101114408841	46,601,707
Expanded	49,205,928	Jan. 11, 2011	021100004376434 201100004376572	21,997,793 27,665,291
GMP	755,827	Jan. 7, 2011	171100004355173	1,443,029
VAT	685,530			
<b>TOTAL</b>	<b>735,705,741</b>			<b>753,544,097</b>

\*Except for franchise tax which is remitted quarterly, all other taxes are remitted monthly.

\*\*Balance does not include tax on Officers' Performance Bonus for the 4<sup>th</sup> Qtr of 2010 but included in the amount remitted.

### 13. Intra-Agency Payables

This account pertains to the following:

Particulars	Note	2010	2009
Due to PAGCOR Retirement Fund	25	266,594,431	66,106,734
Due to Retired/Separated Employees		486,216	492,589
<b>Total Intra-Agency Payables</b>		<b>267,080,647</b>	<b>66,599,323</b>

#### 14. Other Liability Accounts

These include the following:

<b>Particulars</b>	<b>2010</b>	<b>2009 (As Restated)</b>
Guaranty Deposits Payable	24,649,342	23,492,622
Other Payables	754,298,081	633,271,401
<b>Total Other Liability Accounts</b>	<b>778,947,423</b>	<b>656,764,023</b>

In conformity with PAS 8, the other liability accounts are restated as follows:

Unrestated amount as of December 31, 2009	23,520,597
Forfeiture of deposit	(27,975)
<b>Restated as of December 31, 2009 – Guaranty Deposits Payable</b>	<b>23,492,622</b>
Unrestated amount as of December 31, 2009	685,515,298
Reversal of accrued consultancy fees	(229,806)
Straight-line rental and other adjustments	(52,014,091)
<b>Restated as of December 31, 2009 – Other Payables</b>	<b>633,271,401</b>

#### 15. Long-term Liabilities

PAGCOR has the following long-term liabilities:

<b>Particulars</b>	<b>2010</b>	<b>2009 (As Restated)</b>
Loans Payable – Domestic	1,042,216,607	1,913,288,415
Guaranty Deposits Payable	254,905,406	219,584,238
Others	11,478,464,950	12,409,054,857
<b>Total Long-term Liabilities</b>	<b>12,775,586,963</b>	<b>14,541,927,510</b>

In conformity with PAS 8, Other Long-Term Liabilities – Guaranty Deposits Payable account is restated as follows:

Unrestated amount as of December 31, 2009	220,651,262
Forfeiture of cash bond	(1,067,024)
<b>Restated as of December 31, 2009 – Long-Term Liabilities-Guaranty Deposits Payable</b>	<b>219,584,238</b>

- a. Loans Payable–Domestic pertains to the credit accommodations extended by Land Bank of the Philippines, Philippine National Bank and PAGCOR Provident Fund to finance/ refinance the (i) major construction projects of PAGCOR Angeles, (ii) the purchase of real estate property of the Philippine Reclamation Authority (PRA) at Central Business Park I in Paranaque City and at Nayong Pilipino Theme Park in Pasay City, and (iii) payment of earnest money for the purchase of the 40-hectare property of PRA.

- b. Guaranty Deposits Payable consists of deposits made by suppliers, bingo franchisees and others, as required by PAGCOR, to ensure the delivery of supplies or services and are refundable upon fulfillment of the contract. Also included are cash deposits from proponents of certain gaming operations.
- c. Others – This refers to the outstanding balances of the obligations of PAGCOR to the Philippine Reclamation Authority for the purchase of real estate property at the Central Business Park I, Bay City, Paranaque, viz: (a) the 40 – hectare parcel of land located at Islands B and C (P6,353,042,244) per Deed of Conditional Sale dated November 29, 2007, (b) the additional 161,937 sq. m. parcel of land also located at Islands B and C (P3,600,716,824), and (c) for the purchase of 15-hectare parcel of land located at Nayong Pilipino Theme Park, MIA Road, Pasay City (P1,524,705,882).

## 16. Deferred Credits

This account pertains to the amount collected for revenues not yet earned, set-up of development cost of Imus and Alfonso Housing Project payable by employee-availees over five years and 10 years, respectively, training accountabilities of PAGCOR employees, and set-up of lost assets for restitution.

## 17. Appraisal Capital

This refers to the increase in the value of buildings and other structures as a result of the appraisal conducted by Land Bank of the Philippines per its Appraisal Reports dated August 6 and 7, 2004, for initial set-up purposes following the shift from modified cash to NGAS/accrual basis of accounting.

## 18. Income from Other Related Services

This account is composed of the following:

Particulars	2010	2009 (As Restated)
Income from Other Related Services		
Bingo Operations		
In-House	228,683,573	273,004,588
Franchisees	2,159,036,733	1,839,296,525
Rent Income	108,952,066	259,013,716
Management Fees	95,761,769	223,211,609
Others		
Internet / Mobile Gaming Operations	1,160,857,398	911,733,785
Licensed Casinos	3,920,801,591	1,537,007,169
Poker Operations	253,139,712	213,794,470
Income from SM Demo Units	1,240,057,233	1,249,069,704
<b>Total Income from Other Related Services</b>	<b>9,167,290,075</b>	<b>6,506,131,566</b>



Effective July 1, 2010, the Income from In-House Bingo Operations was reclassified as part of Income from Gaming Operations subject to five percent Franchise Tax, 50 percent Government Share and five percent PSC Share. However, for comparability and presentation purposes, Income from In-House Bingo Operations was shown under Income from Other Related Services.

Management Fees pertains to the payment received by PAGCOR, equivalent to a certain percentage of winnings, for the operation of Clark Development Corporation's casino in CF-Mimosa and for the Pachinko/Pachisuro operations at CF-Paranaque.

The Management Fees of CF-Mimosa were reclassified as part of Income from Gaming Operations: Winnings-Table Games Peso or Winnings-Dollar Pit, subject to five percent Franchise Tax, 50 percent Government Share and five percent PSC Share effective July 1, 2010.

## 19. Other Income

Particulars	2010	2009 (As Restated)
Other Income		
Entertainment	10,473,181	230,882,525
Gasoline Service Operations	986,655	2,695,626
Hotel Operations	56,651,487	55,874,632
Minimum Guaranteed Fee	26,381,552	69,943,716
Reimbursement of Manpower Costs	209,769,339	63,434,914
Interest Income	99,795,753	77,019,582
Dividend Income	63,550	65,179
Miscellaneous Income	133,660,534	141,814,299
Other Fines and Penalties	7,489,431	26,133,588
Gain/ (Loss) on Sale of Disposed Assets	-	(111,177)
Others	-	111,384
<b>Total Other Income</b>	<b>545,271,482</b>	<b>667,864,268</b>

Entertainment Income refers to the income from ticket sales for revenue-generating entertainment shows. Effective January 1, 2009, in compliance with COA recommendations and as provided under PAS 1, related expenses are no longer offset against the income account but recorded separately under the corresponding proper accounts.

Moreover, effective January 1, 2010, the recognition of income from PAGCOR's own expenses was discontinued. The show tickets allocated for casino branches for the period January 1 to July 31, 2010 amounting to P90,130,500 were no longer recorded as Entertainment Income.

## 20. Operating Expenses

This account consists of the following:

Particulars	Note	2010	2009 (As Restated)
<b>Personal Services</b>			
Salaries and Wages		1,529,933,383	1,514,525,195
Other Compensation		2,030,038,712	1,941,702,584
Personnel Benefits Contribution		177,404,516	174,379,569
Other Personnel Benefits		4,201,604,327	3,812,022,584
<b>Total Personal Services</b>		<b>7,938,980,938</b>	<b>7,442,629,932</b>
<b>Maintenance and Other Operating Expenses</b>			
Rent Expenses	21	1,438,630,323	1,420,229,784
Marketing Expenses		1,048,030,895	1,587,345,508
Non-Cash Expenses		891,226,916	881,058,816
Utility Expenses		472,424,031	413,129,796
Professional Services		376,947,786	408,887,438
Confidential, Intelligence, Extraordinary and Miscellaneous Expenses		351,383,292	351,542,816
Supplies and Materials Expenses		278,354,011	280,083,445
Advertising Expenses		165,230,968	316,120,391
Subsidies and Donations		163,131,069	218,530,892
Entertainment Expenses		155,804,243	379,783,149
Repairs and Maintenance		138,844,875	117,342,582
Representation Expenses		82,049,492	102,336,524
Public Relations Expenses		64,027,271	187,310,303
Taxes, Insurance Premiums and Other Fees		59,747,751	55,026,962
Traveling Expenses		45,747,893	45,447,803
Communication Expenses		39,057,799	42,517,124
Printing and Binding Expenses		21,061,036	29,143,505
Training and Scholarship Expenses		8,004,428	10,127,507
Transportation and Delivery Expenses		6,169,874	5,958,699
Membership, Dues and Contributions		3,498,720	3,552,291
Subscription Expenses		2,619,098	3,258,343
Other Maintenance and Operating Expenses		61,609,186	97,625,012
<b>Total Maintenance and Other Operating Expenses</b>		<b>5,873,600,957</b>	<b>6,956,358,690</b>
<b>Financial Expenses</b>		<b>316,593,653</b>	<b>307,225,356</b>
<b>Total Operating Expenses</b>		<b>14,129,175,548</b>	<b>14,706,213,978</b>

Effective January 1, 2009, in compliance with COA recommendations and as provided under PAS 1, related expenses are no longer offset against the income account but recorded separately under the corresponding proper accounts.

Moreover, effective January 1, 2010, the recognition of income from PAGCOR's own expenses was discontinued. The show tickets allocated for casino branches for the

period January 1 to July 31, 2010 amounting to P90,130,500.00 were no longer recorded as Marketing Expense.

## **21. Rent Expenses**

Lease payments under PAGCOR's operating leases are recognized as expense on a straight-line basis over the lease term in line with PAS 17 (Leases).

## **22. Franchise Tax and Government Share**

This pertains to the five percent franchise tax and the 50 percent share of the government after franchise tax (computed on winnings net of payouts) as provided under Section 12 of Presidential Decree No. 1869 (PAGCOR's Charter), as amended by Republic Act No. 9487. PAGCOR income was classified into three categories:

1. Income (winnings) from Gaming Operations – pertains to revenues generated by PAGCOR-operated land-based gaming facilities where PAGCOR is the House, e. g., main casinos, arcades, PAGCOR Clubs.
2. Income from Other Related Services – pertains to revenues generated from operations where PAGCOR is not the House, e. g., income share from its licensees.
3. Other Income – refers to revenues earned from other sources aside from those classified as gaming operations and other related services.

Government agencies like the Bureau of Internal Revenue (BIR) and the Department of Finance (DOF) which are the authorities on taxation have varying opinions on the matter as to what taxes should be paid by PAGCOR. The BIR believes that PAGCOR should pay value added tax (VAT) and corporate income tax instead of franchise tax. In fact, the issue on the payment of VAT was brought by PAGCOR on April 17, 2006 to the Supreme Court (SC) in its petition for Certiorari and Prohibition with Prayer for the Issuance of a Temporary Restraining Order and/or Preliminary Injunction. On March 15, 2011, the Supreme Court rendered its decision that BIR Revenue Regulation No. 16-2005 insofar as it subjects PAGCOR to 10 percent VAT is declared null and void for being contrary to the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337. On the other hand, the DOF believes that income of PAGCOR from all forms of gaming or gambling should form part of gross revenue which should be the basis of the five percent franchise tax and 50 percent government share and only the non-gaming/gambling income should be considered as other income subject to the corporate income tax and VAT. However, the Commission on Audit (COA) opines that all income from gaming operations/games of chance, including income share from its licensees, should form part of PAGCOR's earnings subject to the five percent franchise tax and the 50 percent government share pursuant to the aforementioned section of PD 1869; hence, COA recommended to seek a ruling from the proper authority on the correct taxes to be imposed on PAGCOR and the composition of its gross earnings.

## **23. Corporate Income Tax**

As provided under Section 27 (C) of Republic Act No. 8424 (The National Internal Revenue Code of 1997), PAGCOR, together with the Government Service Insurance System, Social Security System, Philippine Health Insurance Corporation, and the Philippine Charity Sweepstakes Office, was exempted from the payment of corporate income tax. Subsequently, however, under Republic Act No. 9337, said provision was amended by excluding PAGCOR from the government-owned and controlled corporations exempted from corporate income tax payment.

PAGCOR filed a Petition for Certiorari and Prohibition with the Supreme Court per G.R. No. 172087 on April 17, 2006. The Supreme Court, on March 15, 2011, rendered its decision that (a) the exclusion of PAGCOR from the enumeration of GOCCs exempted from corporate income tax is valid and constitutional while (b) BIR Revenue Regulation No. 16-2005 insofar as it subjects PAGCOR to 10 percent VAT is declared null and void for being contrary to the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337. On April 6, 2011, PAGCOR filed a Motion for Reconsideration regarding its exclusion from the list of GOCCs exempted from corporate income tax.

## **24. Contributions to the Government**

- a. The share of the National Government from PAGCOR income is computed at 50 percent of winnings, net of payouts and after the five percent franchise tax and is remitted directly to the Bureau of the Treasury.
- b. Office of the President contribution pertains to the net cash income due to the President's Social Fund.
- c. The Philippine Sports Commission's share from PAGCOR income is computed at five percent of winnings, net of payouts, after the five percent franchise tax and 50 percent Government share.
- d. Cities and provinces hosting the casinos are granted donations/financial assistance in amounts approved by the Board of Directors.
- e. Early Childhood Care and Development Fund represents PAGCOR's contribution of up to P2 billion as mandated by Section 10 of Republic Act (RA) 8980, Early Childhood Care and Development (ECCD) Act of 2000. PAGCOR allocated P152.41 million in CY 2010, bringing the total accumulated allocation to P2 billion from CY 2003 to CY 2010. Of the total accumulated allocation as of CY 2010, P617.73 million remains to be released upon receipt of the letter-request/liquidation from the Council for the Welfare of Children.
- f. Gasoline Station Training and Loan Fund (GSTLF) refers to PAGCOR's contribution of P300 million required under Section 10 of RA 8479, Downstream Oil Industry Deregulation Act of 1998. PAGCOR has already allocated the entire amount of P300 million, P60 million of which has been remitted to the

Department of Energy, leaving a balance of P240 million for release upon liquidation of the previous remittance.

- g. National Book Development Trust Fund refers to PAGCOR's contribution of P50 million as mandated by Republic Act No. 9521 (An Act Creating a National Book Development Trust Fund to support Filipino authorship), also known as the "National Book Development Trust Fund Act". As of December 31, 2010, total allocation and actual remittance to the Fund is at P50 million and P12.5 million, respectively.
- h. The Museum Endowment Fund refers to PAGCOR's contribution of P250 million from its annual net earnings as required under Republic Act No. 8492 (An Act Establishing a National Museum System, Providing for its Permanent Home and for Other Purposes), also known as the "National Museum Act of 1998". Of the total P250 million, P178 million is still outstanding while a total of P72 million was already remitted to the fund from 2002 to 2005.
- i. The Board of Claims' Share from PAGCOR income is computed at one percent of net income as mandated under RA No. 7309.
- j. Contributions to Other Government Agencies refers to financial and other forms of assistance granted by PAGCOR to national government agencies not falling under any of the subsidies to national government agencies mandated by law, such as the National Sports Development Fund of the Philippine Sports Commission.

## **25. Retirement Plan**

### **a. Approval of PAGCOR's Modified Retirement/Separation Benefit Plan**

PAGCOR's Modified Retirement/Separation Benefit Plan (MRSBP) was approved by the Board of Directors on February 27, 2002. It is a Defined Benefit Plan, under which amounts to be paid as retirement benefits are determined actuarially by reference to a formula usually based on employees' remuneration and/or years of service.

### **b. Funding Requirement Based on Actuarial Valuation**

To ensure adequate funding for future availments under the MRSBP, PAGCOR contracted E.M. Zalamea Actuarial Services, Inc. to determine the amount to be set aside. Based on its actuarial valuation report dated November 3, 2004 for the valuation date January 1, 2005, PAGCOR should set aside the following amounts for the Retirement Fund:

- i) Past Service Liability (PSL) - P2,338,971,562.00
- ii) Annual Normal Cost (ANC) - P221,181,319.00 for CY 2005 and from CY 2006 onwards, the actuarial funding rate of 21.1 percent based on covered payroll shall be used until the next actuarial valuation.

c. Setting up of Retirement Fund

PAGCOR's Board approved on May 11, 2005 the setting up of a Retirement Fund with an initial funding/seed money of P60 million to be handled by Provident Fund Management Department as Fund Manager. This Fund is intended to cover funding requirements for employees availing themselves of the MRSBP.

d. Status of Retirement Fund

As of December 31, 2010, the total amount of P3,826,970,262 including the initial funding of P60,000,000, has already been set up, i.e. recognized as expense and liability. Of this amount, P3,560,375,831 has been remitted to the Retirement Fund managed by the Provident Fund Management Department, leaving a balance of P266,594,431 for remittance.

## 26. Retained Earnings

In compliance with PAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the Retained Earnings as of January 1, 2009 has been restated as follows:

<b>Particulars</b>	<b>Amount</b>
<b>Unrestated Balance, January 1, 2009</b>	<b>5,384,024,338</b>
2003, 2007, and 2008 Miscellaneous Income recorded in CY2010	1,893,038
2004 to 2008 Personal Services recorded/adjusted in CY2010	3,743,389
2005 to 2008 Supplies Expenses recorded/adjusted in CY2010	(247,450)
2006 to 2007 Depreciation Expenses recorded/adjusted in CY2010	(34,395)
2006 to 2005 Membership, Dues, and Contributions recorded/adjusted in CY2010	10,000
2006 Marketing Expenses recorded/adjusted in CY2010	1,980
2006 and 2008 Repairs and Maintenance Expenses recorded/adjusted in CY2010	13,219
2008 Cable Charges recorded/adjusted in CY2010	42,424
2008 Other Maintenance and Other Expenses: Others recorded/adjusted in CY2010	546,419
2008 Rent Expenses recorded/adjusted in CY2010	(5,259,468)
2008 Subsidies and Donations recorded/adjusted in CY2010	5,824,432
2008 Traveling Expenses recorded/adjusted in CY2010	(32,299)
<b>Retained Earnings, January 1, 2009 (As Restated)</b>	<b>5,390,525,627</b>