



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, 2011, 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.

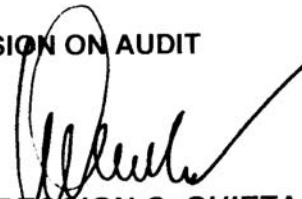
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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, 2011, and its financial performance and its cash flows for the year then ended in accordance with State accounting principles.

COMMISSION ON AUDIT

A handwritten signature in black ink, appearing to read 'Resurreccion C. Quieta', is written over the printed name. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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

April 30, 2012

PHILIPPINE AMUSEMENT AND GAMING CORPORATION

BALANCE SHEET

December 31, 2011

(With corresponding figures for 2010)

(In Philippine Peso)

	Notes	2011	2010 (As Restated)
ASSETS			
Current Assets			
Cash and Cash Equivalents	3	6,863,073,390	5,726,896,540
Receivables - Net	4	1,350,113,947	1,007,806,290
Inventories	2.5, 2.6 & 5	358,551,708	346,004,515
Prepayments	6	354,660,281	243,586,898
Total Current Assets		8,926,399,326	7,324,294,243
Non-Current Assets			
Investments	7	143,101,780	143,108,780
Receivables	8	58,728,618	75,301,058
Property, Plant and Equipment - Net	2.7 & 9	18,136,506,935	17,987,005,986
Other Assets	10	3,194,700,723	2,982,605,276
Total Non-Current Assets		21,533,038,056	21,188,021,100
TOTAL ASSETS		30,459,437,382	28,512,315,343
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts Payable	11	1,971,469,032	1,483,228,524
Inter-Agency Payables	12	2,722,255,004	3,654,470,132
Intra-Agency Payables	13 & 25 d	132,712,430	267,080,647
Other Liability Accounts	14	810,100,442	808,093,544
Total Current Liabilities		5,636,536,908	6,212,872,847
Non-Current Liabilities			
Long-Term Liabilities	15	11,289,018,017	12,775,568,768
Deferred Credits	16	39,827,570	56,158,163
Total Non-Current Liabilities		11,328,845,587	12,831,726,931
TOTAL LIABILITIES		16,965,382,495	19,044,599,778
EQUITY		13,494,054,887	9,467,715,565
TOTAL LIABILITIES AND EQUITY		30,459,437,382	28,512,315,343

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, 2011
(With corresponding figures for 2010)
(In Philippine Peso)

	Notes	2011	2010 (As Restated)
Income			
Income from Gaming Operations			
Winnings	2.4	24,781,303,164	21,763,589,281
Income from Other Related Services	2.9 & 18	11,319,102,320	9,171,260,472
Other Income	2.9 & 19	542,390,066	552,328,091
Gain/(Loss) on Foreign Exchange	2.8	15,956,178	(15,496,367)
Total Income		36,658,751,728	31,471,681,477
Expenses			
Operating Expenses	2.9 & 20	16,472,864,148	14,073,251,482
5% Franchise Tax	22	1,250,515,533	1,093,742,723
		17,723,379,681	15,166,994,205
Contributions to the Government	24		
50% Government Share	22	11,879,897,562	10,390,555,869
Office of the President		1,873,899,213	1,592,344,222
5% Philippine Sports Commission's Share		593,994,878	519,527,793
Subsidy to LGUs: Host Cities' Share		494,520,000	495,720,000
Early Childhood Care and Development Fund		-	152,412,032
National Book Development Trust Fund		-	50,000,000
Museum Endowment Fund		-	178,000,000
1% Board of Claims' Share		40,263,393	27,819,476
Fringe Benefits Tax	23	-	51,386,908
Income Tax	23	-	170,562,964
Mandated Contribution to the National Government-Others		26,457,679	16,765,049
Total Contributions to the Government		14,909,032,725	13,645,094,313
Total Expenses		32,632,412,406	28,812,088,518
NET INCOME		4,026,339,322	2,659,592,959

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, 2011
(With corresponding figures for 2010)
(In Philippine Peso)

	Notes	2011	2010 (As Restated)
Capital Stock		71,430,752	71,430,752
Restricted Capital			
Balance, Beginning		3,181,351,337	1,754,241,530
Current Appropriations		1,265,749,039	1,427,109,807
Balance, End		4,447,100,376	3,181,351,337
Retained Earnings			
Balance, Beginning	26	6,129,427,021	4,896,943,869
Current Appropriations			
Slot Machine Demo Units - Net of Reversions		(379,662,000)	(262,773,000)
Reversion of appropriation for ECCD		-	135,000,000
Acquisition of Other Property, Plant and Equipment		(886,087,039)	(1,299,336,807)
Total Current Appropriations		(1,265,749,039)	(1,427,109,807)
Net Income for the Year		4,026,339,322	2,659,592,959
Balance, End		8,890,017,304	6,129,427,021
Appraisal Capital	17	85,506,455	85,506,455
TOTAL EQUITY		13,494,054,887	9,467,715,565

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, 2011
(With corresponding figures for 2010)
(In Philippine Peso)

	Notes	2011	2010
Cash Flows from Operating Activities			
Income from Casino Customers		24,781,303,164	21,763,589,281
Income from Chip Washing Operations, Non-casino Customers and Other Income		11,505,192,344	9,412,627,683
Interest Income		182,703,814	98,123,190
Payments to Employees, Suppliers, Lessors and Other Creditors		(17,220,186,204)	(13,911,920,553)
50% Government Income Share		(11,496,812,611)	(10,404,203,435)
Other Mandated Contributions		(3,709,809,099)	(2,806,894,093)
Other Operating Disbursements (net of non-cash transactions)		851,922,024	2,046,840,948
Various Taxes Paid to the Bureau of Internal Revenue		(1,039,892,182)	(940,140,613)
Interest Paid on Loans		(224,645,714)	(323,131,738)
Gain/(Loss) on Foreign Exchange	2.8	15,956,178	(15,493,912)
Net Cash Provided by Operating Activities		3,645,731,714	4,919,396,758
Cash Flows from Investing Activities			
Proceeds from Sale of Property, Plant and Equipment		622,970	-
Purchase of Property, Plant and Equipment		(1,467,961,227)	(1,489,018,172)
Net Cash Used in Investing Activities		(1,467,338,257)	(1,489,018,172)
Cash Flows from Financing Activities			
Payment of Loans		(1,042,216,607)	(871,071,808)
Net Cash Used in Financing Activities		(1,042,216,607)	(871,071,808)
Net Increase in Cash and Cash Equivalents		1,136,176,850	2,559,306,778
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3	5,726,896,540	3,167,589,762
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	6,863,073,390	5,726,896,540

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 11 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.

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.

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 and (c) Cash Rebate Program Using Non-Negotiable Chips.

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
Sports Equipment	10
Gaming Equipment	4 to 5
Bingo Equipment	5

Particulars	Estimated Useful Life (in years)
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
Business Income 01. Winnings - Table Games 02. Winnings - Slot Machines 03. Winnings - Dollar Pit 04. Winnings - Intercity/Casino Link 05. Winnings - Electronic Gaming Other Business Income: 06. Bingo Operations In-House (a) Regular (b) Instant Bingo I (c) Instant Bingo II (d) Pop Pera (e) Mobile 07. Bingo Franchisees - Traditional 08. Bingo Franchisees - Electronic 09. Management Fees 10. Rent Income 11. Entertainment 12. Gasoline Service Operations 13. Hotel Operations 14. Others ^{1]} Other Income 01. Interest - Peso Accounts 02. Interest - Dollar Accounts 03. Dividend Income 04. Miscellaneous Income 05. Other Fines and Penalties Gain/Loss 01. Gain/Loss on Foreign Exchange (FOREX) 02. Gain/Loss on Sale of Disposed Assets ^{2]} 03. Gain/Loss on Sale of Securities ^{2]}	Income from Gaming Operations 01. Winnings - Table Games 02. Winnings - Slot Machines 03. Winnings - Dollar Pit 04. Winnings - Intercity/Casino Link 05. Winnings - Electronic Gaming Income from Other Related Services 01. Bingo Operations In-House (a) Regular (b) Instant Bingo I (c) Instant Bingo II (d) Pop Pera (e) Mobile 02. Bingo Operations - Franchisees (a) Traditional (b) Electronic 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 Other Income 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 11. Gain/Loss on Foreign Exchange (FOREX)
1] For deletion 2] For classification under Miscellaneous Income	

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	2011	2010
Cash on Hand	303,133,797	38,690,570
Cash in Bank – Local Currency	5,431,718,628	4,890,522,063
Cash in Bank – Foreign Currency	482,736,847	205,340,050
Treasury Fund Capital	645,484,118	592,343,857
Total Cash and Cash Equivalents	6,863,073,390	5,726,896,540

- 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	2011	2010 (As Restated)
Receivable Accounts		
Officers and Employees	5,828,895	2,365,319
Others	1,286,518,001	1,125,842,056
Allowance for Doubtful Accounts–Others	(344,183,984)	(335,417,247)
Net	948,162,912	792,790,128
Due from Officers and Employees	80,953,921	91,817,137
Interests Receivable	5,418,156	3,308,930
	1,034,534,989	887,916,195
Inter-Agency Receivables		
Due from National Government Agencies		
Others	-	275,800
Due from GOCCs – SSS	2,910,600	3,705,731
	2,910,600	3,981,531
Other Receivables		
Advances to Officers and Employees	6,839,841	3,727,445
Others	305,828,517	112,181,119
	312,668,358	115,908,564
Total Current Receivables - Net	1,350,113,947	1,007,806,290

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

Unrestated Amount as of December 31, 2010	2,280,127
Bingo sales adjustment	85,192
Restated as of December 31, 2010 – Accounts Receivable – Officers and Employees	2,365,319

Unrestated Amount as of December 31, 2010	1,116,832,999
Collectibles from franchisees, poker licensees and junket operators	9,009,057
Restated as of December 31, 2010 – Accounts Receivable – Others	1,125,842,056
Unrestated Amount as of December 31, 2010	(341,463,767)
Adjustment pertaining to prior year's collectibles	6,046,520
Restated as of December 31, 2010 – Allowance for Doubtful Accounts-Others	(335,417,247)
Unrestated Amount as of December 31, 2010	91,817,151
Unliquidated Cash Advances / Reclassification	(14)
Restated as of December 31, 2010 – Due from Officers and Employees	91,817,137
Unrestated Amount as of December 31, 2010	2,958,452
Additional 4 th quarter interest income/Adjustment (actual)	350,478
Restated as of December 31, 2010 – Interests Receivable	3,308,930
Unrestated Amount as of December 31, 2010	4,546,524
Liquidation of cash advance for mobile bingo/pamaskong handog	(819,079)
Restated as of December 31, 2010 – Advances to Officers and Employees	3,727,445
Unrestated Amount as of December 31, 2010	111,324,911
Receivables from separated personnel, concessionaires and others	856,208
Restated as of December 31, 2010 – Other Receivables – Others	112,181,119

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

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, poker operators and licensed casinos.

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

Interests Receivable – This represents accrued interest income from Peso and Dollar time deposits as of December 31, 2011.

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	2011	2010 (As Restated)
Car Plan / Comprehensive Insurance	196,031,537	692,399
Healthcare	67,134,709	65,996,117
National Broadcasting Network	15,000,000	15,000,000
Adriatico Consortium, Inc.	7,667,520	7,667,520
Manila Pavilion Hotel	4,966,830	-
Employee-Funded Mutual Assistance Fund (EFMAP)	4,103,685	7,899,876
Waterfront Cebu City Hotel	500,900	514,936
Century Resort Hotel Corporation	-	86,840
Others	10,423,336	14,323,431
Total Other Receivables	305,828,517	112,181,119

5. Inventories

This account consists of the following inventories:

Particulars	2011	2010 (As Restated)
Chips and Tokens	172,547,543	189,559,705
Gaming Supplies	54,803,175	67,394,404
Spare Parts	22,282,848	19,816,700
Office Supplies	20,032,681	17,449,065
Work-In-Process	16,591,175	1,747,338
Food Supplies	14,263,050	10,925,191
Raw Materials	11,481,626	4,173,961
Merchandise	8,899,700	9,001,673
Construction Materials	6,205,544	4,466,972
Finished Goods	4,745,726	3,553,322
Drugs and Medicines	1,215,096	1,448,664
Medical, Dental and Laboratory Supplies	771,687	515,568
Accountable Forms	664,499	787,334
Other Supplies	24,047,358	15,164,618
Total Inventories	358,551,708	346,004,515

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

Unrestated Amount as of December 31, 2010	66,079,472
Adjustment on GD stocks/reconciling items	1,314,932
Restated as of December 31, 2010 – Other Supplies Inventory :	
Gaming	67,394,404

Unrestated Amount as of December 31, 2010	19,817,671
Adjustment on stock of SMD/reconciling items	(971)
Restated as of December 31, 2010 – Spare Parts Inventory	19,816,700
Unrestated Amount as of December 31, 2010	19,306,854
Adjustment on stocks of PPD/reconciling items	(1,857,789)
Restated as of December 31, 2010 – Office Supplies Inventory	17,449,065
Unrestated Amount as of December 31, 2010	11,380,465
Adjustment on CCD stocks/CF Pavilion reclassification	(455,274)
Restated as of December 31, 2010 – Food Supplies Inventory	10,925,191
Unrestated Amount as of December 31, 2010	4,131,026
Adjustment on stocks of GSD/reconciling items	42,935
Restated as of December 31, 2010 – Raw Materials Inventory	4,173,961
Unrestated Amount as of December 31, 2010	8,359,069
Adjustment on issuance of bingo cards, markers and tickets	642,604
Restated as of December 31, 2010 – Merchandise Inventory	9,001,673
Unrestated Amount as of December 31, 2010	3,933,934
Adjustment on issuances/reconciling items	533,038
Restated as of December 31, 2010 – Construction Materials Inventory	4,466,972
Unrestated Amount as of December 31, 2010	3,443,062
Adjustment on costing/overhead costs	110,260
Restated as of December 31, 2010 – Finished Goods Inventory	3,553,322
Unrestated Amount as of December 31, 2010	1,481,235
Adjustment on HSD stocks/CF-Pavilion reclassification	(32,571)
Restated as of December 31, 2010 – Drugs and Medicines Inventory	1,448,664
Unrestated Amount as of December 31, 2010	908,798
Inventory adjustments/reconciling items	(121,464)
Restated as of December 31, 2010 – Accountable Forms Inventory	787,334
Unrestated Amount as of December 31, 2010	24,802,177
Adjustment on stocks of PPD, CRSD, and CCD/reconciling items	(9,637,559)
Restated as of December 31, 2010 – Other Supplies Inventory	15,164,618

The following issuances from inventory during CY 2011 were recognized as expense and charged to various accounts:

Particulars	Amount
Food Supplies	89,043,641
Other Supplies – Others	75,641,821
Office Supplies – Gaming	55,253,495
Other Supplies	51,041,174
Merchandise	40,904,037
Construction Materials	6,140,391
Medical, Dental and Laboratory Supplies	3,888,064
Drugs and Medicines	3,324,448
Spare Parts – Slot Machine	1,155,591
Other Supplies – Bingo	363,255
Spare Parts – CCTV	136,000
Accountable Forms	37,770
Other Supplies – Chips and Tokens	331
Spare Parts – Others	249
Spare Parts – Vehicle	226
Total Issuances from Inventory	326,930,493

6. Prepayments

This account includes the following:

Particulars	2011	2010 (As Restated)
Rent	204,002,751	86,826,722
Deferred Charges	76,332,337	72,420,945
Insurance	16,756,965	14,886,152
Advances to Contractors	11,052,115	11,052,115
Others	46,516,113	58,400,964
Total Prepayments	354,660,281	243,586,898

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

Unrestated Amount as of December 31, 2010	72,762,784
Car plan adjustment (from terminated to retired status)	(341,839)
Restated as of December 31, 2010 – Deferred Charges	72,420,945
Unrestated Amount as of December 31, 2010	14,881,736
Amortization of Fidelity Bond Insurance Premium	4,416
Restated as of December 31, 2010 – Prepaid Insurance	14,886,152

7. Investments

This pertains to the following:

Particulars	2011	2010
A. Investments in Stock		
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
Total Investments in Stock	41,304,900	41,304,900
B. Other Investments and Marketable Securities		
DBP – Money Placements	100,000,000	100,000,000
Philippine Long Distance Telephone Co.	1,783,500	1,790,500
Pilipino Telephone Corporation	13,380	13,380
Total Other Investments and Marketable Securities	101,796,880	101,803,880
Total Investments	143,101,780	143,108,780

8. Non-Current Receivables

This account consists of the following:

Particulars	2011	2010
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
Romeo Bauzon – advance rental and deposits and payment of real estate tax	12,794,281	12,794,281
Century Resort Hotel Corporation-financial accommodation for the construction of the rent-free basement parking area	3,000,000	6,000,000
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
Pryce Plaza – rental deposit	687,290	687,290
Total Non-Current Receivables	58,728,618	75,301,058

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
COST						
Jan. 1, 2011, As Restated	15,058,037,668	97,244,710	443,102,622	36,979,691	5,210,339,991	20,845,704,682
Additions	36,943,075	77,454	46,636,356	26,559,266	957,200,186	1,067,416,337
Disposals/Retirement	-	-	-	-	(60,215,610)	(60,215,610)
Reclassification	-	-	(166,912)	(36,642,956)	(150,672)	(36,960,540)
Dec. 31, 2011	15,094,980,743	97,322,164	489,572,066	26,896,001	6,107,173,895	21,815,944,869
ACCUMULATED DEPRECIATION						
Jan.1, 2011, As Restated	55,968	16,200,833	119,637,089	-	2,722,804,806	2,858,698,696
Depreciation	235,650	3,107,289	42,218,476	-	818,866,577	864,427,992
Disposals/Retirement	-	-	-	-	(43,624,236)	(43,624,236)
Reclassification	-	-	-	-	(64,518)	(64,518)
Dec. 31, 2011	291,618	19,308,122	161,855,565	-	3,497,982,629	3,679,437,934
NET BOOK VALUE, December 31, 2011	15,094,689,125	78,014,042	327,716,501	26,896,001	2,609,191,266	18,136,506,935
NET BOOK VALUE, December 31, 2010 As Restated	15,057,981,700	81,043,877	323,465,533	36,979,691	2,487,535,185	17,987,005,986

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, 2010	15,058,037,668	97,244,710	443,102,622	37,855,365	5,210,337,931	20,846,578,296
Various Adjustments				(875,674)	2,060	(873,614)
Restated Cost						
Dec. 31, 2010	15,058,037,668	97,244,710	443,102,622	36,979,691	5,210,339,991	20,845,704,682
Unrestated Accumulated Depreciation						
Dec. 31, 2010	53,844	16,174,600	76,864,850	-	2,721,168,279	2,814,261,573
Various Adjustments	2,124	26,233	42,772,239	-	1,636,527	44,437,123
Restated Accumulated Depreciation						
Dec. 31, 2010	55,968	16,200,833	119,637,089	-	2,722,804,806	2,858,698,696
RESTATED NET BOOK VALUE,						
Dec. 31, 2010	15,057,981,700	81,043,877	323,465,533	36,979,691	2,487,535,185	17,987,005,986

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	2011	2010 (As Restated)
Real Estate for Employees' Housing	1,163,843,764	1,170,901,810
Deferred Charges (Non-Current)	848,293,433	584,485,538
Miscellaneous Deposits	794,375,579	729,583,323
Advances to Provident Fund	353,949,173	457,977,711
Intangible Assets	102,870,820	88,627,668
Accumulated Amortization – Intangible Assets	(80,653,451)	(67,513,070)
Fixed Assets for Disposition	11,811,245	18,442,296
Guaranty Deposits	110,160	-
Others	100,000	100,000
Total Other Assets	3,194,700,723	2,982,605,276

In conformity with PAS No. 8, various other assets accounts are restated as follows:

Unrestated amount as of December 31, 2010	584,656,417
Car plan adjustment (from terminated to retired status)	(170,879)
Restated as of December 31, 2010 – Deferred Charges (Non-Current)	584,485,538

Unrestated amount as of December 31, 2010	729,613,380
Refund of security deposit net of applicable charges	(30,057)
Restated as of December 31, 2010 – Miscellaneous Deposit	729,583,323
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Unrestated amount as of December 31, 2010	456,597,078
Releases for regularized employees after closing of provision	1,380,633
Restated as of December 31, 2010 – Advances to Provident Fund	457,977,711
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Unrestated amount as of December 31, 2010	19,718,296
Various items donated	(1,276,000)
Restated as of December 31, 2010 – Fixed Assets for Disposition	18,442,296

11. Accounts Payable

These consist of the following:

Particulars	2011	2010 (As Restated)
Accounts Payable -		
Contractors/Suppliers	411,769,976	595,019,826
Proponents	323,129,485	339,192,692
Others	897,630,871	289,361,401
Due to Officers and Employees – Provision for		
Bonuses and Other Employees' Benefits	298,600,802	223,249,933
Unclaimed Salaries and Wages	11,498,715	10,172,298
Salaries and Other Employees' Benefits	6,488,690	2,068,027
Interest Payable	22,350,493	24,164,347
Total Accounts Payable	1,971,469,032	1,483,228,524

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

Unrestated amount as of December 31, 2010	611,528,708
Payable to suppliers, contracted obligations and voided APVs	(16,508,882)
Restated as of December 31, 2010 – Accounts Payable – Contractors/Suppliers	595,019,826
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Unrestated amount as of December 31, 2010	338,895,406
Adjustments – PAGCOR Clubs and JBIG transactions	297,286
Restated as of December 31, 2010 – Accounts Payable – Proponents	339,192,692
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Unrestated amount as of December 31, 2010	343,721,774
Voided APVs (Subsidies, Donations, etc.)	(54,360,373)
Restated as of December 31, 2010 – Accounts Payable-Others	289,361,401

Unrestated amount as of December 31, 2010	237,595,684
Closing of provision for bonuses and other benefits	(14,345,751)
Restated as of December 31, 2010 – Due to Officers and Employees : Provision for Bonuses	223,249,933
Unrestated amount as of December 31, 2010	10,144,780
Last salary adjustments	27,518
Restated as of December 31, 2010 – Due to Officers and Employees : Unclaimed Salaries	10,172,298
Unrestated amount as of December 31, 2010	3,032,836
Payroll adjustments	(964,809)
Restated as of December 31, 2010 – Due to Officers and Employees : Salaries and Other Benefits	2,068,027
Unrestated amount as of December 31, 2010	40,580,952
Loan interest adjustment (actual payment / double take up)	(16,416,605)
Restated as of December 31, 2010 – Interest Payable	24,164,347

12. Inter-Agency Payables

This account pertains to the following:

Particulars	2011	2010 (As Restated)
Due to National Treasury	1,216,572,521	838,205,895
Due to Bureau of Internal Revenue	952,157,488	1,592,954,270
Due to Other National Government Agencies	496,559,098	1,167,813,825
Due to Other Government-Owned and/or- Controlled Corporations	28,613,745	22,322,244
Due to Local Government Units	18,262,500	22,667,500
Due to Pag-IBIG	6,789,630	6,601,098
Due to PHILHEALTH	3,300,022	3,905,300
Total Inter-Agency Payables	2,722,255,004	3,654,470,132

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

Unrestated amount as of December 31, 2010	838,490,071
Adjustment due to winnings / restitution	(284,176)
Restated as of December 31, 2010 – Due to National Treasury	838,205,895
Unrestated amount as of December 31, 2010	735,705,741
Franchise and Withholding tax (Expanded, GMP, VAT) Adjustments	266,583
Fringe Benefits and Corporate Income tax	856,981,946
Restated as of December 31, 2010 – Due to Bureau of Internal Revenue	1,592,954,270

Unrestated amount as of December 31, 2010	1,167,828,034
Adjustment to winnings / restitutions	(14,209)
Restated as of December 31, 2010 – Due to Other National Government Agencies	1,167,813,825

Aging of the Due to Bureau of Internal Revenue account as of December 31, 2011 is presented below:

Nature	Balance	Date Remitted*	Reference Code	Amount Remitted
Franchise Tax	866,459,230	Jan. 19, 2012	321200005519736/	837,644,617
		Various Dates	Manual Payment	47,730,172
Compensation	31,700,972	Jan. 19, 2012	11200005521608	49,650,192
			021200005477945	16,799,432
Expanded	52,592,506	Jan. 11, 2012	201200005478043	36,071,890
GMP	513,739			518,758
VAT	891,041	Jan. 9, 2012	171200005454650	900,349
TOTAL	952,157,488			989,315,410

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

13. Intra-Agency Payables

This account pertains to the following:

Particulars	Note	2011	2010
Due to PAGCOR Retirement Fund	25	132,226,214	266,594,431
Due to Retired/Separated Employees		486,216	486,216
Total Intra-Agency Payables		132,712,430	267,080,647

14. Other Liability Accounts

These include the following:

Particulars	2011	2010 (As Restated)
Guaranty Deposits Payable	109,341,698	23,649,342
Other Payables	700,758,744	784,444,202
Total Other Liability Accounts	810,100,442	808,093,544

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

Unrestated amount as of December 31, 2010	24,649,342
Forfeiture of deposit	(1,000,000)
Restated as of December 31, 2010 – Guaranty Deposits Payable	23,649,342

Unrestated amount as of December 31, 2010	754,298,081
Adjustments on consultancy fees, straight line rental, etc.	30,146,121
Restated as of December 31, 2010 – Other Payables	784,444,202

15. Long-term Liabilities

PAGCOR has the following long-term liabilities:

Particulars	2011	2010 (As Restated)
Loans Payable – Domestic	-	1,042,216,607
Guaranty Deposits Payable	353,276,446	254,887,211
Others	10,935,741,571	11,478,464,950
Total Long-term Liabilities	11,289,018,017	12,775,568,768

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

Unrestated amount as of December 31, 2010	254,905,406
Forfeiture of cash bond applied to manpower costs	(18,195)
Restated as of December 31, 2010 – Long-Term Liabilities-Guaranty Deposits Payable	254,887,211

- 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 following outstanding obligations of PAGCOR:
 - 1) Philippine Reclamation Authority for the purchase of real estate property at the Central Business Park I, Bay City, Paranaque:
 - (i) 40 hectare parcel of land located at Islands B and C per Deed of Conditional Sale dated November 29, 2007 (P5,955,329,283)
 - (ii) Additional 161,937 sq. m. parcel of land also located at Islands B and C (P3,360,669,035)
 - (iii) 15-hectare parcel of land located at Nayong Pilipino Theme Park, MIA Road, Pasay City (P1,429,411,765).

2) Lease-to-Own Slot Machines

PAGCOR entered into contract with suppliers of standalone slot machines for the procurement of slot machines. Payment of the contract price shall be the amount equivalent to 15% of PAGCOR's net income/win from operations of the delivered machines based on the schedule stated in the contract. The first monthly payment shall be due 45 days after installation. At the end of the 24 months, if the accumulated payment has not reached the total contract price/sale amount, PAGCOR shall pay in full the remaining balance, if and when no patent and latent defects are noted.

As of December 31, 2011, the total outstanding balance of the contract price for these slot machines amounted to P190,331,488 for the slot machines at the following:

Casino Filipino (CF) Branches	Amount
CF Cebu	41,944,586
CF Hyatt	40,045,998
CF Pavilion	108,340,904
Total	190,331,488

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	2011	2010 (As Restated)
Income from Other Related Services		
Bingo Operations		
In-House	229,007,494	228,125,657
Franchisees	2,669,483,299	2,159,016,696
Rent Income	190,332,877	112,376,066

Particulars	2011	2010 (As Restated)
Management Fees	3,516,058	95,761,769
Others		
Internet/Mobile Gaming Operations	1,531,833,341	1,161,849,372
Licensed Casinos	5,505,022,076	3,920,567,519
Poker Operations	259,016,208	253,506,160
Income from SM Demo Units	930,890,967	1,240,057,233
Total Income from Other Related Services	11,319,102,320	9,171,260,472

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 that last up to March 2011 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	2011	2010 (As Restated)
Other Income		
Entertainment	4,778,339	10,270,981
Hotel Operations	69,666,068	56,651,487
Minimum Guaranteed Fee	5,198,714	26,982,512
Reimbursement of Manpower Costs	176,726,198	213,485,176
Interest Income	185,163,518	100,222,168
Dividend Income	39,642	63,550
Miscellaneous Income	92,881,914	137,020,198
Other Fines and Penalties	7,935,673	7,632,019
Total Other Income	542,390,066	552,328,091

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.

20. Operating Expenses

This account consists of the following:

Particulars	Note	2011	2010 (As Restated)
Personal Services			
Salaries and Wages		1,545,583,606	1,530,056,647
Other Compensation		2,028,233,184	2,015,837,557
Personnel Benefits Contribution		185,300,619	177,404,516
Other Personnel Benefits		4,068,953,539	4,201,470,220
Total Personal Services		7,828,070,948	7,924,768,940
Maintenance and Other Operating Expenses			
Marketing Expenses		2,703,592,914	1,048,954,356
Rent Expenses	21	1,571,656,849	1,439,400,676
Subsidies and Donations		1,213,331,240	158,674,583
Non-Cash Expenses		930,851,999	886,895,047
Utility Expenses		505,984,141	469,011,152
Professional Services		374,895,168	369,461,875
Supplies and Materials Expenses		277,011,058	278,989,820
Confidential, Intelligence, Extraordinary and Miscellaneous Expenses		263,848,765	351,383,292
Repairs and Maintenance		127,125,657	138,194,744
Entertainment Expenses		108,807,990	156,083,819
Taxes, Insurance Premiums and Other Fees		77,232,817	59,800,029
Advertising Expenses		52,940,493	159,636,080
Representation Expenses		47,033,089	82,328,767
Traveling Expenses		37,750,755	44,454,680
Public Relations Expenses		36,138,197	63,276,273
Communication Expenses		34,855,457	39,270,602
Training and Scholarship Expenses		10,021,227	7,944,680
Transportation and Delivery Expenses		6,677,436	6,303,138
Membership Dues and Contributions		2,336,826	3,734,720
Subscription Expenses		2,309,853	2,626,870
Printing and Binding Expenses		303,050	21,061,036
Other Maintenance and Operating Expenses		51,970,409	61,114,954
Total Maintenance and Other Operating Expenses		8,436,675,390	5,848,601,193
Financial Expenses		208,117,810	299,881,349
Total Operating Expenses		16,472,864,148	14,073,251,482

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.

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:

- a. 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.
- b. Income from Other Related Services – pertains to revenues generated from operations where PAGCOR is not the House, e. g., income share from its licensees.
- c. Other Income – refers to revenues earned from other sources aside from those classified as gaming operations and other related services.

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. In its resolution dated May 31, 2011, the Supreme Court resolved to deny with finality the said Motion for Partial Reconsideration.

The PAGCOR Board of Directors in its meeting on January 4, 2012 approved the partial settlement of tax liabilities in the amount of P856,981,946.37, subject to validation of the ongoing audit investigation being conducted by BIR, as shown below:

Tax	Period Covered	Amount
Fringe Benefits Tax	January 1, 2004 to December 31, 2010	199,799,028
Corporate Income Tax	November 1, 2005 to December 31, 2010	657,182,918
Total		856,981,946

On February 29, 2012, BIR issued Revenue Memorandum Circular (RMC) No. 8-2012. Said RMC covers the circularization of the relevant excerpts from the En Banc Supreme Court Decision in the case of Philippine Amusement and Gaming Corporation (PAGCOR) vs. the Bureau of Internal Revenue (BIR) under G.R. No. 172087 dated March 15, 2011, on excluding PAGCOR from exemption from corporate income tax and the declaration of nullity of the pertinent provisions of Revenue Regulations No. 16-2005 relative to the imposition of 10 percent VAT on PAGCOR; and subsequently, the En Banc Court Resolution dated May 31, 2011 denying with finality the relevant motions for partial reconsideration thereof.

Computed tax liabilities for CY 2011 in the amount of P1,009,216,390 is broken down as follows:

Tax	Amount
Fringe Benefits Tax	48,954,010
Corporate Income Tax	960,262,380
Total	1,009,216,390

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. In 2011, the remaining P617.73 million allocation was released to 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". The remaining P37.5 million allocation was remitted to the Fund in 2011.
- 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, P72 million was remitted to the Fund from 2002 to 2005 while the remaining P178 million was remitted in 2011.
- 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, 2011, the total amount of P4,884,786,348 including the initial funding of P60,000,000, has already been set up, i.e. recognized as expense and liability. Of this amount, P4,752,560,134 has been remitted to the Retirement Fund managed by the Provident Fund Management Department, leaving a balance of P132,226,214 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, 2010 has been restated as follows:

Particulars	Amount
Unrestated Balance, January 1, 2010	5,598,073,637
2005 to 2009 Other Income recorded/adjusted in 2011	(40,200,265)
2007 to 2009 Income from Other Related services recorded/adjusted in 2011	233,582
2009 Advertising Expenses recorded/adjusted in 2011	4,171,900
2006, 2008 and 2009 Bad debts Expenses recorded/adjusted in 2011	17,278
2006 to 2009 Personal Services recorded/adjusted in 2011	420,291
2006 to 2009 Depreciation Expenses recorded/adjusted in 2011	(42,739,752)
2008 to 2009 Subsidies and Donations recorded/adjusted in 2011	4,021,789
2008 to 2009 Utility Expenses recorded/adjusted in 2011	8,328,732
2006 and 2008 Professional Services recorded/adjusted in 2011	83,888
2008 and 2009 Supplies Expense recorded/adjusted in 2011	(7,358)
2004, 2005 and 2009 Repairs and Maintenance recorded/adjusted in 2011	157,337
2008 and 2009 Rent Expense recorded/adjusted in 2011	(1,056,615)
2009 Travelling Expenses recorded/adjusted in 2011	471,499
2004 to 2009 Fringe Benefits Tax recorded/adjusted in 2011	(148,412,120)
2005 to 2009 Corporate Income Tax recorded/adjusted in 2011	(486,619,954)
Retained Earnings, January 1, 2010 (As Restated)	4,896,943,869