PUERTO RICO PUBLIC BROADCASTING CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
AUDITED FINANCIAL STATEMENTS

June 30, 2013 and 2012

BDO

PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Public Broadcasting Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Puerto Rico Public Broadcasting Corporation (the "Corporation") (a component unit of the Commonwealth of Puerto Rico), as of June 30, 2013 and June 30, 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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.

Basis for Qualified Opinion

As disclosed in Note 5, the Corporation's capital assets are stated, net of accumulated depreciation, at $14,053,749 and $15,229,496 at June 30, 2013 and 2012, respectively. The Corporation is currently performing a formal reconciliation of its subsidiary ledgers to the physical assets. We were unable to satisfy ourselves about the completeness and accuracy of the capital assets records maintained by the Corporation.

Opinion

In our opinion, except for the matter described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Corporation as of June 30, 2013 and 2012, and the changes in financial position, and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis information on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors of
Puerto Rico Public Broadcasting Corporation
Page 3

Report on Other Legal and Regulatory Requirement

In accordance with *Government Auditing Standards,* we have also issued our report dated December 4, 2013, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BDO Puerto Rico, PSC

San Juan, Puerto Rico

December 4, 2013

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2015
Stamp 2674248 of the P.R. Society of
Certified Public Accountants has been
Affixed to the file copy of this report

PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012

This section of the financial report of the Puerto Rico Public Broadcasting Corporation (the "Corporation") presents the analysis of the Corporation's financial performance during the fiscal years ended June 30, 2013 and 2012. As management of the Corporation, we offer readers of these financial statements the following narrative overview and analysis of our financial activities. We recommend readers to consider the information herein presented in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- During fiscal year 2013, seven employees elected to retire pursuant to the early retirement program enacted by Act 70. Together with prior year retirees, this will result in estimated annual savings of approximately $325,000.
- Trade and barter transactions amounted to $1,569,723 in year 2013, thus, allowing the Corporation to subsidize its operating expenses.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report consists of four parts, as follows:

Financial Statements - The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position and Cash Flows (on pages 9-12) provide information about the activities of our Corporation and present a long-term view of the Corporation's finances.

Notes to Basic Financial Statements - The notes to the financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information - Management's Discussion and Analysis represents financial information required to be presented by GASB Statement No. 34. Such information provides the users of this report with additional data that supplements the basic financial statements.

Basis of Accounting - The Corporation uses the accrual basis of accounting. Under this method, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012

This annual report is consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB), following the new financial reporting requirements of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, GASB Statement No. 37, an Omnibus Amendment to GASB Statements 21 and 34, GASB Statement No. 40, Deposit and Investment Risk Disclosures, and Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements and GASB statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. These GASB statements are designed to enhance the usefulness of the Corporation's annual report.

FINANCIAL ANALYSIS

Basis of Presentation - The Corporation has established its financial activities as business-type. Business-type activities are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the government is that the costs of providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges.

The business-type activities account for resources devoted to financing the general services that the Corporation provides to the general public. Contributions from the Legislative Assembly of the Commonwealth of Puerto Rico, contributions from the Corporation for Public Broadcasting (CPB) and other sources of revenues, used to finance the operations of the Corporation, are also included.

Governmental Contributions - Governmental contributions are recorded in the year in which the funds are available to the Corporation. When their use is restricted for the acquisition or construction of capital assets and related studies, they are recorded as capital contributions and restricted net assets.

PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012

A financial analysis of the Corporation as a whole:

Net Position
(Comparative Financial Data)

	June 30	
	2013	2012
Capital assets	$ 14,053,749	$ 15,229,496
Current assets	$ 3,110,639	3,265,719
Non-current assets	$ 137,506	313,125
Total assets	$ 17,301,894	18,808,340
Current liabilities	$ 3,890,908	4,283,016
Non-current liabilities	$ 5,623,812	4,944,085
Total liabilitites	$ 9,514,720	9,227,101
Net position		
Invested in capital assets, net of related debt	14,053,749	15,229,496
Restricted	1,345,777	1,077,701
Unrestricted net position	(7,612,352)	(6,725,958)
Total net position	$ 7,787,174	$ 9,581,239

- For the fiscal year ended June 30, 2013, as compared to the fiscal year ended June 30, 2012, total assets decreased 8% from $17,301,894 to $18,808,340. This was mainly due to a $1.2 million decrease in net capital assets.

- As of June 30, 2013 and 2012, the Corporation's liabilities amounted to $9,514,720 and $9,227,101, respectively, increasing by $287,618 or 3% when compared to 2012. This was primarily due to a $739,000 increase in termination benefits liability arising from additional employees that elected to early retire during 2013 pursuant to Act 70 and an increase in accrued expenses of approximately $405,000, offset by a decrease in accounts payable trade and compensated absences of approximately $857,000. Such decrease was related to an effort by the Corporation to perform timely payments to vendors.

- Restricted net assets are assigned for the following purposes:

	2013	2012
Special dramatic project	$ 840,773	$ 534,717
Digital grant	277,029	423,790
CPB	225,975	117,003
ACUDEN grant	-	191
Others	2,000	2,000
	$ 1,345,777	$ 1,077,701

The following summarizes the condensed changes in net position for the Corporation:

Revenues, Expenses and Changes in Net Position
(Comparative Financial Data)

	June 30	
	2013	2012
Operating revenues	$ 4,122,234	$ 3,650,135
Operating expenses	25,442,522	27,729,697
Loss from operations	(21,320,288)	(24,079,562)
Non-operating revenues	3,157,767	3,544,651
Loss before contributions from government	(18,162,521)	(20,534,911)
Contributions from government	16,368,456	16,305,133
Decrease in net position	(1,794,065)	(4,229,778)
Net position, beginning of year	9,581,239	13,811,017
Net position, end of year	$ 7,787,174	$ 9,581,239

- Operating revenues for the fiscal year ended June 30, 2013 amounted to $4,122,234 representing an increase of 13% over the fiscal year ended June 30, 2012, that amounted to $3,650,135. This increase was mainly due to an increase in revenues arising from trade and barter transactions amounting to approximately $666,000, offset by a reduction in production services revenues.

- Operating expenses for fiscal years 2013 and 2012 amounted to $25,442,522 and $27,729,697, respectively, a reduction $2,287,175 or 8% when compared to prior year. This decrease was mainly due to: (1) a decrease in overall salaries and related benefits amounting to approximately $1,904,000, (2) a $879,000 decrease in depreciation and a amortization and (3) overall reduction in other expenses amounting to $654,000, offset by increases in legal expenses and advertising expenses amounting to $500,000 and $650,000, respectively. Overall reduction in expenses was the result of a Corporation's initiative to control expenses. Increase in advertising expenses was primarily due to efforts related to trade and barter transactions.

- Non-operating revenues in 2013 decreased by approximately $387,000 when compared to 2012. This was mainly to a decrease of $416,000 in amounts due from CPB.

- Contributions from the Commonwealth of Puerto Rico for fiscal years 2013 and 2012 amounted to $16,368,456 and $16,305,133, respectively. In the same order, they represent 64% and 59% of total operating expenses.

CAPITAL ASSETS

Net capital assets decreased by approximately $1,175,000 when compared to 2012. This was mainly due to the net effect of depreciation expense amounting to $2,499,000 reduce by additions amounting to approximately $1,324,000.

Contacting the Corporation's Financial Management:

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Corporation's Finance Office at 570 Hostos Avenue, Baldrich. San Juan, P.R. or Telephone at (787) 764-2036.

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PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	$ 374,925	$ 517,755
Restricted cash	1,475,473	1,204,400
Accounts receivable:		
Trade, net of allowance for doubtful accounts of $308,160 in 2013 and $252,786 in 2012	555,240	783,983
Other	23,136	64,800
Due from:		
Corporation of Public Broadcasting (CPB)	356,298	617,377
Government entities	325,567	77,404
Total current assets	3,110,639	3,265,719
Non-current assets:		
Licensed program rights and cost incurred for programs not yet broadcasted	78,197	179,296
Other assets	59,309	133,829
Total non-current assets	137,506	313,125
Capital assets, net of accumulated depreciation and amortization	14,053,749	15,229,496
Total assets	$ 17,301,894	$ 18,808,340

Liabilities and Net Position	2013	2012
Current liabilities:		
Accounts payable, trade	$ 772,630	$ 1,483,658
Termination benefits accrual, current portion	424,029	422,142
Acrued expenses, payroll taxes and withholdings	1,809,749	1,404,351
Compensated absences, current portion	884,500	972,865
Total current liabilities	3,890,908	4,283,016
Non-current liabilities:		
Termination benefits accrual ,long-term portion	4,279,344	3,542,118
Compensated absences, long-term portion	1,344,468	1,401,967
Total non-current liabilities	5,623,812	4,944,085
Total liabilities	9,514,720	9,227,101
Net positon:		
Invested in capital assets, net of related debt	14,053,749	15,229,496
Restricted	1,345,777	1,077,701
Unrestricted	(7,612,352)	(6,725,958)
Total net position	7,787,174	9,581,239
	$ 17,301,894	$ 18,808,340

The accompanying notes are an integral part of these statements.

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PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating revenues:		
Sponsoring services	$ 2,866,174	$ 2,163,759
Production services	1,256,060	1,486,376
Total operating revenues	4,122,234	3,650,135
Operating expenses:		
Broadcasting and technical	3,544,220	4,007,833
Programming and production	11,142,269	11,798,796
General administration	8,020,327	8,262,227
Depreciation and amortization	2,680,332	3,559,904
Bad debt expense	55,374	100,937
Total operating expenses	25,442,522	27,729,697
Loss from operations	(21,320,288)	(24,079,562)
Non-operating revenues:		
Contributions from Corporation for Public Broadcasting and others	2,859,294	3,275,588
Rent and other income	296,771	264,603
Interest income	1,702	4,460
Total non-operating revenues	3,157,767	3,544,651
Loss before contributions from government	(18,162,521)	(20,534,911)
Contributions from Commonwealth of Puerto Rico:		
General Fund	16,195,343	16,121,566
Other Funds	173,113	183,567
Total contributions from government	16,368,456	16,305,133
Decrease in net position	$ (1,794,065)	$ (4,229,778)
Net position, beginning of year	9,581,239	13,811,017
Net position, end of year	$ 7,787,174	$ 9,581,239

The accompanying notes are an integral part of these statements.

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PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Receipts from customers	$ 2,767,544	$ 2,810,505
Payments to suppliers and contractors	(10,913,900)	(10,705,908)
Payments to employees	(9,935,575)	(10,295,921)
Net cash used in operating activites	(18,081,931)	(18,191,324)
Cash flows from non-capital financing activities:		
Contributions from the Commonwealth of Puerto Rico - General Fund	15,395,343	16,121,566
Contributions from the Commonwealth of Puerto Rico - Other Funds	724,950	249,492
Operating grants received	3,120,374	2,658,211
Net cash provided by non-capital financing activities	19,240,667	19,029,269
Cash flows from capital and related financing activities:		
Other assets	(59,309)	(101,572)
Acquisition of capital assets	(1,189,757)	(2,042,675)
Acquisition of licensed programs rights and cost incurred for programs not yet broadcasted	(79,900)	(477,822)
Repayment of equipment financing	-	(44,304)
Net cash used in capital and related financing activities	(1,328,966)	(2,666,373)
Cash flows from investing activities:		
Interest income earned	1,702	4,460
Proceeds from rent and other income	296,771	264,603
Net cash provided by investing activities	298,473	269,063
Net increase (decrease) in cash, cash equivalents and other restricted cash	128,243	(1,559,365)
Cash, cash equivalents and other restricted cash, at beginning of year	1,722,155	3,281,520
Cash, cash equivalents and other restricted cash, at end of year	$ 1,850,398	$ 1,722,155

The accompanying notes are an integral part of these statements.

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PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

CONTINUED

	2013	2012
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	$ (21,320,288)	$ (24,079,562)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	2,680,332	3,559,904
Bad debt expense	55,374	100,937
Changes in operating assets and liabilities:		
Decrease/(increase) in accounts receivable	173,369	(86,410)
Decrease in accounts receivable - other	41,664	150,510
Decrease in other assets	-	23,689
Decrease in accounts payable trade	(711,028)	(218,286)
Increase in accrued expenses, payroll taxes and withholdings	405,397	367,809
Increase in termination benefits accrual	739,113	1,828,319
(Decrease)/increase in compensated absences	(145,864)	161,766
Total adjustments	3,238,357	5,888,238
Net cash used in operating activities	$ (18,081,931)	$ (18,191,324)
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	$ 374,925	$ 517,755
Restricted cash	1,475,473	1,204,400
Total cash, cash equivalents and other restricted cash	$ 1,850,398	$ 1,722,155
Non - Cash Transaction -		
Trade and barter transactions	$ 1,569,723	$ 903,730

The accompanying notes are an integral part of these statements.

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PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

1. NATURE OF THE CORPORATION

On September 12, 1996, the Legislative Assembly of the Commonwealth of Puerto Rico approved Act Number 216. This Act created and transferred all existing assets and broadcasting facilities from a subsidiary of the Puerto Rico Telephone Authority to the Puerto Rico Public Broadcasting Corporation (the "Corporation" or "PRPBC"). On December 13, 1996, the Federal Communications Commission (FCC) approved the transfer. The Corporation was created with the purpose of integrating, developing and operating the radio, television and electronic communication facilities belonging to the Commonwealth of Puerto Rico. The Corporation is a Component Unit of the Commonwealth of Puerto Rico. The Commonwealth provides financial support to PRPBC through legislative appropriations.

The Corporation is governed by an eleven-member board of directors, which is comprised of the Secretary of the Department Education of the Commonwealth, the President of the University of Puerto Rico, the Executive Director of the Institute of Puerto Rican Culture, and eight private citizens, appointed by the Governor of Puerto Rico, with the advice and consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, arts, science, or radio and television.

The Corporation is obligated under existing laws to use its broadcasting facilities exclusively for educational, cultural and public interest purposes, and not for private purposes, nor for partisan politics or sectarian propaganda.

The Corporation operates with funding sources through appropriations from the Commonwealth of Puerto Rico, grants from the Corporation for Public Broadcasting (CPB), and funds internally generated. It is the public policy and commitment of the Commonwealth of Puerto Rico to annually appropriate financial resources to cover the operations of the Corporation.

The Act creating the Corporation exempts it from all taxes levied on its properties or revenues by the Laws of the Commonwealth of Puerto Rico and its Municipalities.

Operations - The Corporation operates the following television and radio stations:

San Juan (WIPR)	Mayagüez (WIPM)
PRTV (6.1)	PRTV (3.1)
Noticias 24/7 (6.2)	Noticias 24/7 (3.2)
Kids TV (6.3)	Kids TV (3:3)
Vme (6.4)	Vme (3.4)
El canal de la Historia (6.5)	Historia (3.5)
FM Allegro (91.3)	
FM Jazz (91.3HD2)	
FM Noticias (91.3HD3)	
AM (940)	

2. SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation - The Corporation has established its financial activities as business-type. Business-type activities are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

The business-type activities account for resources devoted to finance the general services that the Corporation provides to the general public. Contributions from the Legislature of Puerto Rico, contributions from the Corporation for Public Broadcasting (CPB) and other sources of revenues, used to finance the operations of the Corporation, are also included.

Use of Estimates - The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The Corporation utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current, financial or non-financial) associated with their activities are reported. The difference between assets and liabilities is classified as net position of the Business-type activities.

The accrual basis of accounting is used by the Corporation. Under the accrual basis, revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Grants and similar resources are recognized as revenue as soon as all eligibility requirements have been met.

Cash and Cash Equivalents - Cash and cash equivalents include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. The Corporation classifies as cash equivalents certificates of deposit purchased with original maturities of three months or less.

Accounts Receivables - Accounts receivables are stated at their net realizable value.

The Corporation provides for estimated losses on accounts receivables, upon an evaluation of the risk characteristics, loss experience, economic conditions and other pertinent factors. Losses are charged to the allowance for doubtful accounts and recoveries are taken into income. As of June 30, 2013 and 2012, the allowance for doubtful accounts amounted to $308,160 and $252,786, respectively.

Licensed Program Rights and Costs Incurred for Programs not yet Broadcasted - Costs incurred in the acquisition or development of licensed program rights relate to programs or program series that will be aired during subsequent periods and are stated at cost. Amortization is computed based on the estimated number of future showings, except that licenses providing for unlimited showings of cartoons and programs with similar characteristics may be amortized over the period of the agreement because the estimated number of future showings may not be determinable. Amortization expense amounted to $180,999 and $506,954, for the fiscal years ended June 30, 2013 and 2012, respectively.

Capital Assets - Capital assets are stated at cost. Donated capital assets are accounted for at the fair value at the donation date. Certain capital assets were valued at estimated historical cost with the assistance provided by independent outside appraisers. The Corporation's policy is to capitalize all asset acquisitions of $200 or more. All other expenditures below the $200 threshold are expensed in the period acquired.

The Corporation periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management determined that there were no impairment losses during the fiscal years ended June 30, 2013 and 2012.

Depreciation and Amortization - Depreciation and amortization are computed using the straight-line method over the estimated useful life of the assets, which are as follows:

Capital assets	Useful lives in Years
Building and building improvements	3-20
Television and other equipment	3-10
Furniture and fixtures	5-10
Motor vehicles	5-10

Other Assets - Other assets consists of advances for the purchases of capital assets not yet received as of June 30, 2013 and 2012.

Compensated Absences - The employees of the Corporation are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. Accrued vacation time is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed from accumulated vacation days up to the maximum amount accumulated. Separation of employment prior to the use of all or part of the accrued sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days.

As per Law Number 156 of August 20, 1996, for fiscal years beginning on or after July 1, 1997, the excess of 60 days in vacation and of 90 days of sick leave until December 31st of each year should be paid to the employee before March 31st of the following year. Also, accrued vacations in excess of 60 days are paid on June 30th of the following year if, for extraordinary circumstances the employee is unable to enjoy the vacation days.

On December 31st of each year, the Corporation will determine the monetary compensation for their employees, with regards to the excess of 36 days for union employees (45 days for management employees) of their accumulated balance for sick leave, based on their number of absences during that year up to a maximum of 18 days as well as to their serving time in the Government (10 years or more). This is done in an attempt to encourage employees to be absent from work less frequently. This payment will be made during the first 15 days of the month of June of the next year. If the employee does not have 90 days accumulated for sick leave, he or she can choose not to receive this payment and maintain his or her accumulation of sick leave.

Net Position - Net position is the difference between assets and liabilities. In the statement of net position, net position is reported in three categories:

- Invested in capital assets, net of related debt - This is the component of net position that reports, the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds that are directly attributable to the acquisition, construction or improvement of those assets. At June 30, 2013 and 2012, the Corporation's net assets invested in capital assets, net of related debt amounted to $14,053,749 and $15,229,496, respectively.

- Restricted - This is the component of net position that discloses the constraints placed on the use of net assets by externally imposed conditions, by grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions and/or enabling legislation. Restricted net assets at June 30, 2013 and 2012, amounted to $1,345,777 and $1,077,701, respectively.

- Unrestricted net position - This is the difference between the assets and liabilities that are not reported as invested in capital assets, net of related debt and as restricted net assets. Consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net position often have constrains on resources that are imposed by management, but can be removed or modified. At June 30, 2013 and 2012, the unrestricted net position carried a deficit of ($7,612,352) and ($6,725,958), respectively.

Revenues and Expenses - Operating revenues and expenses for business-type activities are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing or investing activities. Non-exchange revenues, including contributions received for purposes other than capital assets acquisition, are reported as non-operating revenues.

Trade and Barter Transactions - The Corporation recognizes trade and barter transactions as revenue and expense based on the estimated fair value of goods and services received. During the years ended June 30, 2013 and 2012, the Corporation recorded trade and barter transactions in the amount of $1,569,723 and $903,730, respectively, which are included as part of sponsorship services revenues and as part of programming and productions and general and administrative expenses in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

Corporation for Public Broadcasting Community Service Grant - The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain *General Provisions* must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These *General Provisions* pertain to the use of grants funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

Governmental Contributions - Governmental contributions are recorded in the year in which the funds are available to the Corporation. When their use is restricted for the acquisition or construction of capital assets and related activities, they are recorded as capital contributions. Funds not used at the end of the year are reported as restricted net assets and restricted cash.

Governmental contributions represent the primary source of income of the Corporation.

Operating Activities - The Corporation's policies for defining operating activities as reported in the statement of revenues, expenses, and changes in net position are those that generally result from the provision of public broadcasting and from the production of program material for distribution. Revenues associated with, or restricted by donors to use for, capital improvement grants, and revenues and expenses that result from financing and investing activities are recorded as non-operating revenues.

Advertising Costs - Advertising costs are expensed in the period in which they are incurred. During the years ended June 30, 2013 and 2012 the Corporation incurred in advertising costs amounting to $1,404,080 and $754,021, respectively. These costs are funded mainly thru trade and barter transactions.

Commissions - The Corporation has agreements with independent consultants to solicit and acquire funds for program underwriting and other activities related to public broadcasting. The agreements provide for payment of commissions to the consultants based on varying percentages of funds received.

Operating Leases - The Corporation leases building facilities and transmission tower space for certain repeater stations from third parties under lease agreements, accounted for as operating leases for various terms ranging from 5 to 10 years, with additional renewal options.

The Corporation leases space on certain towers that it owns, to various third parties using five-year lease agreements with renewal options, which is included as rental and other income in the accompanying statements of revenues, expenses and changes in net assets.

Functional Allocation of Expenses - The costs of providing broadcasting and production have been summarized on a functional basis in the statement of revenues, expenses and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on total personnel costs or on other systematic basis.

Accounting for Pension Costs - The Corporation accounts for pension costs in accordance with the provisions of Governmental Accounting Standards Board Statement (GASB) No. 27 *Accounting for Pensions by States and Local Governmental Employers*, as amended by GASB No. 50, *Pension Disclosures*.

GASB No. 27 establishes standards of accounting and financial reporting for pension expenditures/expenses and related pension liabilities, pension assets, financial statement disclosures, and required supplementary information in the financial reports of state and local governmental employers. The Statement defines that the pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

Risk Management - The Corporation is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, extra expense, errors and omissions, employee injuries and illnesses, natural disasters, and other losses, which may arise during the normal course of business. Commercial insurance coverage is obtained for claims arising from such matters.

The commercial insurance coverage and premium are negotiated by the Corporation and the Department of Treasury of the Commonwealth of Puerto Rico. The cost is paid by the Department of Treasury, and reimbursed by the Corporation.

Concentration of Credit Risk - Financial instruments that potentially subjects the Corporation to concentration of credit risk consists of accounts receivable. The accounts receivable balance at June 30, 2013 and 2012 were from customers mainly located in Puerto Rico. The Corporation generally does not require collateral and credit losses are provided for currently through the allowance for doubtful accounts. Management believes it is not exposed to any significant credit risk on its financial instruments.

Reclassifications - Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation.

Future Adoption of Accounting Pronouncements - The GASB has issued the following statements that have effective dates after June 30, 2013:

a) GASB Statement No. 65, Items previously reported as Assets and Liabilities, which is effective for periods beginning after December 15, 2012.

b) GASB Statement No. 66, Technical Corrections-2012-an amendment of GASB Statements No, 10 and No. 62, which is effective for periods beginning after December 15, 2012.

c) GASB Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25, which is effective for periods beginning after June 15, 2013.

d) GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27, which is effective for periods beginning after June 15, 2013.

e) GASB Statement No. 69, Government Combinations and Disposals of Government Operations, which is effective for periods beginning after December 15, 2013.

f) GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which is effective for periods beginning after June 15, 2013.
40

The impact of these statements on the Corporation's financial statements has not yet been determined.

3. CASH AND CASH EQUIVALENTS - CUSTODIAL CREDIT RISK DEPOSITS

The Corporation maintains accounts at high quality financial institutions. While the Corporation attempts to limit any financial exposure, its deposit balances may, at time, exceed federally insured limits. Since December 30, 2010 and through December 31, 2012, all non-interest bearing cash deposits were fully insured by the FDIC regardless of account balance and the ownership of capital of the funds, under the Temporary Unlimited Coverage for Non-Interest Bearing transaction Accounts of the FDIC.

Financial instruments that potentially expose the Corporation to certain concentration of credit risk include cash in bank accounts. The Corporation is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the Corporation. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The Corporation's policy regarding deposits requires for all opening of bank accounts to be approved by its Board of Directors. At June 30, 2013 and 2012, cash and certificates of deposit were maintained in institutions approved by Puerto Rico's Department of the Treasury.

Custodial credit risk is the risk that, in an event of a bank failure, the Corporation's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico.

Although the Corporation is not exposed to custodial credit risk, the following disclosure is made for reader's convenience. The Corporation had the following depository accounts in commercial banks. All deposits are carried at cost, plus accrued interest:

Depository Account	2013	2012
Insured by FDIC	$ 250,000	$ 250,000
Bank balances:		
Cash in banks held in the Corporation's name	1,668,419	1,735,416
Total deposits*	$ 1,918,419	$ 1,985,416

*Represents Bank balance.

The securities pledged to the PR Treasury by the financial institutions are sufficient to cover the Corporation's deposits.

The carrying amounts of deposits at June 30, 2013 and 2012, as shown in the balance sheets follows:

	2013	2012
Unrestricted cash	$ 374,925	517,755
Restricted cash	1,475,473	1,204,400
	$ 1,850,398	$ 1,722,155

4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the allowance for doubtful accounts during the years ended June 30, 2013 and 2012, follow:

	2013	2012
Allowance for doubtful accounts, beginning of year	$ 252,786	$ 151,849
Plus: Provision for doubtful accounts	55,374	100,937
Less: Write-offs	-	-
Allowance for doubtful accounts, end of year	$ 308,160	$ 252,786

PUERTO RICO PUBLIC BROADCASTING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

5. CAPITAL ASSETS

Capital assets at June 30, 2013 and 2012, consisted of the following:

	2013			
	Beginning Balance July 1, 2012	Increases	Decreases	Ending Balance June 30, 2013
Capital assets not being depreciated:				
Land	$ 82,600	$ -	$ -	$ 82,600
Construction in progress	-	-	-	-
Total capital assets not being depreciated	82,600	-	-	82,600
Capital assets being depreciated:				
Television, radio and other equipment	52,238,651	971,695	-	53,210,346
Building and building improvements	12,166,280	327,913	-	12,494,193
Motor vehicles	1,866,115	-	-	1,866,115
Furniture and fixtures	2,752,016	22,695	-	2,774,711
Computers	616,934	1,283	-	618,217
Total capital assets being depreciated	69,639,996	1,323,586	-	70,963,582
Less: Accumulated depreciation and amortization:				
Television, radio and other equipment	38,441,729	2,265,498	-	40,707,227
Building and building improvements	11,336,192	94,469	-	11,430,661
Motor vehicles	1,834,649	37,957	-	1,872,606
Furniture and fixtures	2,370,878	84,475	-	2,455,353
Computers	509,652	16,934	-	526,586
Total accumulated depreciation and amortization	54,493,100	2,499,333	-	56,992,433
Total capital assets, net	$ 15,229,496	$ (1,175,747)	$ -	$ 14,053,749

	2012			
	Beginning Balance July 1, 2011	Increases	Decreases	Ending Balance June 30, 2012
Capital assets not being depreciated:				
Land	$ 82,600	$ -	$ -	$ 82,600
Construction in progress	-	-	-	-
Total capital assets not being depreciated	82,600	-	-	82,600
Capital assets being depreciated:				
Television, radio and other equipment	50,248,374	2,042,215	(51,938)	52,238,651
Building and building improvements	12,132,872	33,408	-	12,166,280
Motor vehicles	1,886,292	3,590	(23,767)	1,866,115
Furniture and fixtures	2,686,582	65,434	-	2,752,016
Computers	596,217	20,717	-	616,934
Total capital assets being depreciated	67,550,337	2,165,364	(75,705)	69,639,996
Less: Accumulated depreciation and amortization:				
Television, radio and other equipment	36,055,981	2,437,686	(51,938)	38,441,729
Building and building improvements	10,951,853	384,339	-	11,336,192
Motor vehicles	1,763,365	95,051	(23,767)	1,834,649
Furniture and fixtures	2,260,552	110,326	-	2,370,878
Computers	484,104	25,548	-	509,652
Total accumulated depreciation and amortization	51,515,855	3,052,950	(75,705)	54,493,100
Total capital assets, net	$ 16,117,082	$ (887,586)	$ -	$ 15,229,496

The Corporation has commenced a reconciliation of its capital assets subsidiary ledgers to the physical assets, mostly as a result of the high volume of transactions recorded during the last six years related to the National Digital Conversion Project. As of the date of issuing these financial statements, the reconciliation procedures have not been finalized. These financial statements do not include the effect, if any, that the completion of the reconciling procedures may have in the Corporation's depreciation expense and its capital assets and accumulated depreciation balances as of June 30, 2013 and 2012.

6. RESTRICTED NET POSITION

Restricted net assets in the accompanying financial statements as of June 30, 2013 and 2012, are for the following purposes:

	2013	2012
Special dramatic project	$ 840,773	$ 534,717
Digital grant	277,029	423,790
CPB	225,975	117,003
ACUDEN grant	-	191
Others	2,000	2,000
	$ 1,345,777	$ 1,077,701

7. PENSION PLAN

The Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Corporation under age 55 at the date of employment become members of the System as a condition to their employment.

The System provides retirement, death and disability benefits pursuant to Act 447 approved on May 15, 1951, as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten (10) years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years for creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number-of-years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. In no case will the annuity be less than $200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service. No benefit is payable if the participant receives a refund of his accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first $6,600 of their annual gross salary and 8.275% for the salary in excess of $6,600 for employees hired on or before April 1, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. After December 31, 1999, the employee contribution is based on the provisions of "System 2000" (as defined below and in page 25). The Corporation's contributions were 11.275% and 10.275% of gross salary for fiscal years 2013 and 2012, respectively. Total employee and employer contributions contributed for the year ended June 30, 2013, amounted to $455,643 and $731,902, respectively. Total employee and employer contributions contributed for the year ended June 30, 2012, amounted to $496,861 and $621,653, respectively. Total payroll covered for the years ended June 30, 2013 and 2012, was $5,535,675 and $6,048,330, respectively.

Act number 1 of February 16, 1990, made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

The amount of the total pension benefits obligation is based on a standardized measurement established by accounting principles generally accepted in the United States of America that, with some exceptions, must be used by a public employee retirement system. The Standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases.

The most recent actuarial valuation is as of June 30, 2012. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

• Investments Rate of Return	6.00% per annum , net of investment expenses for GASB 25 and 27, 3.20% Per annum for GASB 45.
• Payroll growth	3% per year
• Mortality	RP 2000 Mortality Rates
• Disability	Adjusted 1987 Commissioners Group Disability Table
• Retirement age	Graded scale of retirement ages

• Proportion of participants with spouses	70% of participants assumed to be married, with wives assumed to be 4 years younger than husbands

The financial statements and required supplementary information for the pension plan are available at the administration office of the Employees' Retirement System (ERS) of the Government of Puerto Rico, PO Box 42003 Minillas Station, San Juan, Puerto Rico 00940.

On September 24, 1999, the Legislative Assembly of the Commonwealth of Puerto Rico amended the Act No. 447. This amendment was enacted for the purpose of establishing the system as of December 31, 1999. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000, the pension plan currently in use.

System 2000 reduced the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (11.275% of the employee's salary) will be used to fund the current plan.

Adoption of Comprehensive Reform of Employees Retirement System

On April 4, 2013, the Governor of Puerto Rico signed into law Act 3 of 2013 ("Act 3"), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth (ERS System).

Act 3, which is effective on July 1st, 2013, provides the following:

a) It freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS System's defined benefit formula (those who joined the ERS System prior to January 1st, 2000, whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service;

b) It provides that, beginning on July 1st, 2013, the retirement benefits accruing on and after the Effective Date for defined benefit employees will be calculated based on a defined contribution formula, similar to the ERS System 2000 formula currently applicable to employees who joined the ERS System on or after January 1st, 2000, with all such benefits being paid in the form of a lifetime annuity rather than a lump sum payment (upon retirement). The employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013;

c) It provides that defined contribution benefits accrued pursuant to ERS System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment;

d) It eliminates the so called "merit pension" that provided to participants who joined the ERS System prior to April 1, 1990, after attaining 30 years or service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment;

e) It increases the retirement age for various groups of participants;

f) It increases the employee contribution to the ERS System from 8.275% to 10%;

g) It eliminates or reduces various retirement benefits previously granted by special laws;

h) It increases the minimum pension from $400 to $500 per month for current retirees and;

i) It eliminates or modifies other benefits such as disability and survivor benefits.

8. TERMINATION BENEFITS

During the 2010-11 fiscal year, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive program (the "Program") for all regular employees of the Central Government Agencies and certain Public Corporations whose budget is fully or partially funded by the General Fund. The program includes various options to incentivize early retirement and retirement incentives for employees eligible for retirement under the Employees' Retirement System of the Commonwealth of Puerto Rico ("ERS"). Except for certain restrictions, all regular employees are eligible under the Program to retire under one of the available options. There are three different options offered by the Program as follows:

A. Option A - Retirement incentive for all employees:

Years of Service	Compensation
a. Less than one year	One month of salary
b. One year and one day and less than three years	Three months of salary