



**PUERTO RICO PUBLIC  
BROADCASTING CORPORATION**  
(A Component Unit of the  
Commonwealth of Puerto Rico)

*INDEPENDENT AUDITORS' REPORT  
AND  
AUDITED FINANCIAL STATEMENTS*

June 30, 2012 and 2011



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

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	PAGE
Independent Auditors' Report .....	1
Management's Discussion and Analysis .....	3
Statements of Net Assets .....	8
Statements of Revenues, Expenses and Changes in Net Assets .....	9
Statements of Cash Flows .....	10
Notes to the Financial Statements .....	12-29
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	30



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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Puerto Rico Public Broadcasting Corporation (the "Corporation") (a component unit of the Commonwealth of Puerto Rico) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As disclosed in Note 5, the Corporation's capital assets are stated, net of accumulated depreciation, at \$15,229,496 and \$16,117,082 at June 30, 2012 and 2011, 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.

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 Puerto Rico Public Broadcasting Corporation as of June 30, 2012 and 2011, and the changes in net assets, and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2012, 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 grant 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 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 audits.



To the Board of Directors of  
Puerto Rico Public Broadcasting Corporation  
Page 2

Accounting principles generally accepted in the United States of America require that management's discussion and analysis information on pages 3 through 7 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.

*BDO Puerto Rico, PSC*

San Juan, Puerto Rico

December 17, 2012

Certified Public Accountants  
(of Puerto Rico)  
License No. 53 expires December 1, 2015  
Stamp 2664820 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, 2012 AND 2011**

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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, 2012 and 2011. 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**

- The Corporation paid approximately \$477,000 for the acquisition of broadcasting rights when compared to \$721,000 in 2011, however, was able to provide quality programs such as the Men and Women's Basketball Olympic Qualifiers, Centrobasket, the Grammy Awards and Miss Mundo, among others.
- During fiscal year 2012, ten 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 \$945,000.
- Trade and barter transactions amounted to \$903,730 in year 2012, 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 Assets and Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows (on pages 8-11) 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, 2012 AND 2011**

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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. 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, 2012 AND 2011**

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A financial analysis of the Corporation as a whole:

**Net Assets**  
**(Comparative Financial Data)**

	June 30	
	2012	2011
Capital assets	\$ 15,229,496	\$ 16,117,082
Current assets	3,265,719	4,462,358
Non-current assets	313,125	363,374
Total assets	<u>18,808,340</u>	<u>20,942,814</u>
Current liabilities	4,283,016	3,935,015
Non-current liabilities	4,944,085	3,196,782
Total liabilities	<u>9,227,101</u>	<u>7,131,797</u>
Net assets invested in capital assets, net of related debt	15,229,496	16,072,778
Restricted net assets	1,077,701	1,550,087
Unrestricted net assets/(deficit)	<u>(6,725,958)</u>	<u>(3,811,848)</u>
Total net assets	<u>\$ 9,581,239</u>	<u>\$ 13,811,017</u>

- For the fiscal year ended June 30, 2012, as compared to the fiscal year ended June 30, 2011, total assets decreased 10% from \$20,942,814 to \$18,808,340. This was mainly due to a \$1.6 million decrease in cash and cash equivalents and a net reduction of approximately \$ 888,000 in net capital assets (Refer to Note 2 and 5 in the financial statements). This was offset by an increase of \$617,000 in accounts receivable from the Corporation for Public Broadcasting ("CPB").
- As of June 30, 2012 and 2011, the Corporation's liabilities amounted to \$9,227,101 and \$7,131,797, respectively, increasing by \$2,095,304, or 29% in 2012. This increase was primarily due to a \$1.8 million increase in the termination benefits liability arising from employees which elected to early retire during 2012 pursuant to Act 70. In addition, accrued expenses increased by approximately \$367,000. (Refer to Note 9 in the financial statements).



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

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- Restricted net assets are assigned for the following purposes:

	<u>2012</u>	<u>2011</u>
Special dramatic project	\$ 534,717	\$ 714,405
Digital grant	423,790	653,374
CPB	117,003	179,916
ACUDEN grant	191	392
Others	2,000	2,000
	<u>\$ 1,077,701</u>	<u>\$ 1,550,087</u>

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

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

	June 30	
	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 3,650,135	\$ 6,453,438
Operating expenses	27,729,697	30,501,646
Loss from operations	(24,079,562)	(24,048,208)
Non-operating revenues	3,544,651	3,180,835
Loss before contributions from government	(20,534,911)	(20,867,373)
Contributions from government	16,305,133	17,521,957
Decrease in net assets	(4,229,778)	(3,345,416)
Net assets, beginning of year	13,811,017	17,156,433
Net assets, end of year	<u>\$ 9,581,239</u>	<u>\$ 13,811,017</u>

- Operating revenues for the fiscal year ended June 30, 2012 amounted to \$3,650,135 representing a decrease of 43% over the fiscal year ended June 30, 2011, that amounted to \$6,453,438. This decrease was mainly due a \$2.6 million reduction in revenues arising from sponsoring services, primarily related to the Central American and Caribbean Games in 2010. Also, trade and barter transactions decreased by approximately \$578,000, from \$1,482,122 in 2011 to \$903,730 in 2012.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

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- Operating expenses for fiscal years 2012 and 2011 amounted to \$27,729,697 and \$30,501,646, respectively. This represented a decrease of \$2,771,949 or 9% for the fiscal year ended June 30, 2012. This decrease was primarily due to the costs incurred in the broadcasting of Centroamericanos 2010 during fiscal year 2011. Also, termination benefits expense decreased by approximately \$248,000.
- Non-operating revenues in 2012 increased by approximately \$365,000 when compared to 2011. This was mainly to an increase of \$286,000 in amounts due from CPB.
- Contributions from the Commonwealth of Puerto Rico for fiscal years 2012 and 2011 amounted to \$16,305,133 and \$17,521,657, respectively. In the same order, they represent 59% and 57% of total operating expenses.

**CAPITAL ASSETS**

Net capital assets decreased by approximately \$887,000 when compared to 2011. This was mainly due to depreciation expense of \$3,052,000 net of additions amounting to approximately \$2,165,000.

**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, PR or Telephone at (787) 764-2036.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2012 AND 2011**

Assets	2012	2011
<b>Current assets:</b>		
Cash and cash equivalents	\$ 517,755	\$ 1,687,088
Restricted cash	1,204,400	1,594,432
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$252,786 in 2012 and \$151,849 in 2011	783,983	798,510
Other	64,800	215,310
Due from:		
Corporation of Public Broadcasting (CPB)	617,377	-
Government entities	77,404	143,329
Other assets	-	23,689
<b>Total current assets</b>	<b>3,265,719</b>	<b>4,462,358</b>
<b>Non-current assets:</b>		
Licensed program rights and cost incurred for programs not yet broadcasted	179,296	240,685
Other assets	133,829	122,689
<b>Total non-current assets</b>	<b>313,125</b>	<b>363,374</b>
<b>Capital assets, net of accumulated depreciation and amortization</b>	<b>15,229,496</b>	<b>16,117,082</b>
<b>Total assets</b>	<b>\$ 18,808,340</b>	<b>\$ 20,942,814</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable, trade	\$ 1,483,658	\$ 1,701,944
Equipment financing	-	44,304
Termination benefits accrual, current portion	422,142	205,640
Accrued expenses, payroll taxes and withholdings	1,404,351	1,036,542
Compensated absences, current portion	972,865	946,585
<b>Total current liabilities</b>	<b>4,283,016</b>	<b>3,935,015</b>
<b>Non-current liabilities:</b>		
Termination benefits accrual, long-term portion	3,542,118	1,930,301
Compensated absences, long-term portion	1,401,967	1,266,481
<b>Total non-current liabilities</b>	<b>4,944,085</b>	<b>3,196,782</b>
<b>Total liabilities</b>	<b>9,227,101</b>	<b>7,131,797</b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	15,229,496	16,072,778
Restricted net assets	1,077,701	1,550,087
Unrestricted net assets (deficit)	(6,725,958)	(3,811,848)
<b>Total net assets</b>	<b>9,581,239</b>	<b>13,811,017</b>
	<b>\$ 18,808,340</b>	<b>\$ 20,942,814</b>

The accompanying notes are an integral part of these statements.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>		
Sponsoring services	\$ 2,163,759	\$ 5,062,906
Production services	1,486,376	1,390,532
Total operating revenues	<u>3,650,135</u>	<u>6,453,438</u>
<b>Operating expenses:</b>		
Broadcasting and technical	4,007,833	3,617,514
Programming and production	11,798,796	12,613,991
General administration	8,262,227	9,484,267
Depreciation and amortization	3,559,904	4,785,874
Bad debt expense	100,937	-
Total operating expenses	<u>27,729,697</u>	<u>30,501,646</u>
<b>Loss from operations</b>	<u>(24,079,562)</u>	<u>(24,048,208)</u>
<b>Non-operating revenues:</b>		
Contributions from Corporation for Public Broadcasting and others	3,275,588	2,989,228
Rent and other income	264,603	180,344
Interest income	4,460	11,263
Total non-operating revenues	<u>3,544,651</u>	<u>3,180,835</u>
<b>Loss before contributions from government</b>	<u>(20,534,911)</u>	<u>(20,867,373)</u>
<b>Contributions from Commonwealth of Puerto Rico:</b>		
General Fund	16,121,566	7,980,041
Stabilization Fund	-	8,890,045
Other Funds	183,567	651,871
Total contributions from government	<u>16,305,133</u>	<u>17,521,957</u>
<b>Decrease in net assets</b>	\$ (4,229,778)	\$ (3,345,416)
<b>Net assets, beginning of year</b>	<u>13,811,017</u>	<u>17,156,433</u>
<b>Net assets, end of year</b>	<u>\$ 9,581,239</u>	<u>\$ 13,811,017</u>

The accompanying notes are an integral part of these statements.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 2,810,505	\$ 4,450,679
Payments to suppliers and contractors	(10,705,908)	(11,309,551)
Payments to employees	(10,295,921)	(11,769,083)
Net cash used in operating activities	<u>(18,191,324)</u>	<u>(18,627,955)</u>
<b>Cash flows from non-capital financing activities:</b>		
Contributions from the Commonwealth of Puerto Rico - General Fund	16,121,566	7,836,712
Contributions from the Commonwealth of Puerto Rico - Stabilization Fund	-	8,890,045
Contributions from the Commonwealth of Puerto Rico - Other Funds	249,492	651,871
Operating grants received	2,658,211	3,222,351
Net cash provided by non-capital financing activities	<u>19,029,269</u>	<u>20,600,979</u>
<b>Cash flows from capital and related financing activities:</b>		
Other assets	(101,572)	(122,689)
Acquisition of capital assets	(2,042,675)	(1,176,544)
Acquisition of licensed programs rights and cost incurred for programs not yet broadcasted	(477,822)	(720,764)
Repayment of equipment financing	(44,304)	(74,343)
Net cash used in capital and related financing activities	<u>(2,666,373)</u>	<u>(2,094,340)</u>
<b>Cash flows from investing activities:</b>		
Interest income earned	4,460	11,263
Proceeds from rent and other income	264,603	180,344
Net cash provided by investing activities	<u>269,063</u>	<u>191,607</u>
Net increase (decrease) in cash, cash equivalents and other restricted cash	(1,559,365)	70,291
Cash, cash equivalents and other restricted cash, at beginning of year	3,281,520	3,211,229
Cash, cash equivalents and other restricted cash, at end of year	<u>\$ 1,722,155</u>	<u>\$ 3,281,520</u>

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, 2012 AND 2011**

*CONTINUED*

	<u>2012</u>	<u>2011</u>
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (24,079,562)	\$ (24,048,208)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	3,559,904	4,785,874
Bad debt expense	100,937	-
Barter transactions	-	(230,791)
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	(86,410)	359,942
(Increase)/decrease in accounts receivable - other	150,510	(172,605)
Decrease in other assets	23,689	13,918
Decrease in accounts payable trade	(218,286)	(29,543)
Increase/(decrease) in accrued expenses, payroll taxes and withholdings	367,809	(283,888)
Increase in termination benefits accrual	1,828,319	2,135,941
Decrease in deferred revenues	-	(707,975)
Increase/(decrease) in compensated absences	161,766	(450,620)
Total adjustments	<u>5,888,238</u>	<u>5,420,253</u>
Net cash used in operating activities	<u>\$ (18,191,324)</u>	<u>\$ (18,627,955)</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents	\$ 517,755	\$ 1,687,088
Restricted cash	1,204,400	1,594,432
Total cash, cash equivalents and other restricted cash	<u>\$ 1,722,155</u>	<u>\$ 3,281,520</u>
Non - Cash Transaction -		
Trade and barter transactions	<u>\$ 903,730</u>	<u>\$ 1,482,122</u>

The accompanying notes are an integral part of these statements.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**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.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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

<u>San Juan (WIPR)</u>	<u>Mayagüez (WIPM)</u>
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.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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The Corporation utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (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 are classified as net assets 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.

Based on Governmental Accounting Standards Board (GASB) Statement No. 20 “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting”, as amended, by GASB No. 34, the Corporation has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**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, 2012 and 2011, the allowance for doubtful accounts amounted to \$252,786 and \$151,849, 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 \$506,954 and \$654,607, for the fiscal years ended June 30, 2012 and 2011, respectively.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**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, 2012 and 2011.

**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:

<u>Capital assets</u>	<u>Useful lives in Years</u>
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, 2012 and 2011. Also, as of June 30, 2012, other assets includes acquired rights for musical production.

**Deferred Revenue** - The Corporation reports deferred revenue on its statement of net assets. Deferred revenue arises when potential revenues do not meet either the "measurable" or the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Corporation has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Corporation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and the revenue is recognized in such period.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

**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 31<sup>st</sup> of each year should be paid to the employee before March 31<sup>st</sup> of the following year. Also, accrued vacations in excess of 60 days are paid on June 30<sup>th</sup> of the following year if, for extraordinary circumstances the employee is unable to enjoy the vacation days.

On December 31<sup>st</sup> 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 Assets** - Net assets are the difference between assets and liabilities. In the statement of net assets, net assets are reported in three categories:

- **Invested in capital assets, net of related debt** - This is the component of net assets 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, 2012 and 2011, the Corporation's net assets invested in capital assets, net of related debt amounted to \$15,229,496 and \$16,072,778, respectively.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

- **Restricted net assets** - This is the component of net assets 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, 2012 and 2011, amounted to \$1,077,701 and \$1,550,087, respectively.
- **Unrestricted net assets/(deficit)** - 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 assets often have constrains on resources that are imposed by management, but can be removed or modified. At June 30, 2012 and 2011, the unrestricted net assets carried a deficit of (\$6,725,958) and (\$3,811,848) 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, 2012 and 2011, the Corporation recorded trade and barter transactions in the amount of \$903,730 and \$1,482,122, 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 Assets.

**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.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

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 assets 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, 2012 and 2011, the Corporation incurred in advertising costs amounting to \$151,594 and \$277,110, respectively.

**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.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

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, 2012 and 2011 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 2011 financial statements to conform to the 2012 financial statement presentation.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

**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, 2012 and 2011, cash and certificates of deposit were maintained in institutions approved by Puerto Rico's Department of the Treasury. As of 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.

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	2012	2011
Insured by FDIC	\$ 250,000	\$ 250,000
Bank balances:		
Cash in banks held in the Corporation's name	1,735,416	3,509,489
Total deposits*	\$ 1,985,416	\$ 3,759,489

\*Represents Bank balance.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

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, 2012 and 2011, as shown in the balance sheets follows:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ -	\$ 600
Unrestricted cash	517,755	1,686,488
Restricted cash	1,204,400	1,594,432
	<u>\$ 1,722,155</u>	<u>\$ 3,281,520</u>

**4. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Changes in the allowance for doubtful accounts during the years ended June 30, 2012 and 2011, follow:

	<u>2012</u>	<u>2011</u>
Allowance for doubtful accounts, beginning of year	\$ 151,849	\$ 151,849
Plus: Provision for doubtful accounts	100,937	-
Less: Write-offs	-	-
Allowance for doubtful accounts, end of year	<u>\$ 252,786</u>	<u>\$ 151,849</u>



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**5. CAPITAL ASSETS**

Capital assets at June 30, 2012 and 2011, consisted of the following:

	2012			Ending Balance June 30, 2012
	Beginning Balance July 1, 2011	Increases	Decreases	
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



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

	2011			
	Beginning			Ending
	Balance			Balance
	July 1, 2010	Increases	Decreases	June 30, 2011
Capital assets not being depreciated:				
Land	\$ 82,600	\$ -	\$ -	\$ 82,600
Construction in progress	-	-	-	-
<b>Total capital assets not being depreciated</b>	<b>82,600</b>	<b>-</b>	<b>-</b>	<b>82,600</b>
Capital assets being depreciated:				
Television, radio and other equipment	48,761,486	1,486,888	-	50,248,374
Building and building improvements	12,054,558	78,314	-	12,132,872
Motor vehicles	1,728,292	158,000	-	1,886,292
Furniture and fixtures	2,600,494	86,088	-	2,686,582
Computers	527,323	68,894	-	596,217
<b>Total capital assets being depreciated</b>	<b>65,672,153</b>	<b>1,878,184</b>	<b>-</b>	<b>67,550,337</b>
Less: Accumulated depreciation and amortization:				
Television, radio and other equipment	32,789,699	3,266,282	-	36,055,981
Building and building improvements	10,382,875	568,978	-	10,951,853
Motor vehicles	1,654,713	108,652	-	1,763,365
Furniture and fixtures	2,122,257	138,295	-	2,260,552
Computers	435,044	49,060	-	484,104
<b>Total accumulated depreciation and amortization</b>	<b>47,384,588</b>	<b>4,131,267</b>	<b>-</b>	<b>51,515,855</b>
<b>Total capital assets, net</b>	<b>\$ 18,370,165</b>	<b>\$ (2,253,083)</b>	<b>\$ -</b>	<b>\$ 16,117,082</b>

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, 2012 and 2011.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**6. EQUIPMENT FINANCING**

A detail of equipment financing as of June 30, 2012 and 2011, follows:

	<u>2012</u>	<u>2011</u>
Payable in monthly installments of \$5,634, including principal and interest, bearing interest at 4.6%, due on February 2012. Collateralized by the equipment under financing.	\$ -	\$ 44,304

There was no equipment financing during fiscal 2012.

**7. RESTRICTED NET ASSETS**

Restricted net assets in the accompanying financial statements as of June 30, 2012 and 2011 are for the following purposes:

	<u>2012</u>	<u>2011</u>
Special dramatic project	\$ 534,717	\$ 714,405
Digital grant	423,790	653,374
CPB	117,003	179,916
ACUDEN grant	191	392
Others	2,000	2,000
	<u>\$ 1,077,701</u>	<u>\$ 1,550,087</u>



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

**8. 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 in pages 26 and 27). The Corporation's contributions are 10.275% of gross salary. Total employee and employer contributions contributed for the year ended June 30, 2012, amounted to \$496,861 and \$621,653, respectively. Total employee and employer contributions contributed for the year ended June 30, 2011, amounted to \$498,340 and \$564,066, respectively. Total payroll covered for the years ended June 30, 2012 and 2011, was \$6,048,330 and \$6,073,627, respectively.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

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, 2011. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

- |   |   |
|---|---|
| • Investments Rate of Return              | 6.40% a year  |
| • 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 | 50% of participants assumed to be married, with wives assumed to be 4 years younger than husbands |
| • Cost-of-living adjustment               | 3% every third year   |

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.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

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 (10.275% of the employee's salary) will be used to fund the current plan.

**9. 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:

<u>Years of Service</u>	<u>Compensation</u>
a. Less than one year	One month of salary
b. One year and one day and less than three years	Three months of salary
c. More than three years	Six months of salary



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

---

- B. Option B - Early retirement incentive for employees with credited service time by the ERS between fifteen (15) and twenty nine (29) years. Upon retirement, employees will be entitled to a lifetime annuity as follows:

<u>Credited Years of service</u>	<u>Pension Payment (As a % of salary)</u>
15	37.50%
16	40.00%
17	42.50%
18	45.00%
19	47.50%
20-29	50.00%

The Corporation will be responsible for annuity payments and employer contributions until employees meet with age and years of service required to participate in the ERS.

- C. Option C - Retirement incentive for employees eligible for retirement under ERS requirements. Upon retirement, employees will receive:

- Pension Annuity, as determined by ERS.
- Six months of salary

The Corporation records liability and expense upon election by the employees to participate in the Program. At June 30, 2012, the future incentive payments reported as expense and liability were \$2,025,504 and \$3,964,260, respectively. At June 30, 2011, the future incentive payments reported as expense and liability were \$2,273,917 and \$2,135,941, respectively. As of June 30, 2012, discount rates ranging from 1.91% to 2.31% were used to determined present value, based on the year the employee elected to retire. At June 30, 2011, the discount rate used was 3.41%.

The Corporation funds the Program with appropriations assigned from the Annual Budget of the Commonwealth of Puerto Rico. Since the inception of the program, twenty five (25) employees have elected to retire; ten (10) in 2012 and fifteen (15) in 2011. During fiscal years 2012 and 2011, payments to retired employees under this plan totaled \$228,296 and \$137,976, respectively, for retirement compensation.



**PUERTO RICO PUBLIC BROADCASTING CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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**10. COMMITMENTS**

The Corporation entered into various lease agreements as lessee for certain properties, until the year 2018. Also, as lessor, the Corporation leases certain facilities under various operating leases.

Future commitments under existing operating lease and other agreements as of June 30, 2012, are as follows:

Year Ending June 30,	As Lessee Minimum Lease Payment	As Lessor Minimum Lease Revenue Receivable
2013	\$ 241,881	\$ 134,061
2014	174,767	138,230
2015	64,367	142,635
2016	54,367	130,074
2017	40,367	49,064
2018 and thereafter	13,456	-
	<u>\$ 589,205</u>	<u>\$ 594,064</u>

Total rental expense amounted to \$677,530 and \$617,692, for the years ended June 30, 2012 and 2011, respectively, and are disclosed as part of operating expenses in the accompanying statements of revenues, expenses and changes in net assets.

**11. CONTINGENCIES**

Some claims have been brought against the Corporation by employees and others. Legal counsel and management are contesting the cases vigorously. Management has recorded a provision for losses amounting to \$671,141 for potential payments related to claims against the Corporation. Management believes, based on the opinion of legal counsel, that provision for losses are appropriate at June 30, 2012.



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**INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Puerto Rico Public Broadcasting Corporation (the "Corporation") (a component unit of the Commonwealth of Puerto Rico) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated December 17, 2012. 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.

**Internal Control Over Financial Reporting**

Management of the Puerto Rico Public Broadcasting Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies, as defined above. Significant deficiencies and material weaknesses are listed in a separate letter dated December 17, 2012.



To the Board of Directors of  
Puerto Rico Public Broadcasting Corporation  
Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to the Corporation's management in a separate letter dated December 17, 2012.

This report is intended solely for the information and use of the Audit Committee, Management, the Legislature and the Comptroller of the Commonwealth of Puerto Rico and is not intended to be and should not be used by anyone other than these specified parties.

*BDO Puerto Rico, PSC*

San Juan, Puerto Rico

December 17, 2012

Certified Public Accountants  
(of Puerto Rico)

License No. 53 expires December 1, 2015  
Stamp 2664821 of the P.R. Society of  
Certified Public Accountants has been  
affixed to the file copy of this report