Puerto Rico Public Broadcasting Corporation
(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements and Supplementary Information

June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Public Broadcasting Corporation
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

We have audited the accompanying financial statements of the Puerto Rico Public Broadcasting Corporation (the Corporation), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), which comprise the statement of net position as of June 30, 2018 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 purposes 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Public Broadcasting Corporation as of June 30, 2018 and the related changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Going Concern

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Notes 1 and 3, the Corporation is a component unit of the Commonwealth, and the Corporation's primary source of income represents appropriations received from the general fund of the Commonwealth. The Commonwealth has incurred recurring deficits, has a negative financial position, has experienced a further deterioration of its economic condition, with limited access to credit markets. Furthermore, on June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 (PROMESA or the Act) was enacted into law. This Act establishes a Financial Oversight and Management Board for Puerto Rico (the Oversight Board) to oversee the finances of the Commonwealth and its efforts to achieve fiscal responsibility and obtain access to capital markets. The Oversight Board, on behalf of the Commonwealth and certain of its instrumentalities, has filed voluntary petitions for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Court).

Title III of PROMESA provides for similar procedures to Chapters 9 and 11 of the Federal Bankruptcy Code seeking an orderly restructuring of the local public finances, which includes a debt adjustment process under the supervision of the Court.

These conditions raise substantial doubts about the Commonwealth's, and therefore the Corporation's, ability to continue as a going concern for a reasonable period of time. The Commonwealth's plans regarding these matters are also described in Note 3. The financial statements do not include any adjustment that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Corporation's proportionate share of the net pension liability and the other postemployment benefits (OPEB) liability, and the schedules of employer's contributions to the pension plan and the OPEB plan, as listed on the table of contents, 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 the 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.

FPV & Galindez

San Juan, Puerto Rico
May 12, 2020, except for Notes 3, 7, 8, 9 and 13, as to which the date is February 15, 2021
License No. LLC-322
Expires December 1, 2023

As management of the Puerto Rico Public Broadcasting Corporation (the Corporation), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), we present the following management's discussion and analysis (MD&A) to provide an overview of the financial performance of the Corporation as of and for the year ended June 30, 2018. The MD&A is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting to provide readers with additional financial information for placing the basic financial statements in an appropriate operational, economic, or historical context. We recommend the readers to consider the analysis, narrative and data information presented in this report in conjunction with the financial statements that follow this section.

Financial Highlights

- The assets of the Corporation as of June 30, 2018 decreased by approximately $2.3 million or about 12% when compared to June 30, 2017.
- The liabilities and deferred inflows of resources of the Corporation exceeded its assets and deferred outflows of resources at June 30, 2018 resulting in a negative net position of approximately $45 million.
- At June 30, 2018, the net position of the Corporation decreased by $1.7 million or approximately 4% when compared to June 30, 2017.
- Total non-operating revenues, including contributions from the Commonwealth of Puerto Rico, for the year ended June 30, 2018 decreased by approximately $1 million or about 7% when compared to the year ended June 30, 2017.
- Operating expenses for the year ended June 30, 2018 decreased by approximately $5.9 million or about 25% when compared to the year ended June 30, 2017.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation operates the radio, television and electronic communications facilities of the Commonwealth and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. This presentation means that the Corporation's financial information is reported using accounting methods similar to those followed by private sector companies. These financial statements include both short-term and long-term financial information about the financial position and activities of the Corporation.

Required Financial Statements for Business - Type Activities

The Corporation's basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows as of and for the year ended June 30, 2018. To provide our users with a contextual frame of reference, this management's discussion and analysis include comparative information for the prior year.

Required Financial Statements for Business - Type Activities – (continued)

The financial statements also include notes that are considered essential for a full understanding of the information that is presented on the face of these statements. The primary purpose of such notes is to provide additional information, enhanced disclosures and tabular presentation of financial data to further explain the balances included in the basic financial statements and to provide more detailed financial information.

Statement of Net Position

The statement of net position presents information on the Corporation's assets and liabilities with the difference between them reported as net position. The statement of net position provides information about the nature and amounts of investments in resources (assets) and obligations to the Corporation's creditors (liabilities). It also provides the basis for computing rate of returns, evaluating the capital structure of the Corporation, and assessing the liquidity and financial flexibility of the Corporation. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

Statement of Revenues, Expenses and Changes in Net Position

The Corporation's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position. This statement measures the results of the Corporation's operations for the year presented and can be used to determine whether the Corporation has successfully recovered all of its costs through operating revenue and non-operating revenue. It provides the users of the financial statements with basic financial information about the profitability and credit worthiness of the Corporation.

Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide information about the Corporation's cash receipts and cash payments during the year presented. The statement reports cash receipts, cash payments and net changes in cash resulting from operating; noncapital financing; capital and related financing; and investing activities. This statement also provides the users with information about the sources of the Corporation's cash, what the cash was used for, and by how much the balance of cash changed over the course of the year presented.

Notes to the 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

This MD&A represents financial information required by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Such information provides the users of this report with additional information that supplements the basic financial statements.

Financial Analysis of the Year Ended June 30, 2018

The statement of net position provides information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. The Corporation's net position at June 30, 2018 decreased by approximately $1.7 million or about 4% when compared with June 30, 2017, as follows:

			Change	
Assets:	2018	2017	In Dollars	Percentage
Current assets	$ 1,684,535	$ 2,031,935	$ (347,400)	-17.10%
Non-current assets:				
Capital assets	4,346,087	4,454,090	(108,003)	-2.42%
Other	84,873	180,215	(95,342)	-52.90%
Total assets	6,115,495	6,666,240	(550,745)	-8.26%
Deferred outflows of resources	10,007,276	11,745,085	(1,737,809)	-14.80%
Total assets and deferred outflows of resources	$ 16,122,771	$ 18,411,325	$ (2,288,554)	-12.43%
Liabilities:				
Current liabilities	$ 5,163,715	$ 5,696,535	$ (532,820)	-9.35%
Non-current liabilities:				
Accrued legal claims	1,680,000	1,680,000	-	0.00%
Termination benefits	1,903,373	3,223,871	(1,320,498)	-40.96%
Compensated absences	1,342,029	1,481,739	(139,710)	-9.43%
Other postemployment benefits	546,742	-	546,742	N/A
Net pension liabilities	45,120,131	48,953,387	(3,833,256)	-7.83%
Total liabilities	55,755,990	61,035,532	(5,279,542)	-8.65%
Deferred inflows of resources	5,654,234	936,932	4,717,302	503.48%
Total liabilities and deferred inflows of resources	61,410,224	61,972,464	(562,240)	-0.91%
Net position:				
Net investment in capital assets	4,346,087	4,454,092	(108,005)	-2.42%
Restricted	1,270,225	895,506	374,719	41.84%
Unrestricted	(50,903,765)	(48,910,737)	(1,993,028)	4.07%
Total net position	(45,287,453)	(43,561,139)	(1,726,314)	3.96%
Total liabilities and net position	$ 16,122,771	$ 18,411,325	$ (2,288,554)	-12.43%

Analysis of Net Position

The total net position of the Corporation as of June 30, 2018 decreased by approximately $1,726,000 or 3.96% when compared to June 30, 2017 mainly due to the net effect of the following:

- Decrease of approximately $108,000 in net investments in capital assets is due to capital assets acquisitions of approximately $1 million, net of depreciation and amortization expense of approximately $1.1 million for the year ended June 30, 2018.

- Increase of approximately $375,000 in restricted net position as a result of net effect of:

    - Decrease of approximately $300,000 in restricted funds from Television Taller Dramático.
    - Increase of approximately $575,000 in restricted funds from Radio Taller Dramático.
    - Increase of approximately $100,000 in restricted funds from the Corporation for Public Broadcasting (CPB).

- Decrease of approximately $1,993,000 or 4% in unrestricted net position is due to the decrease in net position of approximately $1,726,000, mainly due to lower contributions from the Commonwealth of $1.9 million, offset by the net increase in restricted net position and investment in capital assets of approximately $267,000, as discussed above.

Analysis of Current Assets

Current assets represent the sum of cash (restricted and unrestricted), accounts receivable trade, accounts receivable other, and due from governmental entities. Current assets are important in any financial analysis because it is from current assets that a business funds its ongoing day-to-day operations.

A comparison of current assets as of June 30, 2018 and 2017 by asset classification is as follows:

			Change	
	2018	2017	In Dollars	Percentage
Cash	$ 468,838	$ 968,716	$ (499,878)	-51.60%
Restricted cash	738,286	796,685	(58,399)	-7.33%
Accounts receivable, net	183,215	70,918	112,297	158.35%
Other receivables	70,200	22,944	47,256	205.96%
Due from government entities, net	223,996	172,672	51,324	29.72%
Total current assets	$ 1,684,535	$ 2,031,935	$ (347,400)	-17.10%

Unrestricted cash at June 30, 2018 decreased by approximately $500,000 or about 52% when compared to June 30, 2017 mainly due to a decrease in availability of funds. Increase in accounts receivable of approximately $112,000 is mainly due to the timing of billings and collections, including an invoice issued close to year end amounting to $74,000, which remained in accounts receivable at the end of the year.

Analysis of non-current assets

Non-current assets represent assets that are not reasonably expected to be realized in cash or sold or consumed during the next fiscal year. When making a distinction between whether an asset should be considered current or non-current, liquidity or nearness to cash are not the only considerations for determining the classification; restrictions on the use of the asset must also be considered. Thus, cash investments intended for the liquidation of liabilities due beyond a one-year period are non-current assets, as are assets segregated or restricted for the liquidation of long-term obligations (including amounts due within the next operating cycle). Certain assets designated to be used to acquire, construct, or improve capital assets would also be considered non-current.

A comparison of non-current assets as of June 30, 2018 and 2017 by asset classification is as follows:

			Change	
	2018	2017	In Dollars	Percentage
Licensed program rights and costs incurred for programs not yet broadcasted	$ 71,873	$ 167,215	$ (95,342)	-57.02%
Other	13,000	13,000	-	0.00%
Capital assets, net	4,346,087	4,454,090	(108,003)	-2.42%
Total non-current assets	$ 4,430,960	$ 4,634,305	$ (203,345)	-4.39%

Total non-current assets at June 30, 2018 decreased by approximately $203,000 or about 4% when compared to June 30, 2017. Such decrease is mainly due to the following:

- Decrease of approximately $108,000 (2%) in capital assets is due to capital assets acquisitions of approximately $1 million, net of depreciation and amortization expense of approximately $1.1 million for the year ended June 30, 2018.

- Decrease of approximately $95,000 (57%) in licensed programs rights and costs incurred for programs not yet broadcasted is mainly due to a decrease in the acquisition and amortization of foreign programming rights in 2018 when compared to 2017. Such decrease consists of program rights acquisitions of approximately $74,000, net of current period amortization of approximately $169,000.

Capital Assets

At June 30, 2018, the Corporation had an investment in capital assets of approximately $4.3 million, net of accumulated depreciation and amortization. This amount represents a net decrease of approximately $108,000 or 2% when compared to June 30, 2017.

A comparison of net capital assets as of June 30, 2018 and 2017 by asset category is as follows:

Asset Category	2018	2017	Change In Dollars	Change Percentage
Land	$ 82,600	$ 82,600	$ -	0.00%
Television, radio and other equipment	3,296,111	3,564,678	(268,567)	-7.53%
Building and building improvements	509,004	581,935	(72,931)	-12.53%
Motor vehicles	244,925	41,097	203,828	495.97%
Furniture and fixtures	111,578	62,608	48,970	78.22%
Computers	101,869	121,172	(19,303)	-15.93%
Capital assets, net	$ 4,346,087	$ 4,454,090	$ (108,003)	-2.42%

Television, radio and other equipment, net at June 30, 2018 decreased by approximately $269,000 when compared to June 30, 2017, mainly due to the net effect of the following:

- Additions of equipment such as cameras and related production equipment amounting to approximately $632,000.
- Current year's depreciation expense of approximately $901,000.

Motor vehicles, net at June 30, 2018 increased by approximately $204,000 when compared to June 30, 2017, mainly due to the net effect of the following:

- Additions amounting to approximately $229,000 consist of donated assets from another governmental entity.
- Current year's depreciation expense of approximately $25,000.

Analysis of Liabilities

In financial accounting, the term liability is defined as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.

A comparison of liabilities as of June 30, 2018 and 2017 is as follows:

	2018	2017	Change In Dollars	Change Percentage
Accounts payable:				
Trade	$ 1,230,766	$ 933,519	$ 297,247	31.84%
Due to governmental entities	736,579	719,508	17,071	2.37%
Accrued expenses, payroll taxes and withholdings	2,066,545	2,714,490	(647,945)	-23.87%
Termination benefits	2,203,442	3,660,395	(1,456,953)	-39.80%
Compensated absences	2,171,785	2,374,233	(202,448)	-8.53%
Accrued legal claims	1,680,000	1,680,000	-	0.00%
Other postemployment benefits (OPEB)	546,742	-	546,742	N/A
Net pension liability	45,120,131	48,953,387	(3,833,256)	-7.83%
Total liabilities	$ 55,755,990	$ 61,035,532	$ (5,279,542)	-8.65%

Accounts payable increased by approximately $297,000 or 32% as of June 30, 2018 when compared to June 30, 2017, mainly due to the timing of disbursements resulting from the availability of funds. Such increase is consistent with the decrease in cash, as the Corporation elected to hold payments to suppliers due to cash flow concerns.

Termination benefits at June 30, 2018 decreased by approximately $1.5 million or 40% when compared with June 30, 2017. The net decrease results from (a) current year annuity payments and employer contributions under Law 70 and (b) the effect of the amortization/adjustments of $1,132,000 that result from the passage of time and changes in assumptions used to estimate the related liability.

The decrease of $202,000 in compensated absences is mainly due to the implementation of Law No. 26 of April 29, 2017, which establishes a maximum number of vacation and sick leave days to be accumulated by each employee at the end of each calendar year. The increase of approximately $547,000 in OPEB liability is due to the implementation of GASB No. 75 effective July 1, 2017, which resulted in a cumulative effect of change in accounting principles of approximately $637,000 as of such date.

The net pension liability decreased by approximately $3.8 million or about 8%, as allocated by the Employee Retirement System of the Commonwealth of Puerto Rico, based on an independent actuarial valuation, following the provisions of GASB No. 68. Such decrease is mainly due to changes in assumptions, principally as a result of modifications to the pension plan structure and the implementation of pay-as-you-go (PayGo) program. In addition there was an increase of $4.7 million or 503% in deferred inflows of resources related to the pension plan and a decreased of $1.7 million or 15% in deferred outflows of resources, mainly due to the pension plan.

Statements of Revenues, Expenses and Change in Net Position

The change in net position is an indicator of whether the overall fiscal condition of a government component unit has improved or worsened during the year.

Following is a summary of the statements of revenues, expenses and change in net position for the years ended June 30, 2018 and 2017:

			Change	
	2018	2017	In Dollars	Percentage
Operating revenues:				
Sponsoring services	$ 653,648	$ 583,667	$ 69,981	11.99%
Production services	1,190,028	1,382,580	(192,552)	-13.93%
Other	425,936	299,104	126,832	42.40%
Total operating revenues	2,269,612	2,265,351	4,261	0.19%
Non-operating revenue:				
Contributions from the Commonwealth	9,899,869	11,837,758	(1,937,889)	-16.37%
Contributions from Corporation for Public Broadcasting	2,128,359	2,340,908	(212,549)	-9.08%
Federal financial assistance	1,098,826	9,348	1,089,478	11654.66%
Interest and other income	235,306	107,669	127,637	118.55%
Total non-operating revenues	13,362,360	14,295,683	(933,323)	-6.53%
Operating expenses:				
Broadcasting and technical	2,794,544	3,027,250	(232,706)	-7.69%
Programming and production	7,443,292	11,853,197	(4,409,905)	-37.20%
General administration	5,999,350	6,950,297	(950,947)	-13.68%
Depreciation and amortization	1,121,100	1,383,664	(262,564)	-18.98%
Total operating expenses	17,358,286	23,214,408	(5,856,122)	-25.23%
Change in net position	(1,726,314)	(6,653,374)	4,927,060	-74.05%
Net position, at beginning of year, as previously stated	(43,561,139)	(36,907,765)	(6,653,374)	18.03%
Cumulative effect of change in accounting principles - GASB No. 75	-	(637,030)	637,030	-100.00%
Net position, at end of year	$ (45,287,453)	$ (43,561,139)	$ (1,726,314)	3.96%

Analysis of Revenues

Contributions from the Commonwealth of Puerto Rico decreased by approximately $1.9 million or 16.4%, from $11.8 million in 2017 to $9.9 million in 2018 due to budgetary restrictions and cuts implemented by the Commonwealth to reduce government spending as a result of its severe financial crisis.

Since 2016, the Fiscal Management and Oversight Board (the Oversight Board) has reviewed and provided final authorization of the annual budget of the Commonwealth, which has resulted in gradual decreases every year since.

Contributions from the CPB decreased by approximately $213,000 or 9%, from $2.3 million in 2017 to $2.1 million in 2018. On an annual basis, the CPB determines the funds to be provide to the Corporation based on their budget and internal criteria.

Federal financial assistance increased by approximately $1.1 million during the year ended June 30, 2018, mainly due to disaster recovery funds amounting to approximately $940,000 received from the Federal Emergency Management Agency, as a result of hurricanes Irma ($40,000) and María ($900,000).

Increase in interest and other income of approximately $128,000 is mainly due to capital assets donated by another governmental entity amounting to approximately $229,000 in 2018, net of a decrease of approximately $99,000 in other miscellaneous income.

Analysis of Expenses

Total operating expenses for the year ended June 30, 2018 decreased by approximately $5.9 million or 25%, from $23.2 million in 2017 to $17.3 million in 2018, which is consistent with the budgetary cuts described in the analysis of revenues. Such decrease consists mainly of the following:

- Programming and production expenses decreased by approximately $4.4 million or 37%, from $11.9 million in 2017 to $7.4 million in 2018. Such decrease is mainly due to the following:

    - Local production costs, special events and other production costs decreased by approximately $1.2 million.

    - Decrease in Pension Plan expense and related balances of approximately $1.1 million, based on the actuarial valuation as of June 30, 2018 (measurement, June 30, 2017).

    - Lucy Boscana's productions decreased by approximately $722,000.

  - Taller Dramático (radio drama workshop) ceased productions in the aftermath of hurricane María in September 2017 before returning to regular operations in March 2018. This temporary shut-down resulted in a decrease in costs of approximately $669,000.

  - Decrease in other production costs and special events of approximately $400,000.

  - Acquired local programming costs decreased by $250,000.

- General administration expenses decreased by approximately $1 million or 13.7%, from $6.9 million in 2017 to $6 million in 2018. Such decrease is mainly due to a decrease in pension plan related expenses after the implementation of the new PayGo program effective July 1, 2017 as discussed in Note 7 to the basic financial statements.

Request for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those individuals having an interest in the Corporation's operations and financial condition. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Corporation's Finance Office at 570 Hostos Avenue, Baldrich, San Juan, PR or call at 787-764-2036.

Puerto Rico Public Broadcasting Corporation
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position
June 30, 2018

Assets	
Current assets:	
Cash	$ 468,838
Restricted cash	738,286
Accounts receivable:	
Trade, net of allowance for doubtful accounts of $230,299	183,215
Other receivables	70,200
Due from governmental entities, net	223,996
Total current assets	1,684,535
Non-current assets:	
Licensed program rights and costs incurred for programs not yet broadcasted	71,873
Other assets	13,000
Capital assets, net of accumulated depreciation and amortization	4,346,087
Total assets	6,115,495
Deferred outflows of resources:	
Pension	9,964,718
Other postemployment benefits	42,558
Total deferred outflows of resources	10,007,276
Total assets and deferred outflows of resources	$ 16,122,771
Liabilities	
Current liabilities:	
Accounts payable	$ 1,967,345
Accrued expenses, payroll taxes and withholdings	2,066,545
Termination benefits accrual	300,069
Compensated absences	829,756
Total current liabilities	5,163,715
Non-current liabilities:	
Accrued legal claims	1,680,000
Termination benefits accrual	1,903,373
Compensated absences	1,342,029
Other postemployment benefits	546,742
Net pension liability	45,120,131
Total non-current liabilities	50,592,275
Total liabilities	55,755,990
Deferred inflows of resources - pension	5,654,234
Total liabilities and deferred inflows of resources	61,410,224
Net position	
Net investment in capital assets	4,346,087
Restricted	1,270,225
Unrestricted deficit	(50,903,765)
Total net position	(45,287,453)
Total liabilities and net position	$ 16,122,771

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Public Broadcasting Corporation
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses and Changes In Net Position
For the Year Ended June 30, 2018

Operating revenues:	
Sponsoring services	$ 653,648
Production services	1,190,028
Other	425,936
Total operating revenues	2,269,612
Operating expenses:	
Broadcasting and technical	2,794,544
Programming and production	7,443,292
General administration	5,999,350
Depreciation and amortization	1,121,100
Total operating expenses	17,358,286
Loss from operations	(15,088,674)
Non-operating revenues:	
Contributions from the Commonwealth of Puerto Rico	9,899,869
Contributions from Corporation for Public Broadcasting	2,128,359
Federal financial assistance	1,098,826
Interest and other income	235,306
Total non-operating revenues	13,362,360
Decrease in net position	(1,726,314)
Net position, beginning of year as previously reported	(42,924,109)
Cumulative effect of change in accounting principles - GASB No. 75	(637,030)
Net position, beginning of year, as adjusted	(43,561,139)
Net position, end of year	$ (45,287,453)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Public Broadcasting Corporation
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities:	
Receipts from customers	$ 1,828,057
Payments to suppliers and contractors	(6,472,491)
Payments to employees	(8,004,145)
Net cash used in operating activities	(12,648,579)
Cash flows from non-capital financing activities:	
Contributions from Corporation for Public Broadcasting	2,128,359
Federal financial assistance	1,098,826
Contributions from the Commonwealth of Puerto Rico	9,715,000
Net cash provided by non-capital financing activities	12,942,185
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(783,994)
Acquisitions of licensed programs rights and costs incurred for programs not yet broadcasted	(74,092)
Net cash used in capital and related financing activities	(858,086)
Cash flows from investing activities - Interest and other income received	6,203
Net change in cash and restricted cash	(558,277)
Cash and restricted cash, beginning of year	1,765,401
Cash and restricted cash, end of year	$ 1,207,124
Reconciliation of cash and restricted cash to the statement of net position:	
Cash	$ 468,838
Restricted cash	738,286
Total cash and restricted cash	$ 1,207,124

(Continues)

Puerto Rico Public Broadcasting Corporation
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows - (Continued)
For the Year Ended June 30, 2018

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	$ (15,088,674)
Adjustments to reconcile loss from operations to net cash used in operating activities	
Depreciation and amortization	1,121,100
Amortization of licensed programs rights and cost incurred for programs not yet broadcasted	169,434
Changes in operating assets and liabilities:	
Accounts receivable	(214,927)
Due from governmental entities	4,050
Deferred outflows of resources	1,737,809
Accounts payable	314,318
Accrued expenses, payroll taxes and withholdings	34,897
Termination benefits accrual	(1,272,084)
Compensated absences	(202,448)
Other postemployment benefits	(136,100)
Net pension liability	(3,833,256)
Deferred inflows of resources	4,717,302
Total adjustments	2,440,095
Net cash used in operating activities	$ (12,648,579)
Non-cash transactions:	
Trade and barter transactions	$ 230,678
Capital assets donated by another governmental entity	$ 229,103
PayGo charges credited against termination benefits accrual	$ 184,869
Cumulative effect of change in accounting principles:	
Accrued expenses, payroll taxes and withholdings	$ 682,842
Deferred outflows of resources	$ (45,812)

The accompanying notes are an integral part of these basic financial statements.

Note 1 - Organization

The Puerto Rico Public Broadcasting Corporation (the Corporation) was created on January 21, 1987 by Act No. 7 for the purpose of integrating, developing and operating the radio, television and electronic communication facilities of the Commonwealth of Puerto Rico (the Commonwealth). The Corporation is a component unit of the Commonwealth as per Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB No. 39, *Determining Whether Certain Organizations Are Components Units*, as amended by GASB No. 61. On September 12, 1996, the Legislative Assembly of the Commonwealth approved Act No. 216, which transferred all existing assets and broadcasting facilities from a subsidiary of the Puerto Rico Telephone Authority to the Corporation. On December 13, 1996, the Federal Communications Commission (FCC) approved the transfer.

The Corporation is governed by an eleven-member Board of Directors, which is comprised of the Secretary of the Department of Education of the Commonwealth, the President of the University of Puerto Rico, the Executive Director of the Institute for Puerto Rican Culture, five others are leaders from different governmental agencies, and three 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, art, science, or radio and television.

The Corporation is required under existing laws to use its broadcasting facilities exclusively for educational, cultural and public interest purposes, and not for private purposes, partisan politics or sectarian propaganda.

The Corporation operates with funding sources through appropriations from the Commonwealth, grants from the Corporation for Public Broadcasting (CPB), and funds internally generated. It is the policy of the Commonwealth to annually appropriate financial resources to cover the operations of the Corporation. These appropriations are dependent on the availability of funds from the Commonwealth's annual budget and its legislative approval.

The Act creating the Corporation exempts it from all taxes levied on its properties or revenues by the laws of the Commonwealth and its municipalities.

The Corporation operates the following television and radio stations:

San Juan (WIPFR)	Mayaguez (WIPM)
WIPR (6.1)	WIPM (3.1)
Kids TV (6.3)	Kids TV (3.3)
FM Allegro (91.3)	
AM (940)	

Note 2 - Summary of significant accounting policies

Basis of Accounting

The financial statements are presented as an enterprise fund prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for governments, as prescribed by the GASB. Accordingly, revenues are recorded when earned and expenses are recorded when a liability is incurred or an economic asset is used, regardless of the timing of the related cash flows. Grants and similar items resources are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Corporation accounts for its operations in a manner similar to private business enterprises.

The Corporation distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods and/or services in connection with the Corporation's principal on-going operations. The principal operating revenues are charges to customers for sponsoring services, public broadcasting and the production of program material for distribution. Operating expenses include cost of services, administrative expenses, depreciation and amortization on capital assets and bad debt expense. All other revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses, such as revenues associated with, or restricted by donors to use for, capital improvements grants, and revenues and expenses that result from financing and investing activities.

Use of Estimates

The preparation of 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 the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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. There were no cash equivalents as of June 30, 2018.

Note 2 - Summary of significant accounting policies – (continued)

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. Accounts receivables deemed to be uncollectible are charged off against the allowance for doubtful accounts and recoveries are taken into income. In accordance with GASB standards, the Corporation's revenues are presented net of bad debt expense. There were no changes in the allowance for doubtful accounts during the year ended June 30, 2018, except for the reclassification of $55,374 between the allowance for trade accounts receivable and the allowance for amounts due from governmental entities.

Licensed Program Rights and Costs Incurred for Programs not yet Broadcasted

Costs incurred in the acquisition or development of licensed program rights related to programs or program series that will be aired during subsequent periods 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 associated with the licensed programs rights and costs incurred for programs not yet broadcasted amounted to $169,434 for the year ended June 30, 2018 and has been included as part of programming and production expenses in the accompanying statement of revenues, expenses, and changes in net position.

Capital Assets

Capital assets are reported as a component of non-current assets in the basic financial statements. Capital assets are generally defined by the Corporation as being those assets with an individual cost of more than $200 and an estimated useful life in excess of 12 months. Such assets are recorded at historical cost or estimated historical cost, when constructed. Certain capital assets were valued at estimated historical costs with the assistance provided by independent outside appraisers. Donated capital assets are recorded at the estimated fair market value of the assets at the date of donation.

The cost of normal maintenance and repairs, which consist of amounts spent in relation to capital assets that do not increase the capacity or efficiency of the asset or extend its useful life beyond the original estimate, are charged to operations as incurred.

Note 2 - Summary of significant accounting policies – (continued)

Capital Assets – (continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting principles for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as post-closure care. As of June 30, 2018, management evaluated its responsibilities for environmental and pollution exposures and no contingency exposure was identified.

Impairment of Long-lived Assets

GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. GASB No. 42 also clarifies and establishes accounting requirements for insurance recoveries. No impairment charges were recorded during the year ended June 30, 2018.

Compensated Absences

The vacation and sick leave policy of the Corporation provides for the accrual of fifteen (15) days of vacation and eighteen (18) days of sick leave annually in accordance with Law No. 26 of April 29, 2017. Also, for any employee hired after February 4, 2017, the accrual is reduced to fifteen (15) days of vacation and twelve (12) days of sick leave annually. Compensated absences are accrued as earned by the employees.

Note 2 - Summary of significant accounting policies – (continued)

Compensated Absences - (continued)

As per Law No. 26 of April 29, 2017, the employees of the Corporation can accumulate up to a maximum of 60 vacation days at the end of each calendar year. In addition, Law No. 26 of April 29, 2017, limits the accumulation of sick leave days to ninety (90) days at the end of each calendar year.

Termination Benefits

The Corporation accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which states that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Pension Benefits

The Corporation is a participant in the Commonwealth of Puerto Rico Employees Retirement System (the Pension Plan), a multiemployer retirement plan. The Corporation accounts for pension benefits under the Pension Plan in accordance with the provisions of GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Pursuant to the provisions of GASB No. 68 and GASB No. 73, the Corporation recognizes a net pension liability for its proportionate share of the collective net pension liability under the Pension Plan, as well as its proportionate share of the collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. The Corporation's allocation percentage is based on the ratio of the Corporation's contributions to total contributions to the Pension Plan.

Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees, in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they arose.

Note 2 - Summary of significant accounting policies – (continued)

Pension Benefits – (continued)

Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Employer's contributions made after the measurement date are recorded as a deferred outflow of resources.

Postemployment Benefits Other Than Pensions

The Corporation also participates in the Commonwealth's postemployment benefits other than pensions plan (the OPEB Plan). The Corporation accounts for postemployment benefits under the OPEB Plan in accordance with the provisions of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. For defined benefit OPEB, GASB No. 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources as of June 30, 2018 relate to the Corporation's participation in the Pension Plan and the OPEB Plan, as well as contributions to the PayGo Program.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section of deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until then. Deferred inflows of resources as of June 30, 2018 relate to the Corporation's participation in the Pension Plan.

Note 2 - Summary of significant accounting policies – (continued)

Net Position

The Corporation's financial statements are presented in conformity with provisions of the GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As required by GASB 63, the Corporation has classified its net position into three components: net investment in capital assets, restricted, and unrestricted.

These classifications of net position are defined as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted - This component of net position consists of constraints placed on the Corporation's net position through external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments. This component would also include constraints imposed by law through constitutional provisions or enabling legislation.

A description of the restrictions and related balances as of June 30, 2018 are as follows:

Type of Restriction	Amount
TV Dramatic Project	$ 324,829
Radio Dramatic Project	574,860
Banda de Conciertos de Puerto Rico	36,702
Corporation for Public Broadcasting television grant	98,194
Corporation for Public Broadcasting radio grant	235,640
Total restricted net position	$ 1,270,225

Note 2 - Summary of significant accounting policies – (continued)

Net Position – (continued)

- Unrestricted - This component of net position consists of the net position that does not meet the definition of restricted or net investment in capital assets. Generally, this represents those financial resources that are available to the Corporation to meet any future obligations that might arise.

Contributions and Other Support

The Corporation receives annual distributions from the CPB, which are reported as non-operating revenues in the statement of revenues, expenses and changes in net position. 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 (CSG) 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 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. Certain general provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet certain requirements. These general provisions pertain to the use of grants funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the FCC.

The Corporation also receives contributions from the Commonwealth, which 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, they are recorded as capital contributions.

Funds not used at the end of the year are reported as restricted net position and restricted cash. Governmental contributions represent the primary source of income for the Corporation.

Nonmonetary Exchange Transactions - Trade and Barter

In accordance with the provisions of GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, the Corporation recognizes trade and barter transactions as revenue and expense based on the estimated fair value of goods and services received or the recorded amount of the nonmonetary asset transferred from the Corporation, if neither the fair value of the nonmonetary asset transferred nor the fair value of the nonmonetary asset received in exchange is determinable within reasonable limits.

Note 2 - Summary of significant accounting policies – (continued)

Nonmonetary Exchange - Trade and Barter – (continued)

During the year ended June 30, 2018, the Corporation recorded trade and barter transactions amounting to $230,678 which are included as part of sponsorship services revenues and as part of programming and production and general administration expenses in the accompanying statement of revenues, expenses and changes in net position.

Advertising Costs

Advertising costs are expensed in the period in which they are incurred. During the year ended June 30, 2018, the Corporation incurred advertising costs of $241,839, which are included as part of broadcasting and technical, programming and production, and general administration expenses in the accompanying statement of revenues, expenses, and changes in net position.

New Accounting Standards Adopted

During the year ended June 30, 2018, the Corporation adopted the provisions of GASB No. 75, which addresses accounting and financial reporting for postemployment benefits other than pensions that are provided to the employees of state and local governmental employers. This statement replaced the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The implementation of GASB No. 75 resulted in the recording of a cumulative effect of change in accounting principles of $637,030, which was recorded as a reduction of net position, an increase in the OPEB liability of $682,842, and an increase in the related deferred outflows of resources of $45,812 as of July 1, 2017, as follows:

Net position as of June 30, 2017, as previously reported	$ (42,924,109)
Cumulative effect of change in accounting principles - GASB No. 75	(637,030)
Net position as of June 30, 2017, as adjusted	$ (43,561,139)

GASB No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB No. 82) addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Note 2 - Summary of significant accounting policies – (continued)

New Accounting Standards Adopted – (continued)

Specifically, GASB No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2017, except for the requirements of this statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2018. The adoption of GASB No. 82 did not have a material effect on the financial statements of the Corporation.

GASB No. 85, *Omnibus*, which objective is to address practice issues that have been identified during implementation and application of certain GASB statements. GASB No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits).

Specifically, GASB No. 85 addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and negative goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple employer defined benefit OPEB plans.

Note 2 - Summary of significant accounting policies – (continued)

New Accounting Standards Adopted – (continued)

The adoption of GASB No. 85 did not have a material effect on the financial statements of the Corporation.

GASB No. 86, *Certain Debt Extinguishment Issues*, which objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB No. 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB No. 7, *Advance Refundings Resulting in Defeasance of Debt*, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. GASB No. 86 establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed. For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance.

In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists. The adoption of GASB No. 86 did not have a material effect on the financial statements of the Corporation.

Note 2 - Summary of significant accounting policies – (continued)

Accounting Pronouncements Issued but not yet Effective

The following summarizes new accounting standards that have been issued but are not yet effective, which may have a direct and material effect on the Corporation's financial statements once they are adopted.

GASB No. 83, *Certain Asset Retirement Obligations* addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB No. 83. GASB No. 83 also establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. GASB No. 83 requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities.

Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. GASB No. 83 requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. GASB No. 83 requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

GASB No. 83 requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays.

Note 2 - Summary of significant accounting policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset. In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities.

GASB No. 83 requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements. The requirements of GASB No. 83 are effective for reporting periods beginning after June 15, 2018.

GASB No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* which objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB No. 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. GASB No. 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, GASB No. 88 also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of GASB No. 88 are effective for reporting periods after June 15, 2018.

Other issued but not yet effective future pronouncements with effective dates after June 30, 2019 include:

- GASB No. 84, *Fiduciary Activities*
- GASB No. 87, *Leases*
- GASB No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

Note 2 - Summary of significant accounting policies – (continued)

Accounting Pronouncements Issued but not yet Effective – (continued)

- GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*
- GASB Statement No. 91, *Conduit Debt Obligations*
- GASB Statement No. 92, *Omnibus 2020*
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*
- GASB Statement No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No, 84, and a supersession of GASB Statement No. 32*

The Corporation is in the process of determining the effects, if any, these new accounting pronouncements may have on its financial statements.

Note 3 - Going concern

The Corporation's principal source of revenue comes from legislative appropriations from the Commonwealth, since more than 68% of the Corporation's total recurring revenues for the year ended June 30, 2018 were derived from legislative appropriations, which amounted to approximately $9.9 million.

The Commonwealth is currently undergoing a severe fiscal, economic and liquidity crisis, as a result of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base has decreased and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the Commonwealth’s General Fund budget, which has resulted in reduced funding available for other essential services, including the Corporation. The Commonwealth's high level of debt and unfunded pension liabilities, and the resulting required allocation of revenues to service debt and pension obligations contributed to significant budget deficits for several years that were covered by the issuance of additional debt.

Note 3 - Going concern – (continued)

These matters and the Commonwealth's liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. Furthermore, the principal rating agencies have lowered their rating on the general obligation bonds of the Commonwealth to a default rating. These agencies have also lowered to a default grade their ratings on the bonds of certain of the Commonwealth's instrumentalities, while other debt ratings have been lowered multiple notches to noninvestment grade levels.

As of June 30, 2017, the date of the most recent audited financial statements, the Primary Government of the Commonwealth had a net deficit of approximately $71.1 billion. In addition, the Commonwealth's General Fund presented a fund deficit of approximately $100.6 million as of June 30, 2017.

These conditions raise substantial doubts about the Commonwealth's, and therefore the Corporation's, ability to continue as a going concern for a reasonable period of time.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 (PROMESA or the Act) was enacted into law. This Act establishes a Financial Oversight and Management Board (the Oversight Board) to oversee the finances of the Commonwealth and its efforts to achieve fiscal responsibility and obtain access to capital markets.

A critical component of PROMESA is the requirement for the Commonwealth and covered instrumentalities to develop and maintain a fiscal plan. Such fiscal plan generally must contain numerous provisions governing the operation of the territory or instrumentality, as the case may be, including plans to pay debts, eliminate deficits, maintain essential public services and impose internal controls for fiscal governance and accountability.

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On May 27, 2020, the Oversight Board certified its own new fiscal plan for the Commonwealth, which included the following categories of structural reforms and fiscal measures:

a. Human Capital and Welfare Reform
b. Ease of Doing Business Reform
c. Energy and Power Regulatory Reform
d. Infrastructure and Capital Investment Reform
e. Establishment of the Office of the CFO
f. Agency Efficiency Measures
g. Healthcare Reform

Note 3 - Going concern – (continued)

h. Tax Compliance and Fees Enhancement
i. Reduction in UPR and Municipality Appropriations
j. Pension Reform
k. Fiscal Controls and Transparency

Also, the Oversight Board, on behalf of the Commonwealth and certain of its instrumentalities, has filed voluntary petitions for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Court). Title III of PROMESA provides for similar procedures to Chapters 9 and 11 of the Federal Bankruptcy Code seeking an orderly restructuring of the local public finances, which includes a debt adjustment process under the supervision of the Court.

In addition, as recommended by the Oversight Board, the Corporation has commenced a privatization process to provide for increased growth opportunities, enhance its programming offering, and to reduce the Commonwealth's spending. As part of this privatization plan, the Corporation is committed to increasing revenues, control costs and becoming self-sufficient. Such privatization plan will be implemented by transferring the Corporation's assets to a transitional not-for-profit entity that will ensure the continuity of services until the creation of a permanent, private organization (see Note 13).

There are no assurances that these plans and other relief measures to be adopted or proposed by the Corporation, the Oversight Board and the Commonwealth will be fully implemented or if implemented will ultimately provide the intended results. The successful implementation of these plans depends on a number of factors and risks, some of which are not within the Corporation's and/or the Commonwealth's control.

Note 4 - Cash deposits

The carrying amount of the Corporation's cash deposits at June 30, 2018 consists of:

	Deposit	Cash on Hand	Total	Bank Balance
Unrestricted	$ 468,438	$ 400	$ 468,838	$ 504,812
Restricted:				
Lucy Boscana	288,206	-	288,206	435,027
CPB CSG TV and Radio	427,916	-	427,916	317,706
Banda de Conciertos	22,164	-	22,164	33,605
Total	$ 1,206,724	$ 400	$ 1,207,124	$ 1,291,150

Note 4 - Cash deposits – (continued)

Custodial credit risk is the risk that, in an event of bank failure, the Corporation's deposits might not be recovered. The Commonwealth's regulations require domestic banks to maintain collateral securities pledged for the security of public deposits at an amount not less than 100% of the amounts in excess of federal insurance coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth (the Treasury Department).

As of June 30, 2018, the Corporation's carrying amount of bank demand deposits was $1,206,724. The bank balances for all demand deposit accounts amounted to $1,291,150 as of June 30, 2018. Bank balances are insured by the Federal Deposit Insurance Corporation for up to $250,000 per financial institution. The Corporation maintained all its funds in two insured private or non-governmental financial institutions. Uninsured balances amounting to $791,150 as of June 30, 2018 were collateralized with securities pledged by the financial institutions and held by the Treasury Department.

Note 5 - Due from governmental entities

Due from governmental entities as of June 30, 2018 consists of:

General Services Administration	$	98,000
Department of Recreation and Sports		72,855
Additional Lottery		80,042
Other governmental entities		326,222
Total due from governmental entities		577,119
Less: allowance for doubtful accounts		(353,123)
Due from governmental entities, net	$	223,996

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Note 6 - Capital assets

The activity of each of the major classes of capital assets and accumulated depreciation for the year ended June 30, 2018 is summarized as follows:

	June 30, 2017	Increase	Decrease	June 30, 2018
Capital assets not being depreciated -				
Land	$ 82,600	$ -	$ -	$ 82,600
Capital assets being depreciated:				
Television, radio and other equipment	50,322,048	632,947	-	50,954,995
Building and building improvements	12,826,524	37,000	-	12,863,524
Motor vehicles	1,309,905	229,103	-	1,539,008
Furniture and fixtures	1,034,999	63,791	-	1,098,790
Computers	2,625,179	50,256	-	2,675,435
Total capital assets being depreciated	68,118,655	1,013,097	-	69,131,752
Less: accumulated depreciation and amortization:				
Television, radio and other equipment	46,757,370	901,514	-	47,658,884
Building and building improvements	12,244,589	109,931	-	12,354,520
Motor vehicles	1,268,808	25,275	-	1,294,083
Furniture and fixtures	972,391	14,821	-	987,212
Computers	2,504,007	69,559	-	2,573,566
Total accumulated depreciation and amortization	63,747,165	1,121,100	-	64,868,265
Capital assets, net	$ 4,454,090	$ (108,003)	$ -	$ 4,346,087

Note 7 - Retirement plans

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) was created pursuant to Act No. 447 on May 15, 1951, as amended. ERS sponsors the Pension Plan, which is a cost-sharing multiemployer defined benefit pension plan reported as a fiduciary component unit of the Commonwealth.

Members who had entered the Pension Plan before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990. In 1999, an act was approved to amend the plan and close the defined benefit plan for new participants and prospectively established a new defined contribution plan, referred to as System 2000 Program.

Note 7 - Retirement plan – (continued)

In 2013, another act was approved to amend the plan and follow the same defined contribution program established with the System 2000 Program to be administered by ERS. As a result of those amendments, the Pension Plan consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program; a defined contribution program and a defined contribution hybrid program that is explained in further detail below.

a) Cost-Sharing, Multi-Employer, Defined Benefit Program

Pursuant to Act No. 447 of May 15, 1951, as amended, (Act 447), all regular employees of the Corporation hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Pension Plan, under a Defined Benefit Program (the Benefit Program), as a condition of their employment. The Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature of Puerto Rico (the Legislature). Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity, for which the participant is eligible, is limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity up to February 16, 1990, as discussed later. Participants who have not attained 55 years of age will receive up to a maximum 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non- occupational disability, a member must have at least 10 years of creditable service. Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary.

Act No. 1 of February 16, 1990 (Act 1), made certain amendments applicable to new participating employees joining the Pension Plan effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

Note 7 - Retirement plan – (continued)

b) Defined Contribution Program - System 2000 Program

On September 24, 1999, the Legislature enacted Act No. 305 (Act 305), which amended Act 447 to establish a new retirement program. Act 305, among other things, creates the System 2000 Program, a new benefit structure similar to a defined contribution plan. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Benefit Program, and were rehired on or after January 1, 2000, became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Benefit Program plus interest thereon to the System 2000 Program.

Commonwealth legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions and investment income is credited to the participant's account semiannually. Under System 2000 Program, contributions received from participants are pooled and invested by ERS, together with the assets corresponding to the Benefit Program.

Future benefit payments under the Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age. Corresponding employers' contributions will be used by ERS to reduce the unfunded status of the Pension Plan.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump-sum to the participant's beneficiaries. Participants have the option of receive a lump-sum or purchasing an annuity contract in case of permanent disability.

Note 7 - Retirement plan – (continued)

c) Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act No. 3 (Act 3), which amended Act 447, Act 1, and Act 305 to establish, among other things, a defined contribution program similar to the System 2000 Program to be administered by ERS (the Hybrid Program). All active regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, became members of the Hybrid Program as a condition of their employment.

In addition, employees who on June 30, 2013 were participants of previous programs will become part of the Hybrid Program. Act 3 froze all retirement benefits accrued through June 30, 2013 under the Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Benefit Program who on June 30, 2013 were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan under the Benefit Program, as well as the annuity accrued under the Hybrid Program. Participants who, as of June 30, 2013, have not reach the retirement age and years of service can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan under the Benefit Program, as well as the annuity accrued under the Hybrid Program.

Participants in the System 2000 Program who, as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan under the Benefit Program, as well as the annuity accrued under the Hybrid Program. Participants in the System 2000 Program who, as of June 30, 2013, have not reached the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan under the Benefit Program, as well as the annuity accrued under the Hybrid Program. In addition, Act 3 amended the provisions of the different benefit structures under ERS, including, but not limited to, the following:

- Increased the minimum pension for current retirees from $400 to $500 per month.
- The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age 61.

Note 7 - Retirement plan – (continued)

- The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.
- Eliminated the "merit annuity" available to participants who joined the Pension Plan prior to April 1, 1990.
- The retirement age for new employees was increased to age 67.
- The employee contribution rate was increased from 8.275% to 10%.
- For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the Pension Plan.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent (0.25%) is required for the purchase of disability insurance.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump-sum or purchasing an annuity contract.

For the year ended June 30, 2018, the Corporation was originally required to contribute 16.775% of each participant's gross salary under the different benefit structures. ERS was to use these contributions to increase its level of assets and to reduce the actuarial deficit of the Pension Plan. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate increased annually by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that was in effect on June 30 of every year was to be increased annually on every successive July 1 by one-point twenty-five percent (1.25%).

Note 7 - Retirement plan – (continued)

Aggregate employee contributions to the retirement system for the year ended June 30, 2018 amounted to $453,039.

Additional Uniform Contribution

The Commonwealth enacted Act No. 32 of June 25, 2013, which provided for incremental annual contributions (Additional Uniform Contribution or AUC) from the Commonwealth's General Fund, public corporations and municipalities beginning in 2014. The AUC was determined annually based on studies performed by the Pension Plan's actuaries. As of June 30, 2018, the Corporation has an accrual of $1,667,087 for its share of the AUC, which is included as part of accrued expenses, payroll taxes and withholdings in the accompanying statement of net position. The AUC was eliminated by Act No. 106 of 2017, as described below, accordingly, no AUC was required for the year ended June 30, 2018.

PayGo Program and Pension Plan Reform

Effective July 1, 2017, a new pay-as-you-go (PayGo) program was implemented for the Commonwealth's retirement systems. As a result of such implementation and the provisions of Act No. 106 of 2017, the employers' contributions, contributions established by special laws, and the AUC were eliminated for the fiscal year ended June 30, 2018. Under the PayGo program, ERS will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality on a monthly basis. Charges under the PayGo program for the year ended June 30, 2018 amounted to approximately $1.2 million, which have been included as part of deferred outflows of resources for the year ended June 30, 2018.

In addition to the PayGo program, on August 23, 2017, the Governor signed into law Act No. 106 of 2017, *Law to Guarantee the Payment to Our Pensioners and Establish a New Defined Contribution Plan for Public Servants* (Act No. 106), which reformed the Commonwealth's retirement systems so that their active participants would deposit their individual contributions in a new defined contribution plan. Act No. 106 also created the legal framework to enable the Commonwealth to make payments to pensioners through the PayGo program.

Act No. 106, among other things, amended Act No. 12 with respect to ERS governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106, ERS's Board of Trustees was substituted with a new retirement board (the Retirement Board), which is currently responsible for governing all Commonwealth's retirement systems. In addition, Act No. 106 terminated the previously existing pension programs for ERS participants. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in the new defined contribution plan program.

Note 7 - Retirement plan – (continued)

PayGo Program and Pension Plan Reform – (continued)

The accumulated balance of the participants' accounts in the prior programs will be transferred to their new accounts under the defined contributions plan. ERS's active members in the defined contribution plan will retain their benefits as stated under Act No. 91 of March 29, 2003.

Act No. 106 also suspended the ERS loan programs and ordered the merger of the administrative structures of the Commonwealth's retirement systems. At the Retirement Board's discretion, the administration of the Commonwealth's retirement systems may be outsourced to third parties. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

System Administered Pension Benefits

ERS also administers benefits granted under various special laws that provide additional benefits for the retirees and beneficiaries, referred to as the System Administered Pension Benefits program. This program includes, among other, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses.

Act 3 and Act 160 amended various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees, while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Corporation. The System Administered Pension Benefits corresponding to former employees of the Corporation are obligations of the Corporation. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension Plan

GASB No. 68 and GASB No. 73 require participating employers in the Pension Plan to recognize their proportionate share of the collective pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense. The employer allocation percentages are based on the ratio of the contributions of an individual employer to total contributions to the System, as defined, during the year ended June 30, 2018.

Note 7 - Retirement plan – (continued)

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension Plan – (continued)

At June 30, 2018, the Corporation has recognized a liability of $45,120,131 million for its proportionate share of the Pension Plan's net pension liability of 0.13186%. Additionally, for the year ended June 30, 2018, the Corporation recognized pension expense related to GASB No. 68 amounting to $3,778,066. The Corporation's proportionate share of the net pension liability under the Pension Plan as of June 30, 2018 was determined by an actuarial valuation as of June 30, 2017 (measurement date).

The components of the net pension liability of the Corporation's proportionate share of the Pension Plan net pension liability and as of June 30, 2018 (measurement date, June 30, 2017) are as follows:

Proportion of the net pension liability	0.13186%
Total pension liability	$ 42,339,392
Plan fiduciary net position	2,780,739
Net pension liability	$ 45,120,131
Plan's fiduciary net position as a percentage of the total pension liability	-6.57%
Covered payroll	$ 5,645,016
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	799.29%

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Note 7 - Retirement plan – (continued)

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension Plan – (continued)

At June 30, 2018 (measurement date, June 30, 2017), the reported deferred outflows of resources and deferred inflows of resources related to the Pension Plan arose from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between project and actual earnings on pension plan investments	$ -	$ 263,560
Difference between expected and actual experience	30,481	798,524
Change in assumptions	5,898,418	4,592,150
Change in proportion and difference between the employer's contributions and proportionate share of contributions	2,876,354	-
Pension benefits paid subsequent to the measurement date	1,159,465	-
Total	$ 9,964,718	$ 5,654,234

Pension benefits paid subsequent to the measurement date of $1,159,465 represent contributions from the Commonwealth for the PayGo program charges incurred during 2018. Since these contributions were made during the transition period from GASB No. 68 to GASB No. 73, such amount has been excluded from the table below.

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Note 7 - Retirement plan – (continued)

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension Plan – (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan as of June 30, 2018 (measurement date, June 30, 2017) will be recognized as adjustments to pension expense in the Corporation's financial statements as follows:

Years Ending June 30	Amount
2019	$ 5,014,800
2020	5,734,957
2021	5,919,810
2022	(2,355,803)
2023	(11,162,745)
Total	$ 3,151,019

Actuarial Assumptions and Methods

The following actuarial methods and assumptions were used in developing the estimate of the net pension liability of the Commonwealth of Puerto Rico's Retirement System, from which an allocation of the net pension liability was made to the Corporation and other instrumentalities of the Commonwealth.

The total pension liability in the June 30, 2018 (measurement date, June 30, 2017) actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Acturial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation rate	Not applicable
Salary increases	3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act no 03-2017, four-year extension of Act no 66 and the current general economy.

Note 7 - Retirement plan – (continued)

Actuarial Assumptions and Methods – (continued)

The mortality tables used in the June 30, 2018 (measurement date, June 30, 2017) valuation were as follows:

Pre-Retirement Mortality

For general employees not covered by Act No. 127, RP2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year and projected forward using MP2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

Postretirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Pension Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Postretirement Disabled Mortality

Rates, which vary by gender, are assumed for disabled retirees based on a study of the Pension Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Note 7 - Retirement plan – (continued)

Discount Rate

Since ERS is in a deficit position, the tax-free municipal bond index (Bond Buyer Obligation 20 Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine total pension liability. The discount rate was 3.58% at June 30, 2018 (measurement date, June 30, 2017).

Sensitivity of the Corporation's proportionate share of net pension liability to change in the discount rate

The following table presents the Corporation's proportionate share of the net pension liability calculated using the current discount rate of 3.58% as well as what the Corporation's proportionate share of the liability would be if it was calculated using a discount rate that is 1% lower (2.58%) or 1% higher (4.58%) than the current rate:

	1% Decrease (2.58%)	At Current Discount Rate (3.58%)	1% Increase (4.58%)
Net pension liability	$ 40,253,807	$ 45,120,131	$ 51,164,171

Additional information on the Pension Plan is provided on the stand-alone financial statements of ERS, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

Note 8 - Other Postemployment Benefits

The Corporation participates in the OPEB Plan of the Commonwealth for retired participants of ERS, which is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan. The OPEB Plan is administered on a pay-as-you-go basis.

The OPEB Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provide that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The OPEB Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer.

Note 8 - Other Postemployment Benefits Obligation – (continued)

There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

GASB No. 75 requires participating employers to recognize their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense.

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources Related to the OPEB Plan

The Corporation's proportionate share of the OPEB liability under the OPEB Plan as of June 30, 2018 was determined by an actuarial valuation as of June 30, 2017 (measurement date).

The components of the OPEB liability of the Corporation's proportionate share of the OPEB Plan liability and as of June 30, 2018 (measurement date, June 30, 2017) are as follows:

Proportion of the net pension liability	0.0594%
OPEB liability	$ 546,742

OPEB activity for the year ended June 30, 2018 (measurement date, June 30, 2017) resulted in a benefit of $90,287. Deferred outflows of resources as of June 30, 2018 (measurement date, June 30, 2017) include deferred OPEB Plan payments amounting to $42,558.

Actuarial Assumptions and Methods

The following actuarial methods and assumptions were used in developing the estimate of the OPEB liability of the Commonwealth from which an allocation of the OPEB liability was made to the Corporation and other instrumentalities of the Commonwealth.

Mortality

- Pre-retirement mortality – For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

Note 8 - Other Postemployment Benefits Obligation – (continued)

Actuarial Assumptions and Methods – (continued)

Mortality – (continued)

- Postretirement health mortality – rates, which vary by gender, are assumed for healthy retirees and beneficiaries based on a study of the OPEB Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the Uninsured Pensioner (UP) 1994 Mortality Table for Males and 95% of the rates from the UP 1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generation basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Postretirement disabled mortality: rates, which vary by gender, are assumed for disabled retirees based on a study of the OPEB Plan's experience from 2007 to 2012 and updated expectation regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP 1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generation basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Discount rate

The discount rate as of June 30, 2018 (measurement date, June 30, 2017) was 3.58%, based on the tax-free municipal bond index (Bond Buyer Obligation 20 Bond Municipal Bond Index).

Sensitivity of total OPEB liability to changes in the discount rate

The following table presents the Corporation's proportionate share of the OPEB Plan liability calculated using the current discount rate of 3.58% as well as what the Corporation's proportionate share of the liability would be if it was calculated using a discount rate that is 1% lower (2.58%) or 1% higher (4.58%) than the current rate:

	1% Decrease (2.58%)	At Current Discount Rate (3.58%)	1% Increase (4.58%)
Company's proportionate share of OPEB liability	$ 602,072	$ 546,742	$ 500,025

Note 8 - Other Postemployment Benefits Obligation – (continued)

Additional information on the OPEB Plan is provided on the stand-alone financial statements of ERS, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

Note 9 - Termination benefits

During the year ended June 30, 2011, the Legislature approved a one-time retirement incentive plan for all regular employees of the Central Government Agencies and certain Public Corporations, known as Act No. 70 of July 2, 2010 ("Act 70"). This plan included early retirement incentives for certain eligible employees.

Under the plan, employees could select one of three options as follows:

Option A - Article 4(a) provides a one-time economic incentive based on the following parameters:

Years of Service in Public Sector	Incentive Gross Amount
Up to 1 year	1 month of salary
From 1 year and 1 day and less than 3 years	3 months of salary
More than 3 years	6 months of salary

Option B - Article 4(b) provides, employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, to receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements.

Annuity pension payments are based on the following parameters:

Credited Years of Service	Pension Payment (As a % of Salary)
15	37.5%
16	40.0%
17	42.5%
18	45.0%
19	47.5%
20 to 29	50.0%

Note 9 - Termination benefits – (continued)

The Corporation will be responsible for making the applicable employer contributions to the Pension Plan, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both; the years of service and age requirements for full vesting would have occurred, at which time the applicable ERS will continue making the annuity payments.

Employees selecting options A or B were entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

The voluntary termination benefits liability activity for employees selecting option B as of June 30, 2018 was as follows:

Beginning Balance	Amortization/ Adjustments (Net)	Payments	Ending Balance	Current
$ 3,660,395	$ (1,131,589)	$ (325,364)	$ 2,203,442	$ 300,069

Option C - Article - 4(c) provides eligible employees that have 30 years of credited services contributing to the Pension Plan and request to start receiving their pension benefits will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Pension Plan will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

The Corporation funds the program with appropriations assigned from the annual budget of the Commonwealth. Since the inception of the program 32 employees have elected to retire, 7 in 2013, 10 in 2012 and 15 in 2011.

Note 10 - Commitments

Leases

The Corporation, as lessee, leases transmission tower space for certain repeater stations from third parties under operating lease agreements. The leases provide for terms of up to five years, with additional renewal options, however, certain agreements are renewed on a month-to-month basis.

Note 10 - Commitments – (continued)

The Corporation, as lessor, leases space on certain towers to various third parties under operating lease agreement with terms ranging from five to ten years, with additional renewal options, however, certain agreements are renewed on a month-to-month basis.

Revenues generated from these agreements amounted to $305,936 for the year ended June 30, 2018 and are included as part of other operating revenue in the accompanying statement of revenues, expenses and changes in net position.

Future commitments under existing operating lease and other agreements as of June 30, 2018 are as follows:

Years Ending June 30,	As Leasee Minimum Lease Payments	As Lessor Minimum Lease Payments
2019	$ 54,139	$ 318,917
2020	34,139	326,826
2021	34,139	334,989
2022	11,380	343,416
2023	-	351,812
Total	$ 133,797	$ 1,675,960

Rental expense under operating leases amounted to $56,557 for the year ended June 30, 2018 and is included as part of broadcasting and technical expenses, and programming and production expenses in the accompanying statement of revenues, expenses, and changes in net position.

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 the payment of commissions to the consultants based on varying percentages of funds received.

Note 11 - Contingencies and risk management

Legal Contingencies

The Corporation is a defendant in a legal case in which five plaintiffs claim reinstatement of employment with back pay and compensatory damages for unjust dismissal. During the year ended June 30, 2016, the Court issued a partial judgement in favor of the plaintiffs ordering the Corporation to reinstate them in their previous employment posts with the Corporation.

The plaintiffs' claim for back pay was estimated in approximately $1.3 million. This determination is under review of the Puerto Rico Supreme Court. In addition, during the year ended June 30, 2016, the Court of First Instance issued a final judgement granting these plaintiffs compensatory damages in the amount of $380,000. As of June 30, 2018, the Corporation has an accrual of $1,680,000 related to this legal contingency. Currently, this legal case is in stay due to PROMESA.

The Corporation is also a defendant or co-defendant in various other lawsuits in the normal course of operations. Some claims have been brought against the Corporation by employees and others. Based on the opinion of legal counsel, management has concluded that no reserves are required in relation to these cases as of June 30, 2018.

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. Commercial insurance coverage is obtained for claims arising from such matters. The commercial insurance coverage and premium are negotiated by the Corporation and the Treasury Department. The cost is paid by the Treasury Department and reimbursed by the Corporation.

Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentration of credit risk consist of accounts receivable and due from governmental entities. Accounts receivable and due from governmental entities are due from customers, municipalities and governmental instrumentalities mainly located in Puerto Rico. The Corporation generally does not require collateral and credit losses are provided for periodically through the allowance for doubtful accounts. The Corporation routinely assesses the financial strength of its customers to reduce its exposure to potential credit losses.

Note 12 - Hurricanes Irma and María

During September 2017, hurricanes Irma and María impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the island. As a result of these hurricanes, the Corporation incurred in damages and extra expenses amounting to approximately $940,000 ($40,000 for Irma and $900,000 for María) and submitted claims to the Federal Emergency Management Agency (FEMA) under the applicable disaster aid programs. Such funds were granted by FEMA during the year ended June 30, 2018 and are included as part of federal financial assistance in the accompanying statement of revenues, expenses and changes in net position.

Note 13 - Subsequent events

The Corporation has evaluated subsequent events through May 12, 2020, except for Notes 3, 7, 8, 9 and 13, as to which the date is February 15, 2021, which is the date the financial statements were available to be issued. Except as described in Note 3 and the following paragraphs, no other events have occurred subsequent to the statement of net position date that would require additional adjustment to, or disclosure, in the financial statements.

Oversight Board

As discussed in Note 3, on January 11, 2019 the Oversight Board recommended to the Commonwealth to take the necessary steps to transfer the rights and ownership of the Corporation to a private not-for-profit entity in order to provide increased growth opportunities, enhance the programming offering, and to reduce the Commonwealth's spending. On April 11, 2019, the Governor of the Commonwealth accepted the recommendation, in principle, with the expectation that it was to be implemented on or before June 30, 2020.

On May 9, 2019, the Oversight Board certified the May 2019 fiscal plan, which provided for public funding to the Corporation through March 31, 2020, after which time the Corporation would be privatized and Commonwealth funds would no longer be available. On June 30, 2019, the Oversight Board certified a fiscal year 2020 budget, which, consistent with the May 2019 fiscal plan, allocated $350,000 to support the privatization of the Corporation.

On September 13, 2019, the Corporation stated to the Oversight Board that they were willing to comply with the certified fiscal plan but suggested an alternative timeframe for privatization. The Oversight Board therefore requested from the Corporation a specific privatization plan. On November 25, 2019, the Commonwealth provided the Oversight Board with the proposed legislation to create a not-for-profit corporation to assume the Corporation's operation rights and broadcasting licenses. As of April 2020, only $100,000 of the $350,000 allocated to support the privatization of the Corporation had been disbursed.

Note 13 - Subsequent events – (continued)

On February 27, 2020, the Corporation presented to the Oversight Board its implementation plan and indicated that proposed legislation had been submitted to the Governor's office. According to the plan, the Corporation should currently be in Phase III: the public broadcasting corporation as currently defined should have been closed, in favor of a temporary and transitional ad-hoc not-for-profit entity to assume the Corporation's assets and provide continuity of services until the creation of a permanent, private organizational structure. The Corporation also provided the Oversight Board with Executive Order 2020-005, signed on January 11, 2020, in which the Corporation committed to increasing revenues and becoming self-sustaining.

Notwithstanding the Corporation's commitment to privatize and to become financially self-sufficient, on March 30, 2020, the Commonwealth and the Corporation requested additional funding from Oversight Board and has received approximately $4.9 million through the date the financial statements were available to be issued.

As of the date the financial statements were available to be issued, such legislation had not been signed into law as required by the Oversight Board, as a result of delays caused by the COVID-19 pandemic, as discussed in the following paragraphs. Furthermore, since the general elections in November 2020 resulted in a new administration at the executive and legislative levels, newly elected officials are reviewing the terms and conditions of the legislation, as such, certain modifications may be required. Management has met with several members of the House of Representatives and the Senate to expedite the signing of the proposed legislation and proceed with the privatization plan as agreed with the Oversight Board.

COVID-19

In March 2020, the World Health Organization declared the coronavirus disease COVID-19 a global pandemic. This highly contagious disease has spread across the world and into Puerto Rico and has resulted in local government enforced business lockdowns and curfews on non-essential services, as well as other restrictions on social and business activities involving large numbers of individuals and/or participants.

These conditions have negatively affected the normal operations of the Corporation and other private and governmental entities, however, the potential impact on the Corporation's financial statements cannot be reasonably estimated at this time.

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Puerto Rico Public Broadcasting Corporation
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Proportionate Share of Net Pension Plan Liability

June 30, 2018

	2018	2017	2016	2015
Proportion of the net pension liability	0.13186%	0.12985%	0.12228%	0.11571%
Total pension liability	$ 42,339,238	$ 47,311,671	$ 39,946,746	$ 34,778,943
Plan fiduciary net position	2,780,739	1,641,715	818,908	93,903
Net pension liability	$ 45,120,131	$ 48,953,386	$ 40,765,654	$ 34,872,846
Plan's fiduciary net position as a percentage of the total pension liability	-6.57%	-3.47%	-2.05%	-0.27%
Covered employee payroll	$ 5,645,016	$ 4,342,680	$ 4,058,816	$ 4,037,233
Corporation's proportionate share of the net pension liability as a percentage of its covered employee payroll	799.29%	1127.26%	1004.37%	863.78%

Puerto Rico Public Broadcasting Corporation
(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplemental Information
Schedule of Contributions – Pension Plan

June 30, 2018

	2018	2017	2016	2015
Statutory required contributions	$ 898,859	$ 861,992	$ 1,097,123	$ 984,780
Contributions in relation to the statutory required contributions	2,039,818	1,195,560	908,662	825,490
Contributions deficiency (excess)	$ (1,140,959)	$ (333,568)	$ 188,461	$ 159,290
Covered employee payroll	$ 5,645,016	$ 4,342,680	$ 4,058,816	$ 4,037,233
Contributions as a percentage of its covered employee payroll	36.13%	27.53%	22.39%	20.45%

Puerto Rico Public Broadcasting Corporation
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Required Supplemental Information
Schedule of Proportionate Shares of Net OPEB Plan Liability

June 30, 2018

	2018	2017
Company's proportion of the net OPEB liability	0.05940%	0.05762%
Company's proportionate share of the net OPEB liability	$ 546,742	$ 682,842
Plan's fiduciary net position as a percentage of the total OPEB liability	N/A	N/A
Covered employee payroll	N/A	N/A
Corporation's proportionate share of OPEB liability as a percentage of its covered employee payroll	N/A	N/A

Puerto Rico Public Broadcasting Corporation
(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplemental Information
Schedule of Contributions - OPEB Plan

June 30, 2018

	2018	2017
Statutory required contribution	$ 45,812	$ 45,978
Contributions in relation to the statutory required contribution	(45,812)	(45,978)
Annual contribution deficiency (excess)	$ -	$ -
Covered employee payroll	N/A	N/A
Contributions as a percentage of its covered employee payroll	N/A	N/A