

AUDITED FINANCIAL STATEMENTS

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)
As of and For the Years Ended July 31, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP



WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)

Audited Financial Statements

As of and For the Years Ended July 31, 2015 and 2014

Contents

Report of Independent Auditors.....	1
Audited Financial Statements	
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5



Ernst & Young LLP
Plaza 273, 10th Floor
273 Ponce de León Avenue
San Juan, PR 00917-1951

Tel: +1 787 759 8212
Fax: +1 787 753 0808
ey.com

Report of Independent Auditors

The Board of Directors of
Sistema Universitario Ana G. Méndez, Incorporado

We have audited the accompanying financial statements of WMTJ-TV, Channel 40 (the “Channel”) (a public telecommunications division of Sistema Universitario Ana G. Méndez, Incorporado) (the “Institution”), which comprise the statements of financial position as of July 31, 2015 and 2014, and the related statements of activities and cash flows for the years 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WMTJ-TV, Channel 40 (a public telecommunications division of Sistema Universitario Ana G. Méndez, Incorporado) as of July 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

February 11, 2016

Stamp No. E201516
affixed to
original of
this report.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)

Statements of Financial Position

	July 31	
	2015	2014
Assets		
Cash	\$ 200	\$ 200
Receivables:		
Trade, net of allowance for doubtful accounts of \$21 and \$146,592 in 2015 and 2014, respectively.	167,053	291,511
Grants, net of allowance for doubtful accounts of \$17,768 and \$8,327 in 2015 and 2014, respectively.	951,415	162,592
	1,118,668	454,303
Prepaid expenses	71,328	121,768
Cost incurred for programs not yet broadcasted	4,165	14,350
Property and equipment, net	3,754,295	3,492,946
Total assets	\$ 4,948,456	\$ 4,083,367
 Liabilities and division account		
Liabilities:		
Contracts payable	\$ 31,126	\$ 30,387
Accounts payable and other liabilities	1,474,536	1,223,746
Obligation Under Capital Leases	30,853	-
Due to Sistema Universitario Ana G. Méndez, Incorporado	1,084,000	1,137,000
	2,620,515	2,391,133
Division account - unrestricted net assets	2,327,941	1,692,234
Total liabilities and division account	\$ 4,948,456	\$ 4,083,367

See accompanying notes.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
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Statements of Activities

	Year Ended July 31	
	2015	2014
Revenues and other support:		
General appropriation from Sistema Universitario Ana G. Méndez, Incorporado	\$ 3,357,287	\$ 2,846,106
Indirect administrative support	1,905,369	1,925,309
Federal and state grants and contracts	2,502,761	1,685,949
Telecasting, production and other income	1,706,847	2,015,419
Total revenues and other support	9,472,264	8,472,783
Expenses:		
Program services:		
Programming and production	2,336,550	2,152,811
Broadcasting	1,055,985	1,201,904
Total program services	3,392,535	3,354,715
Supporting services:		
Management and general expenses, including depreciation and amortization of \$839,507 and \$880,030 in 2015 and 2014, respectively, and interest expense of \$57,088 and \$57,784 in 2015 and 2014, respectively	5,397,625	5,266,585
Instruction	620,720	563,443
Total supporting services	6,018,345	5,830,028
Total expenses	9,410,880	9,184,743
Change in division account - unrestricted	61,384	(711,960)
Division account - unrestricted net assets at beginning of year	1,692,234	2,225,518
Net transfers from Sistema Universitario Ana G. Méndez, Incorporado	574,323	178,676
	2,266,557	2,404,194
Division account - unrestricted net assets at end of year	\$ 2,327,941	\$ 1,692,234

See accompanying notes.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
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Statements of Cash Flows

	Year Ended July 31	
	2015	2014
Operating activities		
Change in division account - unrestricted	\$ 61,384	\$ (711,960)
Adjustments to reconcile change in division account - unrestricted to net cash provided by operating activities:		
Depreciation and amortization	839,508	880,030
Bad debt expense	86,028	127,990
Changes in operating assets and liabilities:		
Trade receivable	82,220	(32,398)
Grants receivable	(832,613)	(75,392)
Prepaid expenses	50,440	(84,919)
Cost incurred for programs not yet broadcasted	10,185	(14,350)
Contracts payable	739	5,009
Accounts payable and other liabilities	250,790	105,608
Due to Sistema Universitario Ana G. Méndez, Incorporado	(58,370)	(51,000)
Net cash provided by operating activities	490,311	148,618
Investing activities		
Purchase of property and equipment	(1,064,634)	(327,294)
Financing activities		
Contributions from Sistema Universitario Ana G. Méndez, Incorporado	574,323	178,676
Change in cash	-	-
Cash at beginning of year	200	200
Cash at end of year	\$ 200	\$ 200
Disclosure of cash flow information		
Property, plant and equipment acquired through capital leases	36,233	-
Interest paid (net of amounts capitalized)	53,000	51,000

See accompanying notes.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)

Notes to Financial Statements

July 31, 2015 and 2014

1. Organization and Summary of Significant Accounting Policies

Organization

WMTJ-TV, Channel 40 (the “Channel”) is a noncommercial public television station operating from Fajardo, Puerto Rico, including its retransmitting station WQTO-Channel 26 in Ponce. The Channel is a public telecommunications division of Sistema Universitario Ana G. Méndez, Incorporado (“SUAGM” or the “Institution”), a private, nonprofit, educational institution incorporated under the laws of the Commonwealth of Puerto Rico and licensed by the Federal Communications Commission.

The accompanying financial statements present the assets and liabilities, and changes in division account - unrestricted net assets of only that portion of the Institution that is attributable to the transactions of the Channel. These financial statements have been prepared from the separate records maintained by the Channel and may not necessarily be indicative of the conditions that would have existed or the changes in net assets if the Channel had operated as an unaffiliated entity. Portions of certain revenues and expenses represent allocations made from Institution items applicable to the Channel as a whole. SUAGM performs all cash management functions on behalf of the Channel. Accordingly, all payments and collections are handled by SUAGM.

The summary of significant accounting policies followed by the Channel is set forth below:

Receivables and Allowance for Doubtful Accounts

Receivables are reported at the estimated net realizable amount. An allowance for doubtful accounts is provided, if necessary, based upon management’s judgment including factors such as prior collection history and nature of accounts receivable.

Basis of Presentation

Net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the division account of the Channel and changes therein are classified as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
Sistema Universitario Ana G. Méndez, Incorporado)

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Channel and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Channel. Generally, the donors of these assets permit the Channel to use all or part of the income earned on related investments for general or specific purposes.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenue. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

The Channel does not have any temporarily or permanently restricted net assets.

Appropriations from Sistema Universitario Ana G. Méndez, Incorporado – The general appropriation of the Institution to the operation of the Channel represents the amount required to pay for certain expenses incurred and not supported by the revenue generated by the Channel and the amount required for the acquisition of property and equipment.

United States Government Grants and Contracts Revenue – Revenue from United States government grants and contracts is recognized upon incurring allowable expenditures in accordance with the grant agreements.

WMTJ-TV, Channel 40
 (A Public Telecommunications Division of
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Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Property and Equipment – Property and equipment is stated at cost at the date of acquisition or fair value at date of donation in the case of gifts. Depreciation and amortization are provided using the straight-line method over the estimated useful life of the respective assets, as follows:

	Useful Life
Improvements	15 to 50 years
Antenna, transmitter and other broadcasting equipment	10 to 50 years
Software	7 years
Equipment	5 years
Furniture and fixtures	5 years
Vehicles	5 years

Equipment held under capital leases is amortized over the useful life of the asset or the lease term, whichever is shorter. All construction in progress is carried in a temporary account until the construction is completed; at which time a transfer is made to the appropriate property, plant or- equipment account.

Cost Incurred for Programs not Yet Broadcasted – Costs associated with license agreements for program materials not yet broadcasted are deferred and presented at amortized cost. As the programs are broadcasted, the costs incurred are charged as expenses using the straight-line method based on the estimated number of showings.

Indirect Administrative Support – A portion of the Institution’s general overhead costs relates to and benefits the Channel. Such items include administration, utilities, maintenance and repairs. The costs of these services have been allocated to the Channel and are reported under supporting services management and general expenses in the accompanying statements of activities.

WMTJ-TV, Channel 40
(A Public Telecommunications Division of
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Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Use of Estimates – Management of the Institution has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

Liquidity – Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash. Liabilities are presented according to the nearness of their maturity and resulting use of cash.

Deferred Revenues

The Channel has deferred revenues of approximately \$178,000 and \$350,000 as of July 31, 2015 and 2014, respectively. Deferred revenues consist of cash received in advance on contracts the Institution has on behalf of the Channel with third parties, mainly related to the lease of excess broadband capacity.

Income Taxes

The Institution, as a nonprofit organization, is exempt from the payment of income taxes under U.S. Internal Revenue Code Section 501(c)(3) and the Puerto Rico Internal Revenue Code Section 1101.01(a)(2).

The Institution is also exempt from the payment of taxes on property devoted to education.

Advertising Expense

The Channel expenses the costs of all advertising campaigns and promotions as they are incurred. Advertising expense amounted to \$515,565 and \$367,680 in 2015 and 2014, respectively.

WMTJ-TV, Channel 40
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Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Subsequent Events

The Channel evaluates subsequent events and the evidence they provide about conditions existing at the date of the statements of financial position as well as conditions that arose after the statements of financial position date, but before the financial statements are issued. The effect of conditions that existed at the date of the statements of financial position date is recognized in the financial statements. Events and conditions arising after the statements of financial position date, but before the financial statements are issued, are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions. For purposes of preparing the accompanying financial statements and the following notes to these financial statements, the Channel evaluates subsequent events through the date the financial statements are available to be issued.

2. Property and Equipment, net

Property and equipment at July 31, 2015 and 2014, are summarized as follows:

	2015	2014
Land	\$ 298,404	\$ 298,404
Antenna, transmitter and other broadcasting equipment	12,410,753	12,410,753
Furniture and fixtures	430,503	430,503
Vehicles	193,828	157,604
Software	31,923	31,923
Equipment	3,795,983	2,729,597
Improvements	3,258,767	3,245,520
Construction in progress	–	15,000
Total	20,420,161	19,319,304
Less accumulated depreciation and amortization	16,665,866	15,826,358
Property and equipment, net	\$ 3,754,295	\$ 3,492,946

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Notes to Financial Statements (continued)

3. Due to Sistema Universitario Ana G. Méndez, Incorporado

Due to Sistema Universitario Ana G. Méndez, Incorporado at July 31, 2015 and 2014, represents an allocation of amounts borrowed by the Institution and used for the purchase of equipment for the Channel’s ITF Tower project. Outstanding balances are amortized once the related payments of the long-term debt are made by the Institution. Interest charged in 2015 and 2014, amounted to approximately \$56,000 and \$58,000, respectively.

On June 27, 2012, the Institution entered into a loan agreement with AFICA under which AFICA issued \$78,380,000 in Higher Education Revenue Bonds (“AFICA 2012”). The net proceeds from these loans have been and are being used to: (a) provide financing for the construction, improvement and equipping of certain educational facilities owned by the Institution; (b) refund all of AFICA 1998 bonds, of which \$15,100,000 were outstanding at the refund date, and all of AFICA 1999 bonds, of which \$31,620,000 were outstanding at the refund date; (c) fund a deposit to AFICA 2012 Reserve Account in satisfaction of the Reserve Requirement; (d) pay capitalized interest on a portion of AFICA 2012 for a period of 24 months; and (e) pay certain expenses of the offering of the bonds.

Allocated long-term debt at July 31, 2013, consists of:

Higher Education Revenue Bonds	<u>\$1,084,000</u>
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Aggregate maturities on the Higher Education Revenue Bonds as of July 31, 2015, are summarized as follows:

Year Ending July 31,	Amount
2016	\$ 55,600
2017	58,600
2018	61,200
2019	64,400
2020	68,000
Thereafter	776,200
Total	\$ 1,084,000

WMTJ-TV, Channel 40
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Notes to Financial Statements (continued)

4. Leases

The Channel has various operating leases, for certain properties and facilities, some of which include escalation clauses. For the years ended July 31, 2015 and 2014, rent expense amounted to approximately \$211,000 and \$184,000, respectively. At July 31, 2015, the future minimum lease payments, under no cancelable operating leases related to certain properties and facilities, are as follows:

2016	\$ 177,022
2017	181,581
2018	75,020
2019	76,581
2020 and thereafter	<u>75,221</u>
Total minimum lease payments	<u><u>\$ 585,425</u></u>

The Institution is obligated under capital leases for vehicle that expire during the next five years.

At July 31, 2015 and 2014, the gross amount of vehicle and the related accumulated amortization recorded under capital leases and included in property, plant and equipment in the accompanying consolidated statements of financial position is as follows:

	<u>2015</u>	<u>2014</u>
Vehicle	\$ 36,223	\$ -
Less accumulated amortization	<u>6,037</u>	<u>-</u>
Vehicle, net	<u><u>\$ 30,186</u></u>	<u><u>\$ -</u></u>

Amortization of vehicle under capital leases and interest expense are included in accompanying consolidated statements of activities.

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Notes to Financial Statements (continued)

4. Leases (continued)

Future minimum capital lease payments as of July 31, 2015 are as follow:

2016	\$ 8,301
2017	8,301
2018	8,301
2019	8,301
2020	1,383
Total minimum lease payments	<u>34,587</u>
Less amount representing interest (at rates 5.49%)	<u>3,733</u>
Net minimum capital lease payments	<u><u>\$ 30,853</u></u>

5. Federal and State Grants and Contracts

In 2015 and 2014, the Channel received grants from the Corporation for Public Broadcasting amounting \$1,257,080 and \$1,230,029, respectively. These grants are to support the operations of the Channel, to finance the production of programs, and to support other telecommunication activities. These grants are reported as federal and state grants and contracts under revenues and other support in the accompanying statements of activities. Certain guidelines must be satisfied in connection with the application for and use of the grants to maintain eligibility and compliance requirements. These grants are subject to audits. Such audits could result in claims against the resources of the Institution. No provision has been made for any liability, which may arise from such audits since amounts, if any, cannot be determined at this date.

6. Employee Benefit Plans

The Channel employees are participants of the Institution's contributory defined benefit pension plan and defined contribution savings and investment plan. Pension cost allocated to the Channel during the years ended July 31, 2015 and 2014, amounted \$7,500 and \$16,418, respectively, and is included in management and general expenses in the accompanying statements of activities.

WMTJ-TV, Channel 40
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Notes to Financial Statements (continued)

7. Subsequent Events

In connection with the preparation of the financial statements and in accordance with ASC 855, *Subsequent Events*, management has evaluated and reviewed the affairs of the Channel for subsequent events that would impact the financial statements for the years ended July 31, 2015 and 2014, through February 11, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that could significantly impact the financial statements.

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