

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
PUERTO RICO AND RELATED COMPANIES  
(A Component Unit of the Commonwealth of Puerto Rico)**

**COMBINED FINANCIAL STATEMENTS AND  
ACCOMPANYING INDEPENDENT AUDITORS' REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**FOR THE FISCAL YEARS ENDED JUNE 30, 2013, WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

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**FOR THE FISCAL YEARS ENDED JUNE 30, 2013, WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

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## INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of  
Corporación de las Artes Musicales  
de Puerto Rico and Related Companies  
San Juan, Puerto Rico**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Corporación de las Artes Musicales de Puerto Rico and Related Companies** (a component unit of the Commonwealth of Puerto Rico), (hereinafter the "Corporation") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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 respective financial position of the business-type activities, each major fund, and aggregate remaining fund information of the Corporation, as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Prior-Year Comparative Information*

We have previously audited the Corporation's 2012 financial statements, and we expressed a modified opinion on the respective financial statements of the business-type activities, each major fund, and the aggregate remaining fund information in our report dated January 10, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

October 30, 2013



*Horwath Uitz & Co. PSC*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

The combined financial statements include the accounts of Corporación de las Artes Musicales de Puerto Rico and its related companies, Corporación de la Orquesta Sinfónica de Puerto Rico and Corporación de las Artes Escénico-Musicales de Puerto Rico.

### **1. Corporación de las Artes Musicales de Puerto Rico**

Corporación de las Artes Musicales de Puerto Rico is a public corporation created by Law No. 4 of July 31, 1985. The Corporation operates separately from the Commonwealth of Puerto Rico, its agencies and public subdivisions. The Corporation was created to develop and execute the public policy towards the development of the fine arts and cultural programs administered by its related companies, and other programs of the Commonwealth of Puerto Rico.

### **2. Corporación de la Orquesta Sinfónica de Puerto Rico**

Corporación de la Orquesta Sinfónica de Puerto Rico was created by Law No. 44 of May 12, 1980, as amended, to develop, plan, coordinate and promote the performance of the Orquesta Sinfónica de Puerto Rico (OSPR).

The principal purpose of the Corporation is to provide musical alternatives of symphonic music in Puerto Rico. It can also give the young musicians the opportunity to join the OSPR after graduating from the Puerto Rico Conservatory of Music Corporation, provided all the necessary criteria are met.

### **3. Corporación de las Artes Escénico-Musicales de Puerto Rico**

Corporación de las Artes Escénico-Musicales is a public corporation created by Law No. 42 of May 12, 1980, as amended. This Corporation was created to develop, coordinate and promote the performance of fine arts and cultural programs in Puerto Rico. In addition, Law No. 42 provides for the incorporation of Festival Casals, the Festival de la Orquesta Sinfónica Juvenil de América, and the Museum Pablo Casals, as part of the operations of the Corporation.

The Corporation and its related companies are exempt from the payment of income and property taxes.

The Corporation prepares an annual budget for its operations.

The Corporation has an organizational structure composed of the following work units:

- Executive Director
- Director of Finance
- Administrative Sub-Director
- Program Coordinator
- Acting Museum Director
- Technical Sub-Director

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**(Unaudited)**

The following is a narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended June 30, 2013. The management discussion and analysis ("MD&A") is intended to serve as an introduction to the basic financial statements, which have the following components: (1) statements of net position; (2) statements of revenues, expenses, and changes in funds net position; (e) statements of cash flows and (4) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Corporation's financial activities; (c) highlight individual fund matters. We encourage readers to review this information in conjunction with the Corporation's basic financial statements, which are located after this analysis.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The Corporation uses enterprise funds to account for the sales of tickets, advertising, orchestra fees, and management services for the performance of arts in Puerto Rico. Each fund is accounted for by providing a separate set of self-balancing accounts. Funds are organized into proprietary categories. These financial statements are prepared on the full accrual basis of accounting and, in fact, they are essentially the same as the business-type activities. Users of the statements will be able to see the cost of providing services, how government finances the programs, and understands the extent to which government has invested in capital assets.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation like other state or local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds are divided into proprietary funds category.

The proprietary funds financial statements provide separate information for major and non-major funds reported in the combined financial statements of the Corporación de las Artes Musicales de Puerto Rico, the Corporación de la Orquesta Sinfónica de Puerto Rico and the Corporación de las Artes-Escénico Musicales.

This discussion and analysis is intended to serve as an introduction to the Corporation's combined financial statements which are as follows:

- **Statements of net position** - These statements present information on all the Corporation's assets, and liabilities with the difference between the two reported as net position. Over time, increase or decrease in the net position may serve as a useful indicator of whether the financial position is improving or deteriorating.
- **Statements of revenues, expenses, and changes in funds net position** - These statements present information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.
- **Statements of cash flows** - These statements provide information about transactions resulting from the flows of cash.
- **Notes to the combined financial statements** - The notes provide additional information that is essential to the full understanding of the data provided in the Corporation's combined financial statements.
- **Required supplementary information** - The Management's Discussion and Analysis, and Orquesta Sinfónica de Puerto Rico Retirement System schedules of Funding Progress and Employer Contributions represent financial information required to be presented by the GASB Statement No. 34. Such information provides users of this report with additional data that supplements the combined financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**(Unaudited)**

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

- **Other supplementary information** - This part of the annual report includes optional financial information such as basic financial statements of the Corporación de las Artes Musicales de Puerto Rico, the Corporación de la Orquesta Sinfónica de Puerto Rico and the Corporación de las Artes Escénico-Musicales de Puerto Rico. This other supplementary information is provided to address certain specific needs of various users of the Corporation's annual report.

**FINANCIAL HIGHLIGHTS**

This section of the Corporation's annual financial report presents our discussion and analysis of the Corporation's financial performance during fiscal years ended June 30, 2013.

**Corporación de las Artes Musicales de Puerto Rico**

- The assets of the Corporation amounted to \$2,513,965 and exceeded the liabilities by \$392,463, which amounted to \$2,121,502 at the close of the current fiscal year.
- At the close of the fiscal year, the Corporation reported net position amounting to \$392,463, this shows an increase of \$102,227 in comparison with prior year net position.
- Cash and accounts receivable other than balance due from related companies and other funds represent 56.32% and 0.68% of total assets, respectively.
- In net position, \$690,916 represents net investments in capital assets (e.g., furniture and equipment, musical instruments and library), which are not available for future spending.
- The operating loss for the year was \$1,585,077. This loss is \$735,262 less than the prior year's operating loss, principally due to a decrease of 28.66% in operating expenses. In overall, the operating expenses decreased mainly due to reductions in salaries, payroll taxes, fringe benefits; professional, artistic, and consulting services.

**Corporación de la Orquesta Sinfónica de Puerto Rico**

- The total assets increased by \$6,911, or 1.04%, in comparison with previous year.
- Cash and accounts receivable, other than the balance due from related companies and other funds, represent 25.86% and 12.93% of total assets as of June 30, 2013, respectively.
- The total liabilities increased by \$235,757 in comparison with previous year and exceeded the assets by \$6,263,248. This is mainly due to the net pension obligation that amounted to \$5,780,696, representing approximately 83.38% of total liabilities.
- In net position, \$18,010 represents net investment in capital (e.g., furniture and equipment, musical instruments, and library), which are not available for future spending. In addition, a portion of \$64,557 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(6,345,815), mainly because of the net pension plan cost that amounted to \$5,780,696.
- At the close of the fiscal year, the Corporation reported operating revenues of \$504,222, which shows an increase of \$85,310, or 20.36% in comparison with prior year.
- For 2013, legislative appropriations of \$4,809,000 were received to cover mainly the salaries of the musicians, resulting in \$138,000 less than in previous year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**(Unaudited)**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

**Corporación de las Artes Escénico-Musicales de Puerto Rico**

- The assets of the Corporation amounted to \$1,686,107 and exceeds the liabilities by \$1,149,983, which amounted to \$536,124 at the close of the current fiscal year.
- At the close of the fiscal year, the Corporation reported net position amounting to \$1,149,983, which shows an decrease of \$7,835 in comparison with prior year net position.
- Cash and accounts receivable, other than the balance due from related companies and other funds, represent 92.08% and 1.05% of the total assets, respectively.
- In net position, \$25,740 represents investment in capital (e.g., furniture and equipment, musical instruments and library), which are not available for future spending.

**FINANCIAL ANALYSIS OF THE CORPORATION**

As noted earlier, net position may serve as a useful indicator of the Corporation financial position.

**Corporación de las Artes Musicales de Puerto Rico**

- **Current assets** - The current assets decreased by 0.67% in comparison with prior year due to less legislative appropriations received, as a result of an executive order from the central government to finance the Corporation's operations. As previously mentioned, the Corporation is the management entity of its related companies assuming all operating expenses to be charged to each related company.
- **Cash** - The Corporation has a cash management account that supplies all funds for the operations of the Corporation and its related companies. The cash accounts are divided by programs or by funds. Each fund has a regular account, which receives all deposits, especially the monthly legislative funds, and generates payments to suppliers. In addition, the Corporation makes payments to professors of the educational programs in the Servicios Integrados a la Comunidad Fund. The Corporation and its related companies have only one payroll bank account, but the expenses are recorded in each individual corporation.
- **Long-terms assets** - The long-term assets decreased by \$36,321, mainly due to the depreciation and amortization expense of \$44,737. In addition, the Corporation incurred in approximately \$8,000 in capital expenditures during the fiscal year 2013.
- **Current liabilities** - The current liabilities decreased by 6.42% in comparison with prior year due to outstanding balances from related companies and interfund transactions made to subsidize their own operations. Refer to current assets presented above.
- **Non-current liabilities** - Non-current liabilities comprise the accrual for compensated absences and termination benefits. The Corporation's non-current liabilities decreased by \$13,227 or 10.47% at June 30, 2013, such decrease represents those disbursements made following Act No. 70 of July 2, 2010 to provide for the early retirement to eligible employees. Changes in compensated absences are mainly related to variations on the use of vacations by employees.
- **Net position** - Net position represents the residual interest in the Corporation's assets after liabilities are deducted. The Corporation's net position increased by \$102,227 or 35.22% from \$290,236 as of June 30, 2012, to \$392,463 as of June 30, 2013. The unrestricted net position can be used to finance day to day operations without constraints established by debt covenants, legislation, or other legal requirements. These changes are explained in the section entitled "Statement of Revenues, Expenses, and Changes in Funds Net Position".

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
(Unaudited)

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**TABLE - I**

**CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO**

**NET POSITION**

	<b>2013</b>	<b>2012</b>	<b>% Changes</b>
<b>Assets</b>			
Current and other assets	\$ 1,823,049	\$ 1,835,422	( 0.67)%
Long-term assets	690,916	727,237	( 4.99)%
Total Assets	2,513,965	2,562,659	( 1.90)%
<b>Liabilities</b>			
Current liabilities	2,008,364	2,146,058	( 6.42)%
Long-term liabilities	113,138	126,365	( 10.47)%
Total Liabilities	2,121,502	2,272,423	( 6.64)%
<b>Net position</b>			
Net investment in capital	690,916	727,237	( 4.99)%
Restricted	302,593	319,712	( 5.35)%
Unrestricted	( 601,046)	( 756,713)	( 20.57)%
Total Net Position	\$ 392,463	\$ 290,236	35.22 %

**Operating revenues** - The operating revenue of the Corporation represents administrative services charged to the related companies. The administrative charge for the current and prior year were \$245,000.

**Operating expenses** -The operating expenses in overall decreased by 28.66% from prior year, mostly due to a significant decrease in professional, artistic, consulting services, payroll taxes, and fringe benefits, except rent expense, which increased by \$54,332 or 58.49% more than prior year.

During the 2013, the Corporation donated \$95,000 to Teatro de la Opera, and \$20,000 to Ballets de San Juan. These funds represent a legislative grant that can only be assigned to not-for-profit entities.

**Non-operating revenues** - The non-operating revenues decreased by \$246,019 or 12.73%, in comparison with the prior fiscal year. The decrease is attributable mainly to the reduction of interest income, donations and governmental appropriations. The Corporation received less governmental grants and appropriations in 2013 than in 2012, as a result of an executive order from the central government. Most of the Corporation's revenues during 2013 are from non-operating revenues, which represent 87.32% of the total revenues. The major non-operating revenues of the Corporation are from the following sources:

**1 - Legislative Appropriations**

Management Service Fund	\$ 1,060,187
Servicios Integrados a la Comunidad Fund	544,630
Total	\$ 1,604,817

**2 - Interest and other income** - The income decreased by 67.16% in comparison with prior year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
(Unaudited)

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Corporación de las Artes Musicales de Puerto Rico (continued)**

Refer to TABLE II for the accompanying comparative financial analysis.

**TABLE - II**

**CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO**

**CHANGES IN FUND NET POSITION**

	<u>2013</u>	<u>2012</u>	<u>% Changes</u>
<b>Operating revenues</b>			
Charges to related companies	\$ 245,000	\$ 245,000	-
<b>Operating expenses</b>			
Salaries, payroll taxes, and fringe benefits	937,328	1,503,053	( 37.64)%
Rent	147,229	92,897	58.49 %
Scholarships and financial aid	95,000	190,210	( 50.06)%
Travel and meals	18,437	44,578	( 58.64)%
Publicity and advertisement	1,102	3,496	( 68.48)%
Professional, artistic and consulting services	393,609	480,705	( 18.12)%
Administrative services	65,000	65,000	-
Utilities	11,277	12,345	( 8.65)%
Depreciation	44,737	45,316	( 1.28)%
Representation	1,500	1,300	15.38 %
Repairs and maintenance	9,094	16,591	( 45.19)%
Insurance	17,806	23,564	( 24.44)%
Others	87,958	86,284	1.94 %
Total operating expenses	<u>1,830,077</u>	<u>2,565,339</u>	<u>( 28.66)%</u>
Operating loss	<u>( 1,585,077)</u>	<u>( 2,320,339)</u>	<u>31.69 %</u>
<b>Non-operating revenues</b>			
Legislative appropriations	1,604,817	1,716,000	( 6.48)%
Donations	34,160	70,160	( 51.31)%
Interest and other income	48,327	147,163	( 67.16)%
Total non-operating revenues	<u>1,687,304</u>	<u>1,933,323</u>	<u>( 12.73)%</u>
<b>Net income (loss)</b>	102,227	( 387,016)	126.41 %
<b>Total net position, beginning of year</b>	<u>290,236</u>	<u>677,252</u>	<u>( 57.15)%</u>
<b>Total net position, end of year</b>	<u>\$ 392,463</u>	<u>\$ 290,236</u>	<u>35.22 %</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**(Unaudited)**

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Corporación de las Artes Musicales de Puerto Rico (continued)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital assets**

The total capital assets are as follows:

- **Furniture and equipment** - All assets in administrative area, such as executive offices, finance, personnel, and general services.
- **Musical instruments** - All instruments used in the public center where the programs are implemented.
- **Motor vehicle** - The automobile for the Executive Director.
- **Library** - Includes all educational books and materials used in the different programs.

Refer to Note 3 of the combined financial statements.

**Long-term liabilities**

Total long-term debt is as follows:

- **Compensated absences** - Employees accrue vacations at a rate of 2.5 days per month, up to a maximum of 60 days and accumulate sick leave at a rate of 1.5 days per month, up to a maximum of 90 days. Accrued vacations and sick leave benefits as of June 30, 2013 amounted to \$174,794.

Refer to Note 4 of the combined financial statements.

**Corporación de la Orquesta Sinfónica de Puerto Rico**

As noted earlier, the net assets may serve as a useful indicator of the Corporation's financial position.

**Cash** - All the cash is managed by the Corporación de las Artes Musicales de Puerto Rico, the management company, which receives and supplies all funds for the operations of the Corporation and its related companies. The cash accounts are divided by programs or by funds. Each fund has a regular account, which receives all deposits, especially the monthly legislative funds, and generates payments to suppliers. The Corporation and its related companies have only one payroll bank account, but the expenses are recorded in each individual corporation.

**Long-term assets** - The long-term assets decreased by \$3,877, mainly by the net effect of the accumulated depreciation over the acquisition of new music amounting to \$2,698 for the use of the Symphonic Orchestra.

**Current liabilities** - The current liabilities decreased by 0.99% in comparison with previous year due to outstanding balances to related companies and interfund transactions made to subsidize their own operations. In addition, during 2011-2012, \$197,211 were accrued regarding Law No. 70 of which \$16,360 were disbursed during the current fiscal year. As of June 30, 2013 the termination benefit payable amounted to \$180,851, included in accrued expenses and withholding payable.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
(Unaudited)

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Corporación de la Orquesta Sinfónica de Puerto Rico (continued)**

**Net position** - The Corporation's net position for the fiscal year ended June 30, 2013 shows a deficit of \$6,263,248, mostly due to the \$5,780,696 recorded for the net pension obligation.

Refer to **TABLE III** for the accompanying comparative financial analysis.

**TABLE III**  
**CORPORACIÓN DE LA ORQUESTA SINFÓNICA DE PUERTO RICO**  
**NET POSITION**

	<u>2013</u>	<u>2012</u>	<u>% change</u>
<b>Assets</b>			
Current assets	\$ 652,083	\$ 641,295	1.68 %
Long-term assets	<u>18,010</u>	<u>21,887</u>	( 17.71)%
Total assets	<u>670,093</u>	<u>663,182</u>	1.04 %
<b>Liabilities</b>			
Current liabilities	1,085,213	1,096,082	( 0.99)%
Long-term liabilities	<u>5,848,128</u>	<u>5,601,502</u>	4.40 %
Total liabilities	<u>6,933,341</u>	<u>6,697,584</u>	3.52 %
<b>Net position</b>			
Net investment in capital	18,010	21,887	( 17.71)%
Restricted	64,557	64,557	-
Unrestricted	<u>( 6,345,815)</u>	<u>( 6,120,846)</u>	3.68 %
Total net position	<u><u>\$( 6,263,248)</u></u>	<u><u>\$( 6,034,402)</u></u>	3.79 %

**Changes in net position** - The Corporation's operating revenues increased by 20.36%. Most of the Corporation's revenues come from sale of tickets and orchestra fees. However, the Corporation received approximately \$4,809,000 from legislative appropriations including an special appropriations of \$1,430,000.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
(Unaudited)

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Corporación de la Orquesta Sinfónica de Puerto Rico (continued)**

**TABLE IV**

**CORPORACIÓN DE LA ORQUESTA SINFÓNICA DE PUERTO RICO**

**CHANGES IN FUND NET POSITION**

	<u>2013</u>	<u>2012</u>	<u>% change</u>
<b>Operating revenues</b>			
Sale of tickets	\$ 219,690	\$ 218,673	0.47 %
Orchestra fees	<u>284,532</u>	<u>200,239</u>	<u>42.10 %</u>
Total operating revenues	<u>504,222</u>	<u>418,912</u>	<u>20.36 %</u>
<b>Operating expenses</b>			
Salaries, payroll taxes and fringe benefits	4,080,061	4,257,485	( 4.17)%
Pension cost	490,543	726,979	( 32.52)%
Administrative services	95,000	95,000	- %
Reserve for legal claims	-	13,241	( 100.00)%
Commissions	1,538	3,385	( 54.56)%
Depreciation	6,574	10,889	( 39.63)%
Insurance	9,042	15,140	( 40.28)%
Publicity	29,856	74,882	( 60.13)%
Bad debts	-	41,276	( 100.00)%
Professional, artistic and consulting services	631,224	585,162	7.87 %
Travel and meals	16,053	18,484	( 13.15)%
Utilities	4,148	1,503	175.98 %
Rent	195,426	190,933	2.35 %
Other	<u>81,774</u>	<u>71,996</u>	<u>13.58 %</u>
Total operating expenses	<u>5,641,239</u>	<u>6,106,355</u>	<u>( 7.62)%</u>
Operating loss	<u>( 5,137,017)</u>	<u>( 5,687,443)</u>	<u>( 9.68)%</u>
<b>Non-operating revenues</b>			
Legislative appropriations	3,379,000	3,517,000	( 3.92)%
Special legislative appropriations	1,430,000	1,430,000	- %
Contributions and donations	27,589	28,539	( 3.33)%
Others, including interest income	<u>71,582</u>	<u>39,632</u>	<u>80.62 %</u>
Total non-operating revenues	<u>4,908,171</u>	<u>5,015,171</u>	<u>( 2.13)%</u>
<b>Net loss</b>	<u>( 228,846)</u>	<u>( 672,272)</u>	<u>( 65.96)%</u>
<b>Total net position - beginning of year</b>	<u>( 6,034,402)</u>	<u>( 5,362,130)</u>	<u>12.54 %</u>
<b>Total net position - end of year</b>	<u><u>\$( 6,263,248)</u></u>	<u><u>\$( 6,034,402)</u></u>	<u>3.79 %</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**(Unaudited)**

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Corporación de la Orquesta Sinfónica de Puerto Rico (continued)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The total capital assets are as follows:

- **Furniture and fixtures** - All assets in the administrative area, such as executive offices, finance, personnel and general services.
- **Musical instruments** - All instruments used in public performances.
- **Library** - It includes all music used in the different shows.

Refer to Note 3 of the combined financial statements.

**Long-term Liabilities**

The total long-term liabilities is as follows:

- **Compensated absences** - Employees accrue vacations at a rate of 2.5 days per month, up to a maximum of 60 days and accumulate sick leave at a rate of 1.5 days per month, up to a maximum of 90 days. Accrued vacations and sick leave benefits as of June 30, 2013 amounted to \$479,643.
- **Net pension obligation** - The Orquesta Sinfónica de Puerto Rico Retirement System plan (System) is a single-employer defined benefit pension plan administered by the Board of Trustees of the Retirement System. A pension liability was determined in accordance with GASB No. 27, *Accounting for Pensions by State and Local Government Employers*, as amended by GASB No. 50, *Pension Disclosures*.

Refer to Notes 1 and 4 to the combined financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**(Unaudited)**

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Corporación de las Artes Escénico-Musicales de Puerto Rico**

- **Current assets** - The current assets increased by 0.61%, in comparison with prior year due to more governmental appropriations were received, as a result of an executive order from the central government to finance the Corporation's operations.
- **Cash** - All the cash is managed by the Corporación de las Artes Musicales de Puerto Rico, the management company, which receives and supplies all funds for the operations of the Corporation and its related companies. The cash accounts are divided by programs or by funds. Each fund has a regular account, which receives all deposits, especially the monthly legislative funds, and generates payments to suppliers. The Corporation and its related companies have only one payroll bank account, but the expenses are recorded in each individual corporation.
- **Long-term assets** - The long-term assets decreased by \$9,622 or 27.21%, mostly due to the effect of the depreciation expense charged to the capital assets as a result of a contra account.
- **Current liabilities** - The current liabilities decreased by 2.06%, in comparison with prior year due to outstanding balances from related companies and interfund transactions made to subsidize their own operations. In addition, there is an increase in accounts payable to governmental entities.
- **Long-term liabilities** - Long-term liabilities is composed of compensated absences which is basically in line with prior year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
(Unaudited)

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Corporación de las Artes Escénico-Musicales de Puerto Rico (continued)**

**TABLE V**

**CORPORACIÓN DE LAS ARTES ESCÉNICO-MUSICALES DE PUERTO RICO**

**NET POSITION**

	<u>2013</u>	<u>2012</u>	<u>% Changes</u>
<b>Assets</b>			
Current and other assets	\$ 1,660,367	\$ 1,650,273	0.61 %
Long-term assets	<u>25,740</u>	<u>35,362</u>	( 27.21)%
<b>Total assets</b>	<u>1,686,107</u>	<u>1,685,635</u>	<u>0.03 %</u>
<b>Liabilities</b>			
Current liabilities	466,652	476,444	( 2.06)%
Long-term liabilities	<u>69,472</u>	<u>51,373</u>	<u>35.23 %</u>
<b>Total liabilities</b>	<u>536,124</u>	<u>527,817</u>	<u>1.57 %</u>
<b>Net position</b>			
Net investment in capital	25,740	35,362	( 27.21)%
Restricted	159,284	159,284	- %
Unrestricted	<u>964,959</u>	<u>963,172</u>	<u>0.19 %</u>
<b>Total net position</b>	<u>\$ 1,149,983</u>	<u>\$ 1,157,818</u>	<u>( 0.68)%</u>

**Changes in net position** - The Corporation's operating revenues consist mainly of the sale of tickets for the Festival Casals. The Festival Casals, in its 57th edition, presented 12 concerts with an attendance of approximately 8,000 people.

**Non-operating revenues** - The non-operating revenues are composed of legislative appropriations, donations, interest and other income which increased by 4.93% in comparison with prior year. The increased is basically due to an increase in governmental appropriations received.

**Operating expenses** - In overall, total operating expenses increased by 13.10%, mainly due to the increase in rent expense, travel and professional, artistic and consulting services. Rent expense increased by 22.39% mainly due to orchestra rentals, which include the lease of musical instruments, the lease for rehearsal and performance facilities, and for the new facilities rental agreement in the Centro de Bellas Artes - Luis A. Ferré. Since 2011, the Corporation moved its administrative operations operations from previous premises at Minillas Station due to the accidental release of asbesto, a hazardous substance. As a result, the Corporation is paying for two operating leases. In addition, the Board of Directors approved travel expenses to The Pablo Casals Cello exhibition in a museum in the state of Arizona.

The artistic and technical service costs related to the organization and technical programming of the Festival Casals increased due to a selected musical repertoire, a masterful repertoire. A masterful repertoire involves additional and sometimes more expensive musicians; and consequently a more advance programming technique.

During the fiscal year 2012-13, a new resource was contracted to work at Museo Pablo Casals increasing the professional fees expense account.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
(Unaudited)

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Corporación de las Artes Escénico-Musicales de Puerto Rico (continued)**

**TABLE - VI**

**CORPORACIÓN DE LAS ARTES ESCÉNICO-MUSICALES DE PUERTO RICO**

**CHANGES IN FUND NET POSITION**

	<u>2013</u>	<u>2012</u>	<u>% Changes</u>
<b>Operating revenues</b>			
Sale of tickets	\$ 180,562	\$ 167,822	7.59 %
<b>Operating expenses</b>			
Salaries, payroll taxes, and fringe benefits	268,866	249,643	7.70 %
Rent	85,090	69,525	22.39 %
Travel and meals	88,770	54,021	64.32 %
Publicity and advertisement	78,545	72,329	8.59 %
Professional, artistic and consulting services	560,094	470,510	19.04 %
Administrative services	85,000	85,000	- %
Utilities	7,724	22,507	( 65.68)%
Depreciation	10,388	14,575	( 28.73)%
Bad debts	-	720	( 100.00)%
Insurance	12,056	20,144	( 40.15)%
Commissions	-	134	( 100.00)%
Other	36,763	31,306	17.43 %
Total operating expenses	<u>1,233,296</u>	<u>1,090,414</u>	<u>13.10 %</u>
Operating loss	<u>( 1,052,734)</u>	<u>( 922,592)</u>	<u>14.11 %</u>
<b>Non-operating revenues</b>			
Legislative appropriations	890,000	854,000	4.22 %
Donations	110,000	126,245	( 12.87)%
Interest and other income	44,899	15,520	189.30 %
Total non-operating revenues	<u>1,044,899</u>	<u>995,765</u>	<u>4.93 %</u>
<b>Net income (loss)</b>	<u>( 7,835)</u>	<u>73,173</u>	<u>( 110.71)%</u>
<b>Total net position, beginning of year</b>	<u>1,157,818</u>	<u>1,084,645</u>	<u>6.75 %</u>
<b>Total net position, end of year</b>	<u>\$ 1,149,983</u>	<u>\$ 1,157,818</u>	<u>( 0.68)%</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**(Unaudited)**

**FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED)**

**Corporación de las Artes Escénico-Musicales de Puerto Rico (continued)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION COMBINED**

**Capital Assets**

The total capital assets are as follows:

- **Furniture and equipment** - All assets in administrative area, such as executive offices, finance, personnel, and general services.
- **Library** - Includes all educational books and materials used in the different programs.

Refer to Note 3 of the combined financial statements.

**Long-term Liabilities**

The total long-term liabilities is as follows:

- **Compensated absences** - Employees accrue vacations at a rate of 2.5 days per month, up to a maximum of 60 days and accumulate sick leave at a rate of 1.5 days per month, up to a maximum of 90 days. Accrued vacations and sick leave benefits as of June 30, 2013 amounted to \$79,440.

Refer to Note 4 to the combined financial statements.

**CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, **Corporación de las Artes Musicales de Puerto Rico and Related Companies**, P.O. Box 41227 Minillas Station, San Juan, Puerto Rico 00940-1227.

CORPORACIÓN DE LAS ARTES MUSICALES DE  
 PUERTO RICO AND RELATED COMPANIES  
 (A Component Unit of the Commonwealth of Puerto Rico)

COMBINED STATEMENTS OF NET POSITION AS OF JUNE 30, 2013 WITH  
 SUMMARIZED FINANCIAL INFORMATION FOR 2012

**ASSETS**

	Corporación	Corporación	Corporación	Eliminations	Total	
	de las Artes Musicales de Puerto Rico	de la Orquesta Sinfónica de Puerto Rico	de las Artes Escénico- Musicales de Puerto Rico		2013	2012
<b>Current assets</b>						
Cash	\$ 1,415,825	\$ 173,304	\$ 1,552,529	\$ -	\$ 3,141,658	\$ 3,177,063
Receivables:						
Individuals and private entities, net of allowance for doubtful accounts	251	42,141	4,608	-	47,000	42,372
Government entities, net of allowance for doubtful accounts	16,839	44,502	13,171	-	74,512	170,370
Related companies	287,340	378,376	66,888	( 732,604)	-	-
Other funds	102,665	13,760	23,075	( 139,500)	-	-
Prepaid expenses	129	-	-	-	129	4,420
Other	-	-	96	-	96	27,490
Total current assets	1,823,049	652,083	1,660,367	( 872,104)	3,263,395	3,421,715
<b>Long-term assets, capital assets, net of accumulated depreciation</b>	690,916	18,010	25,740	-	734,666	784,486
<b>Total assets</b>	<u>2,513,965</u>	<u>670,093</u>	<u>1,686,107</u>	<u>( 872,104)</u>	<u>3,998,061</u>	<u>4,206,201</u>

Continues.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
PUERTO RICO AND RELATED COMPANIES**  
(A Component Unit of the Commonwealth of Puerto Rico)

**COMBINED STATEMENTS OF NET POSITION AS OF JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012 (CONTINUED)**

**LIABILITIES**

	<u>Corporación de las Artes Musicales de Puerto Rico</u>	<u>Corporación de la Orquesta Sinfónica de Puerto Rico</u>	<u>Corporación de las Artes Escénico- Musicales de Puerto Rico</u>	<u>Eliminations</u>	<u>Total</u>	
					<u>2013</u>	<u>2012</u>
<b>Current liabilities</b>						
Accounts payable:						
Individuals and private entities	\$ 127,062	\$ 129,127	\$ 51,425	\$ -	\$ 307,614	\$ 424,261
Government entities	42,433	45,163	41,419	-	129,015	264,795
Related companies	387,919	210,158	134,527	( 732,604)	-	-
Other funds	102,665	13,760	23,075	( 139,500)	-	-
Others	48	-	7,146	-	7,194	7,194
Accrued expenses and withholdings payable	733,250	224,794	11,086	-	969,130	1,064,041
Compensated absences, current	61,656	412,211	9,968	-	483,835	420,594
Deferred revenues	335,217	50,000	188,006	-	573,223	599,310
Funds due to related companies	218,114	-	-	-	218,114	233,114
<b>Total current liabilities</b>	<u>2,008,364</u>	<u>1,085,213</u>	<u>466,652</u>	<u>( 872,104)</u>	<u>2,688,125</u>	<u>3,013,309</u>
<b>Long-term liabilities</b>						
Compensated absences, non-current	113,138	67,432	69,472	-	250,042	248,060
Net pension obligation	-	5,780,696	-	-	5,780,696	5,531,180
<b>Total long-term liabilities</b>	<u>113,138</u>	<u>5,848,128</u>	<u>69,472</u>	<u>-</u>	<u>6,030,738</u>	<u>5,779,240</u>
<b>Total liabilities</b>	<u>2,121,502</u>	<u>6,933,341</u>	<u>536,124</u>	<u>( 872,104)</u>	<u>8,718,863</u>	<u>8,792,549</u>
<b>NET POSITION</b>						
Net Investment in capital	690,916	18,010	25,740	-	734,666	784,486
Restricted	302,593	64,557	159,284	-	526,434	543,553
Unrestricted	( 601,046)	( 6,345,815)	964,959	-	( 5,981,902)	( 5,914,387)
<b>Total net position</b>	<u>\$ 392,463</u>	<u>\$ ( 6,263,248)</u>	<u>\$ 1,149,983</u>	<u>\$ -</u>	<u>\$ ( 4,720,802)</u>	<u>\$ ( 4,586,348)</u>

See accompanying notes to the combined financial statements.

**CORPORACIÓN DE LAS ARTES MUSICALES  
DE PUERTO RICO AND RELATED COMPANIES**  
(A Component Unit of the Commonwealth of Puerto Rico)

**COMBINED STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUNDS NET POSITION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	Corporación de las Artes Musicales de Puerto Rico	Corporación de la Orquesta Sinfónica de Puerto Rico	Corporación de las Artes Escénico- Musicales de Puerto Rico	Eliminations	Total	
					2013	2012
<b>Operating revenues</b>						
Sale of tickets	\$ -	\$ 219,690	\$ 180,562	\$ -	\$ 400,252	\$ 386,495
Orchestra fees	-	284,532	-	( 145,000)	139,532	55,239
Charges to related companies	<u>245,000</u>	-	-	( 245,000)	-	-
Total operating revenues	<u>245,000</u>	<u>504,222</u>	<u>180,562</u>	<u>( 390,000)</u>	<u>539,784</u>	<u>441,734</u>
<b>Operating expenses</b>						
Salaries, payroll taxes, and fringe benefits	937,328	4,080,061	268,866	-	5,286,255	6,010,181
Pension cost	-	490,543	-	-	490,543	726,979
Rent	147,229	195,426	85,090	-	427,745	353,355
Scholarships and financial aid	95,000	-	-	-	95,000	190,210
Travel and meals	18,437	16,053	88,770	-	123,260	117,083
Publicity and advertisement	1,102	29,856	78,545	-	109,503	150,707
Professional, artistic and consulting services	393,609	631,224	560,094	( 145,000)	1,439,927	1,391,377
Administrative services	65,000	95,000	85,000	( 245,000)	-	-
Provision for legal claims	-	-	-	-	-	13,241
Utilities	11,277	4,148	7,724	-	23,149	36,355
Depreciation	44,737	6,574	10,388	-	61,699	70,780
Bad debts	-	-	-	-	-	41,996
Representation	1,500	-	-	-	1,500	1,300
Repairs and maintenance	9,094	-	-	-	9,094	16,591
Insurance	17,806	9,042	12,056	-	38,904	58,848
Commissions	-	1,538	-	-	1,538	3,519
Other, net of expenses paid on behalf of related companies	<u>87,958</u>	<u>81,774</u>	<u>36,763</u>	<u>-</u>	<u>206,495</u>	<u>189,586</u>
Total operating expenses	<u>1,830,077</u>	<u>5,641,239</u>	<u>1,233,296</u>	<u>( 390,000)</u>	<u>8,314,612</u>	<u>9,372,108</u>
Operating loss (carried forward)	<u>( 1,585,077)</u>	<u>( 5,137,017)</u>	<u>( 1,052,734)</u>	<u>-</u>	<u>( 7,774,828)</u>	<u>( 8,930,374)</u>

Continues

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
PUERTO RICO AND RELATED COMPANIES**  
(A Component Unit of the Commonwealth of Puerto Rico)

**COMBINED STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUNDS NET POSITION (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	Corporación de las Artes Musicales de Puerto Rico	Corporación de la Orquesta Sinfónica de Puerto Rico	Corporación de las Artes Escénico- Musicales de Puerto Rico	Eliminations	Total	
					2013	2012
Operating loss (brought forward)	\$ ( 1,585,077)	\$ ( 5,137,017)	\$ ( 1,052,734)	\$ -	\$ ( 7,774,828)	\$ ( 8,930,374)
<b>Non-operating revenues</b>						
Legislative appropriations	1,604,817	3,379,000	890,000	-	5,873,817	6,087,000
Special appropriations	-	1,430,000	-	-	1,430,000	1,430,000
Contributions and donations	34,160	27,589	110,000	-	171,749	224,944
Other, including interest	48,327	71,582	44,899	-	164,808	202,315
Total non-operating revenues	1,687,304	4,908,171	1,044,899	-	7,640,374	7,944,259
<b>Net income (loss)</b>	102,227	( 228,846)	( 7,835)	-	( 134,454)	( 986,115)
<b>Total net position, beginning of year</b>	290,236	( 6,034,402)	1,157,818	-	( 4,586,348)	( 3,600,233)
<b>Total net position, end of year</b>	\$ 392,463	\$ ( 6,263,248)	\$ 1,149,983	\$ -	\$ ( 4,720,802)	\$ ( 4,586,348)

See accompanying notes to the combined financial statements

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
PUERTO RICO AND RELATED COMPANIES**  
(A Component Unit of the Commonwealth of Puerto Rico)

**COMBINED STATEMENTS OF CASH FLOWS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	Corporación de las Artes Musicales de Puerto Rico	Corporación de la Orquesta Sinfónica de Puerto Rico	Corporación de las Artes Escénico- Musicales de Puerto Rico	Eliminatlons	Total	
					2013	2012
<b>Cash flows from operating activities</b>						
Receipts from customers and users:						
Interfund services provided	\$ 278,164	\$ -	\$ -	\$ ( 245,000)	\$ 33,164	\$ 168,077
Receipts from tickets sales	-	507,017	240,033	-	747,050	235,418
Orchestra Fees	-	-	-	( 145,000)	( 145,000)	55,239
Payments to:						
Suppliers for goods or services	( 837,584)	( 1,022,874)	( 943,173)	145,000	( 2,658,631)	( 2,321,552)
Employees, payroll taxes and other fringe benefits	( 908,239)	( 4,321,927)	( 248,005)	-	( 5,478,171)	( 5,981,439)
Payments for management and interfund services used	( 65,000)	( 95,000)	( 85,000)	245,000	-	-
Other	( 121,225)	-	-	-	( 121,225)	229,038
Net cash used in operating activities	( 1,653,884)	( 4,932,784)	( 1,036,145)	-	( 7,622,813)	( 7,615,219)
<b>Cash flows from non-capital financing activities</b>						
Repayments from (advances to) related companies	( 156,049)	68,358	( 15,804)	215,045	111,550	-
Legislative appropriations	1,604,817	3,379,000	890,000	-	5,873,817	6,087,000
Special appropriations	-	1,430,000	-	-	1,430,000	1,430,000
Contributions and donations	34,160	27,589	110,000	-	171,749	321,153
(Increase) decrease in deferred revenues	( 4,087)	-	( 22,000)	-	( 26,087)	( 15,056)
Law No. 70 reimbursement	-	15,927	-	-	15,927	-
Other, including interest income	48,327	55,655	44,899	( 404)	148,477	105,702
Net cash provided by non-capital financing activities	1,527,168	4,976,529	1,007,095	214,641	7,725,433	7,928,799
<b>Cash flows from capital related financing activities</b>						
Purchase of property and equipment	( 8,416)	( 2,697)	( 767)	-	( 11,880)	( 60,006)
Advances from related companies	4,165	5,024	79,307	( 214,641)	( 126,145)	-
Net cash provided by (used in) capital related financing activities	( 4,251)	2,327	78,540	( 214,641)	( 138,025)	( 60,006)
<b>Net increase (decrease) in cash</b>	( 130,967)	46,072	49,490	-	( 35,405)	253,574
<b>Cash, at beginning of year</b>	1,546,792	127,232	1,503,039	-	3,177,063	2,923,489
<b>Cash, at end of year</b>	\$ 1,415,825	\$ 173,304	\$ 1,552,529	\$ -	\$ 3,141,658	\$ 3,177,063

Continues.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
PUERTO RICO AND RELATED COMPANIES**  
(A Component Unit of the Commonwealth of Puerto Rico)

**COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	Corporación de las Artes Musicales de Puerto Rico	Corporación de la Orquesta Sinfónica de Puerto Rico	Corporación de las Artes Escénico- Musicales de Puerto Rico	Eliminations	Total	
					2013	2012
<b>Reconciliation of operating loss to net cash used in operating activities</b>						
Operating loss	<u>\$ ( 1,585,077 )</u>	<u>\$ ( 5,137,017 )</u>	<u>\$ ( 1,052,734 )</u>	<u>\$ -</u>	<u>\$ ( 7,774,828 )</u>	<u>\$ ( 8,930,374 )</u>
Adjustments to reconcile operating loss to net cash used in operating activities:						
Depreciation	44,737	6,574	10,388	-	61,699	70,780
Bad debts	-	-	-	-	-	41,276
Decrease (increase) in assets:						
Accounts receivables	33,164	2,795	55,271	-	91,230	16,175
Prepaid expenses	-	27,465	-	-	27,465	( 27,465 )
Other	4,291	-	( 71 )	-	4,220	( 4,420 )
(Decrease) increase in liabilities:						
Accounts payable	( 142,530 )	( 43,772 )	( 66,125 )	-	( 252,427 )	75,147
Settlement of legal claims payable	-	-	-	-	-	( 76,147 )
Net pension obligation	-	249,516	-	-	249,516	490,000
Accrued expenses and withholdings payables	( 8,469 )	( 38,345 )	17,126	-	( 29,688 )	729,809
	<u>( 68,807 )</u>	<u>204,233</u>	<u>16,589</u>	<u>-</u>	<u>152,015</u>	<u>1,315,155</u>
Net cash used in operating activities	<u>\$ ( 1,653,884 )</u>	<u>\$ ( 4,932,784 )</u>	<u>\$ ( 1,036,145 )</u>	<u>\$ -</u>	<u>\$ ( 7,622,813 )</u>	<u>\$ ( 7,615,219 )</u>

See accompanying notes to the combined financial statements.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
PUERTO RICO AND RELATED COMPANIES  
(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Combination**

The combined financial statements include the accounts of the Corporación de las Artes Musicales de Puerto Rico and its related companies, including Corporación de las Artes Escénico-Musicales de Puerto Rico and Corporación de la Orquesta Sinfónica de Puerto Rico (hereinafter "the Corporation" or "the Corporation and related companies"). All intercompany transactions and balances have been eliminated in combination.

**Organization**

**Corporación de las Artes Musicales de Puerto Rico**

Corporación de las Artes Musicales de Puerto Rico is a public corporation created by Law No. 4 of July 31, 1985. The Corporation operates separately from the Commonwealth of Puerto Rico, its agencies and public subdivisions. The Corporation was created to develop and execute the public policy towards the development of the fine arts and cultural programs administered by its related companies and other programs of the Commonwealth of Puerto Rico.

**Corporación de la Orquesta Sinfónica de Puerto Rico**

Corporación de la Orquesta Sinfónica de Puerto Rico was created by Law No. 44 of May 12, 1980, as amended, to develop, plan, coordinate, and promote the operations and programs of the Orquesta Sinfónica de Puerto Rico.

**Corporación de las Artes Escénico-Musicales de Puerto Rico**

Corporación de las Artes Escénico-Musicales is a public corporation created by Law No. 42 of May 12, 1980, as amended. The Corporation was created to develop, coordinate and promote the performance of arts in Puerto Rico. Law No. 42, in addition, provides for the incorporation of Festival Casals, the Festival de la Orquesta Sinfónica Juvenil de América, the Festival Iberoamericano de las Artes Fund, and the Museum Pablo Casals, as part of the operations of the Corporation.

The Corporation and its related companies are exempt from the payment of income and property taxes.

**Financial Reporting Entity**

The Corporation and its related companies are public corporations and instrumentalities of the Commonwealth of Puerto Rico. They are a component unit of the Commonwealth of Puerto Rico.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Independence**

The Corporation is responsible for its debts and is entitled to its surplus. No other governmental agency can receive the benefits nor can impose financial strain on the Corporation.

**Board of Directors**

The Board of Directors is appointed by the Governor of the Commonwealth of Puerto Rico, with the counsel and approval of the Senate of Puerto Rico. The Board has the power to make decisions and is responsible for them.

**Designation of Management**

The Board of Directors appoints an Executive Director. The Executive Director appoints the other members of management. Management reports to the Board of Directors.

**Capacity to Manage Operations**

The Corporation has the legal capacity to make significant decisions in the managing of its operations. This legal capacity includes, but is not limited to: control of its assets, which include facilities and properties; formalize contracts and develop programs.

**Accounting of Financial Matters**

The accounting of funds is the responsibility of the Corporation's management.

**Funds Financial Statements**

The basic financial statements are organized into funds, each of which is considered a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts. Funds are organized as proprietary funds. An emphasis is placed on major funds within the proprietary category. A fund is considered major if it is the primary operating fund of the Corporation or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenses of that individual enterprise fund are at least 10% of the corresponding total for all funds, and
- b. Total assets, liabilities, revenues or expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined, if applicable.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)  
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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The funds of the financial reporting entity are described below:

**Enterprise Funds**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds:

**Corporación de las Artes Musicales de Puerto Rico**

<u>Funds</u>	<u>Brief Description</u>
Management Services Fund	A mayor fund that accounts for the activities of management services charged to related companies and other funds
Servicios Integrados a la Comunidad Fund	"Programa Músico-Sociales" consists of "Programa de Bandas de Marcha (PMB)". The purpose of this program is to expose children from disadvantaged communities and high risk from Puerto Rico to the art of music and to promote music education through the program.

**Corporación de la Orquesta Sinfónica de Puerto Rico**

<u>Funds</u>	<u>Brief Description</u>
Orquesta Sinfónica Fund	Accounts for the activities of sale of tickets and orchestra fees for the performance of arts in Puerto Rico. It also accounts for the educational activities for the performing arts in Puerto Rico schools under the "Programa Educativo Conoce tu Orquesta".
Concierto Gala Fund	Accounts for concerts celebrated annually for the benefit of the musicians pension plan from the Orquesta Sinfónica de Puerto Rico.

These funds are classified as major in the basic financial statements.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Enterprise Funds (Continued)**

**Corporación de las Artes-Escénico Musicales de Puerto Rico**

<u>Funds</u>	<u>Brief Description</u>
Management Service Fund	Accounts for managing the Corporación de las Artes Escénico-Musicales de Puerto Rico.
Festival Casals Fund	Accounts for the activities of sale of tickets for the performance of arts in Puerto Rico.
Museo Pablo Casals Fund	Accounts for the activities of collections held for public exhibition and education.
Festival de la Orquesta Sinfónica Juvenil de América Fund	Accounts for the activities for the performance of arts in Puerto Rico.

These funds are classified as major in the basic financial statements.

**Summary of Significant Accounting Policies**

The Corporation complies with accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles, which became effective September 15, 2009, replaces the FASB's previous four-part GAAP hierarchy with a single source of GAAP. GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued in December 2010, incorporates the FASB, APB, and ARB pronouncements issued on or before November 30th, 1989, which do not conflict with or contradict GASB pronouncements. While GASBS No. 62 keeps the substance of that guidance, it nevertheless modifies the guidance to recognize the effects of the governmental environment and the needs of governmental financial statement users. GASBS No. 62 also supersedes GASBS No. 20, thus eliminating the election that allowed enterprise funds and business-type activities to apply FASB Statements and Interpretations issued after November 30, 1989, that did not conflict with or contradict GASB pronouncements.

During the fiscal year 2011, the Corporation adopted the provisions of GASB Statement No. 47 - Accounting for Termination Benefits. This Statement recognizes a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

The combined financial statements utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or long-term, financial or nonfinancial) associated with their activities are reported. Fund equity is classified as net position. Legislative appropriations and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The legislative appropriations and donations for permanent betterments or for any specific activity not used in the fiscal year are credited to a deferred income account and income when expended.

The combined financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses (including depreciation and amortization) are recorded when the liability was incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions would be recognized when the exchange takes place. In addition, revenues, expenses, gains, losses, assets, and liabilities from non-exchange transactions would be recognized when all applicable eligibility requirements are met and the amounts are "available".

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Corporation are sales of tickets, and orchestra fees. Operating expenses for enterprise funds include, among others, salaries, utilities, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of combined financial statements in conformity with generally accepted accounting principles in the United States of America which requires management to make estimates and assumptions, that affect the reported amounts of assets and liabilities and related disclosures at the date of the combined financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Concentration of Credit Risks**

**Cash**

The Corporation maintains cash in deposit accounts with commercial banks in Puerto Rico and Government Development Bank. The laws of the Commonwealth of Puerto Rico require that public funds deposited in commercial banks must be fully collateralized when such funds exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth of Puerto Rico.

**Receivables**

The risk related to receivables is minimum due to the nature of the accounts.

Management believes that the concentration of the risks mentioned above does not represent a significant risk of loss in relation to the financial position of the Corporation at June 30, 2013.

**Accounts Receivable**

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions.

The accounts receivable from nongovernmental customers of the Corporation are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise from service charges do not have allowances for uncollectible accounts, as these are deemed fully collectible.

**Capital Assets**

Capital assets are stated at historical costs when purchased or at estimated fair market value when donated. Costs of normal maintenance and repairs, which do not increase the value of the asset or materially extend assets lives, are not capitalized. Assets which cost or estimated fair market value is stated under \$150 are expensed when purchased or when received as a donation.

The Museum and the historic photograph of Pablo Casals are stated at the value established when they were donated to the Corporation and its related companies, which approximated the market value at such date. These assets are not depreciated. Furthermore, the art work and historic collections exhibited in the Museum are not included in the financial statements due to the lack of information about their cost or market value. At present, the Museum is closed to the public.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)  
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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Capital Assets (Continued)**

Major outlays for capital assets, renewals, and betterments are capitalized. In accordance with practices followed by similar entities, the Corporation records depreciation expense using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture and equipment	3-10
Library	10
Musical instruments	5
Motor vehicle	5
Softwares	3

**Compensated Absences**

Employees accrue vacations at a rate of 2.5 days per month, up to a maximum of 60 days and accumulate sick leave at a rate of 1.5 days per month, up to a maximum of 90 days. Accrued vacations and sick leave benefits as of June 30, 2013 amounted to \$733,877.

**Equity Classification**

Equity is classified as net assets and displayed in three components:

- a. **Net investment in capital** - Consists of capital assets, net of accumulated depreciation.
- b. **Restricted** - Consists of net position with constraints placed on the use either by (1) external groups such as grantors, contributors or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- c. **Unrestricted** - All other net position that do not meet the definition of "restricted" or "net investment in capital".

It is the Corporation policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Restricted assets include assets that are legally restricted as to their use. The primary restricted position are related to Concierto Gala Fund.

**Legislative Appropriations**

The Corporation receives annually legislative appropriations from the Government of the Commonwealth of Puerto Rico. These appropriations are for the operations of the Corporation and are recognized when granted. The legislative appropriations for any specific activity not used in the fiscal year are credited to a deferred revenues and credited to income when expended.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions and Donations**

The contributions and donations related to the acquisition and financing of capital expenditures are recorded as contributed capital. The contributed capital for operations was recorded as revenue when received. The contributions and donations for permanent betterments not used in the fiscal year are credited to a deferred revenues account and credited to revenue when expended.

**Total Columns**

The total columns are presented only to facilitate additional analysis. The information in those columns does not present the financial position, results of operations, or the cash flows in conformity with generally accepted accounting principles in the United States of America.

**Accounting for Pension**

The Corporation accounts for pension under the provisions of GASB No. 27, *Accounting for Pensions by State and Local Government Employers*, as amended by GASB No. 50, *Pension Disclosures*. This statement established standards for measurement, recognition, and display of pension expense and related liabilities in financial statements of state and local governmental employers. The Statement defines that the pension expense is equal to the statutory required contribution to the employee's retirement system. A pension liability or asset is reported equal to the cumulative difference between the amount statutory required and actual contributions. On June 2012 the GASB, the entity responsible for the accounting and financial reporting for pension (which replace the current GASB Statements No. 25 and No. 27). GASB Statements No. 67 and No. 68 will impact the asset and funding methods, the discount rate and calculation of pension expense, the balance sheet liability, among others, which will be significant affected.

These new standards will transform the financial reporting of pension obligations and bring public pension financial reporting much closer to corporate pension accounting. The provisions of GASB Statements No. 67 and No. 68 are effective for fiscal years beginning after June 15, 2013 and June 15, 2014, respectively.

The statement defines that the pension expense is equal to the statutory required contribution to the employees retirement system. A pension liability or asset equal to the reported cumulative difference between the amounts statutory required and actual contribution.

For the purpose of the basic financial statements, and as disclosed in Note 6, the Corporation's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2013 amounted to approximately \$490,543. The excess of the annual required contribution over the statutorily required contributions increased the net pension obligation at June 30, 2012 to approximately \$5,780,696. This amount is presented in the statement of net position as of June 30, 2013.

For purposes of the stand-alone financial statements of the plan trust, the pension cost is accounted from the standpoint of a participant in a single-employer defined benefit pension plan. Accordingly, pension costs recognized are equal to the statutorily or contractually required contributions, with a liability recorded for any unpaid required contributions. The basis of accounting used by the Corporation was accrual basis.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Termination Benefits**

The Corporation accounts for termination benefits in accordance with the provisions of GASB No. 47, Accounting for Termination Benefits, which indicates 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.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New Accounting Standards Adopted**

The following new accounting standards were adopted by the Commonwealth effective July 1, 2012:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This Statement improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The most significant effects of the amendments are to: 1) increase the emphasis on financial relationships by raising the bar for inclusion; 2) refocus and clarify the requirements to blend certain component units, and 3) improve the recognition of ownership interests (joint ventures, component units, investments). This Statement is effective for financial statements for periods beginning after June 15, 2012.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (i) FASB Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Also, and most importantly, this Statement eliminates the former election option provided in paragraph 7 of Statement No. 20 for enterprise funds and business-types activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. In other words, the enterprise funds and business type activities within the Commonwealth's reporting entity can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including Statement No. 62. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Future Adoption of Accounting Pronouncements**

The GASB has issued the following accounting standards that have effective dates after June 30, 2013:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or vice versa. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

GASB Statement No. 66, *Technical Corrections 2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans — an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Future Adoption of Accounting Pronouncements (Continued)**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Once adopted, the Commonwealth will be required to report a liability equivalent to the amount by which the total pension liability exceeds the pension plan's net assets (now referred to as plan net position) available for paying benefits in its accrual-based financial statements (the government wide statement of net position).

**Prior-Year Comparative Information**

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

**Subsequent Events**

The Corporation evaluates subsequent events through October 30, 2013 the date the financial statements were issued. Refer to Note 8.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**2. RECLASSIFICATIONS**

The Corporation has reclassified its previously issued financial statements for the fiscal year ended June 30, 2012 to present the correct balance of restricted and unrestricted position.

**3. CAPITAL ASSETS**

**Corporación de las Artes Musicales de Puerto Rico**

	<u>Beginning Balance as of July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance as of June 30, 2013</u>
<b>Capital assets not being depreciated:</b>				
Museum	\$ 150,000	\$ -	\$ -	\$ 150,000
Paintings*	<u>415,000</u>	<u>-</u>	<u>-</u>	<u>415,000</u>
	<u>565,000</u>	<u>-</u>	<u>-</u>	<u>565,000</u>
<b>Capital assets being depreciated:</b>				
Furniture and equipment	458,713	8,416	-	467,129
Musical instruments	200,730	-	-	200,730
Motor vehicle	25,873	-	-	25,873
Library	1,398	-	-	1,398
Software	<u>38,537</u>	<u>-</u>	<u>-</u>	<u>38,537</u>
Total capital assets being depreciated	<u>725,251</u>	<u>8,416</u>	<u>-</u>	<u>733,667</u>
Less accumulated depreciation for:				
Furniture and equipment	401,087	20,576	-	421,663
Musical instruments	122,946	9,341	-	132,287
Motor vehicle	21,776	2,587	-	24,363
Library	1,292	51	-	1,343
Software	<u>15,913</u>	<u>12,182</u>	<u>-</u>	<u>28,095</u>
Total accumulated depreciation	<u>563,014</u>	<u>44,737</u>	<u>-</u>	<u>607,751</u>
Total capital assets being depreciated, net	<u>162,237</u>	<u>( 36,321)</u>	<u>-</u>	<u>125,916</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 727,237</u>	<u>\$( 36,321)</u>	<u>\$ -</u>	<u>\$ 690,916</u>

\* These paintings are located in the Puerto Rico Museum of Art for a period of 99 years since 1999.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**3. CAPITAL ASSETS (CONTINUED)**

**Corporación de la Orquesta Sinfónica de Puerto Rico**

	<b>Beginning Balance as of <u>July 1, 2012</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b>Ending Balance as of <u>June 30, 2013</u></b>
<b>Capital assets, being depreciated:</b>				
Furniture and equipment	\$ 93,057	\$ 542	\$ -	\$ 93,599
Musical instruments	103,611	-	-	103,611
Software	300	-	-	300
Library	<u>79,813</u>	<u>2,155</u>	<u>-</u>	<u>81,968</u>
Total capital assets, being depreciated	<u>276,781</u>	<u>2,697</u>	<u>-</u>	<u>279,478</u>
Less accumulated depreciation for:				
Furniture and equipment	90,704	394	-	91,098
Musical instruments	95,833	2,935	-	98,768
Software	183	100	-	283
Library	<u>68,174</u>	<u>3,145</u>	<u>-</u>	<u>71,319</u>
Total accumulated depreciation	<u>254,894</u>	<u>6,574</u>	<u>-</u>	<u>261,468</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 21,887</u>	<u>\$( 3,877)</u>	<u>\$ -</u>	<u>\$ 18,010</u>

**Corporación de las Artes Escénico-Musicales de Puerto Rico**

	<b>Beginning Balance as of <u>July 1, 2012</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b>Ending Balance as of <u>June 30, 2013</u></b>
<b>Capital asset not being depreciated,</b> photo of Pablo Casals	<u>\$ 3,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000</u>
<b>Capital assets being depreciated</b>				
Furniture and equipment	216,125	766	-	216,891
Musical Instruments	76,000	-	-	76,000
Library	<u>24,017</u>	<u>-</u>	<u>-</u>	<u>24,017</u>
Total capital assets, being depreciated	<u>316,142</u>	<u>766</u>	<u>-</u>	<u>316,908</u>
Less accumulated depreciation for:				
Furniture and equipment	210,070	2,528	-	212,598
Musical Instrument	50,667	7,600	-	58,267
Library	<u>23,043</u>	<u>260</u>	<u>-</u>	<u>23,303</u>
Total accumulated depreciation	<u>283,780</u>	<u>10,388</u>	<u>-</u>	<u>294,168</u>
Total capital assets being depreciated, net	<u>32,362</u>	<u>( 9,622)</u>	<u>-</u>	<u>22,740</u>
<b>Business-type activities capital assets</b>	<u>\$ 35,362</u>	<u>\$( 9,622)</u>	<u>\$ -</u>	<u>\$ 25,740</u>

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**4. LONG-TERM LIABILITIES**

Long-term activity for the year ended June 30, 2013, was as follows:

**Corporación de las Artes Musicales de Puerto Rico**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Compensated absences	\$ 145,705	\$ 48,061	\$( 18,972)	\$ 174,794	\$ 61,656

**Corporación de la Orquesta Sinfónica de Puerto Rico**

Compensated absences	464,122	510,180	( 494,659)	479,643	412,211
Net pension obligation	<u>5,531,180</u>	<u>249,516</u>	<u>-</u>	<u>5,780,696</u>	<u>-</u>
Long-term liabilities	<u>5,995,302</u>	<u>759,696</u>	<u>( 494,659)</u>	<u>6,260,339</u>	<u>412,211</u>

**Corporación de las Artes Escénico-Musicales de Puerto Rico:**

Compensated absences	<u>58,827</u>	<u>23,570</u>	<u>( 2,957)</u>	<u>79,440</u>	<u>9,968</u>
<b>Total</b>	<u>\$ 6,199,834</u>	<u>\$ 831,327</u>	<u>\$( 516,588)</u>	<u>\$ 6,514,573</u>	<u>\$ 483,835</u>

**5. VOLUNTARY TERMINATION BENEFITS**

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Corporation. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the Corporation will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Corporación.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Corporation's financial statements of a liability of \$875,977 in the statement of net assets as of June 30, 2013. At June 30, 2013, unpaid long-term benefits granted on this program were discounted at 3.46%.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**6. PENSION PLANS**

**Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)**

*Defined Benefit Pension Plan*

The Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) created pursuant to Act. No. 447 of 1951, as amended, and Act No. 305 of September 24, 1999, as amended, was a cost-sharing multi-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico, which covered only eligible full-time employees.

All regular employees of the Corporation hired before January 1, 2000, and less than 55 years at the date of employment, became members of the ERS as a condition for their employment. No benefits were payable if the participant received a refund of their accumulated contributions. The System provided retirement; death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability benefits were available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of creditable service to receive non-occupational disability benefits. Retirement benefits depend upon age at retirement and number of years of credited services. Benefits vest after ten years of plan participation.

Members who have attained an age of at least 55 years and have completed at least 25 years for creditable service or members who have attained 58 years and have completed 10 years of creditable service, were entitled to an annual benefit, payable monthly for life, with a \$400 per month minimum.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they receive 75% of the average compensation, as defined. Commonwealth legislation required employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess of \$550 of monthly gross salary. The Corporation was required by the same statute to contribute 10.275% of the participant's salary.

Commonwealth legislation requires employees to contribute 5.775% for the first \$6,600 of their annual gross salary and 8.275% for the salary in excess of \$6,600 for employees hired on or before April 1, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The Corporation's contribution is 9.275% of gross salary. For the years ended June 30, 2013, 2012, and 2011, the total payroll of all the administrative employees amounted to \$1,486,070, \$1,559,912, and \$1,296,213, respectively.

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

No benefit is payable if the participant receives a refund of his accumulated contributions.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
PUERTO RICO AND RELATED COMPANIES  
(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**6. PENSION PLANS (CONTINUED)**

**Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)  
(Continued)**

*Defined Benefit Pension Plan (Continued)*

The pension expenses to the System 2000 for the years ended June 30, 2013, 2012, and 2011 amounted to \$110,221, \$96,698, and \$98,002, respectively.

The significant actuarial assumptions used to determine the standardized measurement of the pension benefits obligation as of June 30, 2013 are summarized below:

- Actuarial valuation date June 30, 2012
- Interest rate 6.00% a year
- Salary increases 3.0% a year
- Pre-retirement mortality RP-200 employee mortality, projected on generational basis using Scale AA
- Post-retirement Gender specific mortality, based on a study of plan's experience
- Post-retirement disability mortality UP-1994 mortality table rates, with adjustments
- Termination 2% to 10%, increasing with age after 57.
- Commencement of benefits for vested members Current terminated members with a vested terminated benefit are assumed to retire at fifty-eight for Act No. No.447 and sixty-five for Act No. 1.
- Disability Rates are based on the six-month elimination period rates in the 1987 Commissioners Group Disability Table, with certain adjustments. However, once a member is eligible for the 75% of the highest salary maximum benefit, rates of disability cease to apply.
- Retirement age Graded scale of retirement ages commensurate with anticipated experience
- Proportion of participants with spouses 70% of participants assumed to be married, with wives assumed to be four years younger than husbands
- Number of employees electing higher 15% of retiring employees assumed to pay Contributions retroactive contributions at retirement

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**6. PENSION PLANS (CONTINUED)**

**Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)  
(Continued)**

*Defined Benefit Pension Plan (Continued)*

The required and realized contribution by the employees and the employer for the years ended June 30, were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Required and realized contribution by the employees	\$ 88,474	\$ 125,751	\$ 115,047
% that represents the total of payroll covered	6.73 %	10.95 %	10.31 %
Required and realized contribution by the employer	\$ 110,221	\$ 96,698	\$ 98,002
% that represents the total of payroll covered	8.39 %	8.42 %	8.78 %

*Defined Contribution Plan*

The Legislature of the Commonwealth enacted Act No. 305, which amended Act No. 447, to establish, among other things, a new defined benefit contribution savings plan program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the System as of December 31, 1999, elected either to stay in the defined benefit plan or to transfer to System 2000. New regular employees of the government on or after January 1, 2000 and through June 30, 2013, became members of System 2000.

System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. Under this plan, there was a pool of pension assets, which was invested by the System, together with those of the System. Benefits at retirement age were not guaranteed by the Commonwealth. The annuity was based on the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10% of the monthly gross salary), which was invested in one of three investment options. The Corporation's contribution was 9.275% of the employee's salary. System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990 and until its termination on June 30, 2013.

The payroll covered by the System 2000 amounted to \$1,314,148, \$1,148,546, and \$1,116,378, for the years ended June 30, 2013, 2012, and 2011, respectively. Those amounts are the compensation paid by the Corporation to all active employees covered by the System, which is the base for the contribution.

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

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**6. PENSION PLANS (CONTINUED)**

**Plan for the musicians of the Orquesta Sinfónica de Puerto Rico**

**Plan Description**

The Corporación de la Orquesta Sinfónica de Puerto Rico Retirement System (System) is a single-employer defined benefit pension plan administered by the Retirement Committee. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The general administration of the plan and the responsibility for carrying out its provisions are placed in the Retirement Committee, the members of which are appointed by the Board of Directors of the employer and by the participants on an equal representation basis.

**Funding Policy**

The contribution requirements of plan members and the Symphony Orchestra (Orchestra) are established and may be amended by the Retirement Committee. Plan members are required to contribute 3.5% of their compensation.

The Orchestra is supposed to contribute at an actuarially determined rate; the current rate is 33.2% of annual covered payroll.

**Actuarial cost method**

The Aggregate Cost Method is used to determine the normal cost for retirement, termination, and ancillary benefits. Under this cost method, the total of the present value of all future benefits for all participants reduced by the actuarial value of assets is divided by the present value of future compensation to determine the Normal Cost Rate. The present value of future benefits is determined by discounting, to the valuation date, the total future benefits cash flow from the plan to all of the current participants, using the actuarial assumptions. The actuarial value of assets is adjusted by the funding standard account balance. The present value of future compensation is determined by discounting, to the valuation date, all of the compensation anticipated to be paid to the current participants, using the actuarial assumptions. The Normal Cost Rate is then multiplied by the compensation for participants under retirement age to arrive at the Normal Cost payable on the valuation date. The final Normal Cost, after increasing this result for expected administrative expenses, if applicable, may not be less than zero. For this purpose, "retirement age", means the earliest age at which probability of retirement is 100%.

**Annual Pension Cost and Net Pension Obligation**

For 2013, annual pension cost and net pension obligation (NPO) of \$893,907 and \$5,780,696, respectively, were determined based on Actuarial Valuation Report as of August 15, 2012, which presents the funding results of the actuarial valuation of the System, as well as required Governmental Accounting Standard Board (GASB) disclosures for the fiscal year ended June 30, 2013. For the fiscal years ended June 30, 2012 and 2011, the Actuarial Valuation Report was not available; therefore, NPO at beginning of the year were estimated based on the annual required contribution (ARC) rate and amortization period (open basis) determined in the last valuation available as of August 15, 2009.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**6. PENSION PLANS (CONTINUED)**

**Plan for the musicians of the Orquesta Sinfónica de Puerto Rico (Continued)**

**Annual Pension Cost and Net Pension Obligation (Continued)**

The Orchestra's annual pension cost and net pension obligation to the System for the year ended June 30, 2013 and 2010 were as follows:

	<u>2013</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 1,070,386	\$ 858,461
Interest on NPO	382,872	319,823
Adjustment to ARC <sup>(1)</sup>	<u>( 559,351)</u>	<u>( 437,296)</u>
Annual pension cost	893,907	740,988
Contributions made	<u>( 218,177)</u>	<u>( 187,593)</u>
Increase in NPO	675,730	553,395
NPO, beginning of year <sup>(2)</sup>	<u>5,104,966</u>	<u>3,997,785</u>
NPO, end of year	<u>\$ 5,780,696</u>	<u>\$ 4,551,180</u>

<sup>(1)</sup> Amortization over expected working lifetime of active group. Obtained by dividing Present Value of Future Participating Payroll by Valuation Payroll for Participants Under the Assumed Retirement Aged.

<sup>(2)</sup> No actuarial valuations were performed for the plans years August 15, 2007 and 2008. Therefore the net pension obligation at beginning of the year was estimated based on the annual required contribution rate and amortization period (open-basis) determined in the last valuation available as of August 15, 2006.

No actuarial valuations were performed for the plans years August 15, 2010 and 2011. Therefore, the NPO at beginning of the year was estimated based on the annual required contribution (ARC) rate and amortization period (open-basis) determined in the last valuation available as of August 15, 2009.

The employer contribution rate established by the American Federation of Musicians of the United States of America and Canada differs significantly from the actuarially determined annual contribution.

For the year ended June 30 2013 and 2010, the annual required contribution was determined by the Actuarial Valuation Report as of August 15, 2012 and 2009, respectively, using the aggregate actuarial cost method and the level percentage of payroll as amortization method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases of 4.0% per year, (c) RP-2000 Combined Healthy Mortality Tables for males and females, and (d) 3% of the inflation already included in the investment return and in projected salary increase. The actuarial value of assets is equal to the market value of assets.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**6. PENSION PLANS (CONTINUED)**

**Plan for the Musicians of the Orquesta Sinfónica de Puerto Rico (Continued)**

**Annual Pension Cost and Net Pension Obligation (Continued)**

The adjustment to the Annual Required Contribution is determined by amortizing the NPO at the beginning of the period as a level percentage to pay over the expected working lifetime of the current active group.

The three-year pension cost trend information was as follows:

<u>Fiscal year ending June 30,</u>	<u>Three-year Trend Information</u>			
	<u>Annual Pension Cost (APC)</u>	<u>Employer Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2013	\$ 893,907	\$ 219,177	24.4%	\$ 5,780,696
2012 <sup>(3)</sup>	\$ 767,681	\$ 340,419	44.3%	\$ 5,104,966
2011 <sup>(3)</sup>	\$ 666,684	\$ 540,160	81.0%	\$ 4,677,704

<sup>(3)</sup> APC and NPO were estimated based on the ARC Rate and amortization period (open basis) determined in the last valuation available as of August 15, 2009.

The Schedule of Funding Progress and Schedule of Employer Contributions are presented in the accompanying required supplementary information.

**7. COMMITMENT**

The Corporation operates on leased facilities to the Public Buildings Authority (the Authority) under a lease agreement that expires on July 1, 2039. The annual rental was determined by the Authority considering the lessee's proportionate share of principal and interest payments on the outstanding bond anticipation notes issued for the remodeling of the building where the Corporation's facilities are located.

Should the Authority deems necessary, this contract may be rescinded and request to negotiate a new one, upon giving at least ninety days written notice in advance.

The minimum rental commitment for the next years are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 279,000
2015	105,204
2016	105,204
2017	105,204
2018	105,204
Thereafter	<u>2,209,284</u>
	<u>\$ 2,909,100</u>

The building rent expense for such operating lease during 2013 and 2012 was \$143,009 and \$105,204, respectively. The Corporation allocates 40% of the operating lease expense to its affiliates.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**8. SUBSEQUENT EVENTS**

On July 1, 2013 became effective Act No. 3 of April 4, 2013, which represents a comprehensive reform of the ERS. Act No. 3 amends the provisions of the different benefits structures under the ERS, including, but not limited, to the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate will increase from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.

In addition, the Commonwealth has proposed incremental annual contributions from the General Fund of \$140 million per year, for the next 20 years, to increase the liquidity and solvency of the ERS. An appropriation for such annual contribution has been included in the Commonwealth's proposed budget for the fiscal year 2014.

Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contributions of \$140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the System's current and future obligations.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
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**REQUIRED SUPPLEMENTARY INFORMATION**

**Orquesta Sinfónica de Puerto Rico Retirement System**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Present Value of Future Benefits</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
8-15-2012	\$ 3,668,132	N/A	N/A	N/A	\$ 3,227,161	N/A
8-15-2009	\$ 2,815,831	N/A	N/A	N/A	\$ 3,090,056	N/A
8-15-2006	\$ 3,496,518	N/A	N/A	N/A	\$ 2,898,248	N/A

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Year Ended June 30,</u>	<u>Required Contribution as a Percentage of Payroll*</u>	<u>Actual Payroll**</u>	<u>Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>(Excess)/ Deficiency</u>
2013	33.2%	\$ 3,227,161	\$ 1,070,386	\$ 218,177	20.4%	\$ 852,209
2012**	27.8%	\$ 3,258,058	\$ 905,134	\$ 340,419	37.6%	\$ 564,715
2011**	27.8%	\$ 2,881,133	\$ 800,419	\$ 540,160	67.5%	\$ 260,259

\* Annual Required Contribution Percentage is rate at the beginning of the year, obtained by dividing total Employer Normal Cost at beginning of the year by Valuation Payroll for participants under the assumed retirement age.

\*\* No Actuarial Report available for such year.

**CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF NET POSITION - JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	Management Service Fund	Servicios Integrados a la Comunidad Fund	Total Enterprise Funds	
			2013	2012
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	\$ 865,515	\$ 550,310	\$ 1,415,825	\$ 1,546,792
Receivables:				
Individuals and private entities, net of allowance for doubtful accounts of \$3,418 in 2013 and 2012	163	88	251	226
Government entities	16,777	62	16,839	50,028
Related companies	287,340	-	287,340	149,646
Other funds	102,665	-	102,665	84,310
Prepaid Expenses	113	16	129	4,420
Total current assets	<u>1,272,573</u>	<u>550,476</u>	<u>1,823,049</u>	<u>1,835,422</u>
<b>Long-term assets; capital assets, net of accumulated depreciation</b>	<u>641,163</u>	<u>49,753</u>	<u>690,916</u>	<u>727,237</u>
Total assets	<u>1,913,736</u>	<u>600,229</u>	<u>2,513,965</u>	<u>2,562,659</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable:				
Individuals and private entities	49,936	77,126	127,062	181,542
Government entities	35,071	7,362	42,433	130,483
Related companies	387,161	758	387,919	387,109
Other funds	-	102,665	102,665	84,310
Others	48	-	48	48
Compensated absences, current	49,009	12,647	61,656	19,340
Accrued expenses and withholdings payable	733,250	-	733,250	770,808
Funds due to related companies	218,114	-	218,114	233,114
Deferred income	109,200	226,017	335,217	339,304
Total current liabilities	<u>1,581,789</u>	<u>426,575</u>	<u>2,008,364</u>	<u>2,146,058</u>
<b>Long-term liabilities; compensated absences, non-current</b>	<u>88,447</u>	<u>24,691</u>	<u>113,138</u>	<u>126,365</u>
Total liabilities	<u>1,670,236</u>	<u>451,266</u>	<u>2,121,502</u>	<u>2,272,423</u>
<b>NET POSITION</b>				
Net investment in capital	641,163	49,753	690,916	727,237
Restricted	224,583	78,010	302,593	319,712
Unrestricted	<u>( 622,246)</u>	<u>21,200</u>	<u>( 601,046)</u>	<u>( 756,713)</u>
Total net position	<u>\$ 243,500</u>	<u>\$ 148,963</u>	<u>\$ 392,463</u>	<u>\$ 290,236</u>

Continues

**CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO**  
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**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUNDS NET ASSETS POSITION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	Management Service Fund	Servicios Integrados a la Comunidad Fund	Total Enterprise Funds	
			2013	2012
<b>Operating revenues</b>				
Charges to related companies	\$ 245,000	\$ -	\$ 245,000	\$ 245,000
<b>Operating expenses</b>				
Salaries, payroll taxes, and fringe benefits	792,718	144,610	937,328	1,503,053
Rent	117,863	29,366	147,229	92,897
Scholarships and financial aid	95,000	-	95,000	190,210
Travel and meals	894	17,543	18,437	44,578
Publicity and advertisement	344	758	1,102	3,496
Professional, artistic and consulting services	99,296	294,313	393,609	480,705
Administrative services	-	65,000	65,000	65,000
Utilities	11,277	-	11,277	12,345
Depreciation	37,799	6,938	44,737	45,316
Representation expenses	1,500	-	1,500	1,300
Repairs and maintenance	9,094	-	9,094	16,591
Insurance	2,158	15,648	17,806	23,564
Other	64,482	23,476	87,958	86,284
	<u>1,232,425</u>	<u>597,652</u>	<u>1,830,077</u>	<u>2,565,339</u>
Total operating expenses				
Operating loss	( 987,425)	( 597,652)	( 1,585,077)	( 2,320,339)
<b>Non-operating revenues</b>				
Legislative appropriations	1,060,187	544,630	1,604,817	1,716,000
Donations	4,160	30,000	34,160	70,160
Interest and other income	15,181	33,146	48,327	147,163
	<u>1,079,528</u>	<u>607,776</u>	<u>1,687,304</u>	<u>1,933,323</u>
Total non-operating income				
<b>Net income (loss)</b>	92,103	10,124	102,227	( 387,016)
<b>Total net position, beginning of year</b>	<u>151,397</u>	<u>138,839</u>	<u>290,236</u>	<u>677,252</u>
<b>Total net position, end of year</b>	<u>\$ 243,500</u>	<u>\$ 148,963</u>	<u>\$ 392,463</u>	<u>\$ 290,236</u>

Continues

**CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENTS OF CASH FLOWS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013,  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	Management Service Fund	Servicios Integrados a la Comunidad Fund	Total Enterprise Funds	
			2013	2012
<b>Cash flows from operating activities</b>				
Receipts from customers and users:				
Interfund services provided	\$ 278,080	\$ 84	\$ 278,164	\$ 288,900
Payments to suppliers of goods or services	( 442,585)	( 394,999)	( 837,584)	( 671,281)
Payments to employees, payroll taxes and other fringe benefits	( 767,902)	( 140,337)	( 908,239)	( 1,483,069)
Payments for interfund services used	-	( 65,000)	( 65,000)	( 65,000)
Other	( 93,390)	( 27,835)	( 121,225)	229,038
Net cash used in operating activities	( 1,025,797)	( 628,087)	( 1,653,884)	( 1,701,412)
<b>Cash flows from non-capital financing activities</b>				
Repayments from (advances to) related companies	( 179,850)	23,801	( 156,049)	( 144,147)
Legislative appropriations	1,060,187	544,630	1,604,817	1,716,000
Contributions and donations	4,160	30,000	34,160	150,850
Other income, including interest income	15,181	33,146	48,327	66,474
Increase in deferred income	-	( 4,087)	( 4,087)	( 25,056)
Net cash provided by non-capital financing activities	899,678	627,490	1,527,168	1,764,121
<b>Cash flows used in capital related financing activities</b>				
Purchase of property and equipment	( 7,874)	( 542)	( 8,416)	( 55,828)
Advances from related companies	( 38,749)	42,914	4,165	81,156
Net cash provided by (used in) capital related financial activities	( 46,623)	42,372	( 4,251)	25,328
<b>Increase (decrease) in cash</b>	( 172,742)	41,775	( 130,967)	88,037
<b>Cash, beginning of year</b>	1,038,257	508,535	1,546,792	1,458,755
<b>Cash, end of year</b>	<u>\$ 865,515</u>	<u>\$ 550,310</u>	<u>\$ 1,415,825</u>	<u>\$ 1,546,792</u>

Continues

CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013,  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012

	Management Service Fund	Servicios Integrados a la Comunidad Fund	Total Enterprise Funds	
			2013	2012
<b>Reconciliation of operating loss to net cash used in operating activities</b>				
Operating loss	\$ ( 987,425)	\$ ( 597,652)	\$ ( 1,585,077)	\$ ( 2,320,339)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	37,799	6,938	44,737	45,316
Changes in operating assets and liabilities:				
Decrease (increase) in				
Accounts receivable	33,080	84	33,164	43,900
Prepaid expense	4,307	( 16)	4,291	( 4,420)
Increase (decrease) in:				
Accounts payable	( 105,159)	( 37,371)	( 142,530)	99,194
Accrued expenses and withholdings payable	( 8,399)	( 70)	( 8,469)	434,937
	<u>( 38,372)</u>	<u>( 30,435)</u>	<u>( 68,807)</u>	<u>618,927</u>
Net cash used in operating activities	<u>\$ ( 1,025,797)</u>	<u>\$ ( 628,087)</u>	<u>\$ ( 1,653,884)</u>	<u>\$ ( 1,701,412)</u>

**CORPORACIÓN DE LA ORQUESTA SINFÓNICA DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF NET POSITION AS OF JUNE 30, 2013 WITH**  
**SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	<u>Orquesta Sinfónica Fund</u>	<u>Concierto Gala Fund</u>	<u>Total Enterprise Funds</u>	
			<u>2013</u>	<u>2012</u>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	\$ 130,597	\$ 42,707	\$ 173,304	\$ 127,232
Receivables:				
Individuals and private entities, net of allowance for doubtful accounts of \$130,713 for 2013 and 2012	42,141	-	42,141	41,738
Government entities, net of allowance for doubtful accounts of \$51,602 for 2013 and 2012	44,502	-	44,502	47,700
Other funds	13,760	-	13,760	19,931
Related companies	1,147	377,229	378,376	377,229
Other	-	-	-	27,465
	<u>232,147</u>	<u>419,936</u>	<u>652,083</u>	<u>641,295</u>
<b>Long-term assets; capital assets, net of accumulated depreciation</b>	<u>18,010</u>	<u>-</u>	<u>18,010</u>	<u>21,887</u>
<b>Total assets</b>	<u>250,157</u>	<u>419,936</u>	<u>670,093</u>	<u>663,182</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable:				
Individuals and private entities	129,127	-	129,127	175,773
Government entities	45,163	-	45,163	42,289
Related companies	210,158	-	210,158	135,629
Other funds	7,225	6,535	13,760	19,931
Accrued expenses and withholdings payable	199,604	25,190	224,794	278,660
Compensated absences, current	412,211	-	412,211	393,800
Deferred revenues	50,000	-	50,000	50,000
	<u>1,053,488</u>	<u>31,725</u>	<u>1,085,213</u>	<u>1,096,082</u>
<b>Long-term liabilities</b>				
Compensated absences, non-current	67,432	-	67,432	70,322
Net pension obligation	5,780,696	-	5,780,696	5,531,180
	<u>5,848,128</u>	<u>-</u>	<u>5,848,128</u>	<u>5,601,502</u>
<b>Total liabilities</b>	<u>6,901,616</u>	<u>31,725</u>	<u>6,933,341</u>	<u>6,697,584</u>
<b>NET POSITION</b>				
Net investment in capital	18,010	-	18,010	21,887
Restricted	64,557	-	64,557	64,557
Unrestricted	<u>( 6,734,026)</u>	<u>388,211</u>	<u>( 6,345,815)</u>	<u>( 6,120,846)</u>
<b>Total net position</b>	<u>\$ ( 6,651,459)</u>	<u>\$ 388,211</u>	<u>\$ ( 6,263,248)</u>	<u>\$ ( 6,034,402)</u>

**CORPORACIÓN DE LA ORQUESTA SINFÓNICA DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUNDS NET POSITION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013,  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

Operating revenues	Orquesta	Concierto	Total	
	Sinfónica	Gala	Enterprise Funds	
	Fund	Fund	2013	2012
Sale of tickets	\$ 219,690	\$ -	\$ 219,690	\$ 218,673
Orchestra fees	284,532	-	284,532	200,239
Total operating revenues	504,222	-	504,222	418,912
<b>Operating expenses</b>				
Salaries, payroll taxes and fringe benefits	4,080,061	-	4,080,061	4,257,485
Pension cost	490,543	-	490,543	726,979
Administrative services	95,000	-	95,000	95,000
Reserve for legal claim	-	-	-	13,241
Commissions	1,538	-	1,538	3,385
Depreciation	6,574	-	6,574	10,889
Insurance	9,042	-	9,042	15,140
Publicity	29,856	-	29,856	74,882
Professional, artistic and consulting services	631,224	-	631,224	585,162
Travel and meals	16,053	-	16,053	18,484
Utilities	4,148	-	4,148	1,503
Rent	195,426	-	195,426	190,933
Bad debts	-	-	-	41,276
Others	81,603	171	81,774	71,996
Total operating expenses	5,641,068	171	5,641,239	6,106,355
Operating loss	( 5,136,846)	( 171)	( 5,137,017)	( 5,687,443)
<b>Non-operating revenues</b>				
Legislative appropriations	3,379,000	-	3,379,000	3,517,000
Special legislative appropriations	1,430,000	-	1,430,000	1,430,000
Others, including interest income	71,582	-	71,582	39,632
Contributions and donations	27,589	-	27,589	28,539
Total non-operating revenues	4,908,171	-	4,908,171	5,015,171
<b>Net loss</b>	( 228,675)	( 171)	( 228,846)	( 672,272)
<b>Total net position, beginning of year</b>	( 6,422,784)	388,382	( 6,034,402)	( 5,362,130)
<b>Total net position, end of year</b>	\$( 6,651,459)	\$ 388,211	\$( 6,263,248)	\$( 6,034,402)

**CORPORACIÓN DE LA ORQUESTA SINFÓNICA DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF CASH FLOWS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	<u>Orquesta Sinfónica Fund</u>	<u>Concierto Gala Fund</u>	<u>Total Enterprise Funds</u>	
			<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>				
<b>Receipts from customers and users</b>				
Ticket sales and orchestra fees	\$ 507,017	\$ -	\$ 507,017	\$ 435,657
<b>Payments to</b>				
Employees, payroll taxes and other fringe benefits	( 4,321,927)	-	( 4,321,927)	( 4,261,322)
Suppliers and other	( 1,022,703)	( 171)	( 1,022,874)	( 1,137,729)
Management services used	( 95,000)	-	( 95,000)	( 95,000)
<b>Net cash used in operating activities</b>	<u>( 4,932,613)</u>	<u>( 171)</u>	<u>( 4,932,784)</u>	<u>( 5,058,394)</u>
<b>Cash flows from non-capital financing activities</b>				
Legislative appropriations	3,379,000	-	3,379,000	3,517,000
Special legislative appropriations	1,430,000	-	1,430,000	1,430,000
Law No. 70 reimbursement	15,927	-	15,927	15,918
Contributions and donations	27,589	-	27,589	28,539
Others, including interest income	55,655	-	55,655	23,714
Net advances (payments) to related companies	68,358	-	68,358	( 3,974)
<b>Net cash provided by non-capital financing activities</b>	<u>4,976,529</u>	<u>-</u>	<u>4,976,529</u>	<u>5,011,197</u>
<b>Cash flows from capital and related financing activities</b>				
Acquisition of property	( 2,697)	-	( 2,697)	( 3,599)
Net advances to related parties	5,024	-	5,024	73,146
<b>Net cash provided by capital and related financing activities</b>	<u>2,327</u>	<u>-</u>	<u>2,327</u>	<u>69,547</u>
<b>Net increase (decrease) in cash</b>	46,243	( 171)	46,072	22,350
<b>Cash, beginning of year</b>	84,354	42,878	127,232	104,882
<b>Cash, end of year</b>	<u>\$ 130,597</u>	<u>\$ 42,707</u>	<u>\$ 173,304</u>	<u>\$ 127,232</u>

Continues.

**CORPORACIÓN DE LA ORQUESTA SINFÓNICA DE PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	<u>Orquesta Sinfónica Fund</u>	<u>Concierto Gala Fund</u>	<u>Total Enterprise Funds</u>	
			<u>2013</u>	<u>2012</u>
<b>Reconciliation of operating loss to net cash used by operating activities</b>				
Operating loss	\$ ( 5,136,846)	\$ ( 171)	\$ ( 5,137,017)	\$ ( 5,687,443)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	6,574	-	6,574	10,889
Bad debts	-	-	-	41,276
Changes in operating assets and liabilities:				
Decrease in assets:				
Receivables, government and individuals and private entities	2,795	-	2,795	16,745
Prepaid expenses	27,465	-	27,465	( 27,465)
(Decrease) increase in liabilities:				
Accounts payable, government, individuals and private entities and other	( 43,772)	-	( 43,772)	( 72,935)
Settlement of legal claims payable	-	-	-	( 76,147)
Accrued expenses and withholdings payable	( 38,345)	-	( 38,345)	246,686
Net pension obligation	249,516	-	249,516	490,000
Total adjustments	<u>204,233</u>	<u>-</u>	<u>204,233</u>	<u>629,049</u>
Net cash used in operating activities	<u>\$ ( 4,932,613)</u>	<u>\$ ( 171)</u>	<u>\$ ( 4,932,784)</u>	<u>\$ ( 5,058,394)</u>

**CORPORACIÓN DE LAS ARTES  
ESCÉNICO-MUSICALES DE PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF NET POSITION - JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

**ASSETS**

	Management Service Fund	Festival Casals Fund	Museo Pablo Casals Fund	Festival de la Orquesta Sinfónica Juvenil de America Fund	Festival Iberoamericano de las Artes Fund	Total Enterprise Funds	
						2013	2012
<b>Current assets</b>							
Cash	\$ 505,651	\$ 236,428	\$ 524,683	\$ 241,084	\$ 44,683	\$ 1,552,529	\$ 1,503,039
Receivables:							
Individuals and private entities, net of allowance for doubtful accounts of \$70,936 in 2013 and 2012	34	-	4,103	200	271	4,608	408
Government entities, net of allowance for doubtful accounts of \$41,138 in 2013 and 2012	-	7,676	405	825	4,265	13,171	72,642
Related companies	-	65,843	-	520	525	66,888	66,130
Other funds	16,735	-	-	-	6,340	23,075	8,029
Other assets	67	-	29	-	-	96	25
Total current assets	522,487	309,947	529,220	242,629	56,084	1,660,367	1,650,273
<b>Long-term assets; capital assets, net</b>	699	18,223	6,593	87	138	25,740	35,362
Total assets	523,186	328,170	535,813	242,716	56,222	1,686,107	1,685,635

**LIABILITIES**

<b>Current liabilities</b>							
Accounts payable:							
Individuals and private entities	-	41,176	375	100	9,774	51,425	66,946
Government entities	130	17,529	23,620	-	140	41,419	92,023
Related companies	99,816	974	32,642	-	1,095	134,527	70,267
Other funds	-	10,169	3,199	6,340	3,367	23,075	8,029
Other	-	7,146	-	-	-	7,146	7,146
Compensated absences, current	4,609	-	5,359	-	-	9,968	7,454
Accrued expenses and withholdings payable	-	11,086	-	-	-	11,086	14,573
Deferred revenues	-	-	150,006	20,000	18,000	188,006	210,006
Total current liabilities	104,555	88,080	215,201	26,440	32,376	466,652	476,444
<b>Long-term liabilities; compensated absences, non-current</b>	16,505	-	52,967	-	-	69,472	51,373
Total liabilities	121,060	88,080	268,168	26,440	32,376	536,124	527,817

**NET POSITION**

Net investment in capital	699	18,223	6,593	87	138	25,740	35,362
Restricted	-	-	159,284	-	-	159,284	159,284
Unrestricted	401,427	221,867	101,768	216,189	23,708	964,959	963,172
Total net position	\$ 402,126	\$ 240,090	\$ 267,645	\$ 216,276	\$ 23,846	\$ 1,149,983	\$ 1,157,818

**CORPORACIÓN DE LAS ARTES  
ESCÉNICO-MUSICALES DE PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUNDS NET POSITION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	Management Service Fund	Festival Casals Fund	Museo Pablo Casals Fund	Festival de la Orquesta Sinfónica Juvenil de América Fund	Festival Iberoamericano de las Artes Fund	Total Enterprise Funds	
						2013	2012
<b>Operating revenues</b>							
Sale of tickets	\$ -	\$ 165,381	\$ -	\$ -	\$ 15,181	\$ 180,562	\$ 167,822
Total operating revenues	-	165,381	-	-	15,181	180,562	167,822
<b>Operating expenses</b>							
Salaries, payroll taxes and fringe benefits	90,737	10,169	167,082	-	878	268,866	249,643
Travel and meals	-	74,828	2,045	-	11,897	88,770	54,021
Publicity	796	66,032	-	-	11,717	78,545	72,329
Professional, artistic and consulting services	8,159	479,879	20,513	-	51,543	560,094	470,510
Administrative services	85,000	-	-	-	-	85,000	85,000
Utilities	-	-	7,724	-	-	7,724	22,507
Depreciation	68	8,115	2,151	18	36	10,388	14,575
Bad debts	-	-	-	-	-	-	720
Rent	26,670	40,367	13,025	-	5,028	85,090	69,525
Insurance	12,056	-	-	-	-	12,056	20,144
Commissions	-	-	-	-	-	-	134
Other	1,145	8,954	4,285	-	22,379	36,763	31,306
Total operating expenses	224,631	688,344	216,825	18	103,478	1,233,296	1,090,414
Operating loss	( 224,631)	( 522,963)	( 216,825)	( 18)	( 88,297)	( 1,052,734)	( 922,592)
<b>Non-operating revenues</b>							
Legislative appropriations	254,000	362,000	191,000	-	83,000	890,000	854,000
Donations	-	105,000	-	-	5,000	110,000	126,245
Other	-	44,033	866	-	-	44,899	15,520
Total non-operating revenues	254,000	511,033	191,866	-	88,000	1,044,899	995,765
<b>Net Income (loss)</b>	29,369	( 11,930)	( 24,959)	( 18)	( 297)	( 7,835)	73,173
<b>Total net position, beginning of year</b>	372,757	252,020	292,604	216,294	24,143	1,157,818	1,084,645
<b>Total net position, end of year</b>	\$ 402,126	\$ 240,090	\$ 267,645	\$ 216,276	\$ 23,846	\$ 1,149,983	\$ 1,157,818

**CORPORACIÓN DE LAS ARTES  
ESCÉNICO-MUSICALES DE PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENTS OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013 WITH  
SUMMARIZED FINANCIAL INFORMATION FOR 2012

	Management Service Fund	Festival Casals Fund	Museo Pablo Casals Fund	Festival de la Orquesta Sinfónica Juvenil de América Fund	Festival Iberoamericano de las Artes Fund	Total Enterprise Funds	
						2013	2012
<b>Cash flows from operating activities</b>							
Receipts from ticket sales	\$ -	\$ 224,852	\$ -	\$ -	\$ 15,181	\$ 240,033	\$ 124,177
Payments to employees, payroll taxes and other fringe benefits	( 86,821)	( 10,169)	( 150,385)	-	( 630)	( 248,005)	( 237,048)
Payments to suppliers of goods or services and other	( 49,537)	( 735,150)	( 55,922)	-	( 102,564)	( 943,173)	( 627,542)
Payments to interfund services, including management services used	( 85,000)	-	-	-	-	( 85,000)	( 85,000)
Net cash used in operating activities	( 221,358)	( 520,467)	( 206,307)	-	( 88,013)	( 1,036,145)	( 825,413)
<b>Cash flows from non-capital financing activities</b>							
Legislative appropriations	254,000	362,000	191,000	-	83,000	890,000	854,000
Contributions and donations	-	105,000	-	-	5,000	110,000	141,764
Advances to related parties	( 15,046)	( 758)	-	-	-	( 15,804)	( 66,924)
Deferred revenues	-	( 40,000)	-	-	18,000	( 22,000)	10,000
Other income, including interest income	-	44,033	866	-	-	44,899	-
Net cash provided by non-capital financing activities	238,954	470,275	191,866	-	106,000	1,007,095	938,840
<b>Cash flows from capital and related financing activities</b>							
Purchase of property and equipment	( 767)	-	-	-	-	( 767)	( 579)
Advances from related companies	49,633	4,408	21,379	-	3,887	79,307	60,339
Net cash provided from capital and related financing activities	48,866	4,408	21,379	-	3,887	78,540	59,760
<b>Increase (decrease) in cash</b>	66,462	( 45,784)	6,938	-	21,874	49,490	143,187
<b>Cash, at beginning of year</b>	439,189	282,212	517,745	241,084	22,809	1,503,039	1,359,852
<b>Cash, at end of year</b>	\$ 505,651	\$ 236,428	\$ 524,683	\$ 241,084	\$ 44,683	\$ 1,552,529	\$ 1,503,039

Continues.

CORPORACIÓN DE LAS ARTES  
 ESCÉNICO-MUSICALES DE PUERTO RICO  
 (A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013,  
 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012

	Management Service Fund	Festival Casals Fund	Museo Pablo Casals Fund	Festival de la Orquesta Sinfónica Juvenil de América Fund	Festival Iberoamericano de las Artes Fund	Total Enterprise Funds	
						2013	2012
<b>Reconciliation of operating loss to net cash used by operating activities:</b>							
Operating loss	\$ ( 224,631)	\$ ( 522,963)	\$ ( 216,825)	\$ ( 18)	\$ ( 88,297)	\$ ( 1,052,734)	\$ ( 922,592)
Adjustments to reconcile operating loss to net cash used in operating activities:							
Depreciation	68	8,115	2,151	18	36	10,388	14,575
Changes in operating assets and liabilities:							
Increase (decrease) in:							
Accounts receivable from individuals, private entities and government	-	59,471	( 4,200)	-	-	55,271	( 44,470)
Other assets	( 42)	-	( 29)	-	-	( 71)	-
Decrease (increase) in:							
Accounts payable from individuals, private entities and government	( 32)	( 62,822)	( 3,271)	-	-	( 66,125)	48,888
Accrued expenses and withholdings payable	3,279	( 2,268)	15,867	-	248	17,126	48,186
<b>Total adjustments</b>	<u>3,273</u>	<u>2,496</u>	<u>10,518</u>	<u>18</u>	<u>284</u>	<u>16,589</u>	<u>67,179</u>
<b>Net cash used in operating activities</b>	<u>\$ ( 221,358)</u>	<u>\$ ( 520,467)</u>	<u>\$ ( 206,307)</u>	<u>\$ -</u>	<u>\$ ( 88,013)</u>	<u>\$ ( 1,036,145)</u>	<u>\$ ( 855,413)</u>