

**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 YEARS ENDED JUNE 30, 2010 AND 2009**

**CORPORACIÓN DE LAS ARTES MUSICALES DE  
PUERTO RICO AND RELATED COMPANIES  
(A Component Unit of the Commonwealth of Puerto Rico)  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined financial statements of the business-type activities, 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), (the Corporation) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Corporation's combined financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. The prior year summarized comparative information has been derived from **Corporación de las Artes Musicales de Puerto Rico and Related Companies's** 2009 financial statements and, in our report dated October 20, 2009, we expressed a qualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

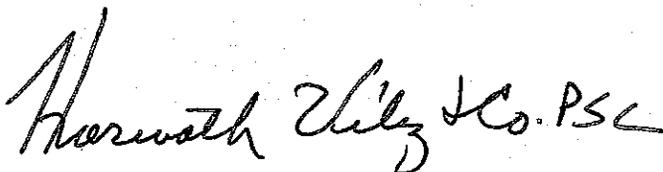
As presented in Note 4 to the basic financial statements, the Corporation's financial statements for the year ended June 30, 2009 do not disclose the annual pension cost and net pension obligation as of June 30, 2009 because the last actuarial valuation report issued at that date was as of June 30, 2007. An estimated of the annual pension cost and the related net pension obligation for 2009 was determined based on the 2007 pension cost.

As discussed in Note 5 to the combined financial statements, during the fiscal years 1981-82 and 1982-83, the Puerto Rico Industrial Development Company advanced certain funds to **Corporación de las Artes Musicales de Puerto Rico (formerly, "Administración para el Fomento de las Artes y Cultura")** and related companies. Such funds were not recognized as a liability by the Corporación de las Artes Musicales de Puerto Rico nor its related companies. Management has not determined the specific amount of such advances received by the Corporation and, as a result, no liability has been recognized in the accompanying statement of net assets (deficit).

In our opinion, except for the omission of the information and for the effect of the matter discussed in the preceding paragraph, if any, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, 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), as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 18 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.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The required supplementary information, as listed in the accompanying table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.



September 30, 2010

Stamp number 2570459 was affixed to the original of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

The principal purpose of the Corporation is to provide musical development in the island through the educational program Servicios Integrados a la Comunidad. In addition, the Corporation provides administrative services and management support necessary to its related companies.

### 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. This 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 affiliates, 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 operations and programs of the Orquesta Sinfónica de Puerto Rico.

The principal purpose of the Corporation is to provide musical alternatives of symphony music in Puerto Rico. It can also give the young musicians the opportunity to join the Symphony Orchestra 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 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 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
- Administrative Subdirector
- Program Coordinator
- Acting Museum Director
- Technical Sub-Director
- Director

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As management of the Corporation, we offer the readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with the Corporation's combined financial statements that begin from pages 19 through 48.

### USING THIS ANNUAL REPORT:

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) pronouncement and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. In addition to applying the FASB Statements and Interpretations, and APB Opinions, an enterprise fund may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for that which conflict with or contradict GASB pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in the Corporation's combined notes to the combined financial statements.

### 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 are as follows:

- **Statements of net assets (deficit)** - These statements present information on all the Corporation's assets and liabilities with the difference between the two reported as net assets or deficit. Over time, increase or decrease in the net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED):

- **Statements of revenues, expenses, and changes in funds net assets (deficit)** - These statements present information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 Systems 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.
- **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, 2010 and 2009.

#### Corporación de las Artes Musicales de Puerto Rico:

- The assets of the Corporation amounted to \$3,212,693 and exceeded the liabilities by \$466,819, which amounted to \$2,745,874 at the close of the current fiscal year.
- At the close of the fiscal year, the Corporation reported net assets amounting to \$466,819 this shows a decrease of \$69,351 in comparison with prior year net assets.
- Cash and accounts receivable represent 40.24% and 51.03% of total assets as of June 30, 2010, respectively.
- The operating loss for 2010 was \$1,641,503. This loss is \$233,280 less than the prior year operating loss, principally due to a decrease of 11.02% in operating expenses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL HIGHLIGHTS (CONTINUED):

#### Corporación de la Orquesta Sinfónica de Puerto Rico:

- The total assets increased by \$149,510, or 20.33%, in comparison with previous year.
- Cash and accounts receivable, other than balance due from related companies, represent 22.39% and 73.77% of total assets as of June 30, 2010, respectively,
- The total liabilities decreased by \$167,230 in comparison with previous year and exceeded the assets by \$6,554,009. This is mainly due to the net pension plan obligation that amounted to \$4,551,180, representing approximately 61.18% of total liabilities.
- In net assets, \$33,919 represents investment in capital assets (e.g., furniture and equipment, musical instruments and library), which are not available for future spending. In addition, a portion of \$400,601 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$6,988,529.
- For 2010, the Corporation did not receive contributions from the Department of Labor and Human resources of Puerto Rico. For 2009, the Corporation received \$280,000 from a special grant to cover the salaries of the musicians.
- At the close of the fiscal year, the Corporation reported operating revenues of \$486,823, representing an increase of \$121,394, or 33.22%, in comparison with prior year.
- For 2010, legislative grants of approximately \$5,639,000 were received to cover mainly the salaries of the musicians, which represent a net increase of approximately \$2,147,000 in comparison with prior year.

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

- The assets of the Corporation amounted to \$2,728,422 in 2010 and \$2,683,292 in 2009, resulting in an increase 1.68%.
- At the close of the 2010 fiscal year, the Corporation reported net assets amounting to \$1,064,179, 9.62% more than prior year.
- Cash and accounts receivable represent 53.91% and 43.81% of the total assets as of June 30, 2010, respectively.
- The operating revenues for 2010 decreased 56.70% from \$330,231 in 2009 to \$143,002 in 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL ANALYSIS OF THE CORPORATION:

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

#### Corporación de las Artes Musicales de Puerto Rico:

- **Current assets** - The current assets increased by 7.81% in comparison with prior year due to more cash in financial institutions.
- **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.
- **Capital assets** - The capital assets decreased by \$65,709, mainly by the transfer of all the instruments from the Orquesta Sinfónica Juvenil Fund to the Conservatorio de Música de Puerto Rico with a net book value of \$100,967.
- **Current liabilities** - The current liabilities increased by 7.18% in comparison with prior year due to an increase in the transactions between related companies to subsidize their own operations and due to an increase in deferred revenues.

TABLE - I

### CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO

#### NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>% Changes</u>
<b>Assets:</b>			
Current and other assets	\$ 2,932,285	\$ 2,719,962	7.81 %
Capital assets	<u>280,408</u>	<u>346,117</u>	<u>( 18.98)%</u>
Total assets	<u>3,212,693</u>	<u>3,066,079</u>	<u>4.78 %</u>
<b>Liabilities:</b>			
Current liabilities	2,679,648	2,500,182	7.18 %
Long-term liabilities	<u>66,226</u>	<u>29,727</u>	<u>122.78 %</u>
Total Liabilities	<u>2,745,874</u>	<u>2,529,909</u>	<u>8.54 %</u>
<b>Net assets:</b>			
Invested in capital activities	280,408	346,117	( 18.98)%
Restricted	3,915	23,894	( 83.62)%
Unrestricted	<u>182,496</u>	<u>166,159</u>	<u>9.83 %</u>
Total net assets	<u>\$ 466,819</u>	<u>\$ 536,170</u>	<u>( 12.93)%</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED):

Refer to TABLE I for the accompanying comparative financial analysis.

**Changes in net assets** - The Corporation's total revenues (excluding non-operating revenues) decreased by 0.10%. All the Corporation's revenues for 2010 came from management services charged to related companies.

**Operating revenues** - The operating revenues of the Corporation are from administrative services, which represent charges to programs and related companies. The administrative charges for the current and prior year were \$245,000.

**Expenses** - The operating expenses in overall decreased by 11.02% from prior year. In its majority all expenses decreased during the year due to the Executive Orders issued by the Central Government to reduce the operating expenses of all government agencies and public corporations. However, certain circumstances affected the bottom line showing an increase in various expense accounts.

The increase in total salaries is based on the accumulation of vacation and sick leave balances by the end of FY 2009-2010 by all the employees of CAM and its Subsidiaries, respectively. Pursuant of Public Law # 125 - JUNE. 10, 1967; section 703a. where it's says that every public employee will have the right to a whole payment of vacations leave licenses to a maximum of sixty (60) days; and sick leave licenses to a maximum of ninety (90) days at time of retirement, or total separation of the public service if more than ten (10) years has been served.

During the year the Corporation donated \$53,000 to Ballets de San Juan and Teatro de la Opera.

Other expenses increased by 575.88% due to the loss recognized for the transfer of the musical instruments to the Conservatorio de Música de Puerto Rico, and a donation given to the Corporación de la Orquesta Sinfónica de Puerto Rico, a subsidiary.

**Non-operating revenues** - The non-operating revenues of the Corporation are from:

1 - **Legislative Grants** were as follows:

Management Service Fund	\$ 1,014,453
Servicios Integrados a la Comunidad	<u>356,655</u>
	<u>\$ 1,371,108</u>

- 2 - **Special Assignment** - A special assignment of \$1,700,000 was received from the Office of Management and Budget for the operations of the Sala Sinfónica that will be operated by Corporación del Centro de Bellas Artes - Luis A. Ferré. These funds were approved by the Office of Management and Budget to be received and transferred to Corporación del Centro de Bellas Artes - Luis A. Ferré for the above mentioned purpose.

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

**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 ASSETS**

	<u>2010</u>	<u>2009</u>	<u>% Changes</u>
<b>Operating revenues:</b>			
Charges to affiliates	\$ 245,000	\$ 245,000	-
Conferences and seminars	-	255	( 100.00)%
<b>Total operating revenues</b>	<u>245,000</u>	<u>245,255</u>	<u>( 0.10)%</u>
<b>Operating expenses:</b>			
Salaries, payroll taxes, and fringe benefits	1,207,233	1,109,246	8.83 %
Rent	76,372	119,375	( 36.02)%
Scholarships and financial aid	53,000	-	100.00 %
Travel and meals	26,166	10,786	142.59 %
Publicity and advertisement	-	16,417	( 100.00)%
Professional, artistic and consulting services	89,702	662,636	( 86.46)%
Administrative services	65,000	75,000	( 13.33)%
Utilities	12,677	20,907	( 39.36)%
Depreciation	55,122	49,212	12.01 %
Representation	450	1,641	( 72.58)%
Repairs and maintenance	10,228	3,025	238.12 %
Insurance	10,253	10,321	( 0.66)%
Others, net of expenses paid on behalf of related companies	<u>280,300</u>	<u>41,472</u>	<u>575.88 %</u>
<b>Total operating expenses</b>	<u>1,886,503</u>	<u>2,120,038</u>	<u>( 11.02)%</u>
<b>Operating loss (carried forward)</b>	<u>( 1,641,503)</u>	<u>\$( 1,874,783)</u>	<u>( 12.44)%</u>

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

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

**TABLE - II**

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

**CHANGES IN FUND NET ASSETS (CONTINUED)**

	<u>2010</u>	<u>2009</u>	<u>% Changes</u>
Operating loss (brought forward)	\$( 1,641,503)	\$( 1,874,783)	( 12.44)%
<b>Non-operating revenues (transfer):</b>			
Legislative grants	1,371,108	1,830,115	( 25.08)%
Special assignment	1,700,000	-	100.00 %
Transfer of special assignment to CBA	( 1,700,000)	-	( 100.00)%
Donations	48,255	38,895	24.06 %
Interest and other income	<u>152,789</u>	<u>46,341</u>	<u>229.71 %</u>
Total non-operating revenues	<u>1,572,152</u>	<u>1,915,351</u>	( 17.92)%
<b>Net income (loss)</b>	( 69,351)	40,568	( 270.95)%
<b>Total net assets-beginning</b>	<u>536,170</u>	<u>495,602</u>	<u>8.19 %</u>
<b>Total net assets-ending</b>	<u>\$ 466,819</u>	<u>\$ 536,170</u>	<u>( 12.93)%</u>

**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.

**Long-term liabilities:**

The 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, 2010 and 2009 amounted to \$158,449 and \$100,699, respectively.

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

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

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

**Net assets** - The Corporation's net assets for the fiscal year ended June 30, 2010 show a deficit of \$6,554,009.

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

**TABLE III**

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

**NET ASSETS (DEFICIT)**

	<u>2010</u>	<u>2009</u>	<u>% change</u>
<b>Assets:</b>			
Current assets	\$ 851,079	\$ 694,043	22.63 %
Capital assets	<u>33,919</u>	<u>41,445</u>	<u>( 18.16)%</u>
Total assets	<u>884,998</u>	<u>735,488</u>	<u>20.33 %</u>
<b>Liabilities:</b>			
Current liabilities	2,845,911	3,970,051	( 28.32)%
Long-term liabilities	<u>4,593,096</u>	<u>3,636,186</u>	<u>26.32 %</u>
Total liabilities	<u>7,439,007</u>	<u>7,606,237</u>	<u>( 2.20)%</u>
<b>Net assets:</b>			
Investment in capital assets	33,919	41,445	( 18.16)%
Restricted assets	400,601	384,950	4.07 %
Unrestricted assets (deficit)	<u>( 6,988,529)</u>	<u>( 7,297,144)</u>	<u>( 4.23)%</u>
Total net assets (deficit)	<u>\$( 6,554,009)</u>	<u>\$( 6,870,749)</u>	<u>( 4.61)%</u>

**Changes in net assets** - The Corporation's operating revenues decreased by 33.22%. Most of the Corporation's revenues come from sale of tickets, sale of advertisements, orchestra fees and special grants. However, the Corporation received approximately \$5,639,000 from legislative grants to cover the salaries of the musicians.

The main factors affecting the critical situation of the Corporation are the salaries, payroll taxes and fringe benefits, and pension costs, which represent 83.25% from the total operating expenses. For 2009, operating expenses decreased by 6.72%.

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

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

**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 ASSETS (DEFICIT)**

	<u>2010</u>	<u>2009</u>	<u>% change</u>
<b>Operating revenues:</b>			
Sale of tickets	\$ 208,643	\$ 214,932	( 2.93)%
Sale of advertising	8,000	6,500	23.08 %
Orchestra fees	<u>270,180</u>	<u>144,000</u>	<u>87.63 %</u>
Total operating revenues	<u>486,823</u>	<u>365,432</u>	<u>33.22 %</u>
<b>Operating expenses:</b>			
Salaries, payroll taxes and fringe benefits	3,790,997	3,873,730	( 2.14)%
Pension cost	1,131,878	503,940	124.61 %
Administrative services	95,000	85,000	11.76 %
Reserve for legal claims	31,030	140,773	( 77.96)%
Commissions	10,031	5,371	86.76 %
Depreciation	7,935	7,403	7.19 %
Insurance	10,253	9,940	3.15 %
Publicity	23,811	44,310	( 46.26)%
Bad debts	27,428	-	100.00 %
Professional, artistic and consulting services	553,933	600,755	( 7.79)%
Travel and meals	15,309	52,998	( 71.11)%
Utilities	6,594	8,548	( 22.86)%
Rent	151,781	95,979	58.14 %
Representation	-	1,543	( 100.00)%
Others	<u>100,156</u>	<u>150,992</u>	<u>( 33.67)%</u>
Total operating expenses	<u>5,956,136</u>	<u>5,581,282</u>	<u>6.72 %</u>
Operating loss	<u>( 5,469,313)</u>	<u>( 5,215,850)</u>	<u>4.86 %</u>
<b>Non-operating revenues:</b>			
Legislative grants	5,638,798	3,492,000	61.48 %
Contributions and donations	90,556	52,842	71.37 %
Others, mostly settlement of legal claim	<u>56,699</u>	<u>78,600</u>	<u>( 27.86)%</u>
Total non-operating revenues	<u>5,786,053</u>	<u>3,623,442</u>	<u>59.68 %</u>
<b>Net income (loss)</b>	316,740	( 1,592,408)	( 119.89)%
<b>Total net assets (deficit)-beginning</b>	<u>( 6,870,749)</u>	<u>( 5,278,341)</u>	<u>30.17 %</u>
<b>Total net assets (deficit)-ending</b>	<u>\$( 6,554,009)</u>	<u>\$( 6,870,749)</u>	<u>( 4.61)%</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### 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.
- Automobile - The automobile of the executive director.
- Library - It includes all music used in the different shows.

##### Long-term debt:

The 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, 2010 and 2009 amounted to \$54,508 and \$21,251, respectively.
- 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 Note 4 to the combined financial statements.

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

- **Current assets** - The current assets increased by \$57,796 or 2.22%, due to more cash.
- **Capital assets** - The capital assets decreased by \$12,666 or 16.93%, mostly due to the effect of the depreciation expense charged to the capital assets as a result of a contra account and the retirement of assets.
- **Current liabilities** - The current liabilities decreased by \$45,457 or 2.66% from prior year, especially due to a reduction in accounts payable.

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

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

**TABLE V**

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

**NET ASSETS**

	<u>2010</u>	<u>2009</u>	<u>% Changes</u>
<b>Assets:</b>			
Current and other assets	\$ 2,666,276	\$ 2,608,480	2.22 %
Capital assets	<u>62,146</u>	<u>74,812</u>	<u>( 16.93)%</u>
Total assets	<u>2,728,422</u>	<u>2,683,292</u>	<u>1.68 %</u>
<b>Liabilities:</b>			
Current liabilities	1,663,959	1,709,416	( 2.66)%
Long-term liabilities	<u>284</u>	<u>3,044</u>	<u>( 90.67)%</u>
Total liabilities	<u>1,664,243</u>	<u>1,712,460</u>	<u>( 2.82)%</u>
<b>Net assets:</b>			
Invested in capital activities	62,146	74,812	( 16.93)%
Unrestricted	<u>1,002,033</u>	<u>896,020</u>	<u>11.83 %</u>
Total net assets	<u>\$ 1,064,179</u>	<u>\$ 970,832</u>	<u>9.62 %</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED):

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

**Changes in net assets** - The Corporation's operating revenues consist of the ticket sales and advertising for the Festival Casals and Festival de la Orquesta Sinfónica Juvenil de America. The Festival Casals in its 54th edition presented 9 concerts (8 in Puerto Rico and 1 in St. Thomas) with an attendance of 6,931.

The non-operating income composed of legislative grants, donations, interest and other income decreased by 51.50% compared with prior year. Combining the operating and non-operating income the Corporation suffered an overall decrease of 52.26% for 2010.

For 2010, in overall total operating expenses decreased by 52.00% in its majority by the cancellation of the Festival Iberoamericano de las Artes. The funds that were assigned to this fund were used for the payment of prior year debts related to the Festival. Also, expenses decreased due to Executive Orders issued by the Central Government and the measures taken by management.

Salaries, payroll taxes, and fringe benefits decreased by 14.90% due to the effect of Law No. 7 of March 9, 2009 adopted voluntarily by the Corporation under the "Programa Voluntario de Reducción Permanente de Jornada".

Professional, artistic, and consulting services decreased by 57.91% compared to prior year due to drastic measures adopted by the administration to survive the economic contraction existing in the Corporation and to comply with the Executive Orders implemented by the Central Government. Measures taken by management were the cancellation of (1) the contract of the Artistic Director of Festival Casals; (2) the use of the Symphonic Orchestra of Puerto Rico as the principal orchestra of the Festival Casals, in other words, the Corporation decided to use their own resources; and (3) the use of the Director of the Symphonic Orchestra as the Director for Festival Casals and Festival de Orquesta Sinfónica Juvenil de America.

The travel and meals decreased during fiscal year 2009-2010 because the cost of the meals and accommodations provided to the artists invited to participate in the Festival Casals, were saved by the Corporation with the use of the Symphonic Orchestra of Puerto Rico as the principal orchestra.

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

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

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

**TABLE - VI**

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

**CHANGES IN FUND NET ASSETS**

	<u>2010</u>	<u>2009</u>	<u>% Changes</u>
<b>Operating revenues:</b>			
Sale of tickets and advertising	\$ 143,002	\$ 330,231	( 56.70)%
<b>Operating expenses:</b>			
Salaries, payroll taxes, and fringe benefits	174,979	205,617	( 14.90)%
Rent	44,191	55,128	( 19.84)%
Travel and meals	34,449	426,650	( 91.93)%
Publicity and advertisement	71,445	149,233	( 52.13)%
Professional, artistic and consulting services	408,523	970,515	( 57.91)%
Administrative services	85,000	85,000	-
Utilities	24,072	32,818	( 26.65)%
Depreciation	12,666	12,830	( 1.28)%
Bad debt	59,896	-	( 100.00)%
Representation	-	2,433	( 100.00)%
Other	81,432	136,220	( 40.22)%
Total operating expenses	<u>996,653</u>	<u>2,076,444</u>	( 52.00)%
Operating loss	<u>( 853,651)</u>	<u>( 1,746,213)</u>	( 51.11)%
<b>Non-operating revenues:</b>			
Legislative grants	750,094	1,504,000	( 50.13)%
Donations	152,383	380,617	( 59.96)%
Interest and other income	44,521	57,719	( 22.87)%
Total non-operating revenues	<u>946,998</u>	<u>1,942,336</u>	( 51.24)%
<b>Net income</b>	93,347	196,123	( 52.40)%
<b>Total net assets-beginning</b>	<u>970,832</u>	<u>774,709</u>	25.32 %
<b>Total net assets-ending</b>	<u>\$ 1,064,179</u>	<u>\$ 970,832</u>	9.62 %

## MANAGEMENT'S DISCUSSION AND ANALYSIS (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.

#### Long-term liabilities:

The 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, 2010 and 2009 amounted to \$11,522 and \$11,405, respectively.

Refer to Note 3 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 ASSETS (DEFICIT) AS OF JUNE 30, 2010, WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2009**

	<b>ASSETS</b>				<b>Total</b>	
	<b>2010</b>	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>
<b>Current assets:</b>						
Cash	\$ 1,292,820	\$ 198,182	\$ 1,470,980	\$ -	\$ 2,961,982	\$ 2,381,152
Receivables:						
Individuals and private entities, net of allowance for doubtful accounts	67	42,450	5,962	-	48,479	124,011
Government entities, net of allowance for doubtful accounts	3,828	48,777	525,520	( 1,953,013)	52,603	152,548
Related companies	865,823	561,670	663,814	( 1,433,563)	-	-
Other funds	769,749	-	-	-	-	-
Other	-	-	-	-	-	853
<b>Total current assets</b>	<u>2,932,285</u>	<u>851,079</u>	<u>2,666,276</u>	<u>( 3,396,576)</u>	<u>3,063,064</u>	<u>2,668,564</u>
<b>Long-term assets:</b>						
Capital assets, net of accumulated depreciation	280,408	33,919	62,146	-	376,473	482,374
<b>Total long-term assets</b>	<u>280,408</u>	<u>33,919</u>	<u>62,146</u>	<u>-</u>	<u>376,473</u>	<u>482,374</u>
<b>Total assets</b>	<u>\$ 3,212,693</u>	<u>\$ 884,998</u>	<u>\$ 2,728,422</u>	<u>\$ ( 3,396,576)</u>	<u>\$ 3,439,537</u>	<u>\$ 3,150,938</u>

See 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  
NET ASSETS (DEFICIT) AS OF JUNE 30, 2010, WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2009**

	LIABILITIES				Total	
	2010	2009	2010	2009	2010	2009
<b>Current liabilities:</b>						
Accounts payable:						
Individuals and private entities	\$ 97,061	\$ 567,365	\$ 148,551	\$ -	\$ 812,977	\$ 872,754
Government entities	51,792	56,515	60,421	-	167,728	167,229
Related companies	1,139,055	248,106	565,851	(1,953,012)	-	-
Other funds	769,749	-	663,813	(1,433,562)	-	-
Others	45	1,583,645	7,146	-	1,590,836	2,810,776
Provision for legal claims	-	281,030	-	-	281,030	250,000
Accrued expenses and withholdings payable	6,609	31,158	11,833	-	49,700	206,572
Compensated absences, current	92,223	12,582	11,238	-	116,053	95,270
Deferred revenues	482,758	66,500	195,006	-	744,264	382,764
Funds due to related companies	40,356	-	-	2	40,354	40,356
Total current liabilities	2,679,648	2,845,911	1,663,959	(3,386,576)	3,802,942	4,825,721
<b>Long-term debt:</b>						
Compensated absences, non-current	66,226	41,916	284	-	108,426	38,084
Net pension obligation	-	4,551,180	-	-	4,551,180	3,630,873
Total long-term debt	66,226	4,693,096	284	-	4,659,606	3,668,957
Total liabilities	2,745,874	7,439,007	1,664,243	(3,386,576)	8,462,548	8,494,678
<b>NET ASSETS (DEFICIT)</b>						
Investment in capital assets	280,408	33,919	62,145	-	376,473	462,374
Restricted net assets	3,915	400,601	-	-	404,516	408,844
Unrestricted net assets (deficit)	182,496	(6,988,529)	1,002,033	-	(5,804,000)	(6,234,958)
Total net assets (deficit)	\$ 466,819	\$ (6,554,009)	\$ 1,064,179	\$ -	\$ (5,023,011)	\$ (5,369,740)

See 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 ASSETS, (DEFICIT)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Corporación de las Artes Musicales de Puerto Rico	Corporación de la Orquesta Sinfónica de Puerto Rico	Corporación de las Artes Escénicas Musicales de Puerto Rico	Eliminations	2010	2009
					Total	Total
<b>Operating revenues:</b>						
Sale of tickets	-	208,643	141,502	-	350,145	532,363
Conference and seminars	-	8,000	1,500	-	9,500	255
Sale of advertising	-	270,180	-	(145,000)	125,180	19,300
Orquesta Sinfónica fees	245,000	-	-	(245,000)	-	144,000
Charges to affiliates	-	-	-	-	-	-
<b>Total operating revenues</b>	<b>245,000</b>	<b>486,823</b>	<b>143,002</b>	<b>(390,000)</b>	<b>484,825</b>	<b>695,918</b>
<b>Operating expenses:</b>						
Salaries, payroll taxes, and fringe benefits	1,207,233	3,790,997	174,979	-	5,173,209	5,189,593
Pension cost	-	1,131,878	44,191	-	1,131,878	503,940
Rent	76,372	151,781	-	-	272,344	270,482
Scholarships and financial aid	53,000	-	-	-	53,000	-
Travel and meals	26,166	15,309	34,449	-	75,924	490,434
Publicity and advertisement	-	23,811	71,445	-	95,256	209,960
Professional, artistic and consulting services	89,702	653,933	408,523	(145,000)	907,158	2,233,906
Administrative services	65,000	95,000	86,000	(245,000)	-	-
Provision for legal claims	-	31,030	-	-	31,030	-
Utilities	12,677	6,594	24,072	-	43,343	140,773
Depreciation	55,122	7,935	12,666	-	75,723	62,273
Bad debts	-	27,428	69,896	-	87,324	69,445
Representation	450	-	-	-	450	5,617
Repairs and maintenance	10,228	10,253	13,671	-	10,228	3,025
Insurance	10,253	10,031	2,898	-	34,177	36,998
Commissions	-	-	-	-	12,929	13,339
Other, including funds distributed to related companies	280,300	100,166	64,863	(54,972)	390,347	303,979
<b>Total operating expenses</b>	<b>1,886,603</b>	<b>5,956,136</b>	<b>996,653</b>	<b>(444,972)</b>	<b>8,394,320</b>	<b>9,532,764</b>
<b>Operating loss (carried forward)</b>	<b>(1,641,503)</b>	<b>(5,469,313)</b>	<b>(853,651)</b>	<b>54,972</b>	<b>(7,909,495)</b>	<b>(8,836,846)</b>

See 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, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	2010		2009	
	Total	Total	Total	Total
<b>Cash flows from operating activities:</b>				
Receipts from customers and users:				
Interfund services provided	\$ 242,005	\$ -	\$ -	\$ 353,096
Net assets transferred	19,979	-	19,979	255
Conference and seminars	-	184,880	227,304	458,161
Receipts from tickets sales	-	8,000	-	6,500
Receipts from advertising sales	-	371,715	-	144,000
Orchestra Fees	-	-	-	291,932
Other	-	-	-	-
Payments to:				
Suppliers of goods or services	( 528,396)	( 2,184,481)	( 682,628)	( 3,257,521)
Employees, payroll taxes and other fringe benefits	( 1,208,816)	( 3,757,740)	( 174,861)	( 5,055,598)
Payments for management and Interfund services used	( 65,000)	( 95,000)	( 152,704)	( 347,390)
Other	( 179,312)	-	-	( 41,474)
Net cash used in operating activities	( 1,719,540)	( 5,472,628)	( 782,789)	( 7,458,037)
<b>Cash flows from non-capital financing activities:</b>				
Repayments from (advances to) related companies:				
Legislative appropriations	208,860	( 221,974)	( 38,703)	46,424
Special assignment	1,371,108	6,638,798	750,094	6,421,115
Transfer of special assignment to CBA	( 1,700,000)	-	-	453,547
Contributions and donations	48,255	90,556	152,383	472,354
Increase in deferred revenues	290,000	16,500	55,000	361,500
Other, including Interest Income	152,789	56,699	44,821	182,680
Net cash provided from non-capital financing activities	2,071,012	5,580,579	963,295	7,506,100
<b>Cash flows from capital related financing activities:</b>				
Purchase of property and equipment	( 62,347)	( 410)	-	( 33,691)
Advances from related companies	( 62,347)	( 410)	-	( 51,987)
Net cash used in capital related financing activities	( 124,694)	( 820)	-	( 85,678)
<b>Cash flows from investing activities; advances from related companies</b>				
Net Increase (decrease) in cash	289,125	107,541	184,164	( 31,543)
Cash at beginning of year	1,003,695	90,641	1,286,816	2,412,695
Cash, at end of year	\$ 1,292,820	\$ 198,182	\$ 1,470,980	\$ 2,381,152

See notes to the combined financial statements.

**CORPORACION 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, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

						Eliminations	2010	Total	2009
<b>Reconciliation of operating loss to net cash used in operating activities:</b>									
Operating loss	\$( 1,641,503)	\$( 5,469,313)	\$( 859,651)	\$ -	\$ -	\$ -	\$( 7,984,467)	\$( 8,836,846)	
Adjustments to reconcile operating loss to net cash used in operating activities:									
Depreciation	55,122	7,935	12,666	-	-	-	75,723	69,445	
Bad debt	-	27,428	59,896	-	-	-	87,324	-	
Loss on donated assets	100,967	-	-	-	-	-	100,967	-	
Net assets transferred	19,979	-	-	-	-	-	19,979	-	
Decrease (increase) in assets:									
Receivables	( 2,995)	77,770	24,015	-	-	-	98,790	21,093	
Others	-	-	835	-	-	-	835	-	
Decrease (increase) in liabilities:									
Accounts payable	( 37,249)	( 1,007,181)	( 19,515)	-	-	-	( 1,063,949)	937,857	
Settlement of legal claims payable	-	31,030	-	-	-	-	31,030	140,773	
Net Pension obligation	-	920,307	-	-	-	-	920,307	275,000	
Accrued expenses, and others	( 213,867)	( 60,604)	( 7,035)	-	-	-	( 281,506)	( 65,359)	
Net cash used in operating activities	\$( 1,719,540)	\$( 5,472,628)	\$( 782,789)	\$ -	\$ -	\$ -	\$( 7,974,957)	\$( 7,458,037)	
<b>Supplementary schedule of non-cash non-capital financing activities:</b>									
Fully depreciated motor vehicle disposed during the year	\$ -	\$ 12,671	\$ -	\$ -	\$ -	\$ -	\$ 12,671	\$ -	835
Capital assets transferred from a related party at cost with related accumulated depreciation of \$406	\$ 100,967	\$ 620	\$ -	\$ -	\$ -	\$ -	\$ 101,487	\$ -	

See 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 COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

**Principles of combination:**

The combined financial statements include the accounts of Corporación de las Artes Musicales de Puerto Rico and its related companies (the Corporation), 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 its 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 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.

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

**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.

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

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

**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.

**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 short-term loans and contract and develop programs.

**Accounting of financial matters:**

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

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

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

**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 into proprietary category. 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 percent 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 percent of the corresponding total for all governmental and enterprise funds combined, if applicable.

The funds of the financial reporting entity are described below:

**Enterprise fund:**

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>Fund</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.

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

**Enterprise fund (continued):**

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

<u>Fund</u>	<u>Brief description</u>
Other Enterprise Funds	Accounts for funds related to the development of fine arts activities, including funds received from a federal grant.

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

<u>Fund</u>	<u>Brief Description</u>
Orquesta Sinfónica Fund	Accounts for the activities of sale of tickets and Orchestra fees for performance of arts in Puerto Rico. For 2010, this Fund also accounts for the educational activities for the performance art in Puerto Rico schools under the Programa Educativo Conoce tu Orquesta, which was transferred from Corporación de las Artes Musicales de Puerto Rico.
Concierto de Gala Fund	Accounts for concert celebrated annually for the benefit of the pension plan of the musicians of the Orquesta Sinfónica de Puerto Rico.
Departamento del Trabajo Fund	Accounts for funds received from the Department of Labor and Human Resources of Puerto Rico to cover a portion of the musicians' salaries of the Orquesta Sinfónica de Puerto Rico, as per grant agreement.

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

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

**Enterprise fund (continued):**

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

<u>Fund</u>	<u>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.
Festival Iberoamericano de las Artes Fund	Accounts for the activities for the performance of arts in Puerto Rico

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

**Fund accounting requirements:**

The Corporation complies, in all material respects, with state and local laws and regulations requiring the use of separate funds and with restrictions placed over certain revenue sources. The legally required funds used by the Corporation include the following:

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

<u>Fund</u>	<u>Required by:</u>
Concierto de Gala Fund	Orchestra's Musicians
Departamento del Trabajo Fund	Puerto Rico Department of Labor and Human Resources

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

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

**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) pronouncement and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. In addition to applying the FASB Statements and Interpretations, and APB Opinions, an enterprise fund may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for that which conflict with or contradict GASB pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**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 assets. Legislative grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The legislative grant 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".

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

**Measurement focus, basis of accounting, and financial statement presentation (continued):**

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, orchestra fees and participation on excise taxes. 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.

**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 should be 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, 2010 and 2009.

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

**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 approximates 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.

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 vehicles	5

**Equity classification:**

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

- a. **Investment in capital assets** - Consists of capital assets, net of accumulated depreciation.
- b. **Restricted net assets** - Consists of net assets 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 net assets** - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

**Equity classification (continued):**

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

Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to Concierto de Gala Fund, Departamento del Trabajo, Edward Byrne Memorial, and "Fondo Autorrenovable" programs no longer existing.

**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, 2010 and 2009 amounted to \$224,479 and \$133,350, respectively.

**Legislative grants:**

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

**Special Assignment:**

A special assignment of \$1,700,000 was received from the Office of Management and Budget for the operations of the Sala Sinfónica that will be operated by Corporación del Centro de Bellas Artes – Luis A. Ferré. These funds were approved by the Office of Management and Budget to be received and transferred to Corporación del Centro de Bellas Artes – Luis A. Ferré for the above mentioned purpose.

**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 income account and credited to revenue when expended.

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

**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.

**Subsequent events:**

The Corporation evaluates subsequent events through the date the financial statements were issued. The Corporation has determined that there are no events occurring in this period that required disclosure in or adjustment to the accompanying financial statements.

**Reclassifications:**

Certain reclassifications have been made to the 2009 financial statements to conform them to current year presentation. Such reclassifications do not have an effect on net loss as previously reported.

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**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**2. CAPITAL ASSETS:**

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

	<u>Beginning Balance as of July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance as of June 30, 2010</u>
<b>Capital assets not being depreciated:</b>				
Museum	\$ 150,000	\$ -	\$ -	\$ 150,000
<b>Capital assets being depreciated:</b>				
Furniture and equipment	438,550	58,752	( 67,268)	430,034
Musical instruments	509,369	28,255	( 378,908)	158,716
Motor vehicle	25,872	-	-	25,872
Library	7,375	-	( 142)	7,233
Software	-	3,595	-	3,595
<b>Total capital assets being depreciated</b>	<u>981,166</u>	<u>90,602</u>	<u>( 446,318)</u>	<u>625,450</u>
<b>Less accumulated depreciation for:</b>				
Furniture and equipment	390,729	20,798	( 62,338)	349,189
Musical instruments	375,499	31,182	( 282,737)	123,944
Motor vehicle	14,014	2,587	-	16,601
Library	4,807	355	( 54)	5,108
Software	-	200	-	200
<b>Total accumulated depreciation</b>	<u>785,049</u>	<u>55,122</u>	<u>( 345,129)</u>	<u>495,042</u>
<b>Total capital assets being depreciated, net</b>	<u>196,117</u>	<u>35,480</u>	<u>( 101,189)</u>	<u>130,408</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 346,117</u>	<u>\$ 35,480</u>	<u>\$( 101,189)</u>	<u>\$ 280,408</u>

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**2. CAPITAL ASSETS (CONTINUED):**

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

	<u>Beginning Balance as of July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance as of June 30, 2010</u>
<b>Capital assets, being depreciated:</b>				
Furniture and equipment	\$ 90,224	\$ 657	\$( 179)	\$ 90,702
Musical instruments	103,611		-	103,611
Motor vehicle	12,671	-	( 12,671)	
Library	76,057	158	-	76,215
<b>Total capital assets, being depreciated</b>	<u>282,563</u>	<u>815</u>	<u>( 12,850)</u>	<u>270,528</u>
<b>Less accumulated depreciation for:</b>				
Furniture and equipment	87,895	1,427	( 179)	89,143
Musical instruments	82,716	2,926	-	85,642
Motor vehicle	12,671	-	( 12,671)	
Library	57,836	3,988	-	61,824
<b>Total accumulated depreciation</b>	<u>241,118</u>	<u>8,341</u>	<u>( 12,850)</u>	<u>236,609</u>
<b>Total capital assets being, depreciated, net</b>	<u>\$ 41,445</u>	<u>\$( 7,526)</u>	<u>\$ -</u>	<u>\$ 33,919</u>

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**2. CAPITAL ASSETS (CONTINUED):**

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

	<u>Beginning Balance as of July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance as of June 30, 2010</u>
<b>Capital asset not being depreciated,</b>				
photo of Pablo Casals	\$ 3,000	\$ -	\$ -	\$ 3,000
<b>Capital assets being depreciated:</b>				
Furniture and equipment	223,787	-	( 7,079)	216,708
Musical Instruments	76,000	-	-	76,000
Library	23,438	-	-	23,438
<b>Total capital assets, being depreciated</b>	<u>323,225</u>	<u>-</u>	<u>( 7,079)</u>	<u>316,146</u>
<b>Less accumulated depreciation for:</b>				
Furniture and equipment	204,076	3,386	( 7,079)	200,383
Musical Instrument	27,867	7,600	-	35,467
Library	19,470	1,680	-	21,150
<b>Total accumulated depreciation</b>	<u>251,413</u>	<u>12,666</u>	<u>( 7,079)</u>	<u>257,000</u>
<b>Total capital assets being depreciated, net</b>	<u>71,812</u>	<u>( 12,666)</u>	<u>-</u>	<u>59,146</u>
<b>Business-type activities capital assets</b>	<u>\$ 74,812</u>	<u>\$( 12,666)</u>	<u>\$ -</u>	<u>\$ 62,146</u>

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**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**3. LONG-TERM DEBT:**

Long-term activity for the year ended June 30, 2010, 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	\$ 100,699	\$ 192,401	\$( 134,651)	\$ 158,449	\$ 92,223

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

Compensated absences	21,251	41,916	( 8,659)	54,508	12,592
Net pension obligation	<u>3,630,873</u>	<u>1,107,900</u>	<u>( 187,593)</u>	<u>4,551,180</u>	<u>-</u>
Long-term liabilities	<u>3,652,124</u>	<u>1,149,816</u>	<u>( 196,252)</u>	<u>4,605,688</u>	<u>12,592</u>

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

Compensated absences	<u>11,405</u>	<u>14,714</u>	<u>( 14,597)</u>	<u>11,522</u>	<u>11,238</u>
<b>Total</b>	<u><u>\$ 3,764,228</u></u>	<u><u>\$ 1,356,931</u></u>	<u><u>\$( 345,500)</u></u>	<u><u>\$ 4,775,659</u></u>	<u><u>\$ 116,053</u></u>

**4. PENSION PLANS:**

**Retirement System Plan for the employees of the Commonwealth of Puerto Rico:**

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

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

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**4. PENSION PLANS (CONTINUED):**

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

The amount of the annuity shall be 1 1/2% of the average compensation multiplied by the number-of-years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than \$200 per month. For those participant employees after March 31, 1990, the amount of the annuity is 1 1/2% of the compensation multiplied by the number of years for credited services. The annuity should not be less than \$2,400 in any case.

Participants who have completed at least thirty years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

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

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, elected either to stay in the defined benefit plan or transfer to the new program. Persons joining on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the deficiency of the defined benefit plan.

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**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**4. PENSION PLANS (CONTINUED):**

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

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, 2010, 2009, and 2008, the total payroll of all the administrative employees amounted to \$1,296,213, \$1,139,744, and \$1,185,542, respectively. The payroll covered by the System 2000 amounted to \$1,116,378, \$969,900, and \$1,018,340, for the years ended June 30, 2010, 2009, and 2009, 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 pension expenses to the System 2000 for the years ended June 30, 2010, 2009, and 2008 amounted to \$98,002, \$101,612, and \$151,636, 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. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation, based on the most recent actuarial valuation as of June 30, 2009, are summarized as follow:

- |                                   |   |
|-----------------------------------|---|
| • Interest rate                   | 7.5% a year   |
| • Salary increases                | 3.0% a year   |
| • Pre-retirement mortality        | RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA |
| • Pre-retirement health mortality | Projected on generational basis using Scale AA  |
| • Pre-disabled mortality          | RP-2000 Disabled Annuitant Mortality Rate, without projection   |

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**4. PENSION PLANS (CONTINUED):**

- Termination Medium Turnover Table commensurate with anticipated experience
- Disability 75% of Third Railroad Retirement Table Rates
- Retirement age Graded scale of retirement ages commensurate with anticipated experience
- Proportion of Participants with Spouses 50% of participants assumed to be married, with wives assumed to be four years younger than husbands
- Number of Employees Electing Higher Contributions 15% of retiring employees assumed to pay retroactive contributions at retirement
- Cost-of-Living adjustment 3% every third year

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Required and realized contribution by the employees	\$ 115,047	\$ 188,327	\$ 118,448
% that represents the total of payroll covered	10.31 %	19.42 %	11.63 %
Required and realized contribution by the employer	\$ 84,842	\$ 96,401	\$ 151,636
% that represents the total of payroll covered	7.60 %	9.94 %	14.89 %

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.

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**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**4. 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 plan (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 19.6% 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 2010, annual pension cost and net pension obligation of \$929,000 and \$4,551,000, respectively, were determined based on Actuarial Valuation Report as of August 15, 2009, 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, 2010. For the fiscal year ended June 30, 2009, the Actuarial Valuation Report was not available; accordingly, the management estimated a pension cost of approximately \$275,000 based on Actuarial Valuation Report dated August 15, 2006.

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

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**4. PENSION PLANS (CONTINUED):**

**Annual Pension Cost and Net Pension Obligation (continued):**

The Orchestra's annual pension cost and net pension obligation to the System 2000 for the year ended June 30, 2010 and 2007 were as follows:

	<u>2009</u>	<u>2007</u>
Annual required contribution	\$ 858,461	\$ 569,415
Interest on net pension obligation	319,823	224,661
Adjustment to annual required contribution	<u>( 437,296)</u>	<u>( 309,553)</u>
Annual pension cost	740,988	484,523
Contributions made	<u>( 187,593)</u>	<u>( 211,909)</u>
Increase in net pension obligation	553,395	272,614
Net pension obligation, beginning of year <sup>(1)</sup>	<u>3,997,785</u>	<u>2,808,259</u>
Net pension obligation, end of year	<u>\$ 4,551,180</u>	<u>\$ 3,080,873</u>

<sup>(1)</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, 2008.

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 2010 and 2007, the annual required contribution was determined by the Actuarial Valuation Report as of August 15, 2009 and 2006, respectively, using the aggregate actuarial cost method and the level percentage of payroll as amortization method. The actuarial assumptions included (a) 8.0% 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.

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.

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

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**4. PENSION PLANS (CONTINUED):**

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

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

Fiscal year ending June 30.	Three-year Trend Information			
	Annual Pension Cost (APC)	Employer Contribution	Percentage of APC Contributed	Net pension Obligation
2010	\$ 740,988	\$ 187,593	25.32%	\$ 4,551,180
2009 <sup>(1)</sup>	\$ 515,708	\$ 55,885	10.8%	\$ 3,997,785
2008 <sup>(1)</sup>	\$ 490,303	\$ 33,214	6.8%	\$ 3,537,962

<sup>(1)</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, 2008.

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

**5. CONTINGENCIES AND COMMITMENT:**

**Contingencies:**

**a. Advances of funds by Puerto Rico Industrial Development Company:**

During fiscal years ended June 30, 1983 and 1982, the Puerto Rico Industrial Development Company advanced funds for approximately \$1,400,000 to Corporación de las Artes Musicales de Puerto Rico and its affiliates for working capital. Those funds were accounted for as revenue and not as a liability. The management of the Corporation could not determine the specific amount of the advances used by the Corporación de la Orquesta Sinfónica de Puerto Rico and, as a result, no liability was recognized in the accompanying balance sheet.

**b. Grant program involvement:**

The Corporation participates in various federal and state grant programs from year to year. The grants are often subject to additional audits by agents of the granting agency. The purpose of which is to ensure compliance with specific conditions of the grant. Any liabilities of reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time.

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

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

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

**5. CONTINGENCIES AND COMMITMENT (CONTINUED):**

**Contingencies (continued):**

**c. Legal claim:**

The Corporation was involved in a legal proceeding related to a dismissed employee during February 2002. On September 2008, the Department of Labor issued an award reinstating the employee with backpay. Although, the Corporation recorded as of June 30, 2009 an approximate reserve to cover this case in the amount of \$281,030, the case has not yet been concluded as of the date of this report.

**Commitment:**

The Corporation operates on leased facilities to the Public Buildings Authority under a lease agreement that expired on June 30, 2003. Actually, rent is payable in monthly installments of \$7,273. Management have been negotiating a renewal for an additional term.

The building rent expense for operating lease during 2010 and 2009 was \$87,276.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**Orquesta Sinfónica de Puerto Rico Retirement System**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**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>
8-15-2009	\$ 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
8-15-2005	\$ 3,162,639	N/A	N/A	N/A	\$ 2,738,549	N/A

\* Present value of all future benefits is used as if there is no actuarial accrued liability under this cost method.

\*\* Calendar year compensation used for valuation purposes.

**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>
2010	27.8%	\$ 3,090,056	\$ 858,461	\$ 187,593	21.9%	\$ 670,868
2009***	19.6%	\$ 3,169,254	\$ 622,659	\$ 55,885	9.0%	\$ 566,774
2008***	19.6%	\$ 2,969,615	\$ 583,436	\$ 33,214	5.7%	\$ 550,222

\* Annual Required Contribution 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.

\*\* Calendar year compensation used for valuation purposes.

\*\*\* No Actuarial Report available for such year. Information was obtained from Actuarial Valuation Report as of August 15, 2009.

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

**STATEMENTS OF NET ASSETS - JUNE 30, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	Management Services Fund		Servicios Integrados A la Comunidad Fund		Conocimiento Orquestal Fund		Other Enterprises Funds		Total Enterprises Funds	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>ASSETS</b>										
<b>Current assets:</b>										
Cash	\$ 1,009,009	\$ 283,790	\$ -	\$ -	\$ -	\$ -	\$ 21	\$ -	\$ 1,292,820	\$ 1,009,695
Receivables:										
Individuals and private entities, net of allowance for doubtful accounts of \$3,213 in 2010 and in 2009	67	-	-	-	-	-	-	67	-	-
Government entities, net of allowance for doubtful accounts of \$20,000 in 2010 and 2009	3,764	62	-	-	-	-	-	3,826	262	262
Related companies	865,472	851	-	-	-	-	-	865,823	891,294	891,294
Other funds	348,485	126,108	-	-	-	-	295,156	769,749	824,693	824,693
Other								18		18
Total current assets	2,226,797	410,311	-	-	-	-	295,177	2,932,285	2,719,992	2,719,992
<b>Long-term assets:</b>										
Capital assets, net of accumulated depreciation	269,364	11,044	-	-	-	-	-	280,408	346,117	346,117
Total non-current assets	269,364	11,044	-	-	-	-	-	280,408	346,117	346,117
Total assets	2,496,161	421,355	-	-	-	-	295,177	3,212,693	3,066,079	3,066,079
<b>LIABILITIES</b>										
<b>Current liabilities:</b>										
Accounts payable:										
Individuals and private entities	66,118	30,943	-	-	-	-	-	97,061	127,155	127,155
Government entities	47,689	4,103	-	-	-	-	-	51,792	58,263	58,263
Related companies	1,026,581	112,474	-	-	-	-	-	1,139,055	907,510	907,510
Other funds	295,156	183,331	-	-	-	-	291,262	769,749	824,700	824,700
Others	45	-	-	-	-	-	-	45	212,525	212,525
Compensated absences, current	84,440	7,783	-	-	-	-	-	92,223	70,972	70,972
Accrued expenses and withholdings payable	270	6,339	-	-	-	-	-	6,609	65,943	65,943
Funds due to related companies	40,356	-	-	-	-	-	-	40,356	40,356	40,356
Deferred income	402,758	60,000	-	-	-	-	-	462,758	192,758	192,758
Total current liabilities	1,953,413	424,973	-	-	-	-	291,262	2,679,648	2,500,182	2,500,182
<b>Long-term debt:</b>										
Compensated absences, non-current	64,631	1,595	-	-	-	-	-	66,226	29,727	29,727
Total long-term debt	64,631	1,595	-	-	-	-	-	66,226	29,727	29,727
Total liabilities	2,028,044	426,568	-	-	-	-	291,262	2,745,874	2,529,909	2,529,909
<b>NET ASSETS</b>										
Investment in capital assets	269,364	11,044	-	-	-	-	-	280,408	346,117	346,117
Restricted net assets	198,753	(16,257)	-	-	-	-	3,915	3,915	23,894	23,894
Unrestricted net assets	488,117	(5,213)	-	-	-	-	3,915	182,496	166,159	166,159
Total funds net assets	\$ 488,117	\$ (5,213)	\$ -	\$ -	\$ -	\$ -	\$ 3,915	\$ 466,819	\$ 536,170	\$ 536,170

**CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO**  
 (A Component Unit of the Commonwealth of Puerto Rico)  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUNDS NET ASSETS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	Management Service Fund	Servicios Integrados A la Comunidad Fund	Conoce tu Orquesta Fund	Other Enterprise Funds	2010 Enterprise Funds	2009 Enterprise Funds
<b>Operating Revenues:</b>						
Charges to affiliates	\$ 245,000	\$ -	\$ -	\$ -	\$ 245,000	\$ 245,000
Conference and seminars	-	-	-	-	-	255
<b>Total operating revenues</b>	<u>245,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>245,000</u>	<u>245,255</u>
<b>Operating expenses:</b>						
Salaries, payroll taxes, and fringe benefits	1,073,973	133,260	-	-	1,207,233	1,109,246
Rent	51,616	24,756	-	-	76,372	119,375
Scholarships and financial aid	53,000	-	-	-	53,000	-
Travel and meals	25,444	722	-	-	26,166	10,786
Publicity and advertisement	38,737	50,965	-	-	89,702	16,417
Professional, artistic and consulting services	-	65,000	-	-	65,000	662,636
Administrative services	10,958	1,719	-	-	12,677	75,000
Utilities	23,244	31,878	-	-	55,122	20,907
Depreciation	450	-	-	-	450	49,212
Representation expenses	10,228	-	-	-	10,228	1,641
Repairs and maintenance	3,417	6,836	-	-	10,253	3,025
Insurance	31,334	193,994	54,972	-	280,300	10,321
Other, net of expenses paid on behalf of related companies	-	-	-	-	-	41,472
<b>Total operating expenses</b>	<u>1,322,401</u>	<u>509,130</u>	<u>54,972</u>	<u>-</u>	<u>1,886,503</u>	<u>2,120,038</u>
<b>Operating loss</b>	<u>( 1,077,401 )</u>	<u>( 509,130 )</u>	<u>( 54,972 )</u>	<u>-</u>	<u>( 1,641,503 )</u>	<u>( 1,874,783 )</u>
<b>Non-operating revenues:</b>						
Legislative grants	1,014,453	356,655	-	-	1,371,108	1,830,115
Special assignment	1,700,000	-	-	-	1,700,000	-
Transfer of special assignment to CBA	( 1,700,000 )	-	-	-	( 1,700,000 )	-
Donations	26,255	20,000	-	-	46,255	38,895
Interest and other income	81,419	71,370	-	-	152,789	46,341
<b>Total non-operating income</b>	<u>1,124,127</u>	<u>448,025</u>	<u>-</u>	<u>-</u>	<u>1,572,152</u>	<u>1,915,351</u>
<b>Net income (loss)</b>	<u>46,726</u>	<u>( 61,105 )</u>	<u>( 54,972 )</u>	<u>-</u>	<u>( 69,351 )</u>	<u>40,568</u>
<b>Total net assets (deficit), as previously reported</b>	<u>421,391</u>	<u>( 290,612 )</u>	<u>381,497</u>	<u>23,894</u>	<u>586,170</u>	<u>495,602</u>
<b>Net assets transferred</b>	<u>-</u>	<u>346,504</u>	<u>( 326,525 )</u>	<u>( 19,979 )</u>	<u>-</u>	<u>-</u>
<b>Total net assets, ending</b>	<u>\$ 468,117</u>	<u>\$ ( 5,213 )</u>	<u>\$ -</u>	<u>\$ 3,915</u>	<u>\$ 466,819</u>	<u>\$ 536,170</u>

**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, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	Management Service Fund	Services Integrados A la Comunidad Fund	Conoce tu Orquesta Fund	Other Enterprise Funds	Total Enterprise Funds	2009
<b>Cash flows from operating activities:</b>						
Receipts from customers and users:	\$ 239,902	\$ 18	\$ 2,085	\$ -	\$ 242,005	\$ 353,086
Interfund services provided	( 195,694)	( 332,608)	( 94)	-	( 528,396)	265
Conference and seminars	( 1,061,474)	( 145,388)	( 1,954)	-	( 1,208,816)	( 870,104)
Payments to suppliers of goods or services	( 31,313)	( 65,000)	( 54,972)	-	( 151,285)	( 1,104,460)
Payments to employees, payroll taxes and other fringe benefits	-	( 93,027)	( 54,972)	-	( 148,000)	( 75,000)
Others, including distribution for excise taxes received	-	( 346,504)	( 328,525)	-	( 675,029)	( 41,474)
Net assets transferred	( 1,048,579)	( 289,501)	( 381,450)	-	( 1,719,540)	( 1,737,687)
<b>Net cash used in operating activities</b>						
<b>Cash flows from non-capital financing activities:</b>						
Repayments from (advances to) related companies	172,675	41,739	( 5,554)	-	208,860	( 212,502)
Legislative appropriations	1,014,453	356,655	-	-	1,371,108	1,830,115
Special assignment	1,700,000	-	-	-	1,700,000	-
Transfer of special assignment to CBA	( 1,700,000)	-	-	-	( 1,700,000)	-
Contributions and donations	28,255	20,000	-	-	48,255	38,895
Other income, including interest income	81,419	71,370	-	-	152,789	46,341
Increase in deferred income	210,000	80,000	-	-	290,000	-
<b>Net cash provided by (used in) non-capital financing activities</b>						
	1,506,802	569,764	( 5,554)	-	2,071,012	1,702,849
<b>Cash flows used in capital related financing activities:</b>						
Purchase of property and equipment	( 62,347)	-	-	-	( 62,347)	( 26,757)
Advances from related companies	-	-	-	-	-	( 51,987)
<b>Net cash used in capital related financing activities</b>						
	( 62,347)	-	-	-	( 62,347)	( 78,744)
<b>Increase (decrease) in cash</b>						
	395,876	280,263	( 387,014)	-	289,125	( 113,582)
<b>Cash, beginning of year</b>						
	613,133	3,527	387,014	21	1,003,695	1,117,277
<b>Cash, end of year</b>						
	\$ 1,009,009	\$ 283,790	\$ -	\$ 21	\$ 1,292,820	\$ 1,003,695

**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, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	Management Services Fund	Servicios Integrados A la Comunidad Fund	Consejo de Orquestas Fund	Other Enterprise Funds	Total Enterprise Funds
	2010	2010	2010	2010	2009
<b>Reconciliation of operating loss to net cash used in operating activities:</b>					
Operating loss	\$ (1,077,401)	\$ (509,130)	\$ (54,972)	\$ -	\$ (1,641,503)
Adjustments to reconcile operating loss to net cash used in operating activities:					
Depreciation	23,244	31,878	-	-	55,122
Loss on donated assets	-	100,967	-	-	100,967
Net assets transferred	-	346,504	(326,525)	-	19,979
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Accounts receivable	(5,098)	18	2,085	-	(2,995)
Increase (decrease) in:					
Accounts payable	(1,843)	(35,190)	(210)	-	(37,243)
Accrued expenses and withholdings payable	12,519	(224,548)	(1,838)	-	(213,867)
	28,822	219,629	(326,488)	-	137,096
	<u>\$ (1,048,579)</u>	<u>\$ (289,501)</u>	<u>\$ (381,460)</u>	<u>\$ -</u>	<u>\$ (1,719,540)</u>
Net cash used in operating activities					<u>\$ (1,737,637)</u>

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

**STATEMENTS OF NET ASSETS (DEFICIT) AS OF JUNE 30, 2010, WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2009**

	Orquesta Sinfónica Fund	Concierto Gala Fund	Departamento del Trabajo Fund	Enterprise Funds 2010	Enterprise Funds 2009
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash	\$ 163,085	\$ 35,097	\$ -	\$ 198,182	\$ 90,641
Receivables:					
Individuals and private entities, net of allowance for doubtful accounts of \$96,947 for 2010 and \$69,521 for 2009	42,450	-	-	42,450	102,488
Government entities, net of allowance for doubtful accounts of \$29,609 for 2010 and 2009	48,777	377,229	-	48,777	93,936
Related companies	184,441	-	-	561,670	406,662
Total current assets	438,753	412,326	-	851,079	693,727
Long-term assets; capital assets, net of accumulated depreciation	33,919	-	-	33,919	41,445
Total assets	472,672	412,326	-	884,998	735,172
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Accounts payable:					
Individuals and private entities	560,830	6,535	-	567,365	588,057
Government entities	55,515	-	-	55,515	43,021
Related companies	248,106	-	-	248,106	315,072
Other payables	1,583,845	-	-	1,583,845	2,587,828
Settlement of legal claim	281,030	-	-	281,030	250,000
Accrued expenses and withholdings payable	5,968	25,190	-	31,158	150,209
Compensated absences, current	12,592	-	-	12,592	15,938
Deferred revenues	66,500	-	-	66,500	50,000
Total current liabilities	2,814,186	31,725	-	2,845,911	3,994,925
<b>Long-term debt:</b>					
Compensated absences, non-current	41,916	-	-	41,916	5,313
Net pension obligation	4,551,180	-	-	4,551,180	3,605,683
Total long-term debt	4,593,096	-	-	4,593,096	3,610,996
Total liabilities	7,407,282	31,725	-	7,439,007	7,605,921
<b>NET ASSETS (DEFICIT)</b>					
Investment in capital assets	33,919	-	-	33,919	41,445
Restricted net assets	20,000	380,601	-	400,601	384,960
Unrestricted net assets (deficit)	(6,988,529)	-	-	(6,988,529)	(7,297,144)
	\$ (6,934,610)	\$ 380,601	\$ -	\$ (6,554,009)	\$ (6,870,749)

**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 ASSETS (DEFICIT)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2009**

	Orquesta Sinfónica Fund	Concierto Gala Fund	Departamento del Trabajo Fund	Total Enterprise Funds 2010	Total Enterprise Funds 2009
<b>Operating revenues:</b>					
Sale of tickets	\$ 208,643	\$ -	\$ -	\$ 208,643	\$ 214,982
Sale of advertising	8,000	-	-	8,000	6,500
Orchestra fees	270,180	-	-	270,180	144,000
<b>Total operating revenues</b>	<b>486,823</b>	<b>-</b>	<b>-</b>	<b>486,823</b>	<b>365,482</b>
<b>Operating expenses:</b>					
Salaries, payroll taxes and fringe benefits	3,790,997	-	-	3,790,997	3,873,730
Pension cost	1,131,878	-	-	1,131,878	503,940
Administrative services	95,000	-	-	95,000	85,000
Reserve for legal claim	31,080	-	-	31,030	140,773
Commissions	10,031	-	-	10,031	5,371
Depreciation	7,935	-	-	7,935	7,403
Insurance	10,253	-	-	10,253	9,940
Publicity	23,811	-	-	23,811	44,310
Professional, artistic and consulting services	550,933	3,000	-	553,933	600,755
Travel and meals	15,309	-	-	15,309	52,998
Utilities	6,594	-	-	6,594	8,548
Rent	146,821	4,960	-	151,781	95,979
Representation	27,428	-	-	27,428	1,543
Bad debts	90,490	9,666	-	100,156	150,992
Others	5,938,510	17,626	-	5,956,136	5,581,282
<b>Total operating expenses</b>	<b>( 5,451,687 )</b>	<b>( 17,626 )</b>	<b>-</b>	<b>( 5,469,313 )</b>	<b>( 5,215,650 )</b>
<b>Operating loss</b>					
<b>Non-operating income:</b>					
Legislative grants	5,638,798	-	-	5,638,798	3,492,000
Others, including interest income	43,422	13,277	-	56,699	78,600
Contributions and donations	90,556	-	-	90,556	52,842
<b>Total non-operating income</b>	<b>5,772,776</b>	<b>13,277</b>	<b>-</b>	<b>5,786,053</b>	<b>3,623,442</b>
<b>Net income (loss)</b>	<b>321,089</b>	<b>( 4,349 )</b>	<b>-</b>	<b>316,740</b>	<b>( 1,592,408 )</b>
<b>Total net assets (deficit), beginning</b>	<b>( 7,255,699 )</b>	<b>384,950</b>	<b>-</b>	<b>( 6,870,749 )</b>	<b>( 5,278,341 )</b>
<b>Total net assets (deficit), ending</b>	<b>( 6,934,610 )</b>	<b>380,601</b>	<b>\$ -</b>	<b>( 6,554,009 )</b>	<b>( 6,870,749 )</b>

**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, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2009**

	Orquesta Sinfónica Fund	Concierto Gala Fund	Departamento del Trabajo Fund	Enterprise Funds 2010	Enterprise Funds 2009
<b>Cash flows from operating activities:</b>					
Receipts from customers and users:					
Ticket sales	\$ 184,880	\$ -	\$ -	\$ 184,880	\$ 168,637
Advertising sales	8,000	-	-	8,000	6,500
Orchestra fees	371,713	-	-	371,713	144,000
Other	-	-	-	-	291,932
Payments to:					
Employees, payroll taxes and other fringe benefits	( 3,757,740)	( 17,521)	-	( 3,757,740)	( 3,755,110)
Suppliers and other	( 2,166,960)	-	-	( 2,164,461)	( 587,077)
Management services used	( 95,000)	-	-	( 95,000)	( 95,000)
Net cash used in operating activities	<u>( 5,455,107)</u>	<u>( 17,521)</u>	<u>-</u>	<u>( 5,472,628)</u>	<u>( 3,816,118)</u>
<b>Cash flows from non-capital financing activities:</b>					
Legislative grants	5,638,798	-	-	5,638,798	3,540,547
Contributions and donations	90,556	-	-	90,556	52,842
Increase in deferred revenue	16,500	-	-	16,500	-
Others, including interest income	43,422	13,277	-	56,699	78,600
Net advances (payments) to related companies	<u>( 221,974)</u>	<u>-</u>	<u>-</u>	<u>( 221,974)</u>	<u>147,644</u>
Net cash provided by non-capital financing activities	<u>5,567,302</u>	<u>13,277</u>	<u>-</u>	<u>5,580,579</u>	<u>3,819,633</u>
<b>Cash flows from capital and related financing activities:</b>					
Acquisition of property	( 410)	-	-	( 410)	( 3,910)
Net cash used in capital and related financing activities	<u>( 410)</u>	<u>-</u>	<u>-</u>	<u>( 410)</u>	<u>( 3,910)</u>
Net increase (decrease) in cash	111,785	( 4,244)	-	107,541	( 395)
Cash, beginning of year	51,300	39,341	-	90,641	91,036
Cash, end of year	<u>\$ 163,085</u>	<u>\$ 35,097</u>	<u>\$ -</u>	<u>\$ 198,182</u>	<u>\$ 90,641</u>

**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, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED 2009**

	Orquesta Sinfónica Fund	Concierto Gala Fund	Departamento del Trabajo Fund	Total Enterprise Funds 2010	Total Enterprise Funds 2009
	\$ ( 5,451,687)	\$ 17,626	\$ -	\$ ( 5,469,313)	\$ ( 5,215,850)
Operating loss					
Adjustments to reconcile operating loss to net cash used in operating activities:					
Depreciation	7,935			7,935	
Bad debts	27,428			27,428	
Changes in operating assets and liabilities:					
Decrease in assets:					
Receivables, government and individuals and private entities	77,770			77,770	( 46,296)
(Decrease) increase in liabilities:					
Accounts payable, government, individuals and private entities and other	( 1,007,286)	105		( 1,007,181)	970,604
Settlement of legal claims payable	31,030			31,030	140,773
Accrued expenses and withholdings payable	( 60,604)			( 60,604)	52,248
Net pension obligation	920,307			920,307	275,000
Total adjustments	( 3,420)	105		( 3,315)	1,399,732
Net cash used in operating activities	\$ ( 5,455,107)	\$ ( 17,621)	\$ -	\$ ( 5,472,628)	\$ ( 3,916,118)

**Supplementary schedule of non-cash non-capital financing activities:**

Fully depreciated motor vehicle disposed during the year	\$ 12,671	\$ -	\$ -	\$ 12,671	\$ -
Capital assets transferred from a related party at cost with related accumulated depreciation of \$406	\$ 520	\$ -	\$ -	\$ 520	\$ -

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

**STATEMENTS OF NET ASSETS - JUNE 30, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

**ASSETS**

	Management Service Fund	Festival Casals Fund	Museo Pablo Casals Fund	Festival de la Orquesta Sinfónica Juvenil de América Fund	Festival de las Artes Fund	Enterprise Funds 2010	Enterprise Funds 2009
<b>Current assets:</b>							
Cash	\$ 428,835	\$ 315,915	\$ 453,543	\$ 272,687	\$ -	\$ 1,470,980	\$ 1,286,816
Receivables: Individuals and private entities, net of allowance for doubtful accounts of \$113,228 in 2010 and 2009 Government entities, net of allowance for doubtful accounts of \$279 in 2010 and 2009	600	4,683	308	200	271	5,962	21,523
Related companies Other funds Other assets	134,762	260	2,727	194,995	192,776	525,520	69,350
	-	350,921	7,170	13,701	292,022	663,814	532,341
	564,097	671,779	463,748	481,583	485,069	2,666,276	698,615
<b>Total current assets</b>							835
	564,097	44,487	17,518	141	-	62,146	2,608,480
<b>Long-term assets; capital assets, net</b>							
	564,097	716,266	481,266	481,724	485,069	2,728,422	74,812
<b>Total assets</b>							2,683,292

**LIABILITIES**

<b>Current liabilities:</b>							
Accounts payable:							
Individuals and private entities	1,984	100,312	6,057	25,593	14,605	148,551	162,542
Government entities	97,974	34,911	23,400	1,554	556	60,421	65,945
Related companies	252,167	440,851	20,247	5,151	1,628	565,861	607,715
Other funds	-	280,877	-	92,529	38,240	663,813	698,615
Other	3,034	7,146	-	-	-	7,146	10,623
Compensated absences, current	-	11,086	8,204	595	96	11,238	9,360
Accrued expenses and withholdings payable	-	-	156	-	-	11,933	15,610
Deferred revenues	-	-	175,006	20,000	-	195,006	140,006
<b>Total current liabilities</b>	355,159	875,183	233,070	145,422	55,125	1,663,959	1,709,416
Compensated absences, non-current	162	-	122	-	-	284	3,044
<b>Total liabilities</b>	355,321	875,183	233,192	145,422	55,125	1,664,243	1,712,460
<b>NET ASSETS</b>							
Investment in capital assets	208,776	44,487	17,518	141	-	62,146	74,812
Unrestricted net assets	-	( 203,404)	230,556	336,161	429,944	1,002,033	896,020
<b>Total net assets</b>	\$ 208,776	\$ 158,917	\$ 248,074	\$ 336,302	\$ 429,944	\$ 1,064,179	\$ 970,832

**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 ASSETS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	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
						2010
<b>Operating revenues:</b>						
Sale of tickets	\$ -	\$ 141,502	\$ -	\$ -	\$ -	\$ 141,502
Sale of advertising	-	1,500	-	-	-	1,500
<b>Total operating revenues</b>		<u>143,002</u>				<u>143,002</u>
<b>Operating expenses:</b>						
Salaries, payroll taxes and fringe benefits	38,285	13,894	122,800	-	-	174,979
Travel and meals	3,065	27,358	48	3,978	-	34,449
Publicity	-	71,445	-	-	-	71,445
Professional, artistic and consulting services	9,465	375,828	523	22,707	-	408,523
Administrative services	85,000	-	-	-	-	85,000
Utilities	3,096	-	20,976	-	-	24,072
Depreciation	-	9,890	2,701	75	-	12,666
Bad debts	23,456	59,896	-	-	-	83,352
Rent	-	18,615	-	750	1,370	20,735
Representation expenses	-	-	-	-	-	-
Insurance	13,671	-	-	-	-	13,671
Commissions	-	2,851	47	-	-	2,898
Other	32,609	23,710	2,253	5,751	540	64,863
<b>Total operating expenses</b>	<u>208,647</u>	<u>603,487</u>	<u>149,348</u>	<u>33,261</u>	<u>1,910</u>	<u>996,653</u>
<b>Operating loss</b>	<u>( 208,647 )</u>	<u>( 460,485 )</u>	<u>( 149,348 )</u>	<u>( 33,261 )</u>	<u>( 1,910 )</u>	<u>( 1,746,213 )</u>
<b>Non-operating revenues:</b>						
Legislative grants	193,515	311,918	158,721	35,000	53,940	750,094
Donations	-	150,100	2,283	-	-	152,383
Other	7,693	30,040	2,360	1,725	2,703	44,521
<b>Total other non-operating revenues</b>	<u>201,208</u>	<u>492,058</u>	<u>160,364</u>	<u>36,725</u>	<u>56,643</u>	<u>946,998</u>
<b>Net income (loss)</b>	<u>( 7,439 )</u>	<u>31,573</u>	<u>11,016</u>	<u>3,464</u>	<u>54,793</u>	<u>93,347</u>
<b>Total net assets (deficit), beginning</b>	<u>216,215</u>	<u>( 190,490 )</u>	<u>237,058</u>	<u>332,838</u>	<u>375,211</u>	<u>970,832</u>
<b>Total net assets, ending</b>	<u>\$ 208,776</u>	<u>\$ ( 158,917 )</u>	<u>\$ 248,074</u>	<u>\$ 336,302</u>	<u>\$ 429,944</u>	<u>\$ 1,064,179</u>
						<u>\$ 970,832</u>

**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, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	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	2010	2009
<b>Cash flows from operating activities:</b>							
Receipts from ticket sales	\$ 39,277	\$ 227,166	\$ 138	\$ -	\$ -	\$ 227,304	\$ 289,524
Payments to employees, payroll taxes and other fringe benefits	( 54,176)	( 13,894)	( 121,690)	-	-	( 174,861)	( 206,026)
Payments to suppliers of goods or services and other	( 118,150)	( 548,129)	( 26,808)	( 21,695)	( 31,720)	( 682,528)	( 1,800,340)
Payments to interfund services, including management services used	( 211,603)	( 25,026)	( 3,610)	( 5,155)	( 762)	( 152,704)	( 187,350)
Net cash used in operating activities	( 193,515)	( 359,863)	( 151,970)	( 26,851)	( 32,482)	( 782,789)	( 1,904,232)
<b>Cash flows from non-capital financing activities:</b>							
Legislative grants	-	311,918	155,721	35,000	53,940	750,094	1,504,000
Contributions and donations	( 16,053)	150,100	2,283	-	-	152,383	380,617
Advances to related parties	7,893	( 6,378)	( 8,376)	703	( 8,599)	( 38,709)	11,282
Increase (decrease) in deferred income	-	30,040	35,000	20,000	-	55,000	( 70,000)
Other income, including interest income	-	-	2,360	1,725	2,703	44,521	57,719
Net cash provided by non-capital financing activities	185,155	485,680	186,988	57,428	48,044	963,295	1,983,618
<b>Cash flows from capital and related financing activities;</b> purchase of property and equipment	-	-	-	-	-	-	( 3,024)
<b>Cash flows from investing activities;</b> advances from (to) related companies	( 26,448)	19,740	-	( 520)	( 15,562)	3,658	6,072
Increase (decrease) in cash	455,283	145,537	35,018	80,057	-	184,164	92,434
Cash, at beginning of year	-	170,378	418,525	242,630	-	1,286,816	1,204,382
Cash, at end of year	\$ 428,835	\$ 315,915	\$ 453,543	\$ 272,687	\$ -	\$ 1,470,980	\$ 1,286,816

**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, 2010, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	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	Enterprise Funds 2010	2009
<b>Reconciliation of operating loss to net cash used by operating activities:</b>							
Operating loss	\$( 208,647)	\$( 460,485)	\$( 149,348)	\$( 33,261)	\$( 1,910)	\$( 853,651)	\$( 1,746,213)
Adjustments to reconcile operating loss to net cash used in operating activities:							
Depreciation		9,890				12,666	
Bad debts		59,896	2,701	75		59,896	12,890
Changes in operating assets and liabilities:							
Increase (decrease) in:							
Accounts receivable from individuals, private entities and government	( 391)		138			24,015	( 40,707)
Prepaid expenses						835	
Decrease (increase) in:							
Accounts payable from individuals, private entities and government	( 1,032)	11,341	( 5,214)	5,740	( 30,350)	( 19,515)	( 133,524)
Accrued expenses and withholdings payable	( 1,533)	( 5,628)	( 247)	595	( 222)	( 7,035)	3,382
Total adjustments	( 2,956)	100,602	( 2,622)	6,410	( 30,572)	70,862	( 158,019)
Net cash used in operating activities	\$( 211,603)	\$( 359,883)	\$( 151,970)	\$( 26,851)	\$( 32,482)	\$( 782,789)	\$( 1,904,232)