

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**FINANCIAL STATEMENTS WITH AUDITORS' REPORT**

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

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION  
(A Component Unit of the Commonwealth of Puerto Rico)**

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

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## INDEPENDENT AUDITORS' REPORT

**Board of Directors  
Puerto Rico Conservatory of Music  
Corporation  
San Juan, Puerto Rico**

We have audited the accompanying financial statements of the business-type activities of **Puerto Rico Conservatory of Music Corporation** (a component unit of the Commonwealth of Puerto Rico) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Corporation's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of **Puerto Rico Conservatory of Music Corporation (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 year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis included on pages 2 through 11, 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. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 3, 2010

2570474



*Horwath Vélez & Co. PSC*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the Puerto Rico Conservatory of Music ("the Conservatory") provides this Management's Discussion and Analysis (MD&A) for the readers of the Conservatory's basic financial statements. This narrative overview and analysis of the financial activities of the Conservatory for the fiscal year ended June 30, 2010 is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. We encourage readers to consider this information with the Corporation's basic financial statements that follow.

### **MISSION:**

The Puerto Rico Conservatory of Music is a public institution of higher learning that offers undergraduate and graduate programs as well as formative programs for the community at large. Dedicated to developing musicians in the fields of classical and jazz performance, composition and music education, the institution plays a major role in the musical and cultural life of Puerto Rico and is committed to preserving and disseminating the musical heritage of Puerto Rico, the Caribbean and Latin America. The Conservatory seeks to develop the future generations of artistic and cultural leaders and promotes awareness of new trends in the international music and education markets to stimulate innovative thinking in programs and services.

### **VISION:**

The Puerto Rico Conservatory of Music seeks to position itself as the leading music school in Latin America, aiming to establish a bridge between musicians and music educators and foster communication, collaboration and exchange.

### **SUMMARY OF LEGAL BASES:**

Law No. 35 of June 12, 1959 created the Puerto Rico Conservatory of Music Corporation. Years later, Law No. 77 of May 30, 1980 created the Corporation like a subdivision of the Administración para el Fomento de Artes y Cultura. Through Law No. 2 of July 31, 1985 the Corporation became an affiliate of Corporación de las Artes Musicales. Finally, in 1995 the Conservatory became an independent organization by virtue of Law No. 141 of August 9, 1995.

### **MISSION:**

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

### **ORGANIZATIONAL STRUCTURE:**

The Puerto Rico Conservatory is governed by a Board of Directors composed of seven members appointed by the Governor. The Directors select the positions of President, Vice-President and Secretary among their members. They also appoint the Chancellor after consultation with faculty, students, non-educational personnel and the Academic Senate. The Chancellor is the principal executive and the maximum administrative and academic authority of the Conservatory. The organizational structure includes the following areas:

- Chancellor's Office
- Deanship of Academic Affairs
- Deanship of Student Affairs
- Deanship of Administration and Finance
- Deanship of Preparatory School
- Development and Public Relations Office
- Activities and Concerts Office
- Deanship of Academic Subjects
- Library
- Human Resources Office
- Registrars Office
- Information Systems Office
- Office of Planning and Institutional Research
- Special Projects Office
- Culturarte Entrepreneurial Center
- Música 100 x 35

### **PROGRAMMATIC STRUCTURE:**

#### **Development of the Musical Talent Program**

##### **Program Description:**

The principal purpose of the program is the formation of professional musicians in areas such as the performance, composition and the music education to train music teachers for the Islands schools. The Preparatory School offers education for all ages to provide for the music needs of the community at large. The Conservatory provides continuing education for professional musicians and music teachers, as well as several outreach programs such as Música 100x35 and Despertar Musical which provide musical training programs for the development of the musical talent of children and youth in under privileged communities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Development of the Musical Talent Program (Continued)

#### Program Description (Continued):

#### Objectives:

- To seek the highest standard of excellence at all levels of instruction in all areas of the institution.
- To impart a comprehensive understanding of the world of music – balanced with both artistic and practical elements – to prepare students to be active professionals in the music world.
- To stimulate creative and innovative thinking within all disciplines and programs throughout the institution.
- To promote a strong commitment to the relevancy of program offerings in tune with current trends and needs of the music and educational markets.
- To preserve, disseminate and advance the musical heritage and traditions of our country and geographical region and promote educational experiences that stimulate musical diversity.
- To promote advocacy for music education by maintaining institutional and community educational outreach programs that meet the formative and vocational needs of children, youth and adults at all levels of preparation throughout the island.
- To promote collaborative pedagogical and artistic experiences of mutual benefit to Latin American musicians and music educators.
- To exert a strong institutional leadership role in the local, Latin American and international music communities.

#### STATISTICAL DATA:

The general retention index of the Conservatory is approximately 83%. Approximately 75% of graduated students are working in areas related to their music studies or are studying graduated courses in other institutions.

<b>Statistical Data</b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Concerts and activities	250	275	300
Overall activity attendance	18,000	18,000	18,000
Non-degree students enrolled	1,100	1,200	1,350
Degree students enrolled (undergraduate, graduate and continuing education)	371	373	406

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### STUDENTS:

Approximately 66% of the students are high school graduates and 34% are transfers from other universities. The Conservatory has students from 58 towns or municipalities, representing 81% of the municipalities of Puerto Rico. The general composition of the student body indicates that 49% are residents of the metropolitan area of San Juan and 51% from the rest of the island. The degree program has an enrollment of 406 students as of June 30, 2010. The Preparatory School, a non-degree program for the community has with an enrollment of 1,100 students. Outreach programs like Música 100x35 recently started in this fiscal year admitted approximately 130 students in its initial pilot program which began in February 2010. Despertar Musical provides early childhood music training for children and teachers at Head Starts approximately nine municipalities, reaching 2,300 children. The Conservatory also offers a variety of institutional concerts with more than 300 annually and a public attendance of approximately 18,000 people annually.

We encourage readers to consider the information presented here in conjunction with the Corporation's basic financial statements (pages 11-14) and the notes to the financial statements (pages 15-29).

### USING THIS ANNUAL REPORT:

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38, which expands the applicability of Statement No.34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* effective for fiscal years beginning July 1, 2001. Previously, public colleges and universities had their own financial reporting model. The new reporting model should make annual reports easier to understand and be more useful to the people who use the information to make decisions: legislators, investors, creditors and the general public.

The most notable feature of the new model is the requirement for government-wide financial statements. The focus of these financial statements will be on the government as a whole rather than on individual funds. These statements are prepared on the full accrual basis of accounting and will have the look and feel of corporate financial statements. Users of the statements will be able to see the cost of providing services, and how government finances its programs, and understand the extent in which government has invested in capital assets. Other requirements are: the presentation of capital assets infrastructure, reporting cash flows from operations, changed from indirect to direct method and Management's Discussion and Analysis is required as supplementary information.

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

### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS:**

The Corporation financial statements consist of the three basic financial statements and notes that provide information on the accounting alternative used, and explanatory information and detail on certain financial elements. The three basic financial statements are the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets presents the information on the Corporation's assets, liabilities and net assets, all as of the end of the reporting period. Net assets represents the difference between assets and liabilities, and is detailed into classifications that help readers understand the constraints that the Corporation must consider in making decisions on expending assets. Over time, changes in net assets can help in understanding whether the financial condition of the Corporation is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information on the changes in net assets during the year. All changes in net assets are reported as soon as the underlying event takes places, regardless of the timing of the related cash flow. Thus, revenues and expenses are recorded for some items that will results in cash flows in future fiscal years.

The Statement of Cash Flows presents information on sources and uses of cash during the year. This statement details the changes in cash and cash equivalents from the amounts reported at the end of the preceding year, to the amounts reported in the Statement of Net Assets as of the end of the current year. Sources and uses are organized into operating activities, noncapital financial activities, capital and related financing activities, and investing activities.

The notes to financial statements provide additional information that is essential to the full understanding of the data provided in the Corporation's financial statements.

### **FINANCIAL HIGHLIGHTS AND ANALYSIS OF SIGNIFICANT VARIANCES:**

As of June 30, 2010 and 2009, the Corporation's financial health remains strong, with assets exceeding liabilities by \$75,995,121 and \$61,526,882, respectively. These amounts are shown in the Statement of Net Assets as "Total Net Assets". For the year ended June 30, 2010, total net assets increased by \$14,468,239. Net assets invested in capital assets, net of related debt, decreased by \$1,191,040 while unrestricted net assets increased by \$16,789. Unrestricted net assets represent the portion of assets, net of the corresponding liabilities that can be used to meet ongoing obligations and new initiatives. The increase in unrestricted net assets for the year ended June 30, 2010 is attributable to the Corporation's expansion of programs.

The table below presents summary-level information of the Corporation's net assets for the years ended June 30, 2010 and 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL HIGHLIGHTS AND ANALYSIS OF SIGNIFICANT VARIANCES (CONTINUED):

#### FINANCIAL ANALYSIS:

#### CONDENSED STATEMENTS OF NET ASSETS

	<u>2010</u>	<u>2009</u>
Current assets	\$ 2,045,844	\$ 4,117,098
Capital assets	69,282,288	61,109,780
Other assets	<u>14,580,874</u>	<u>2,291,681</u>
Total assets	<u>85,909,006</u>	<u>67,518,559</u>
Current liabilities	6,500,102	3,299,770
Non-current liabilities	<u>3,413,783</u>	<u>2,691,907</u>
Total liabilities	<u>9,913,885</u>	<u>5,991,677</u>
Net assets:		
Investment in capital assets, net of related debt	49,973,052	51,164,092
Restricted	26,636,134	10,960,066
Unrestricted	<u>( 614,065)</u>	<u>( 597,276)</u>
Total net assets	<u>\$ 75,995,121</u>	<u>\$ 61,526,882</u>

**Assets** - As of June 30, 2010, total assets amounted to \$85.9 million. The largest asset class was capital assets (net of depreciation) which totaled \$69.0 million, or 80 percent of total assets. This line item includes land and building totaling \$49,246,348 and Construction in Progress totaling \$18,317,317. The increase of \$8.1 million in capital assets was mostly caused by an increase in Construction in Progress. Scholarship restricted endowment for 2010 and 2009 amounted to \$973,395 and \$961,108 respectively. These represent resources that are subject to external restrictions on how they may be used.

**Liabilities** - as of June 30, 2010 amounted to \$9,913,885. Accounts payable, deferred income and line-of-credit represent approximately 87 percent of total liabilities. Liabilities also include the retained amount of the construction project. This balance increased by \$ 752,082 million or a 60 percent increase.

**Net Assets** - The equity of the Corporation of \$75.9 million as of June 30, 2010 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt of \$49.9 million (66 percent); restricted-construction of new facilities totaling \$25.4 million (33 percent); restricted-scholarships totaling \$973,000 (1.4 percent); other projects and scholarships totaling \$248,000 (0.3 percent) and unrestricted deficit of \$614,000 (0.8 percent).

Restricted net assets are subject to externally imposed restrictions governing their use. Although unrestricted net assets are not subject to externally imposed stipulations, most of the unrestricted net assets have been internally designated for support of academic programs and initiatives, capital projects, and working capital requirements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL HIGHLIGHTS AND ANALYSIS OF SIGNIFICANT VARIANCES (CONTINUED):

Total net assets increased \$14,468,239 millions during the year ended June 30, 2010. Invested in capital assets, net of related debt, decreased \$1,191,04014 millions, primarily due to the net effect between the increased in accumulated depreciation and the additions made to the Construction in Progress during the fiscal year. Restricted net assets increased \$15,676,068 million basically due as a result of an increase in the gifts received during the year and \$15,000,000 received from the government related to the Construction of new facilities. Unrestricted net assets increased \$16,789 primarily due to the results of the net operating revenues.

The table below presents summary-level information on revenues, expenses, and other changes in the Corporation's net assets for the years ended June 30, 2010 and 2009:

### CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 2,306,455	\$ 2,424,483
Operating expenses	<u>10,524,484</u>	<u>8,811,138</u>
Net operating loss	( 8,218,029)	( 6,386,655)
Non-operating revenues	<u>22,560,499</u>	<u>12,851,691</u>
Income before capital contributions	14,342,470	6,465,036
Capital contributions	<u>125,769</u>	<u>25,944</u>
Change in net assets	14,468,239	6,490,980
Net assets, beginning	<u>61,526,882</u>	<u>55,035,902</u>
Net assets, ending	<u>\$ 75,995,121</u>	<u>\$ 61,526,882</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL HIGHLIGHTS AND ANALYSIS OF SIGNIFICANT VARIANCES (CONTINUED):

The Statement of Revenues, Expenses and Changes in Net Assets is the Corporation's income statement. It details how net assets have changed during the year ended June 30, 2010, with comparative information for the year ended June 30, 2009. This statement is prepared on the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Items that increase or decrease net assets appear on the Statement of Revenues, Expenses and Changes in Net Assets as revenues, expenses, gains or losses.

Financial activities are reported as either operating or non-operating. GASB Statement No. 35 requires state appropriations, gifts, and investment and endowment income to be classified as non-operating revenues. Accordingly, the Corporation reports a net operating loss prior to the addition of non-operating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by gift scholarships and institutional aid and is reported net of the scholarship allowance. A summarized comparison of the Corporation's revenues, expenses and changes in net assets for the years ended June 30, 2010 and June 30, 2009 follows.

Total operating revenues were \$2.6 millions for the year ended June 30, 2010, a decrease of \$8,134 (0.03 percent). The primary components of operating revenues were student tuition and fees of \$2,185,224 millions; local and private sponsored programs of \$295,753 and rent and other income of \$91,588. The major increase in operating revenues was related to net student tuition and fees of \$27,500 due to the increase in the number of students enrolled. The increases were partially offset by a \$48,059 decrease in other income.

Operating expenses totaled \$10.5 millions, an increase of \$1.7 millions (19 percent). Of this amount, approximately \$6.1 millions was expended for educational and general programs, including salaries and benefits as well as professional consulting services. Such line items increased by approximately \$493,000 in the fiscal year ended June 30, 2010. Depreciation expense for the year amounted to \$1.4 millions as compared to \$740,008 in the previous year. This increase is caused by the fact that this is the first full year of operations of the Corporation at its new facilities in Miramar, whereas it had only six months of operations in these facilities during the previous year. Other significant expenses are utilities of \$567,000, repairs and maintenance of \$271,820 and general and administrative expenses increased by \$211,160. During the year 2010, major fluctuations were noted in the following expenses categories: security, press, accreditations feess, concerts series and activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### SIGNIFICANT OBJECTIVES REACHED:

The fiscal year ended June 30, 2010 was very good for the Corporation. Achieving our strategic plan and annual work plan. The following list were the main achievements:

- Successful launch of Música 100x35, Sistema de Orquestas y Coros Juveniles e Infantiles de Puerto Rico, program designed to prevent social problems and promote individual social development through music education. The project makes music accessible to a large number of underprivileged children, converting music education into an instrument that motivates, unites and encourages progress. More than just a music education program, this initiative promotes social transformation through music and creative activities. The musical ensembles that are created as part of the process, function as instruments of pedagogic value as well as an instrument for the development and dissemination of human values and community living.
- Creation of Arte Santurce: De Barrio Obrero a la 15, a cultural alliance composed of major cultural institutions from both the public and private sectors whose main goal is to transform and revitalize the area of Santurce, creating and promoting economic, social and urban development of the zone. Spearheaded by the Puerto Rico Conservatory of Music, Arte Santurce is made up of fifteen cultural and artistic institutions located along a two and a half mile stretch on Ponce de León Avenue in Santurce. The alliance's immediate goal is to achieve the designation of the area as an official "Arts District" with the support from the central government.
- Signing of a unique alliance between the government's Economic Development Bank and the Puerto Rico Conservatory of Music for the purpose of promoting the development of microenterprises dedicated to the de arts and music. The initiative, known as "Creative Economy: Initiative for the Economic Development of Santurce" established a program that provides commercial loans to help boost the economic activity in the area. This program is sponsored and promoted by the cultural alliance Arte Santurce: De Barrio Obrero a la 15.
- Creating and hosting the second annual "Congreso de Composición y Creación Musical", an artistic and educational encounter between professional musicians, composers, professors and students from various Latin American countries. This regional congress is important not only from an education-musical perspective, but it also supports the institution's vision of becoming a "leader in the field of music education throughout Latin America, serving as a bridge among musicians and music educators, promoting communication, collaboration and exchange of ideas and experiences".

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

### **SIGNIFICANT OBJECTIVES REACHED (CONTINUED):**

- Approval of the post Baccalaureate Performance Diploma in Jazz and Caribbean Music by NASM, accreditation agency specializing music education. The Conservatory is the only institution of higher education in Puerto Rico that has received this accreditation. This achievement strengthens the institution's ability to attract talented students from the Caribbean, Latin America and the United States who are interested in pursuing postgraduate studies in Jazz in our unique program which blends both latin jazz as well as afro-Caribbean sounds.
- Expansion of services provided by the Centro de Recursos para el Aprendizaje del Conservatorio, which includes the institution's library, has seen a major growth this past year such as: (1) creation of the Centro de Investigación y Estudios de la Música Puertorriqueña; (2) creation of the Archivo Histórico del Conservatorio; (3) establishing the Proyecto Colaborativo de Música between the Conservatory and the Archivo General de Puerto Rico for the purpose of providing virtual access to sheet music of Puerto Rican Music; (4) creation of the Proyecto de Digitalización de Partituras Musicales y Grabaciones Sonoras de la Colección Puertorriqueña del Conservatorio.
- Successful expansion of our trademark program Despertar Musical, in alliance with Fundación Angel Ramos, the Conservatory and various municipalities. This year, the program was implemented in Head Start Centers in Guaynabo, Presbiterio San Juan, Trujillo Alto and Canóvanas. Also, this year saw the institutionalization of the program un Caguas and Carolina, where the program has been in place for the past two years. Despertar Musical is a music education program directed at children in pre-school.
- The construction of the third and last phase of the new Conservatory continues on schedule and is expected to be finished in the fourth quarter of 2011.

The fiscal year ended June 30, 2010 has been one of great success and growth in existing and new programs, as well as the sprouting of the Conservatory as institution leader in Latin America. In addition, the Corporation has solidified, its presence and recognition in the United States. We project that our goal to internationalize the Corporation, in route to the re-sizing that will provide our new facilities this year, have become more than evident in the achievements that we have previously enumerated.

### **REQUEST FOR INFORMATION:**

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 information should be addressed to the Chancellor's Office, Puerto Rico Conservatory of Music Corporation, Soldado Rafael Lamar Street #350, San Juan, Puerto Rico 00918-2199.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF NET ASSETS - JUNE 30, 2010 AND 2009**

**ASSETS**

	<b>2010</b>	<b>2009</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 157,106	\$ 252,157
Accounts receivable:		
Commonwealth of Puerto Rico	628,430	3,554,427
Government agencies	845,024	220,217
Prepaid expenses	32,989	28,998
Other, net of allowance for doubtful accounts of \$416,893 for 2010 and \$233,964 for 2009	382,295	61,299
Total current assets	2,045,844	4,117,098
<b>Non-current assets:</b>		
Restricted cash and cash equivalents	14,580,874	2,291,681
Capital assets, net of accumulated depreciation	69,282,288	61,109,780
Total non-current assets	83,863,162	63,401,461
Total assets	85,909,006	67,518,559

**LIABILITIES**

<b>Current liabilities:</b>		
Accounts payable	4,050,142	1,526,104
Current portion of line-of-credit	415,834	505,834
Compensated absences	213,364	130,720
Accrued expenses	284,485	444,825
Deferred income	1,536,277	692,287
Total current liabilities	6,500,102	3,299,770
<b>Non-current liabilities:</b>		
Compensated absences	794,341	930,462
Retainage payable	2,007,679	1,255,597
Line-of credit	611,763	505,848
Total non-current liabilities	3,413,783	2,691,907
Total liabilities	9,913,885	5,991,677

**NET ASSETS**

Investment in capital assets, net of related debt	49,973,052	51,164,092
Restricted for:		
Construction of new facilities	25,414,630	9,968,262
Scholarship restricted endowment fund	973,395	961,108
Other projects and scholarships	248,109	30,696
Unrestricted (deficit)	( 614,065)	( 597,276)
Total net assets	\$ 75,995,121	\$ 61,526,882

See notes to financial statements.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>Operating revenues:</b>		
Tuition and fees (net of scholarship allowance of \$88,180 in 2010 and \$107,224 in 2009)	\$ 2,185,224	\$ 2,157,722
Local and private sponsored programs	29,643	141,989
Rent	16,930	2,055
Other	74,658	122,717
Total operating revenues	2,306,455	2,424,483
<b>Operating expenses:</b>		
Salaries and fringe benefits	3,346,065	3,128,243
Faculty professional and consulting services	2,377,154	2,276,117
Professional and consulting services	458,047	267,687
Depreciation and amortization	1,432,966	740,008
Rent	148,832	191,328
Utilities	590,754	456,817
Repairs and maintenance	271,820	263,962
Scholarships	120,696	80,499
Bad debts	182,929	22,416
General and administrative	1,595,221	1,384,061
Total operating expenses	10,524,484	8,811,138
Operating loss	( 8,218,029)	( 6,386,655)
<b>Non-operating revenues (expenses):</b>		
Legislative appropriations	4,639,000	5,552,000
Federal stabilization funds (ARRA)	1,583,000	-
Special appropriations	175,000	175,000
Construction fund	15,000,000	6,000,000
Interest income	24,420	16,781
Gifts and grants	1,154,994	1,127,672
Interest on capital asset-related debt	( 15,915)	( 19,762)
Total non-operating revenues	22,560,499	12,851,691
<b>Income before capital contributions</b>	<b>14,342,470</b>	<b>6,465,036</b>
<b>Capital contributions:</b>		
Term endowments	24,688	25,944
Equipment donated	101,081	-
Total capital contributions	125,769	25,944
<b>Increase in net assets</b>	<b>14,468,239</b>	<b>6,490,980</b>
<b>Net assets, beginning of year</b>	<b>61,526,882</b>	<b>55,035,902</b>
<b>Net assets, end of year</b>	<b>\$ 75,995,121</b>	<b>\$ 61,526,882</b>

See notes to financial statements.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF CASH FLOWS**

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

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 2,260,462	\$ 2,133,594
Local and private sponsored programs	46,278	158,244
Employees and related fringe benefits	( 5,763,139)	( 5,255,085)
Payments to suppliers	( 746,342)	( 3,342,110)
Other receipts	89,750	86,449
Net cash used in operating activities	( 4,112,991)	( 6,218,908)
<b>Cash flows from non-capital financing activities:</b>		
Legislative appropriations	4,639,000	5,552,000
ARRA	1,501,486	-
Special appropriations	18,100,997	8,353,130
Capital gifts and grants	1,545,622	1,164,494
Net cash provided by non-capital financing activities	25,787,105	15,069,624
<b>Cash flows from capital and related financing activities:</b>		
Payments for capital assets	( 9,504,393)	( 7,774,802)
Advances from line-of-credit	-	991,920
Net cash used from capital and related financing activities	( 9,504,393)	(6,782,882)
<b>Cash flows from investing activities,</b>		
Interest income	24,420	16,781
<b>Cash flows from financing activities,</b>		
Retainage paid to contractor	-	( 2,158,934)
Net increase (decrease) in cash and cash equivalents	12,194,141	( 74,319)
Cash and cash equivalents at beginning of year	2,543,838	2,618,157
Cash and cash equivalents at end of year	\$ 14,737,979	\$ 2,543,838

Continued.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

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

	<b>2010</b>	<b>2009</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	<u>\$ ( 8,218,029)</u>	<u>\$ ( 6,386,655)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	1,432,966	740,008
Bad debts	182,929	22,416
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	( 304,333)	( 289,101)
Others	( 1,128,731)	121,275
Increase (decrease) in:		
Accounts payable	3,238,557	( 684,900)
Accrued expenses	( 160,340)	271,810
Deferred revenues	<u>843,990</u>	<u>( 13,761)</u>
 Total adjustments	 <u>4,105,038</u>	 <u>167,747</u>
 Net cash used in operating activities	 <u>\$ ( 4,112,991)</u>	 <u>\$ ( 6,218,908)</u>

**Non-cash investing, capital, and financing activities**

Non-cash additions	<u>\$ 101,081</u>	<u>\$ 1,007,880</u>
Special appropriations not received	<u>\$ 256,514</u>	<u>\$ 453,138</u>

See notes to financial statements.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**

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

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

**Organization:**

The Puerto Rico Conservatory of Music Corporation (the Corporation) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), and created by Act No. 77, as amended, (the Act) of the Legislature of the Commonwealth on September 7, 1993. On August 9, 1995, an amendment to the Act was approved in order to grant fiscal and operational autonomy to the Corporation effective July 1, 1995.

The Corporation is governed by a seven-member board appointed by the Governor, with the consents of the Senate. The Corporation is responsible for providing the Puerto Rico community, and especially its youths, with the required facilities to educate and perfect their musical skills, including secondary educational program for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprise, and particular citizens. The Commonwealth provides financial support to the Corporation through legislative appropriations.

**Measurement Focus and Basis of Accounting:**

For financial reporting purposes, the Corporation is considered a special purposes governmental agency engaged only in business-types activities, as defined by the GASB 34. Accordingly, the Corporation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under accrual basis, revenues are recognized when earned, and expenses are recorded when the liability was incurred regardless of the timing of related cash flow. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**Application of Accounting Standards:**

The Corporation has the option under GASB No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB pronouncements conflict with GASB pronouncements. The Corporation has elected to not apply FASB pronouncements issued after November 30, 1989.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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

**Classification of Revenues and Expenses:**

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 tuition and fees, rent, federal grants, local and private sponsored programs and other. Operating expenses for proprietary funds includes mainly, salaries, faculty professional and consulting services, and other general and administrative operating expenses. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues as defined by GASB No. 34, including appropriations, investment income and gifts. Restricted and unrestricted resources are spent and tracked at the discretion of the Corporation within the guidelines of donor restricted, if any.

**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.

**Designation of Management:**

The Board of Directors appoints a Chancellor. The Chancellor selects the other members of management. The powers and functions of management reside within the legal limits of the Corporation, and they are responsible to the Board of Directors.

**Capacity to Manage Operations:**

The Corporation has the legal capacity to make significant decisions in the management of its operations. This legal capacity includes, but not limited, to the control of the assets, which include facilities and properties, make short-term loans, and contract and develop programs.

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

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

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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

**Concentration of credit risk:**

The Corporation maintains cash and cash equivalents in deposit accounts with high credit financial institutions. The laws of the Commonwealth of Puerto Rico require that public funds deposited in commercial banks be collateralized when funds exceed the amount insured by the Federal Government. 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.

**Cash and Cash Equivalents:**

Represent petty cash, checking and savings accounts, and certificates of deposit with original maturities of less than three months. At June 30, 2010 and 2009, \$14,580,874 and \$2,291,681, respectively, were restricted for the realization of permanent work and betterments.

**Capital Assets:**

Property, plant, equipment, and books and materials are stated at historical cost when purchased or at estimated fair value when donated. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Renovations to building and other assets that significantly increase the value or extend the useful life of the assets capitalized. Depreciation is computed on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	40
Library	40
Furniture and equipment	15
Musical instruments	15
Leasehold improvements	7
Motor vehicles	5
Software	5

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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

**Capital assets (continued):**

**Classification of Net Assets:**

The Corporation's net assets are classified as follow:

- a. **Investment in capital assets, net of related debt** - Investment in capital assets, net of related debt - Represents the Corporation's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- 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** - Net assets whose use by the Institution is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may be limited by contractual agreements with outside parties.

The Corporation's policy is 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 scholarship endowment fund that was fully explained on Note 6.

**Compensated Absences:**

The vacation and sick leave pay, are accrued when incurred using the pay or salary rates in effect at the balance sheet date. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences.

The vacation policy of the Corporation generally provides for the accumulation of 2.5 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave generally at rate of 1.5 days per month up to a maximum of 90 days.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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

**Compensated Absences (Continued):**

Accrued vacations and sick leave benefits as of June 30, 2010 and 2009 amounted to \$1,007,705 and \$1,061,182, respectively.

**Scholarship Allowances and Student Financial Aid:**

Student tuition and fees, and certain other revenues from students, are expected net of scholarship discounts and allowances in the statements of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Corporation and the amount that is paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as Pell grants and other federal, state or nongovernmental programs, are recorded as operating revenue in the Corporation's financial statements.

**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 used.

**Participation on Excise Taxes from Public Shows:**

Represents funds distributed by the Commonwealth of Puerto Rico, through the Treasury Department, in accordance with Law No. 120 of October 31, 1994 "Codigo de Rentas Internas de 1994", as amended. According to this law, every three months, the Treasury Department transfers 10% of the total excise taxes assessed by the Commonwealth of Puerto Rico on all public shows, which subsequently are distributed for cultural and artistic programs. The 34% of this fund is distributed to the Corporación del Conservatorio de Música de Puerto Rico and the remaining 66% to the Orquesta Sinfónica de Puerto Rico and Corporación de las Artes-Escénico Musicales de Puerto Rico-Festival Casals. The funds are recognized as revenue by the recipient when the distribution is made.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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

**Gifts and Pledges:**

Pledges of financial supports from organizations and individuals representing and unconditional promise to give are recognized in the financial statements once all eligibility requirements, including time requirements, have been met. In absence of such promise, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, Accounting and Financial Reporting for No exchange Transactions, and are not recorded as assets until the related gift has been received. Unconditional promises that are expected to be collected in the future years are recorded at the present value of the estimated future cash flows.

**Accounting for Pension:**

The Corporation accounts for pension under the provisions of GASB Statement 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.

**Reclassifications:**

Certain 2009 balances have been reclassified to conform to the current year presentation.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

**2. CAPITAL ASSETS:**

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 5,156,500	\$ -	\$ -	\$ 5,156,500
Construction in progress	<u>8,953,769</u>	<u>9,363,548</u>	<u>-</u>	<u>18,317,317</u>
	<u>14,110,269</u>	<u>9,363,548</u>	<u>-</u>	<u>23,473,817</u>
<b>Capital assets being depreciated:</b>				
Building	44,089,738	-	-	44,089,738
Library	375,670	-	-	375,670
Furniture and equipment	2,356,306	122,155	-	2,478,461
Leasehold improvements	1,330,579	-	-	1,330,579
Musical instruments	1,739,742	108,847	-	1,848,589
Software's	217,207	10,923	-	228,130
Motor vehicles	<u>17,500</u>	<u>-</u>	<u>-</u>	<u>17,500</u>
Total capital assets being depreciated	<u>50,126,742</u>	<u>241,925</u>	<u>-</u>	<u>50,368,667</u>
<b>Less accumulated depreciation for:</b>				
Building	551,122	1,102,243	-	1,653,365
Library	165,402	9,391	-	174,793
Furniture and equipment	675,652	157,364	-	833,016
Leasehold improvements	1,266,392	29,803	-	1,296,195
Musical instruments	277,918	116,573	-	394,491
Software's	178,495	14,091	-	192,586
Motor vehicles	<u>12,250</u>	<u>3,500</u>	<u>-</u>	<u>15,750</u>
Total accumulated depreciation	<u>3,127,231</u>	<u>1,432,965</u>	<u>-</u>	<u>4,560,196</u>
Business-type activities capital assets, net	<u>\$ 61,109,780</u>	<u>\$ 8,172,508</u>	<u>\$ -</u>	<u>\$ 69,282,288</u>

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

**3. RETIREMENT SYSTEM:**

The Employees' Retirement System of the Commonwealth and its instrumentalities (the Retirement System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Corporation under age 55 at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits. Disability benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits are vested after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed at least 10 years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$280 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined, otherwise they will receive 75% of the average compensation. Disability benefits are available to member for occupational and non-occupational disability. However, for non-occupational disability a member must have at least 10 years of service.

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary up to \$6,600 and 8.275% for the salary in excess of \$550 for employees hired on or before April 1, 1990. The Corporation's contributions are 9.275% of gross salary. For the years ended June 30, 2010, 2009 and 2008, the payroll covered by the System amounted to approximately \$2,485,765, \$2,614,039 and \$2,439,800, respectively.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

**3. RETIREMENT SYSTEM (CONTINUED):**

The pension expense for the years ended June 30, 2010, 2009 and 2008 amounted to approximately \$250,032, \$272,686 and \$226,369, respectively.

The financial statements and required supplementary information for the Retirement System is available by writing to Administrator-Employees' Retirement system of the Commonwealth of Puerto Rico, PO Box 42003, Minillas Station, Santurce, PR 00940.

On September 24, 1999, and amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000).

System 2000 became effective on January 1, 2001. 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 the government 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. 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.

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.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

**3. RETIREMENT SYSTEM (CONTINUED):**

The amount of the total pension benefits obligation is based on a standardized measurement established by general 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 are summarized below:

- The most recent actuarial valuation is as of June 30, 2007:
- Interest rate 7.5% a year
- Salary increases 3% a year
- Pre-retirement mortality RP-2000 Employee mortality rate for males and females projected on a generational basis using Scale AA
- Pre-retirement Health Mortality Gender-specific mortality rate were developed based on a study of plan experience from 2003-2007
- Pre-retirement Disabled Mortality RP-2000 Disabled Annuitant Mortality rate without projection
- Termination Annual rate of termination 2.0%. Current terminated members with a vested benefit are assumed to retire at the age of 58 by Act 447 and at the age of 65 by Act 1
- Disability 75% of Third Railroad Retirement Table Rates
- Retirement Rates of retirement vary by employment category, Act, age and years of Creditable Service

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

**3. RETIREMENT SYSTEM (CONTINUED):**

- **Marriage** 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

The required and realized contribution by the employees and the employer for the years ended June 30, 2009 is as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Required and realized contribution by the employees	\$ 208,283	\$ 215,929	\$ 202,312
% that represents the total of payroll covered	8.29%	8.29%	8.29%
Required and realized contribution by the employer	\$ 250,032	\$ 242,452	\$ 226,369
% that represents the total of payroll covered	9.27%	9.27%	9.27%

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

**4. NON-CURRENT LIABILITIES:**

Changes in noncurrent liabilities for the year ended June 30, 2010 and 2009, are as follows:

**Year 2010**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Accrued personnel costs	\$ 1,061,182	\$ 159,887	\$ 213,364	\$ 1,007,705	\$ 213,364
Retainage payable	\$ 1,255,597	\$ 823,648	\$ 71,566	\$ 2,007,679	\$ 610,472
Line-of-credit	\$ 1,011,682	\$ 15,915	\$ -	\$ 1,027,597	\$ 415,834

**Year 2009**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Accrued personnel costs	\$ 917,730	\$ 274,172	\$ 130,720	\$ 1,061,182	\$ 130,720
Retainage payable	\$ 2,929,756	\$ 484,775	\$ 2,158,934	\$ 1,255,597	\$ 610,000
Line-of-credit	\$ -	\$ 1,011,682	-	\$ 1,011,682	\$ 505,834

**5. SCHOLARSHIP RESTRICTED ENDOWMENT FUND:**

The scholarship restricted endowment fund, to be invested for twenty years, was established in 2002. The awards made by private foundations were matched dollar by dollar by an equal amount provided by the Department of Education, Title V. The Corporation can use only 50% of the endowment funds income. After twenty (20) years, it may use all of the endowment fund income for whatever educational purposes it defines.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

**5. SCHOLARSHIP RESTRICTED ENDOWMENT FUND (CONTINUED):**

The scholarship restricted endowment fund consists of awards received to be matched with federal funds as follows:

	<b>2010</b>	<b>2009</b>
Angel Ramos	\$ 200,000	\$ 200,000
Fundación Banco Popular	300,000	300,000
Donations made by individuals	13,495	13,495
	513,495	513,495
Matching federal funds, Title V	363,495	363,495
Accumulated interest from endowment investments	193,322	168,634
Scholarships awarded	( 96,917)	( 84,516)
 Total	 \$ 973,395	 \$ 961,108

**6. LINE-OF-CREDIT:**

The Corporation has available a non-revolving line of credit with Banco Gubernamental de Fomento de Puerto Rico and the maximum amount that may be outstanding under the agreement is \$1,360,000 through June 30, 2017. Borrowings under the line of credit bear interest at LIBOR plus 1.25% and will be payable at the end of the agreement. The outstanding balance of the line of credit at June 30, 2010 was \$991,920 plus accrued interest amounting to approximately \$36,000. As part of the line of credit agreement, the Corporation has conditional promises from donors amounting to approximately \$1,950,000 which should be received and used to pay off the line-of-credit until its maturity date, June 30, 2017. Subsequently, the Corporation paid the amount of \$824,168.

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

**7. CONDITIONAL PROMISES TO GIVE:**

During the years 2009 and 2010 the Corporation has received conditional promises to give as follows:

Promises conditioned for the "Centro de Recursos de Aprendizaje" Angel Ramos Foundation	\$ 583,336
Promises conditioned for the acquisition of musical instruments, technological equipment, furniture and fixtures for the New Sede Building in Miramar, PR	<u>1,950,025</u>
	2,533,379
Less conditional promises already received	<u>1,460,861</u>
Conditional promises still pending to be received	<u>\$ 1,072,518</u>

**8. COMMITMENTS AND CONTINGENCIES:**

**Lease Agreements:**

The Corporation leases office facilities for various terms under non-cancelable operating lease agreements. The leases expire at various dates through 2011 and provide for renewal options. The leases provide for increases in future minimum rental payments. Also, the agreements require the Corporation pays executory costs such as insurance, repairs and maintenance, among others.

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

<u>Year ending</u> <u>June 30,</u>	<u>Minimum future</u> <u>rental payments</u>
2011	<u>\$ 120,370</u>

**PUERTO RICO CONSERVATORY OF MUSIC CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

**8. COMMITMENTS AND CONTINGENCIES (CONTINUED):**

**Lease Agreements (continued):**

Rental expense for operating leases during 2010 and 2009 amounted to approximately \$68,000 and \$111,800, respectively.

The rent agreement with the Puerto Rico Development Company ended on June 30, 2008. The Corporation pays rent, since May 2010, \$3,147.50 on a monthly basis until July 2011.

The Corporation is constructing a new academic building scheduled to be completed in 2011. As of June 30, 2010, the Corporation incurred and capitalized in Construction in Progress \$18,311,195. During 2008, the Corporation entered into various construction agreements amounting to approximately \$30,000,000; of which \$6,344,000 and \$8,577,000 have been paid during 2010 and 2009, respectively.

**Federal Assistance Programs:**

Amounts received and expended by the Corporation under various federal programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the statement of net assets of the Corporation.

The Corporation participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, Audits of States, Local Governments and compliance audits by grantor agencies. Managements believes that it has complied with all aspects of grant provisions and the results of adjustments, if any, relating to such audit would not have a material impact on the programs and financial statements.