

**CORPORACIÓN DEL CENTRO  
DE BELLAS ARTES – LUIS A. FERRÉ  
(A COMPONENT UNIT OF THE  
COMMONWEALTH OF PUERTO RICO)**

**FINANCIAL STATEMENTS  
WITH AUDITORS' REPORT**

**YEAR ENDED  
JUNE 30, 2011**

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Year ended June 30, 2011**

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**CONTENTS**

	<b>PAGE</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>2-9</b>
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>STATEMENT OF NET ASSETS</b>	<b>10-11</b>
<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN     FUND NET ASSETS</b>	<b>12-13</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>14-15</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>16-26</b>

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Corporación del Centro de Bellas Artes  
Luis A. Ferré  
San Juan, Puerto Rico

We have audited the accompanying financial statements of Corporación del Centro de Bellas Artes – Luis A. Ferré (a component unit of the Commonwealth of Puerto Rico herein after the Corporation), as of and for the year ended June 30, 2011, 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 basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Corporación del Centro de Bellas Artes – Luis A. Ferré as of June 30, 2011, and the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 for consistency with management's response to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

**IRIZARRY, RODRIGUEZ & CO., PSC**

San Juan, Puerto Rico  
September 16, 2011

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Management's Discussion and Analysis**

**2**

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Our discussion and analysis of Corporación del Centro de Bellas Artes – Luis A. Ferré's annual financial report provides an overview of the Corporation's financial performance for the fiscal year ended June 30, 2011.

**FINANCIAL HIGHLIGHTS:**

- The Corporation's net assets decreased by **\$1,955,646** or nearly **8.19%** as a result of this fiscal year operations.
- The unrestricted net assets decreased by **\$1,698,059** or **20.21%**.
- Operating revenues increased by **\$99,006** or **4.87%** during the present year in comparison with previous fiscal year, exceeding the amount budgeted of **\$2,073,000**.
- During the year, the Corporation's expenses increased by **\$2,195,516** or **30.68%**, mostly as a result of the operation of "Sala Sinfónica" and the recognition of benefits granted to employees participating in the voluntary early retirement benefit program under Act 70 of July 2, 2010.
- The operating loss increased by **\$2,096,510** or **40.93%** during the present year in comparison with the previous fiscal year.
- During the year, the non-operating revenues decreased by **\$816,842** or **13.44%**, mostly as a result of a reduction of **\$600,000** or **22.22%** in the special Legislative Assignment to cover special programs for the development of the arts and the creation of employment for local television talent.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS:**

Management's Discussion and Analysis introduce the Corporation's basic financial statements that include: 1) Statement of net assets, 2) Statement of revenues, expenses, and changes in fund net assets, 3) Statement of cash flows, and 4) Notes to financial statements.

- **Statement of net assets** – This statement includes all of the Corporation's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation as a whole is improving or deteriorating.
- **Statement of revenues, expenses, and changes in fund net assets** – This statement reports how the Corporation's net assets changed during the fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.
- **Statement of cash flows** – This statement provides information about transactions resulting in the flows of cash or equivalents.
- **Notes to financial statements** – The accompanying notes to the financial statements provide information essential to a full understanding of the Corporation's financial statements.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Management’s Discussion and Analysis (Continued)**

**3**

**FINANCIAL ANALYSIS OF THE CORPORATION:**

**Net Assets** – The Statement of net assets serves as an indicator of the Corporation’s financial position at the end of the fiscal year. The Corporation’s net assets decreased from prior year by **\$1,955,646** or **8.19%**. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from **\$8,402,294** at June 30, 2010, to **\$6,704,235** at the end of this year. The following is a condense Statement of net assets for fiscal years ended June 30, 2011 and 2010:

**TABLE I - CONDENSED STATEMENT OF NET ASSETS**

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>%</u>
<b>Assets:</b>				
Current assets	\$ 8,742,920	\$ 9,060,575	(317,655)	(3.51)
Capital assets, net	15,773,877	15,979,964	(206,087)	(1.25)
Other assets	<u>546,229</u>	<u>546,229</u>	<u>-</u>	<u>-</u>
Total assets	<u>25,063,026</u>	<u>25,586,768</u>	<u>(523,742)</u>	<u>(2.05)</u>
<b>Liabilities:</b>				
Current liabilities	1,739,843	1,452,679	287,164	19.77
Non-current liabilities	<u>1,411,443</u>	<u>266,703</u>	<u>1,144,740</u>	<u>429.22</u>
Total liabilities	<u>3,151,286</u>	<u>1,719,382</u>	<u>1,431,904</u>	<u>83.28</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	15,207,505	15,465,092	(257,587)	(1.67)
Unrestricted	<u>6,704,235</u>	<u>8,402,294</u>	<u>(1,698,059)</u>	<u>(20.21)</u>
Total net assets	<u>\$ 21,911,740</u> =====	<u>\$ 23,867,386</u> =====	<u>(1,955,646)</u> =====	<u>(8.19)</u> =====

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Management’s Discussion and Analysis (Continued)**

**4**

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

**Operating revenues** – The Corporation’s total revenues (excluding non-operating items) increased by **\$99,006** or **4.87%** due to the increase in attendance per functions during the fiscal year 2011. (See Table II). This increase in business also includes added business at “Sala Sinfónica”.

**Operating expenses** – The total expenses increased by **\$2,195,516** or **30.68%**. The explanation for the most significant changes is as follows:

- **Salaries, payroll taxes and fringe benefits** – As a result of Act No. 7 of March 9, 2009, “To Declare a Fiscal Emergency and Omnibus Plan for Economic Stabilization and Restoration of the Puerto Rican Credit,” in the second semester of fiscal year 2010 the Corporation eliminated over 20 positions. This resulted in a decrease in expenses of **\$411,087** or **13.72%** for fiscal year 2011. Also, as a result of Act No. 70 of July 2, 2010 designated to reduce government expenditures by providing a voluntary early retirement window for eligible employees, five (5) employees of the Corporation opted for early retirement.
- **Termination benefits** – As a result of Act No. 70 of July 2, 2010 to establish a program that provides for early retirement or economic incentives for voluntary employment termination to eligible employees, the Corporation recognized a charge of **\$1,077,188** for the year ended June 30, 2011 to cover five (5) employees participating on this program.
- **Professional and consulting services** – The professional and consulting services expense increased by **\$622,601** or **90.92%** as a result of additional support required to operate “Sala Sinfónica”, and to temporarily offset the decrease in permanent employment under Act No. 7 and Act No. 70, as discussed above.
- **Free outdoor events and dramatic projects** – As part of the Corporation’s commitment for the development of the arts, the Corporation provides free outdoor events at the “Plazoleta” to promote the arts and have a program for the promotion of local television talent. During fiscal year 2011, the Corporation spent **\$1,261,460** in these projects, which represents an increase of **\$353,264** or **38.90%** compared with the amount spent during fiscal year 2010.
- **Water, electricity and telephone** – Net increase of **\$535,897** or **80.39%** in utilities is principally due to electricity charges of approximately **\$552,000** of “Sala Sinfónica”. Until June 14, 2010 the “Autoridad para el Financiamiento de la Infraestructura de Puerto Rico (AFI)” paid part of the expenses of “Sala Sinfónica”. During current fiscal year, the Corporation assumed all the operational expenses of “Sala Sinfónica”, including electricity charges.

**Non-operating revenues** – The non-operating revenue decreased by **\$816,842** or **13.44%**, mostly as a result of a reduction in the special Legislative Assignment for **\$600,000** or **22.22%**.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

Management's Discussion and Analysis (Continued)

5

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

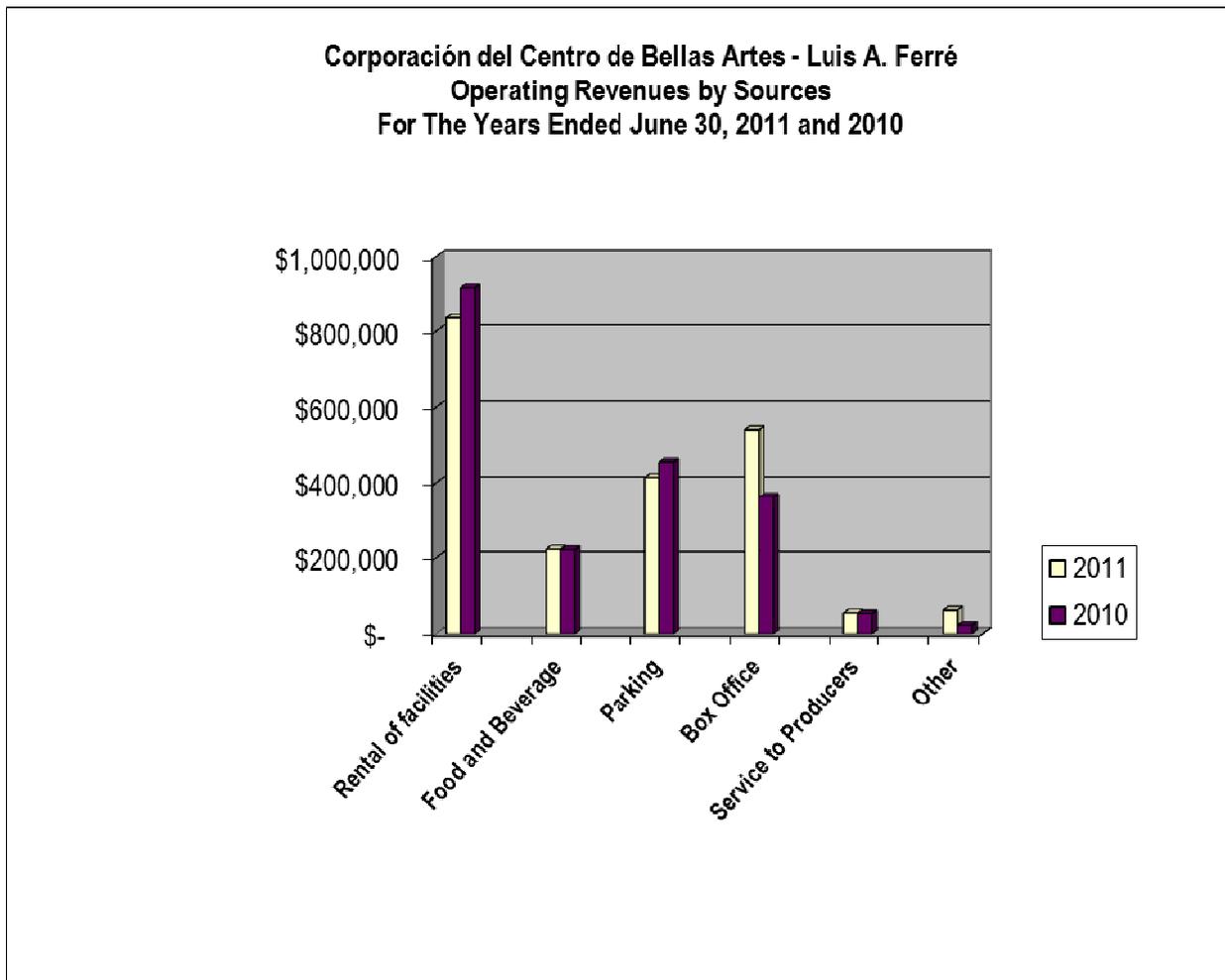
**TABLE II - CHANGES IN FUND NET ASSETS**

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>%</u>
<b>Operating revenues:</b>				
Rental of facilities	\$ 836,259	\$ 918,324	(82,065)	(8.94)
Food and beverage	223,526	221,974	1,552	0.70
Parking	414,859	455,837	(40,978)	(8.99)
Box office	540,770	362,424	178,346	49.21
Service to producers	54,730	52,934	1,796	3.39
Other	62,786	22,431	40,355	179.91
Total operating revenues	<u>2,132,930</u>	<u>2,033,924</u>	<u>99,006</u>	<u>4.87</u>
<b>Operating expenses:</b>				
Salaries, payroll taxes and fringe benefits	2,585,142	2,996,229	(411,087)	(13.72)
Termination benefits	1,077,188	-	1,077,188	
Professional and consulting services	1,307,380	684,779	622,601	90.92
Free outdoor events and dramatic projects for the promotion of local television talent	1,261,460	908,196	353,264	38.90
Water, electricity and telephone	1,202,508	666,611	535,897	80.39
Repairs and maintenance	211,937	115,629	96,308	83.29
Food and beverage	81,185	48,340	32,845	67.95
Security	189,176	244,521	(55,345)	(22.63)
Insurance	130,876	167,353	(36,477)	(21.80)
Depreciation and amortization	805,198	814,378	(9,180)	(1.13)
Bad debts	-	31,277	(31,277)	(100.00)
Cultural contributions to producers	91,648	128,817	(37,169)	(28.85)
Other	407,776	349,828	57,948	16.56
Total operating expenses	<u>9,351,474</u>	<u>7,155,958</u>	<u>2,195,516</u>	<u>30.68</u>
Operating loss	<u>(7,218,544)</u>	<u>(5,122,034)</u>	<u>(2,096,510)</u>	<u>40.93</u>
<b>Non-operating revenues:</b>				
Interest income	148,154	154,997	(6,843)	(4.41)
Governmental grants	3,014,744	3,224,743	(209,999)	5.89
Special assignment	2,100,000	2,700,000	(600,000)	(37.04)
Total non-operating revenues	<u>5,262,898</u>	<u>6,079,740</u>	<u>(816,842)</u>	<u>(13.44)</u>
<b>Changes in net assets</b>	<b>(1,955,646)</b>	<b>957,706</b>	<b>(2,913,352)</b>	<b>(304.20)</b>
<b>Total net assets, beginning</b>	<u>23,867,386</u>	<u>22,909,680</u>	<u>957,706</u>	<u>4.18</u>
<b>Total net assets, ending</b>	<u>\$ 21,911,740</u>	<u>\$ 23,867,386</u>	<u>\$ (1,955,646)</u>	<u>(8.19)</u>

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
(A Component Unit of the Commonwealth of Puerto Rico)

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

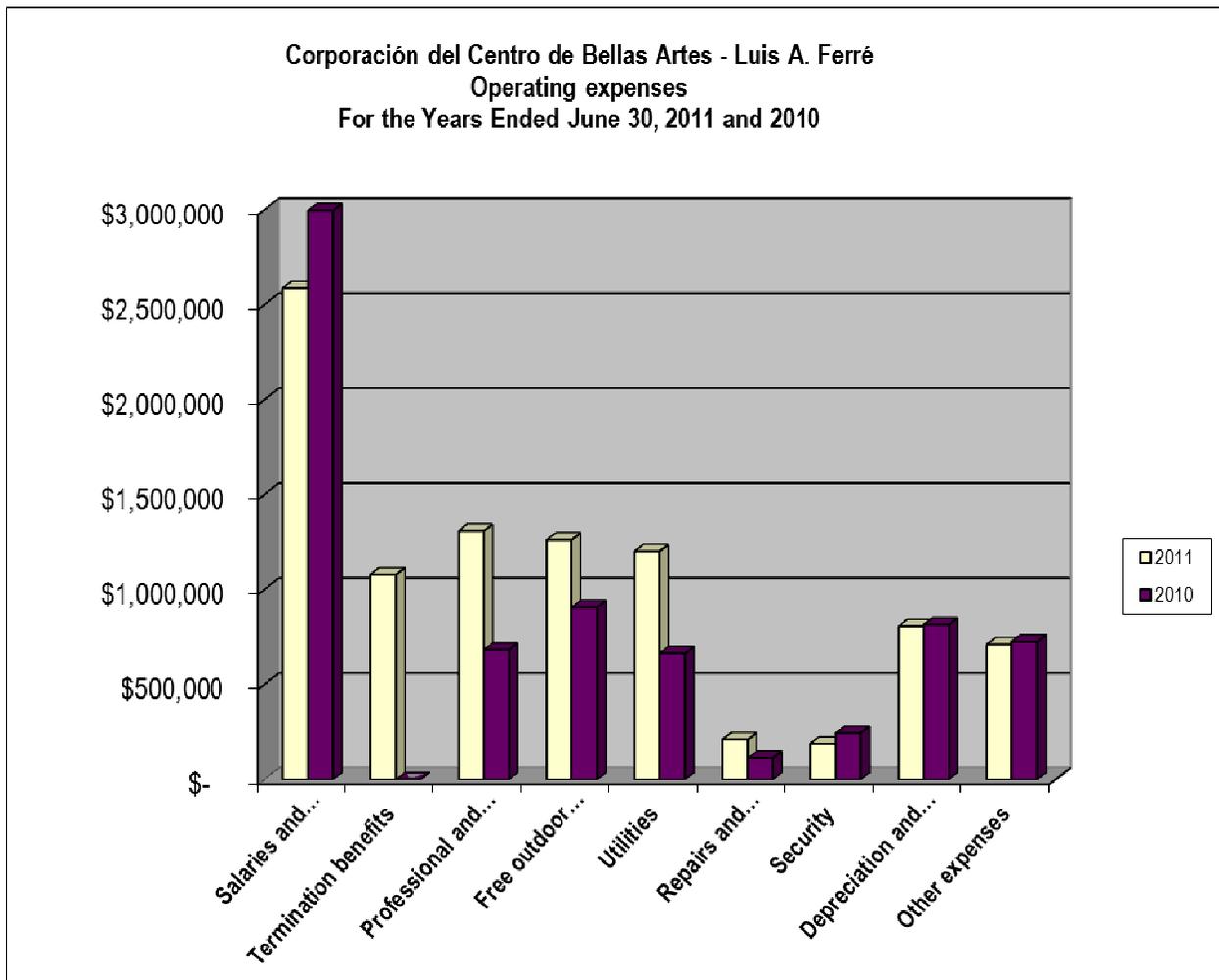
The following chart presents revenues comparison by sources of the Corporation for the years ended June 30, 2011 and 2010:



**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
 (A Component Unit of the Commonwealth of Puerto Rico)

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

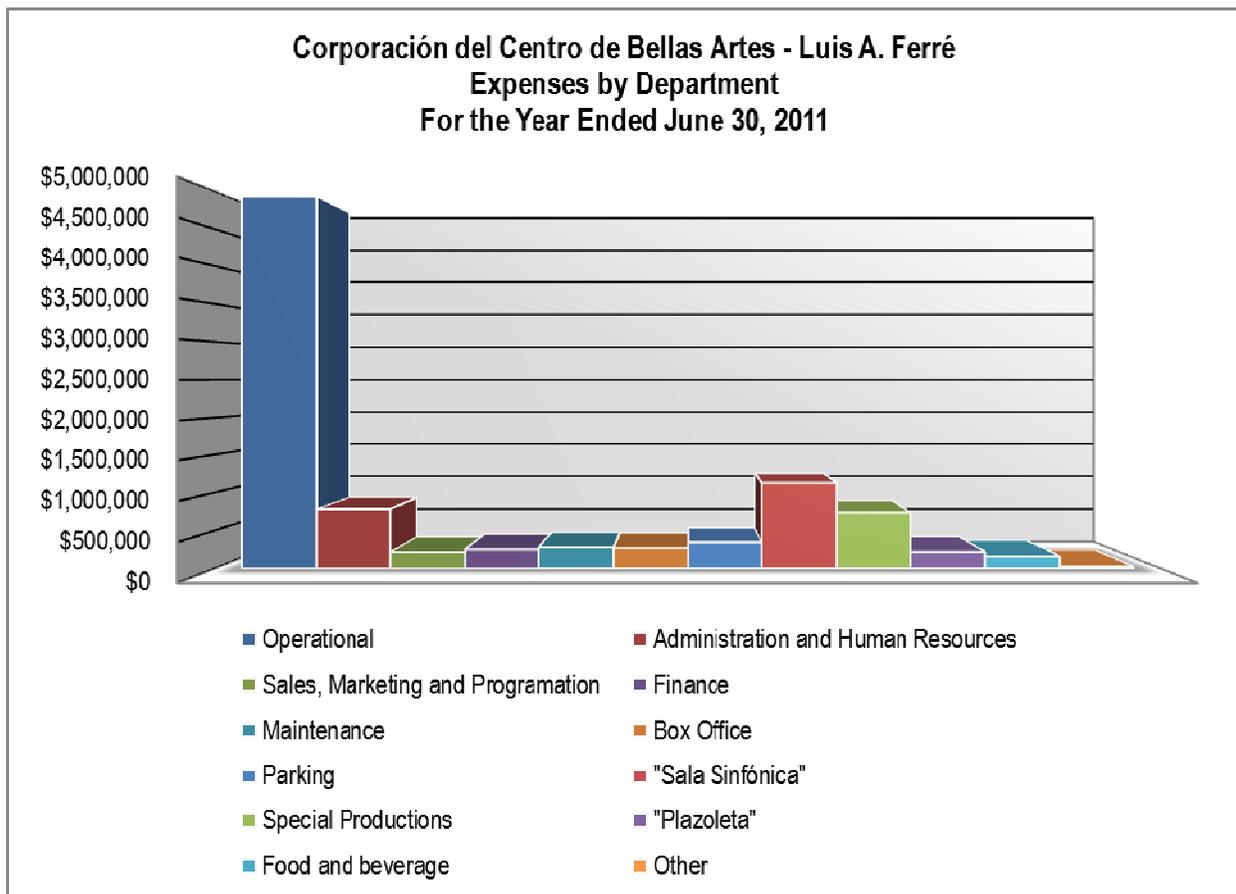
The following chart presents operating expenses by function incurred by the Corporation during the fiscal years ended June 30, 2011 and 2010.



**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
 (A Component Unit of the Commonwealth of Puerto Rico)

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

The following chart presents operating expenses by department of the Corporation for the year ended June 30, 2011:



**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Management's Discussion and Analysis (Continued)**

**9**

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

**Capital assets** – During the current fiscal year, the Corporation acquired equipment and performed various improvements to the property totaling **\$547,611**. The net decrease in the capital assets corresponds to the effect of the current year's depreciation expense of **\$805,198**. In addition, governmental grants not disbursed of **\$546,229** for capital improvements, were presented as deferred income.

**Non-current liabilities** – Non-current liabilities comprise the accrual for compensated absences. See Note 5 to the financial statements for additional information about changes in non-current liabilities during the fiscal year.

**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 Centro de Bellas Artes – Luis A. Ferré, PO Box 41287 Minillas Station, San Juan, PR 00940-1287.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENT OF NET ASSETS**  
June 30, 2011

10

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**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 8,344,230
Accounts receivable, net	316,070
Other assets, mainly prepaid insurance	<u>82,620</u>
Total current assets	<u>8,742,920</u>

**NON-CURRENT ASSETS:**

Capital assets, net	15,207,505
Artwork	566,372
Restricted cash	<u>546,229</u>
Total non-current assets	<u>16,320,106</u>
Total assets	<u>\$ 25,063,026</u>

(Continues)

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF NET ASSETS (CONTINUED)**  
**June 30, 2011**

11

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**LIABILITIES**

**CURRENT LIABILITIES:**

Accounts payable	\$ 427,789
Accrued expenses	135,403
Deposits from clients	167,529
Collections on behalf of producers	169,118
Compensated absences, current	206,000
Deferred income, mainly governmental grants	546,229
Termination benefits payable, current	<u>87,775</u>
Total current liabilities	<u>1,739,843</u>

**NON-CURRENT LIABILITIES:**

Compensated absences	455,160
Termination benefits payable	<u>956,283</u>
Total non-current liabilities	<u>1,411,443</u>
Total liabilities	<u>3,151,286</u>

**NET ASSETS**

Invested in capital assets, net of related debt	15,207,505
Unrestricted	<u>6,704,235</u>
Total net assets	<u>\$ 21,911,740</u>

See accompanying notes to the financial statements.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**For the year ended June 30, 2011**

12

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**OPERATING REVENUES:**

Rental of facilities	\$ 836,259
Food and beverage	223,526
Parking	414,859
Box office	540,770
Services to producers	54,730
Other	<u>62,786</u>
Total operating revenues	<u>2,132,930</u>

**OPERATING EXPENSES:**

Salaries, payroll taxes and fringe benefits	2,585,142
Termination benefits	1,077,188
Professional and consulting services	1,307,380
Free outdoor events and dramatic projects for the promotion of local television artists	1,261,460
Water, electricity and telephone	1,202,508
Repairs and maintenance	211,937
Food and beverage	81,185
Security	189,176
Insurance	130,876
Depreciation and amortization	805,198
Cultural contributions to producers	91,648
Other	<u>407,776</u>
Total operating expenses	<u>9,351,474</u>
Operating loss	<u>(7,218,544)</u>

(Continues)

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (CONTINUED)**  
**For the year ended June 30, 2011**

13

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**NON-OPERATING REVENUES:**

Interest income	148,154
Governmental grants	3,014,744
Special assignments	<u>2,100,000</u>
Total non-operating revenues	<u>5,262,898</u>
<b>CHANGES IN NET ASSETS</b>	<b>(1,955,646)</b>
<b>TOTAL NET ASSETS, BEGINNING</b>	<b><u>23,867,386</u></b>
<b>TOTAL NET ASSETS, ENDING</b>	<b>\$ 21,911,740</b> <b>=====</b>

See accompanying notes to the financial statements.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF CASH FLOWS**  
**For the year ended June 30, 2011**

14

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from customers	\$ 1,995,288
Payments to suppliers	(4,477,377)
Payments to employees	(2,603,865)
Termination benefits payments	(33,130)
Other receipts	<u>63,758</u>
Net cash used by operating activities	<u>(5,055,326)</u>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:**

Governmental grants for operations	3,014,744
Special assignment	<u>2,100,000</u>
Net cash provided by non-capital financing activities	<u>5,114,744</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Capital expenditures	(547,611)
Art work	<u>(51,500)</u>
Net cash used by capital and related financing activities	<u>(599,111)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received	<u>148,154</u>
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**NET DECREASE IN CASH AND CASH EQUIVALENTS** (391,539)

**CASH AND CASH EQUIPMENTS, AT BEGINNING OF YEAR** 8,735,769

**CASH AND CASH EQUIVALENTS, AT END OF YEAR** \$ 8,344,230  
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(Continues)

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES – LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**For the years ended June 30, 2011**

15

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**RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED IN OPERATING ACTIVITIES:**

Net loss	<u>\$ (7,218,544)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	805,198
Change in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(74,856)
Other assets	972
Increase (decrease) in:	
Accounts payable	305,693
Accrued expenses	(13,180)
Deposit from clients	35,764
Collections on behalf of producers	65,112
Compensated absences	(5,543)
Termination benefits payable	<u>1,044,058</u>
Total adjustments	<u>2,163,218</u>
Net cash used in operating activities	<u>\$ (5,055,326)</u> =====

See accompanying notes to the financial statements.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES - LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS**  
**Year ended June 30, 2011**

16

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**1. ORGANIZATION**

The Corporación del Centro de Bellas Artes - Luis A. Ferré (the Corporation) was created by Act No. 43 of May 12, 1980 of the Commonwealth of Puerto Rico to manage the Centro de Bellas Artes. The Corporation is a public corporation and an instrumentality of the Commonwealth of Puerto Rico. The Corporation commenced operations in April 1981, as part of the Arts and Cultural Development Administration. On July 1, 1985, the Corporation was transferred to the Instituto de Cultura Puertorriqueña under Law No. 1 of July 31, 1985, which amended Law No. 43 of May 12, 1980.

**Financial Reporting Entity**

The Corporation is a component unit of the Commonwealth of Puerto Rico.

**Financial Independence**

The Corporation is responsible for its debts and has the right to its surplus. No governmental agency receives the benefit nor can impose financial strains 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 a General Manager. The General Manager 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.

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States applicable to an enterprise fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Legislative grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 rental of facilities, parking and sale of tickets. Operating expenses for enterprise funds include salaries, utilities, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Governmental Accounting Standard Board (GASB) issued in September 1993 Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This Statement requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), and prior standard setting institutions (now combined under Accounting Codifications Standards, issued before November 30, 1989). A proprietary activity may also elect to apply Accounting Standards issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. The Corporation has elected to apply all Standards issued after November 30, 1989.

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

The preparation of financial statements in conformity with generally accepted accounting principles 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.

### **Concentration of Credit Risk**

The Corporation maintains cash on deposit with a high credit and federally insured financial institution. 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 Deposit Insurance Corporation. 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.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES - LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended June 30, 2011**

18

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2011, the Corporation is in the process of investing approximately **\$4,000,000** to modernize its actual sound system. The Corporation will use **\$546,229** that has been restricted for this purpose, while the remaining amount will be covered from the unrestricted cash and cash equivalents available at June 30, 2011.

**Capital Assets**

Capital assets, which include land, building, betterments, and equipment donated to the Corporation by agencies of the Commonwealth of Puerto Rico are stated at estimated fair market value at the date those assets were donated; other purchased assets are stated at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets, renewals, and betterments are capitalized. Depreciation is computed on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and betterments	50
Furniture and equipment	10
Musical instruments	20
Recording equipment	5
Motor vehicles	5
Computer equipment	5
Telephone equipment	5

**Artwork**

The Corporation records donated artwork at its fair market value at donation date, or at cost when it is purchased and is a non-depreciable capital asset.

**Impairment of Long-Lived Assets**

The Corporation follows the provisions of GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and For Insurance Recoveries*. This statement establishes guidance for accounting and reporting for the impairments of capital assets, among others.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES - LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended June 30, 2011**

19

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounting for Pension Costs**

The Corporation accounts for pension costs under the provision of GASB No. 27, *Accounting for Pensions by State and Local Government Employers*, as amended by GASB No. 50, *Pension Disclosures*. These statements establish standards for measurement, recognition, and display of pension expense and related liabilities in financial statements of state and local governmental employers.

**Compensated Absences**

The Corporation's employees accrue vacation benefits of 2.5 days per month, up to a maximum of 60 days, and sick leave benefits of 1.5 days per month, up to a maximum of 90 days. Accumulated vacations and sick leave amounted to **\$661,160** at June 30, 2011. The Act No. 7 of March 9, 2009 modified the liquidation policies for vacation and sick leave benefits. The Corporation must liquidate up to 18 days over the limit of sick leave and full annual liquidation of the excess vacation.

**Cultural Contributions**

As part of the commitment of the Corporation for the development of the arts, the Corporation grants cultural contributions. During the year ended June 30, 2011, the Corporation granted to producers contributions in the amount of **\$91,648**.

**Deferred Revenue**

The Corporation presents as deferred revenue resources received for permanent betterments that have not been incurred.

**Subsequent Events**

Management has evaluated subsequent events through September 16, 2011, the date, which the financial statements were available to be issued.

**3. ACCOUNTS RECEIVABLE**

Trade	\$ 201,932
Governmental entities	<u>227,730</u>
	429,662
Less allowance for doubtful accounts	<u>(113,592)</u>
	<u>\$ 316,070</u> =====

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES - LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended June 30, 2011**

20

**4. CAPITAL ASSETS**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital assets, not being depreciated:</b>				
Land	\$ 2,593,000	\$ -	\$ -	\$ 2,593,000
Construction in progress	<u>14,384</u>	<u>36,500</u>	<u>14,384</u>	<u>36,500</u>
	<u>2,607,384</u>	<u>36,500</u>	<u>14,384</u>	<u>2,629,500</u>
<b>Capital assets, being depreciated:</b>				
Building and betterments	26,849,961	460,232	-	27,310,193
Furniture and equipment	1,221,390	50,878	-	1,272,269
Musical instruments	301,040	-	-	301,040
Recording equipment	213,621	-	-	213,621
Illumination equipment	551,984	14,384	-	566,368
Motor vehicles	<u>30,316</u>	<u>- -</u>	<u>- -</u>	<u>30,316</u>
<b>Total capital assets, being depreciated</b>	<u>29,168,312</u>	<u>525,495</u>	<u>- -</u>	<u>29,693,807</u>
<b>Less accumulated depreciation for:</b>				
Building and betterments	14,529,167	673,289	-	15,202,456
Furniture and equipment	918,805	70,673	-	989,479
Musical instruments	279,901	2,600	-	282,501
Recording equipment	213,621	-	-	213,621
Illumination equipment	346,814	55,198	-	402,012
Motor vehicles	<u>22,295</u>	<u>3,438</u>	<u>- -</u>	<u>25,732</u>
<b>Total accumulated depreciation</b>	<u>16,310,604</u>	<u>805,198</u>	<u>- -</u>	<u>17,115,802</u>
<b>Total capital assets, being depreciated, net</b>	<u>12,857,709</u>	<u>(279,703)</u>	<u>- -</u>	<u>12,578,005</u>
<b>Business-type activities capital assets, net</b>	<u>\$15,465,093</u>	<u>\$(243,203)</u>	<u>\$ 14,384</u>	<u>\$ 15,207,505</u>

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES - LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended June 30, 2011**

21

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**5. NON-CURRENT LIABILITIES**

**Changes in non-current liabilities**

Non-current liability activity for the year ended June 30, 2011 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Due within One year</b>
Compensated absences	<u>\$666,703</u>	<u>\$ 27,289</u>	<u>\$332,832</u>	<u>\$ 661,160</u>	<u>\$206,000</u>
Termination benefits	<u>\$ 0</u>	<u>\$1,077,188</u>	<u>\$ 33,230</u>	<u>\$1,044,058</u>	<u>\$ 87,775</u>

**6. PENSION PLAN**

The Corporation is a participant of the Retirement System of the Commonwealth of Puerto Rico and its instrumentalities, a cost sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. Until December 31, 1999, all regular full time employees of the Corporation under age 55, at the date of employment, become participants of the System as a condition for their employment. Persons joining on or after December 31, 1999, are only allowed to become members of hybrid defined contribution plan discussed ahead.

The System provides retirement, death, and disability benefits pursuant to Law No. 447 of May 15, 1951, as amended, that 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 year of credited services. Benefits vest after ten year of plan participation.

Participants who have attained age fifty-five and have completed at least twenty-five year of creditable service, or participants who have attained fifty-eight and have completed at least ten year 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 multiplied by the number-of-year of creditable service up to twenty year, plus two percent of the average compensation multiplied by the number of year of creditable service in excess of twenty year. 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 year for credited services. In either case, the annuity should not be less than **\$2,400**.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES - LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended June 30, 2011**

22

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**6. PENSION PLAN (CONTINUED)**

Participants who have completed at least thirty year of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five year of age will receive 65% of the average compensation or if they attained age fifty-five year will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and nonoccupational disability. However, for non-occupational disability a member must have at least ten year of service. No further benefits are payable to a participant who receives a refund of his accumulated contributions.

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. Beginning July 1, 2011 employer contribution increased to **10.275%**. The payroll covered by the System amounted to **\$1,790,349**, for the year ended June 30, 2011. Those amounts are the compensation paid by the Corporation to all active employees covered by the System, which is the base for the contribution.

On September 24, 1999, an amendment to Law 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 to either 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 that 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 reduced the retirement age from 65 year to 60 for those employees who joined the current plan on or after January 1, 2000.

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES - LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended June 30, 2011**

23

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**6. PENSION PLAN (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 year 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:

- Actuarial valuation date June 30, 2010
- 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. For members covered under Act 127, RP 2000 Employee Mortality Rates with the blue-collar adjustments for males and females, projected on a generational basis using Scale AA.
- Post-retirement health mortality Gender-specific mortality rates were developed based on a study of plan's experience from 2003 to 2007, specifically as of 2005 and are thereafter projected on a generational basis using Scale AA.
- Post-retirement disabled mortality RP-2000 Disabled Annuitant Mortality Rates, without projection.
- Termination Annual rate of termination 2%.
- Commencement of benefits for terminated vested members Current terminated members with a vested benefit are assumed to retire at fifty-eight.
- Disability Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, with certain adjustments. However, once a member is eligible for the 75% of the highest salary maximum benefit, rates of disability cease to apply.



**CORPORACIÓN DEL CENTRO DE BELLAS ARTES - LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended June 30, 2011**

25

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**7. LEGISLATIVE GRANTS AND SPECIAL ASSIGNMENTS**

The legislative grants represent the budgeted amounts approved by the Legislature of Puerto Rico for the operations of the Corporation. The governmental grants received and recorded as nonoperating revenues are **\$3,014,744** for the year ended June 30, 2011. The Corporation also received **\$1,700,000** in special legislative assignments for the operations of "Sala Sinfónica" and **\$400,000** to cover special programs for the development of the arts and artistic events.

**8. "SALA SINFONICA"**

On March 2004, the Corporation entered into an agreement with the "Autoridad para el Financiamiento de la Infraestructura de Puerto Rico" (AFI) for the construction of the "Sala Sinfonica del Centro de Bellas Artes - Luis A. Ferre". Under the agreement, the facilities will be owned by AFI and operated by the Corporation for the benefit of the Symphonic Orchestra. Operations of these facilities began during the fiscal year 2009. During fiscal year 2011, the Corporation received a legislative assignment of **\$1,700,000** to subsidize these operations.

**9. CONTINGENCIES**

The Corporation is currently subject to claims and lawsuits arising in the ordinary course of its business. The claims and litigation in which the Corporation is currently involved are not reasonably likely to have a material adverse effect on the Corporation's financial position or results of operations. However, no assurance can be given as to the ultimate outcome with respect to such claims and litigations.

**10. VOLUNTARY TERMINATION BENEFITS**

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

**CORPORACIÓN DEL CENTRO DE BELLAS ARTES - LUIS A. FERRÉ**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended June 30, 2011**

**26**

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**11. VOLUNTARY TERMINATION BENEFITS (CONTINUED)**

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Corporation's financial statements of a liability of **\$1,044,058** in the statement of net assets as of June 30, 2011 and a charge of **\$1,077,188** in the statement of activities for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program were discounted at **3.17%**.