1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Corporación de las Artes Escénico-Musicales de Puerto Rico (the Corporation) is an affiliate of Corporación de las Artes Musicales de Puerto Rico (a public corporation), created by Law No. 42 of May 12, 1980, as amended, of the Commonwealth of Puerto Rico to develop, plan, coordinate, and promote the performance of arts in Puerto Rico.

The Corporation is exempt from the payment of income and property taxes.

Financial Reporting Entity

The Corporation is a public corporation and an instrumentality of the Commonwealth of Puerto Rico. The Corporation is a component unit of the Commonwealth of Puerto Rico.

Financial Independence

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

Board of Directors

The Board of Directors is appointed by the Governor of the Commonwealth of Puerto Rico, with the counsel and approval of the Senate of Puerto Rico. The Board of Directors 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 managing of its operations. This legal capacity includes, but is not limited to: control of the assets, which includes facilities and properties, formalize short-term loans and contract and develop programs.

Accounting of Financial Matters

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

Operations

The law also provides for the incorporation of Festival Casals, Festival Iberoamericano de las Artes, Museo Pablo Casals, and Festival de la Orquesta Sinfónica Juvenil de América, as part of the operations of the Corporation. The operations of those programs are included in the accompanying basic financial statements.

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

Funds Financial Statements

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

a. Total assets, liabilities, revenues, or expenses of that individual enterprise fund are at least 10 percent of the corresponding total all funds, and

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

Enterprise Funds

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

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

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

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

Fund Accounting Requirements

The Corporation complies, in all material respects, with state and local laws and regulations requiring the use of separate funds.

Summary of Significant Accounting Policies

The Corporation complies with accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles, which became effective September 15, 2009, replaces the FASB's previous four-part GAAP hierarchy with a single source of GAAP. GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued in December 2010, incorporates the FASB, APB, and ARB pronouncements issued on or before November 30th, 1989, which do not conflict with or contradict GASB pronouncements. While GASBS No. 62 keeps the substance of that guidance, it nevertheless modifies the guidance to recognize the effects of the governmental environment and the needs of governmental financial statement users. GASBS No. 62 also supersedes GASBS No. 20, thus eliminating the election that allowed enterprise funds and business-type activities to apply FASB Statements and Interpretations issued after November 30, 1989, that did not conflict with or contradict GASB pronouncements. GASBS No. 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

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

Use of Estimates in the Preparation of Financial Statements

The preparation of 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 expenditures during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risks

Cash

The Corporation maintains cash in deposit accounts with commercial banks in Puerto Rico and Government Development Bank. The laws of the Commonwealth of Puerto Rico require that public funds deposited in commercial banks be collateralized when the 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.

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

Concentration of Credit Risks (Continued)

Balances Between Related Companies and Related Funds

The balances are unsecured, non-interest bearing and have no definite due date. Payments are received irregularly and depend upon the ability of those related companies to generate sufficient cash flows.

Management believes that the concentration of the risks mentioned above does not represent a significant risk of loss in relation to the financial position of the Corporation at June 30, 2011.

Sales or purchases of goods and services between funds are reported as revenues and expenses. Repayments from funds responsible for certain expenses to the funds that initially paid for them are not reported as reimbursement but as adjustments to expenses in the respective funds. Amounts reported in the basic financial statements as related companies and other funds receivables and payables are eliminated in the Statement of Fund Net Assets except for the net amount between receivables and payables.

Capital Assets

Capital assets, which include property and equipment, and libraries are stated at historical cost and donated assets stated at estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Assets, with cost or estimated fair market value under $150, are expensed when purchased or when received as a donation.

A historic photograph of Pablo Casals is stated at the value established when it was donated to the Corporation, which approximates the market value at such date.

Major outlays for capital assets, renewals, and betterments are capitalized. The Corporation records donated artwork at its fair market value at donation date, or at cost when it is purchased and is a nondepreciable capital asset. Depreciation is computed on a straight-line basis over the following estimated useful lives:

Assets	Years
Furniture and equipment	3-10
Library	10

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

Equity Classification

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

a. **Investment in capital assets -** Consists of capital assets, net of accumulated depreciation.

b. **Unrestricted net assets -** All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Compensated Absences

Employees accrue vacations at a rate of 2.5 days per month, up to a maximum of 60 days and accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Accrued vacations and sick leave benefits as of June 30, 2011 and 2010 amounted to $10,880 and $11,522, respectively.

Legislative Grants

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

Contributions and Donations

The contributions and donations related to the acquisition and financing of capital accounts were recorded as contributed capital. Those whose purposes were for operations were recorded as revenue when received. The contributions and donations for permanent betterments not used in the fiscal year are credited to a deferred income account and credited to the contributed capital when used.

Total Columns

The total columns are presented only to facilitate additional analyses. The information on these columns does not present the financial position, results of operations, or the cash flows in conformity with generally accepted accounting principles. Interfund transactions have not been eliminated, consequently, amounts shown in totals columns are not comparable to a consolidation.

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

Accounting for Pension Costs

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

Subsequent Events

The Corporation evaluates subsequent events through September 22, 2011, the date the financial statements were issued. The Corporation has determined that there are no events occurring in this period that required disclosure in or adjustment to the accompanying financial statements.

2. TRANSACTIONS WITH RELATED COMPANIES

The Corporation is a related company of Corporación de las Artes Musicales de Puerto Rico and Corporación de la Orquesta Sinfónica de Puerto Rico through common management.

The balances of the accounts receivable and payable as of June 30, 2011 that resulted from transactions between these related companies are as follows:

Management Service Fund

Due to related companies:	
Corporación de las Artes Musicales de Puerto Rico:	
Management Service Fund	$ 10,352

Festival Casals Fund

Due from related companies:	
Corporación de las Artes Musicales de Puerto Rico:	
Management fund	$ 260
Due to related companies:	
Corporación de la Artes Musicales de Puerto Rico:	
Management Service Fund	$ 3

2. TRANSACTIONS WITH RELATED COMPANIES (CONTINUED)

Museo Pablo Casals Fund

Due to related companies:	
Corporación de la Artes Musicales de Puerto Rico:	
Management Service Fund	$ 1,262

Festival de la Orquesta Sinfónica Juvenil de América Fund

Due from related companies:	
Corporación de la Artes Musicales de Puerto Rico:	
Management Service Fund	$ 520
Due to other funds:	
Corporación de las Artes Escénico-Musicales de Puerto Rico:	
Festival Interamericano de las Artes Fund	$ 6,340

Festival Iberoamericano de las Artes Fund

Due from related companies:	
Corporación de la Artes Musicales de Puerto Rico:	
Management Service Fund	$ 520
Due from other funds:	
Corporación de las Artes Escénico-Musicales de Puerto Rico:	
Festival Orquesta Sinfónica Juvenil de América Fund	$ 6,340

The transactions with related companies, in addition to those identified as such in the accompanying financial statements and the notes thereto, include an annual charge of $85,000 made by the Corporación de las Artes Musicales de Puerto Rico for administrative services.

3. CAPITAL ASSETS

	Management Service Fund			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated; furniture and equipment	$ 22,334	$ -	$ -	$ 22,334
Less accumulated depreciation for; furniture and equipment	22,334	-	-	22,334
Total capital assets being depreciated, net	$ -	$ -	$ -	$ -

	Museo Pablo Casals			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset not being depreciated; Historic photograph of Pablo Casals	$ 3,000	$ -	$ -	$ 3,000
Capital assets, being depreciated:				
Furniture and equipment	168,888	-	-	168,888
Library	4,424	-	-	4,424
Total capital assets, being depreciated	173,312	-	-	173,312
Less accumulated depreciation for:				
Furniture and equipment	154,370	3,569	-	157,939
Library	4,424	-	-	4,424
Total accumulated depreciation	158,794	3,569	-	162,363
Total capital assets being depreciated, net	14,518	(3,569)	-	10,949
Business-type activities capital assets	$ 17,518	$(3,569)	$ -	$ 13,949

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

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

3. CAPITAL ASSETS (CONTINUED)

	Festival de la Orquesta Sinfónica Juvenil de América			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Furniture and equipment	$ 1,504	$ -	$(584)	$ 920
Library	1,322	-	-	1,322
Total capital assets, being depreciated	2,826	-	(584)	2,242
Less accumulated depreciation for:				
Furniture and equipment	1,504	-	(584)	920
Library	1,181	18	-	1,199
Total accumulated depreciation	2,685	18	(584)	2,119
Total capital assets being depreciated	$ 141	$(18)	$ -	$ 123

	Festival Casals			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Furniture and equipment	$ 10,979	$ -	$ -	$ 10,979
Library	17,108	-	-	17,108
Musical instruments	76,000	-	-	76,000
	104,087	-	-	104,087
Less accumulated depreciation for:				
Furniture and equipment	9,172	197	-	9,369
Library	14,961	1,405	-	16,366
Musical instrument	35,467	7,600	-	43,067
Total accumulated depreciation	59,600	9,202	-	68,802
Total capital assets being depreciated, net	$ 44,487	$(9,202)	$ -	$ 35,285

3. CAPITAL ASSETS (CONTINUED)

	Festival Iberoamericano de las Artes			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Furniture and equipment	$ 13,003	$ -	$ -	$ 13,003
Library	584	-	-	584
Total capital assets being depreciated	13,587	-	-	13,587
Less accumulated depreciation for:				
Furniture and equipment	13,003	-	-	13,003
Library	584	-	-	584
Total accumulated depreciation	13,587	-	-	13,587
Total capital assets being depreciated, net	$ -	$ -	$ -	$ -

4. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Management Service Fund				
	Beginning balance	Additions	Deductions	Ending balance	Due within one year
Compensated absences	$ 3,196	$ 3,767	$(5,470)	$ 1,493	$ 1,493

	Museo Pablo Casals				
	Beginning balance	Additions	Deductions	Ending balance	Due within one year
Compensated absences	$ 8,326	$ 5,774	$(4,713)	$ 9,387	$ 6,354

5. PENSION PLANS

Retirement System Plan for the Employees of the Commonwealth of Puerto Rico:

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

The System provides retirement, death and disability benefits pursuant to Act No. 447 approved on May 15, 1951, as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited services. Benefits vest after ten years of plan participation.

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

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

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

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

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

5. PENSION PLANS (CONTINUED)

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

Commonwealth legislation requires employees to contribute 5.775% for the first $6,600 of their annual gross salary and 8.275% for the salary in excess of $6,600 for employees hired on or before April 1, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The Corporation's contribution is 9.275% of gross salary. For the years ended June 30, 2011, 2010, and 2009, the total payroll of all employees amounted to $108,785, $118,563 and $107,806, respectively. The payroll covered by the System amounted to $94,245, $98,849 and $92,750, for the years ended June 30, 2011, 2010, and 2009, respectively. Those amounts are the compensation paid by the Corporation to all active employees covered by the System, which is the base for the contribution.

The pension expense for the years ended June 30, 2011, 2010, and 2009 amounted to $9,642, $9,555 and $8,947, respectively.

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

5. PENSION PLANS (CONTINUED)

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, 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.
• Post-retirement health mortality	Projected on generational basis using Scale AA.
• Post-retirement disabled mortality	RP-2000 Disabled Annuitant Mortality Rates, without projection.
• Termination	2% of annual rate of termination Current terminated members with a vested benefit are assumed to retire at the age of 58 or at the attained age on the valuation date if later.
• Disability	Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, as adjusted. Rates of disability cease to apply once a member is eligible for the 75% of the highest salary maximum benefit.
• Retirement age	Graded scale of retirement ages commensurate with anticipated experience
• Marriage	50% of current active members, terminated members and retirees are assumed to be married at retirement with males 4 years younger than females
• Number of Employees Electing Higher Contributions	15% of retiring employees assumed to pay retroactive contributions at retirement

5. PENSION PLANS (CONTINUED)

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

	2011	2010	2009
Required and realized contribution by the employees	$ 12,597	$ 12,320	$ 10,934
% that represents the total of payroll covered	13.37 %	12.46 %	11.79 %
Required and realized contribution by the employer	$ 9,642	$ 9,555	$ 8,947
% that represents the total of payroll covered	10.23 %	9.67 %	9.65 %

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