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, 2012

IRIZARRY, RODRIGUEZ & CO., PSC
Certified Public Accountants & Consultants

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IRIZARRY, RODRIGUEZ & CO., PSC
Certified Public Accountants & Consultants

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, 2012, 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 Statements 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 previously present fairly, in all material respects, the financial position of Corporación del Centro de Bellas Artes – Luis A. Ferré as of June 30, 2012, 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.

PO Box 25070, San Juan, PR 00928-5070
Tel. 787-283-2100 Fax: 787-283-2115
www.irizarryrodriguezcpa.com

Víctor Fernández Industrial Park
Ave. San Claudio #369, Suite #2
Río Piedras, Puerto Rico 00926

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
September 11, 2012

2663285

Our discussion and analysis of Corporación del Centro de Bellas Artes – Luis A. Ferré's financial performance provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS:

- The Corporation's net assets decreased by **$1,480,271** or nearly **6.76%** as a result of this fiscal year operations.
- The unrestricted net assets decreased by **$4,611,014** or **68.78%**.
- Operating revenues decreased by **$154,788** or **7.26%** during the present year in comparison with previous fiscal year.
- During the year, the Corporation's expenses decreased by **$676,448** or **7.23%**.
- The operating loss decreased by **$521,660** or **7.23%** during the present year in comparison with the previous fiscal year.
- During the year, the non-operating revenues decreased by **$46,285** or **0.88%**. This compares to last year, however, special assignments and interest income decrease by **$400,000** and **$58,570**, respectively where as governmental grants increased by **$412,285**.

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.

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 **$1,480,271** or **6.76%.** 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 **$6,704,235** at June 30, 2011, to **$2,093,221** at the end of this year. The following is a condense Statement of net assets for fiscal years ended June 30, 2012 and 2011:

TABLE I - CONDENSED STATEMENT OF NET ASSETS

	2012	2011	Change	%
Assets:				
Current assets	$ 4,484,494	$ 8,742,920	$ (4,258,426)	(48.71)
Capital assets, net	18,904,620	15,773,877	3,130,743	19.85
Other assets	-	546,229	(546,229)	(100.00)
Total assets	23,389,114	25,063,026	(1,673,912)	(6.68)
Liabilities:				
Current liabilities	1,061,303	1,739,843	(678,540)	(39.00)
Non-current liabilities	1,896,341	1,411,443	484,898	34.35
Total liabilities	2,957,644	3,151,286	(193,642)	(6.14)
Net assets:				
Invested in capital assets, net of related debt	18,338,248	15,207,505	3,130,743	20.59
Unrestricted	2,093,221	6,704,235	(4,611,014)	(68.78)
Total net assets	$ 20,431,469	$ 21,911,740	$ (1,480,271)	(6.76)

FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED):

Operating revenues – The Corporation's total revenues (excluding non-operating items) decreased by **$154,788** or **7.26%** due to the decrease in attendance per functions during the fiscal year 2012. (See Table II).

Operating expenses – The total expenses decreased by **$676,448** or **7.23%.** The explanation for the most significant changes is as follows:

- **Termination benefits** – As a result of Act No. 70 of July 2, 1010 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 **$474,077** for the year ended June 30, 2012 to cover two (2) more employees participating on this program, that was adopted during the last year.

- **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 2012, the Corporation spent **$487,028** in these projects, which represents a decrease of **$774,432** or **61.39%** compared with the amount spent during fiscal year 2011.

Non-operating revenues – The non-operating revenues decreased by **$46,285** or **.88%**. Although governmental grants increased by **$412,285**, the special Legislative Assignment and interest income decreased by **$400,000** and **$58,570**, respectively.

Capital assets – During the current fiscal year, the Corporation acquired equipment and performed various improvements to the property totaling **$3,972,525**. Major capital assets events during the year ended June 30, 2012, includes the acquisition and installation of a sound system.

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 ended June 30, 2012.

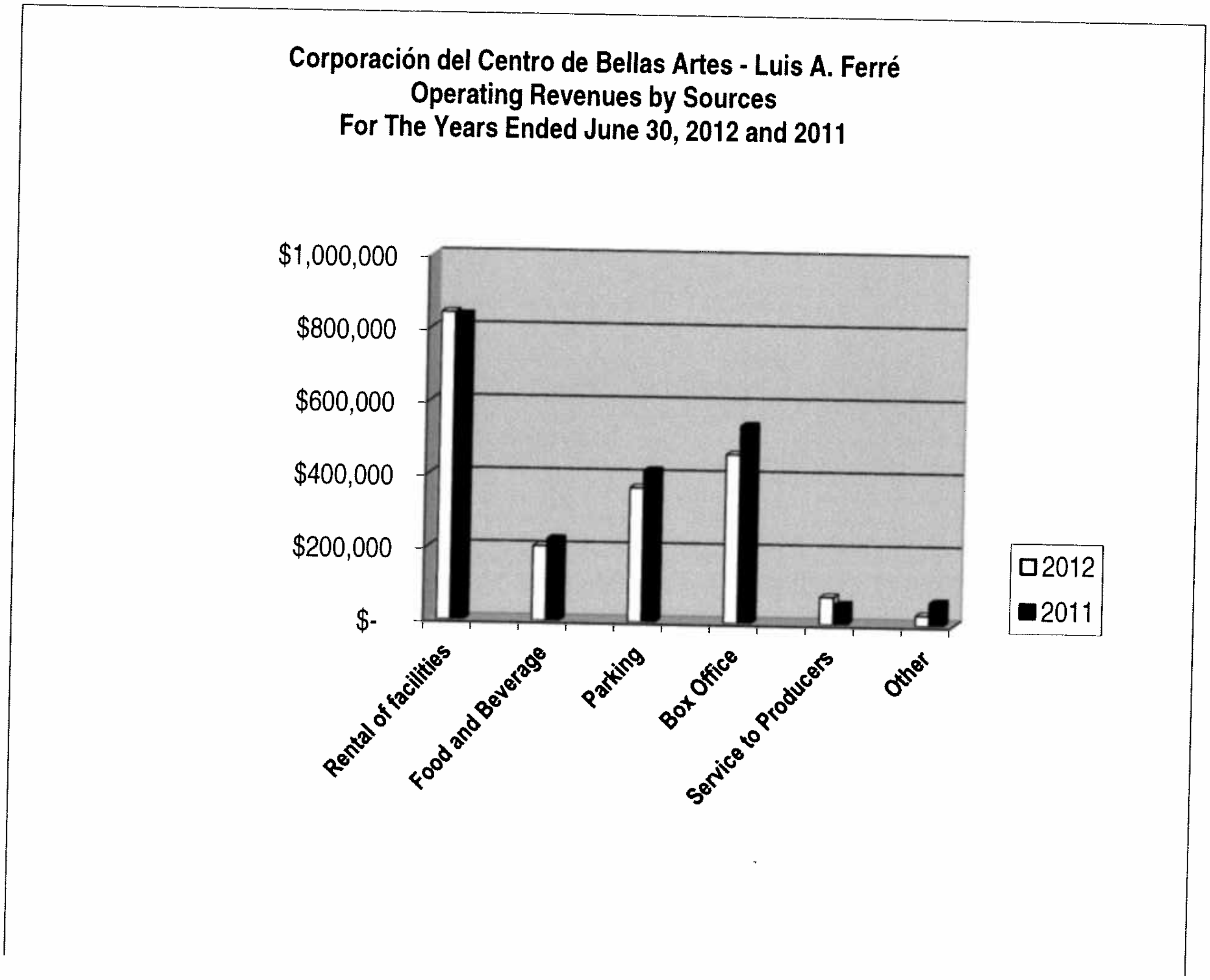
FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED):

TABLE II - CHANGES IN FUND NET ASSETS

	2012	2011	Change	%
Operating revenues:				
Rental of facilities	$ 842,625	$ 836,259	6,366	0.76
Food and beverage	204,416	223,526	(19,110)	(8.55)
Parking	367,100	414,859	(47,759)	(11.51)
Box office	461,887	540,770	(78,883)	(14.59)
Service to producers	74,751	54,730	20,021	36.58
Other	27,363	62,786	(35,423)	(56.42)
Total operating revenues	1,978,142	2,132,930	(154,788)	(7.26)
Operating expenses:				
Salaries, payroll taxes and fringe benefits	3,083,071	2,585,142	497,929	19.26
Termination benefits	474,077	1,077,188	(603,111)	(55.99)
Professional and consulting services	1,410,869	1,307,380	103,489	7.92
Free outdoor events and dramatic projects for the promotion of local television talent	487,028	1,261,460	(774,432)	(61.39)
Water, electricity and telephone	1,402,230	1,202,508	199,722	16.61
Repairs and maintenance	182,638	211,937	(29,299)	(13.82)
Food and beverage	67,545	81,185	(13,640)	(16.80)
Security	201,033	189,176	11,857	6.27
Insurance	105,142	130,876	(25,734)	(19.66)
Depreciation and amortization	841,782	805,198	36,584	4.54
Litigation loss provision	25,000	-	25,000	-
Cultural contributions to producers	81,544	91,648	(10,104)	(11.02)
Other	313,067	407,776	(94,709)	(23.23)
Total operating expenses	8,675,026	9,351,474	(676,448)	(7.23)
Operating loss	(6,696,884)	(7,218,544)	521,660	(7.23)
Non-operating revenues:				
Interest income	89,584	148,154	(58,570)	(39.53)
Governmental grants	3,427,029	3,014,744	412,285	13.68
Special assignment	1,700,000	2,100,000	(400,000)	(19.05)
Total non-operating revenues	5,216,613	5,262,898	(46,285)	(0.88)
Changes in net assets	(1,480,271)	(1,955,646)	475,375	(24.31)
Total net assets, beginning	21,911,740	23,867,386	(1,955,646)	(8.19)
Total net assets, ending	$ 20,431,469	$ 21,911,740	$ (1,480,271)	(6.76)

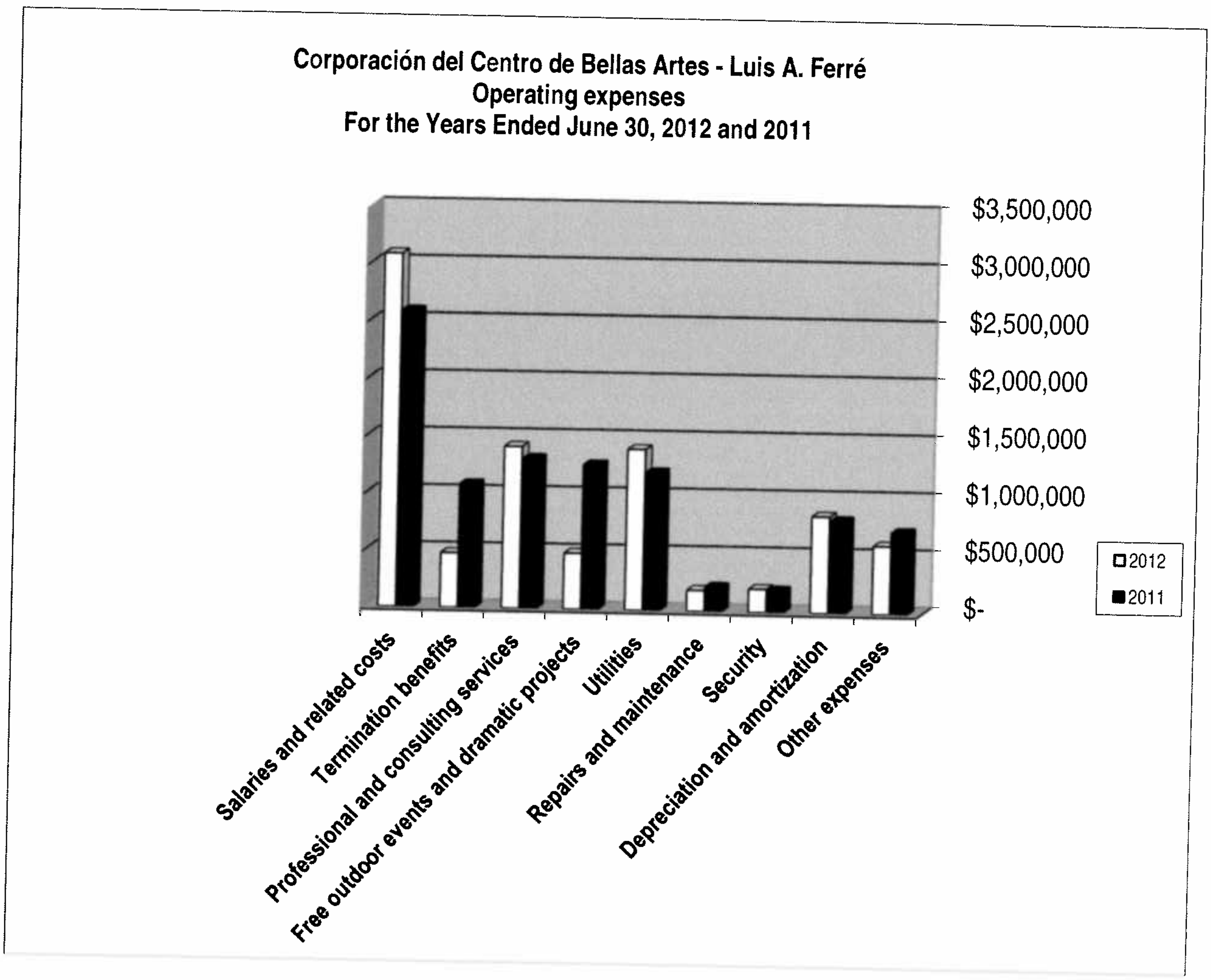
FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED):

The following chart presents revenues comparison by sources of the Corporation for the years ended June 30, 2012 and 2011:



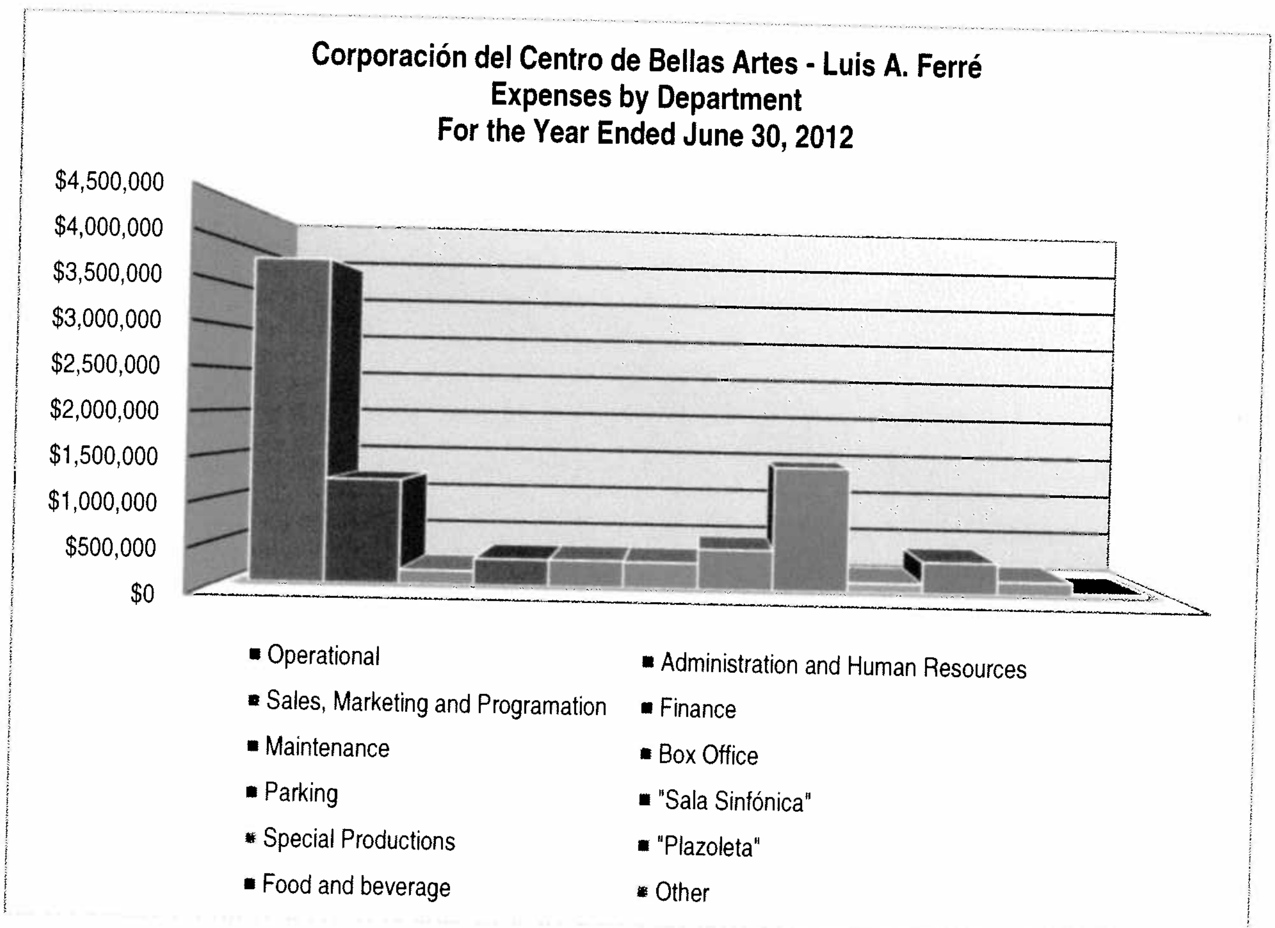
FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED):

The following chart presents operating expenses by function incurred by the Corporation during the fiscal years ended June 30, 2012 and 2011.



FINANCIAL ANALYSIS OF THE CORPORATION (CONTINUED):

The following chart presents operating expenses by department of the Corporation for the year ended June 30, 2012:



BUDGETARY HIGHLIGHTS:

The adopted consolidated budget for the fiscal year 2011-2012 was **$6,355,000**. The resources include: **$2,581,000** from the Joint Resolution - General Fund; **$1,700,000** from Special Appropriations - General Funds and **$2,074,000** from Revenues from Internal sources.

The following table summarizes the budget for the fiscal years ended June 30, 2012 and 2011:

BUDGET COMPARISON

	2012	2011	Change
Revenues:			
Joint resolution	$ 2,581,000	$ 1,239,000	$ 1,342,000
Special appropriations	1,700,000	1,700,000	-
Stabilization fund	-	1,586,000	(1,586,000)
Internal sources	2,074,000	2,073,000	1,000
Total revenues	$ 6,355,000	$ 6,598,000	$ (243,000)

Operational costs reflect a decrease of **$243,000**, in comparison with the resources assigned for the fiscal year 2010-2011 due to the non-recurring revenues from the Stabilization fund.

The Corporation adopted consolidated budget for the fiscal year 2012-2013 is **$5,920,000**. The resources include: **$2,146,000** from the Joint Resolution of the General Fund; **$1,700,000** from Special Appropriations of the General Funds and **$2,074,000** from Revenues from Internal sources. Operational costs reflect a decrease of **$544,000**, in comparison with the resources assigned for the fiscal year 2011-2012 due to the implementation of an early retirement incentive program and a reduction of **$109,000** in Revenues from Internal Sources.

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.

STATEMENT OF NET ASSETS
June 30, 2012

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 4,013,327
Accounts receivable, net	350,128
Other assets, mainly prepaid insurance	121,039
Total current assets	4,484,494
NON-CURRENT ASSETS:	
Capital assets, net	18,338,248
Artwork	566,372
Total non-current assets	18,904,620
Total assets	$ 23,389,114

(Continues)

LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	$ 305,618
Accrued expenses	90,305
Deposits from clients	177,175
Collections on behalf of producers	141,413
Compensated absences, current	206,000
Termination benefits payable, current	140,792
Total current liabilities	1,061,303
NON-CURRENT LIABILITIES:	
Compensated absences	507,973
Termination benefits payable	1,388,368
Total non-current liabilities	1,896,341
Total liabilities	2,957,644
NET ASSETS	
Invested in capital assets, net of related debt	18,338,248
Unrestricted	2,093,221
Total net assets	$ 20,431,469

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the year ended June 30, 2012

OPERATING REVENUES:	
Rental of facilities	$ 842,625
Food and beverage	204,416
Parking	367,100
Box office	461,887
Services to producers	74,751
Other	27,363
Total operating revenues	1,978,142
OPERATING EXPENSES:	
Salaries, payroll taxes and fringe benefits	3,083,071
Termination benefits	474,077
Professional and consulting services	1,410,869
Free outdoor events and dramatic projects for the promotion of local television artists	487,028
Water, electricity and telephone	1,402,230
Repairs and maintenance	182,638
Food and beverage	67,545
Security	201,033
Insurance	105,142
Depreciation and amortization	841,782
Litigation loss provision	25,000
Cultural contributions to producers	81,544
Other	313,067
Total operating expenses	8,675,026
Operating loss	(6,696,884)

(Continues)

NON-OPERATING REVENUES:	
Interest income	89,584
Governmental grants	3,427,029
Special assignments	1,700,000
Total non-operating revenues	5,216,613
CHANGES IN NET ASSETS	(1,480,271)
TOTAL NET ASSETS, BEGINNING	21,911,740
TOTAL NET ASSETS, ENDING	$ 20,431,469

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
For the year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 1,916,721
Payments to suppliers	(4,454,745)
Payments to employees	(2,972,346)
Termination benefits payments	(91,984)
Other receipts	27,363
Net cash used by operating activities	(5,574,991)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Governmental grants for operations	3,427,029
Special assignment	1,700,000
Net cash provided by non-capital financing activities	5,127,029
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital expenditures	(3,972,525)
Net cash used by capital and related financing activities	(3,972,525)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	89,584
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,330,903)
CASH AND CASH EQUIPMENTS, AT BEGINNING OF YEAR	8,344,230
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 4,013,327

(Continues)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Net loss	$ (6,696,884)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation and amortization	841,782
Change in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(34,058)
Other assets	(38,419)
Increase (decrease) in:	
Accounts payable	(122,171)
Accrued expenses	(45,097)
Deposit from clients	9,646
Collections on behalf of producers	(27,705)
Compensated absences	52,813
Termination benefits payable	485,102
Total adjustments	1,121,893
Net cash used by operating activities	$ (5,574,991)

See accompanying notes to the financial statements.

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.

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 meet.

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.

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.

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:

Assets	Years
Building and betterments	50
Furniture and equipment	10
Musical instruments	20
Sound system equipment	30
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.

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 **$713,973** at June 30, 2012. 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, 2012, the Corporation granted to producers contributions amounting to **$81,544**.

Subsequent Events

Management has evaluated subsequent events through September 11, 2012, the date, which the financial statements were available to be issued.

3. ACCOUNTS RECEIVABLE

Accounts receivable a of June 30, 2012, consist of the following:

Trade	$ 163,022
Governmental entities	300,698
	463,720
Less allowance for doubtful accounts	(113,592)
	$ 350,128

4. CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 2,593,000	$ -	$ -	$ 2,593,000
Construction in progress	36,500	275,596	-	312,096
	2,629,500	275,596	-	2,905,096
Capital assets, being depreciated:				
Building and betterments	27,310,193	823,389	-	28,133,582
Furniture and equipment	1,272,269	117,004	(1,980)	1,387,293
Musical instruments	301,040	26,585	-	327,625
Sound system equipment	-	2,729,951		2,729,951
Recording equipment	213,621	-	-	213,621
Illumination equipment	566,368	-	-	566,368
Motor vehicles	30,316	-	-	30,316
Total capital assets, being depreciated	29,693,807	3,696,929	(1,980)	33,388,756
Less accumulated depreciation for:				
Building and betterments	15,202,456	706,738	-	15,909,194
Furniture and equipment	989,479	71,582	(1,980)	1,059,081
Musical instruments	282,502	2,848	-	285,350
Sound system equipment	-	539	-	539
Recording equipment	213,621	-	-	213,621
Illumination equipment	402,012	56,637	-	458,649
Motor vehicles	25,732	3,438	-	29,170
Total accumulated depreciation	17,115,802	841,782	(1,980)	17,955,604
Total capital assets, being depreciated, net	12,578,005	2,855,147	-	15,433,152
Business-type activities capital assets, net	$15,207,505	$3,130,742	$ -	$ 18,338,248

5. NON-CURRENT LIABILITIES

Changes in non-current liabilities

Non-current liability activity as of June 30, 2012, consists of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Due within One year
Compensated absences	$661,160	$ 367,535	$ 314,722	$ 713,973	$206,000
Termination benefits	$1,044,058	$ 577,086	$ 91,984	$1,529,160	$140,792

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**.

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. On July 6, 2011, the Commonwealth enacted Act No. 116 to establish an increase in the employer's contributions percentage and to improve the collection of employer contribution receivables. This Act provides for increases in employees contribution from **9.275%** to **10.275%** of employee compensation for the 2011-2012 fiscal year, an additional **1%** annually for each of the next four years, and **1.25%** annually for each of the five years thereafter, reaching an aggregate contribution rate of **20.525%** effective July 1, 2020. The payroll covered by the System amounted to **$1,801,762**, for the year ended June 30, 2012. 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 for 2011) 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.

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, 2011
▪ Interest rate	**6.40%** 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 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. Sample rates 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.

6. PENSION PLAN (CONTINUED)

▪ Retirement age	Graded scale of retirement ages commensurate with anticipated experience.
▪ Proportion of Participants with Spouses	50% of participants assumed to be married, with wives assumed to be four years younger than husbands.
▪ Number of Employees Electing Higher Contributions	15% of retiring employees assumed to pay retroactive contributions at retirement.

The required and realized contribution by the employees and the employer for the year ended June 30, 2012 is as follows:

Required and realized contribution by the employees:

Act No. 447	$ 136,408
System 2000	38,109
	$ 174,517
% that represents the total of payroll covered	9.686%

Required and realized contribution by the employer:

Act No. 447	$ 139,763
System 2000	45,368
	$ 185,131
% that represents the total of payroll covered	10.275%

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

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 amounted to **$3,427,029** for the year ended June 30, 2012. The Corporation also received **$1,700,000** in special legislative assignments for the operations of "Sala Sinfónica".

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 2012, 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.

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 **$440,257** in the statement of net assets as of June 30, 2012 and a charge of **$444,466,** net of a reimbursement of **$86,133** for 2011-2012 Act 70 payments, in the statement of activities for the year ended June 30, 2012. At June 30, 2012, unpaid long-term benefits granted on this program changed from **3.17%** in 2011 to **1.57%**.

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

MANAGEMENT LETTER

YEAR ENDED
JUNE 30, 2012

IRIZARRY, RODRIGUEZ & CO., PSC
Certified Public Accountants & Consultants

IRIZARRY, RODRIGUEZ & CO., PSC
Certified Public Accountants & Consultants

To the Board of Directors and
Audit Committee of
Corporación del Centro de Bellas
Artes - Luis A. Ferré
San Juan, Puerto Rico

In planning and performing our audit of the financial statements of the business-type activities of **Corporación del Centro de Bellas Artes - Luis A. Ferré** (the Corporation) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Corporation's internal control to be significant deficiencies:

PO Box 25070, San Juan, PR 00928-5070
Tel. 787-283-2100 Fax: 787-283-2115
www.irizarryrodriguezcpa.com

Víctor Fernández Industrial Park
Ave. San Claudio #369, Suite #2
Río Piedras, Puerto Rico 00926

A. Procurement test

We perform audit procedures in six (6) contracts and we found the following exceptions:

- Two (2) contract files did not have the corporative resolution properly signed and validated with the corporative seal authorizing the contractor to sign the contract.
- Three (3) contract file did not have the Negative Debt Certification of the Department of Labor and Human Resources (DTRH).
- One (1) contract file failed to have the documents required for a partnership.

The test was performed in accordance with the Corporation's Contract Manual: "Procedimiento de Contratación de Servicios Profesionales y Consultivos" of August 2007.

Recommendation

The Corporation must verify that all required documents were requested and received before granting the contract to a subcontractor. Also, compliance with requirements of the Office of the Comptroller of Puerto Rico shall be considered.

B. Accounts payable

We found two (2) client deposits that were not returned to the producer and the function was cancelled and was recorded on the client deposits subsidiary as of June 30, 2012.

Recommendation

The Finance Department should maintain a ledger of all client deposits and all returned deposits by date. This ledger must be reconciled on a monthly basis to identify all accounts payable that must be kept in the subsidiary. It must also be analyzed and reconciled with the general ledger on a monthly basis. Differences and reconciling items should be investigated and adjusted on a timely basis.

C. Payroll test

We select a sample of 20 payroll transactions and employee files to verify that the transaction and employee files were supported by the appropriate documentation as prescribed in the corporation manuals. As a result of our test, we noted that the following noted was not included on the file:

- 1 employee file did not have the "Certificado de Antecedentes Penales".

Recommendation:

The Corporation's Human Resources Department should review and up-date all employees' files. A checklist should be maintained with a list of all required and necessary information to be included in the files. Any missing documents should be requested from the employee.

D. **Accrued vacations and sick leave**

We select a sample of 20 employees from the accrued vacation and sick leave report prepared by the Corporation as per Treasury Department requirements established on "Carta Circular 1300-40-07". We asked for the employee's accumulations card and compared th e total accumulation per employee with the amount established in the final report submitted to the Treasury Department, we found two differences in the 20 records examined. Those amounts were corroborated with the Payroll Department and recomputed as per accumulations policies established.

- 1 employee had two (2) more days accrued in vacations and sick leave in Corporation books.
- 1 employee had two (2) days less accrued of sick leave in Corporation books.

Recommendation:

The Corporation should verify and maintain the computerized system that allows the accumulation of data related to the each employee attendance to be able to generate complete and updated report on a timely basis.

This communication is intended solely for the information and use of management, the Board of Directors, the Audit Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Irizarry, Rodriguez & Co., PSC

IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
September 11, 2012