



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

Basic Financial Statements and Required
Supplementary Information

For the Fiscal Year Ended June 30, 2022

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

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INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the F, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the F's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the *Corporación de las Artes Musicales de Puerto Rico*, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the *Corporación de las Artes Musicales de Puerto Rico* and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the *Corporación de las Artes Musicales de Puerto Rico*'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the *Corporación de las Artes Musicales de Puerto Rico's* internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the *Corporación de las Artes Musicales de Puerto Rico's* ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4–8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Corporación de las Artes Musicales de Puerto Rico's* basic financial statements. The accompanying combining and blended component units and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions of the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and is not a required part of the financial statements.

The schedule of expenditures of federal awards, on page 39-40, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022 on our consideration of the *Corporación de las Artes Musicales de Puerto Rico*'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters on pages 41-45. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the *Corporación de las Artes Musicales de Puerto Rico*'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering *Corporación de las Artes Musicales de Puerto Rico*'s internal control over financial reporting and compliance.

*Strategic CPA's
Consulting Group, LLC.*

License #LLC-342

Expiration date December 1, 2025.

Toa Baja, Puerto Rico

March 30, 2023.



Note: Stamp no E502589 was affixed to the original report.

This section of the *Corporación de las Artes Musicales de Puerto Rico* (the Corporation) annual financial report presents management's discussion and analysis (MD&A) of financial performance during the year ended June 30, 2022. This MD&A should be read in conjunction with the Corporation's basic financial statements and notes.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Corporation's financial report consists of this MD&A, financial statements and notes to the financial statements. The Corporation's basic financial statements are prepared using U.S. generally accepted accounting principles applied to government units using the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

All assets, deferred outflows of resources, liabilities and deferred inflows of resources of the Corporation at June 30, 2022 are included in the statement of net position. For the year ended June 30, 2022 the Corporation revenues and expenses are reported in the statements of revenues, expenses and changes in net position. The statement of cash flows reports, cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities.

FINANCIAL HIGHLIGHTS

This section of the Corporation's annual financial report presents our discussion and analysis of the Corporation's financial performance during fiscal year ended June 30, 2022.

- The total assets amounted to \$8,610,477 and is below liabilities by \$14,326,190 which amounted to \$22,936,672 at the close of the current fiscal year.
- At the close of the fiscal year, the Corporation reported net deficit amounting to \$13,509,369 this shows a decrease of \$15,623,241 as compared to prior year's net deficit.
- The Cash and accounts receivable amounted to \$7,549,597 represent 88% of total assets.
- In net position, \$885,959 represents net investment in capital assets (e.g. furniture and equipment, musical instruments and library), which are not available for future spending.
- The operating gain for the year was \$8,279,262.
- At the close of the fiscal year the Corporation net position (deficit) amounting to \$(13,509,369), which shows a decrease of \$15,623,241 as compared to prior year net position (deficit).
- At the close of the fiscal year the Corporation operating revenues of \$289,203 which shows a decrease of \$188,736 or 39.5%, in comparison to prior year.

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

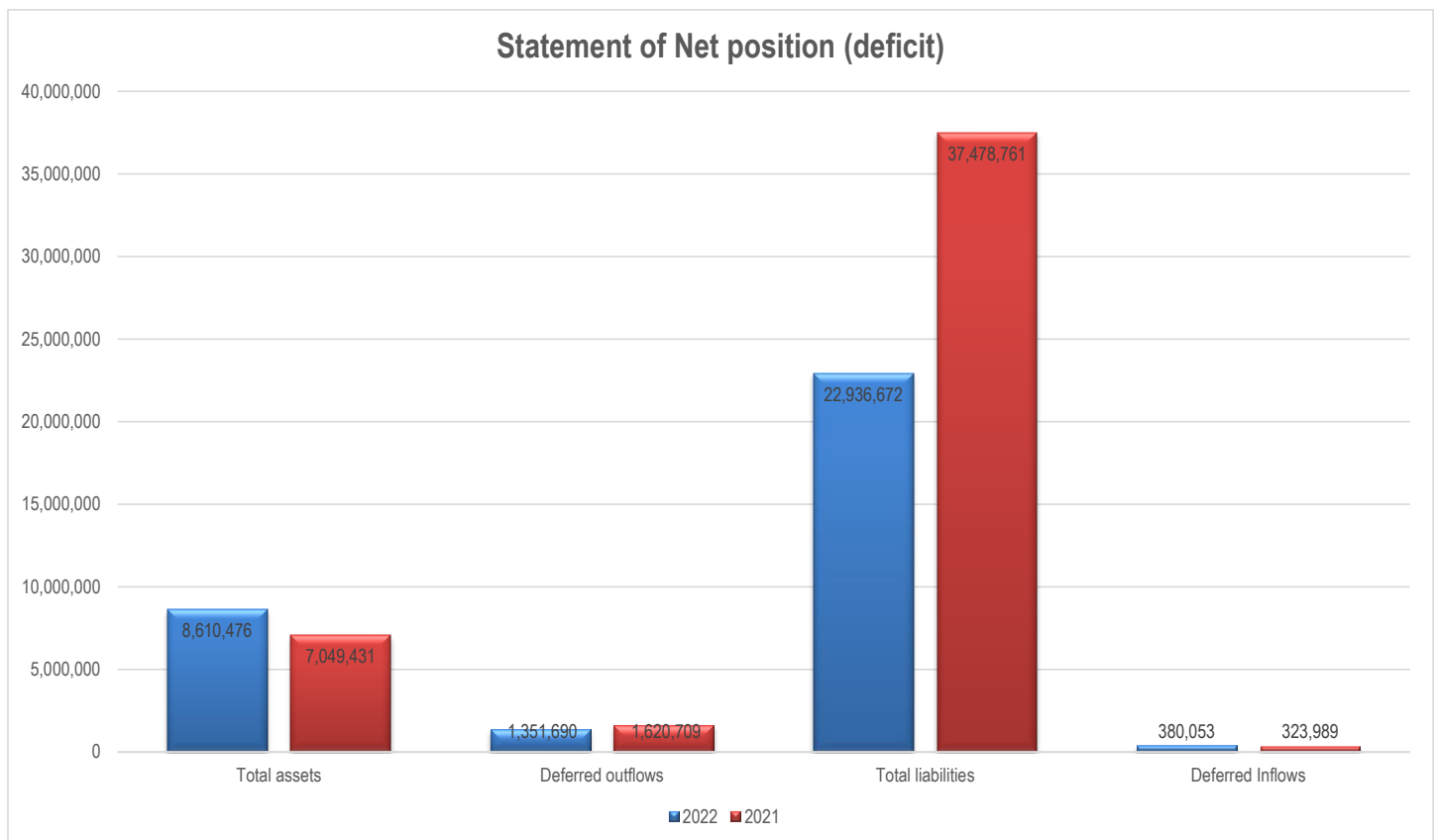
FINANCIAL ANALYSIS

The Corporation condensed Statements of Net Position (Deficit) as of June 30, 2022 and 2021 were as follows:

<u>Statement of net position</u>	<u>2022</u>	<u>2021</u>
<u>Assets</u>		
Current and other assets	\$ 7,704,413	\$ 6,103,846
Noncurrent assets	906,063	945,585
Total assets	<u>8,610,476</u>	<u>7,049,431</u>
<u>Deferred outflows of resources -</u>		
OPED and pension related	<u>1,351,690</u>	<u>1,620,709</u>
<u>Liabilities</u>		
Current liabilities	4,264,688	1,705,947
Noncurrent liabilities	18,671,984	35,772,814
Total liabilities	<u>22,936,672</u>	<u>37,478,761</u>
<u>Deferred inflows of resources -</u>		
pension related	<u>380,053</u>	<u>323,989</u>
<u>Net position (Deficit)</u>		
Net investment in capital	885,959	945,585
Restricted	1,328,249	200,000
Unrestricted	(15,723,577)	(30,278,195)
	<u>\$ (13,509,369)</u>	<u>\$ (29,132,610)</u>

Net Position**Fiscal year 2022 compared to 2021**

- Current and other assets- The current and other assets increased by \$1,600,567 or 26.2% as compared to prior year; mainly due to increase in cash.
- Cash- This Corporation has a cash management account that supplies all funds for the operations of the Corporation and its related companies. The cash accounts are divided by programs. Each program has a regular account, which receives all deposits, especially the monthly legislative funds and generates payments to suppliers. In addition, the Corporation makes payments to professors of the “*Servicios Integrados a la Comunidad*” educational programs. The Corporation and its subsidiaries companies have only one payroll bank account, but expenses are recorded in each subsidiary.
- Non-current assets- The long term assets decreased by \$39,522 mostly due to accumulated depreciation that reduce capital assets during the fiscal year 2022.
- Current liabilities- The current liabilities increased by \$2,558,741 mostly due to increase in the unearned revenue and compensated absences compared to prior year.
- Non-current liabilities- Non-current liabilities comprise the accrual for termination benefits. The CAM’s non-current liabilities decreased by \$17,100,830 or 47.8% at June 30, 2022.
- Net position (deficit) represents the residual interest in assets after liabilities are deducted. The net deficit decreased by \$15,623,241; or 53.6%, from \$29,132,610 as of June 30, 2021 to \$13,509,369 as of June 30, 2022.

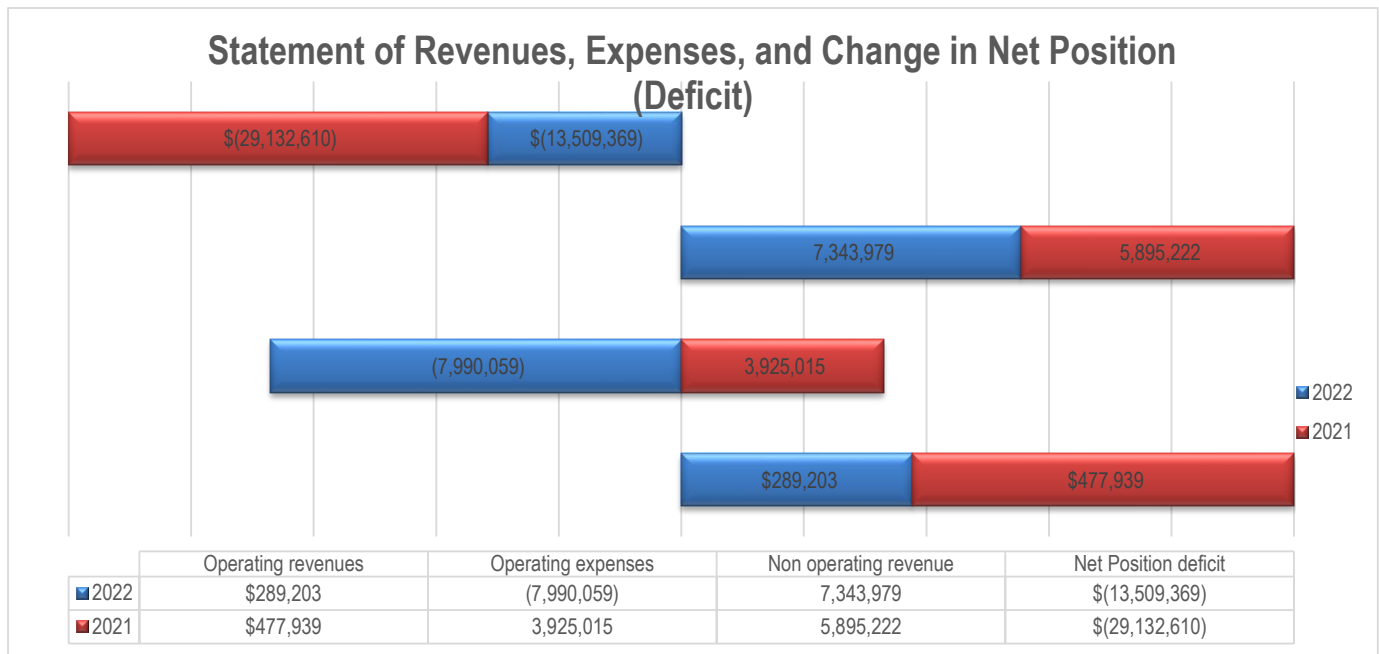


The Corporation's condensed statements of Revenues, Expenses and Change in the Net Position (Deficit) for the years ended in June 30, 2022 and 2021 were as follows:

<u>Statement of Revenues, Expenses and Change in Net Position (Deficit)</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 289,203	\$ 477,939
Operating expenses	<u>(7,990,059)</u>	<u>3,925,015</u>
Operating (loss) gain	8,279,262	(3,447,076)
Non operating revenue	<u>7,343,979</u>	<u>5,895,222</u>
Decrease in net position (deficit)	15,623,241	2,448,146
Net position (deficit), beginning of year	<u>(29,132,610)</u>	<u>(31,580,756)</u>
Net Position deficit, end of year	<u>\$ (13,509,369)</u>	<u>\$(29,132,610)</u>

Revenues, Expenses and Change in Net Position Fiscal year 2022 compared to 2021

- Operating revenues- Operating revenue represents administrative services charged to customer. The operating revenues for the current and prior year were \$289,203 and \$477,939 respectively.
- Non-operating revenues- The net operating revenues increased by \$1,448,757 or 24.6%, as compared to prior fiscal year. The *Corporación de las Artes Musicales de Puerto Rico* received less grants and legislative appropriations in 2022 than in 2021. Most of the revenues during 2022 are from non-operating revenues, which represent 96.2.2% of the total revenues.



Capital Assets and Debt Administration

Capital Assets- The total capital assets are as follows:

- Furniture and equipment- All assets in administrative area, such as executive offices, finance, personnel and general services.
- Musical instruments- All instruments used in the public center where the programs are implemented.
- Motor vehicle- The automobile for the Executive Director.
- Library- Includes all educational books and material used in the different programs. Refer to Note 1 of the basic financial statements.

Liabilities

Total current liability is as follows:

- Compensated absences- Employee accrue vacations at a rate of 2.5 days per month, up to a maximum of 60 days and accumulated 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, 2022 amounted to \$732,079. Refer to Note 4 of the basic financial statements.
- Termination benefits- The Corporation accounts for termination benefits in accordance with the provisions of GASB Statement No. 47, *Accounting for termination Benefits*, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated. During the fiscal year ended in June 30, 2022, a decrease of termination benefits accrual amounted to \$35,031. This decrease was basically due to the periodic payments of amounts accrued, regarding to Act No. 70 of July 2, 2010, which provided certain early separation benefits.

- Total pension liability- The Orquesta Sinfónica of Puerto Rico Retirement System plan (System) is a single-employer defined benefit pension plan administered by the Board of Trustees of the Retirement System. A pension liability was determined in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, as amended by GASB Statement No. 50, *Pension Disclosures*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement No. 68 and Amendments Certain Provisions at GASB Statements No. 67 and 68*. Refer to Notes 6 of the basic financial statements.

BUDGETARY HIGHLIGHTS

The consolidated budget for the fiscal year 2021-2022 was \$5,679,086. The resources include: \$5,063,606 from a Joint Resolution from Legislative Appropriations and a Special Appropriation of \$615,480.

The following summarizes the consolidated budget for the fiscal years ended June 30, 2022 and 2021, distributed to each corporation:

<u>Year</u>	<u>Corporación de las Artes Musicales de Puerto Rico</u>
2022	\$ 5,679,086
2021	\$ 5,713,870

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 for additional financial information should be addressed to the Office of the Finance Director, *Corporación de las Artes Musicales de Puerto Rico*- P.O. Box 4122, Minillas Station, San Juan P.R. 00940-1227.

CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION (DEFICIT)

AS OF JUNE 30, 2022

Assets	
Current assets:	
Cash and cash equivalents	\$ 6,016,900
Restricted cash and cash equivalents	1,377,881
Accounts receivable:	
Individuals and private entities	13,100
Government entities	141,209
Other assets	507
	<u>154,816</u>
Total current assets	7,704,413
Non-currents assets:	
Right of use lease assets, net	19,609
Capital assets, net	<u>886,455</u>
Total non-current assets	<u>906,064</u>
Total assets	8,610,477
Deferred outflows of resources	
Pension related	1,333,890
OPEB pension related	<u>17,800</u>
Total deferred outflows of resources	1,351,690
Liabilities	
Current liabilities:	
Accounts payable:	
Individuals and private entities	234,286
Government entities	165,116
Accrued expenses and withholding payable	35,495
Lease liability	9,795
Compensated absences	706,307
Termination benefits payable	35,031
OPEB liability	17,800
Net pension liability	386,001
Total pension liability	1,346,608
Unearned revenue	<u>1,328,249</u>
Total current liabilities	4,264,688
Non-current liabilities:	
Lease liability	10,305
Compensated absences	25,772
Termination benefits payable	243,522
OPEB liability	198,711
Net pension liability	11,708,828
Total pension liability (net of current portion)	<u>6,484,841</u>
Total non-current liabilities	<u>18,671,979</u>
Total liabilities	22,936,667
Deferred inflows of resources:	
Pension related	<u>380,053</u>
Total deferred inflows of resources	<u>380,053</u>
Net Position (deficit)	
Net investment in capital	885,959
Restricted	1,328,249
Unrestricted	<u>(15,723,577)</u>
Total net position (deficit)	<u>\$ (13,509,369)</u>

See accompanying notes to financial statements.

Operating revenues:	
Sale of tickets	\$ 245,583
Charges for services	43,620
Total operating revenues	<u>289,203</u>
Operating expenses:	
Salaries, payroll and fringe benefits	4,930,598
Pension cost	(14,798,921)
Termination benefits	36,922
Rent	221,874
Scholarships and financial aid	39,000
Travel and meals	29,618
Publicity and advertisement	186,882
Professional, artistic and consulting services	1,097,121
Utilities	9,270
Depreciation	77,609
Repairs and maintenance	32,940
Insurance and other expenses	147,028
Total operating expenses	<u>(7,990,059)</u>
Operating gain	8,279,262
Non-operating revenues:	
Legislative appropriations	5,063,605
Special appropriations	615,480
Federal assistance programs	915,750
Donations	77,745
Interest and other income	2,795
Gain on extinguishment of debt	668,604
Total non-operating revenues	<u>7,343,979</u>
Change in net position	15,623,241
Net position (deficit) at beginning of year	<u>(29,132,610)</u>
Net position (deficit) at end of year	<u>\$ (13,509,369)</u>

See accompanying notes to financial statements.

CORPORACIÓN DE LAS ARTES MUSICALES DE PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2022

Cash flows from operating activities	
Receipts from customers	\$ 289,203
Payments to suppliers	(1,982,982)
Payments to employees	(5,072,371)
Other operating cash receipts	1,128,249
Other	<u>(75,456)</u>
Net cash used in operating activities	(5,713,357)
Cash flows from noncapital financing activities	
Commonwealth appropriations	5,679,085
Federal assistance programs	915,750
Donations	77,745
Gain on extinguishment of debt	668,604
Other non-operating receipts	<u>2,794</u>
Net cash provided by noncapital financing activities	7,343,978
Cash flows from capital and related financing activities	
Principal and interest paid on leases	(10,592)
Purchase of capital assets	<u>(8,675)</u>
Net cash used by capital and related financing activities	(19,267)
Net change in cash and cash equivalents	1,611,354
Cash and cash equivalents at beginning of year	<u>5,783,427</u>
Cash and cash equivalents at end of year	<u>\$ 7,394,781</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating gain	\$ 8,279,262
Adjustment to reconcile operating loss to net cash provided by (used in) operating activities:	
Depreciation	77,609
Changes in operating assets and liabilities and deferred outflows and inflows of resources:	
Other assets	11,713
Accounts receivable	154,012
Prepaid expenses	(121)
Deferred outflows of resources from pension activities	268,976
Deferred outflows of resources from OPEB activities	43
Increase (decrease) in:	
Accounts payable and accrued liabilities	(544,512)
Lease liability	1,285
Unearned revenue	1,128,249
Accrued benefits and other liabilities	217,560
OPEB liability	(19,228)
Total pension liability	(334,320)
Net pension liability	(15,009,949)
Deferred inflows of resources from pension activities	<u>56,064</u>
	<u>(13,992,619)</u>
Net cash used in operating activities	<u>\$ (5,713,357)</u>
Interest gain during the year	\$ 2,765

NOTE 1 REPORTING ENTITY

The *Corporación de las Artes Musicales de Puerto Rico* (the Corporation) is a public corporation and component unit of the Commonwealth of Puerto Rico (the Commonwealth) created on July 31, 1985, pursuant to Act No. 4, as amended, (the Act) to replace the Administración para el Fomento de las Artes y la Cultura originally created on May 30, 1980 under Act No. 76. The Corporation was created to develop and execute the public policy towards the development to the fine arts and cultural programs for Puerto Rico and its people.

The Corporation is responsible for its debts and is entitled to its surplus.

Board of Directors- The Board of Directors is appointed by the Governor of the Commonwealth, with the counsel and approval of the Senate of Puerto Rico. The Board has the power to make decisions and is responsible for them.

Designation of management- The Board of Directors appoints an Executive Director who appoints the other members of management. Management reports to the Board of Directors.

Capacity to manage operations- The Corporation has the legal capacity to make significant decisions in the managing of its operations. This legal capacity includes but is not limited to: control of its assets, which include facilities and properties; formalize contracts and develop programs.

Basis of Presentation- Blended Component Unit

The basic financial statements on pages 35-38 of the Corporation as of June 30, 2022 include the financial position and operations of the Corporación de las Artes Escénico-Musicales de Puerto Rico and the Corporación de la Orquesta Sinfónica de Puerto Rico.

The Corporación de las Artes Escénico Musicales de Puerto Rico and the Corporación de la Orquesta Sinfónica de Puerto Rico were created as subsidiaries of the Corporation, pursuant to Acts No. 42 and 44, approved on May 12, 1980, respectively to develop, coordinate and promote the operation and programs of the Orquesta Sinfónica de Puerto Rico and in addition, provides for the incorporation of Festival Casals, Museo Pablo Casals, Festival de la Orquesta Sinfónica Juvenil de América and Festival Iberoamericano de las Artes.

During fiscal year ended June 30, 2022 the Corporation de las Artes Escénico-Musicales de Puerto Rico and the Corporación de la Orquesta Sinfónica de Puerto Rico present a net gain (loss) after non-operating revenues of \$172,321 and \$(120,874) respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accounting and reporting policies of the Corporation conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). The Corporation follows Governmental Account Standards Board pronouncements under the hierarchy established by GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its basic financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUATION)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continuation)**

The basic financial statements utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or long-term, financial, or non-financial) associated with their activities are reported. Legislative appropriations and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The legislative appropriations and donations for permanent betterments or for any specify activity not used in the fiscal year are credited to a deferred income account and income when expended.

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 from non- exchange transactions would be recognized when all applicable eligibility requirements are met and the amounts are “available”.

Operating revenues and expenses generally result from providing services in connection with the Corporation ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates in the Preparation of Basic Financial Statements- The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and related disclosures at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents- The Corporation maintains cash in deposit accounts with high credit financial institutions. The laws of the Commonwealth of Puerto Rico require that public fund 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.

Accounts receivable- Accounts receivable from governmental and non-governmental customers of the Corporation are stated net of estimated allowances for doubtful accounts, which are determined based upon past collection experience and current economic conditions. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise from service charges do not have allowances for doubtful accounts, as these are deemed fully collectible.

Other assets – Other assets represents miscellaneous assets that are not reported in major balance sheet categories because are typically quite small and may contain assets that cannot be readily classified as cash, cash equivalent, account receivable or capital assets.

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, 2022.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUATION)

Right of Use Lease Assets - Right of use assets are representative of the Corporation's right to use an asset over the life of a lease in which it is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right of use assets are amortized over the shorter of the asset useful life or the term of the lease.

Capital assets- The capital assets are stated at historical costs when purchased or at estimated fair market value when donated. Costs of normal maintenance and repairs, which do not increase the value of the asset or materially extend assets lives, are not capitalized. Assets which cost or estimated fair market value is stated under \$150 are expensed when purchased or when received as a donation.

The Museum and the historic photograph of Pablo Casals are stated at the value established when they were donated to the Corporation, which approximated the market value at such date. These assets are not depreciated. Furthermore, the artwork and historic collections exhibited in the Museum are not included in the basic financial statements due to the lack of information about their cost or market value. At present, the Museum is open to the public at Sala Sinfónica Pablo Casals in the Centro de Bellas Artes Luis A. Ferré.

Major outlays for capital assets, renewals and betterments are capitalized. In accordance with practices followed by similar entities, the Corporation records depreciation expense using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furnitures and equipments	3-10
Library	10
Musical instruments	5
Motor vehicles	5
Software	3

Deferred outflows/inflows of resources- In addition to assets, the statement of net position (deficit) reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Corporation has one item that qualify for reporting in this category in the statement of net position (deficit), which is related to certain pension related items. The pension related items, which are related with the GASB Statement No. 68 and GASB Statement No. 71, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pensions contributions made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date according to the requirements of the GASB Statement No. 71.

In addition to liabilities, the statement of net position (deficit) reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Corporation has two items that qualifies for reporting in this category in the statement of net position (deficit), which are related to defer income and certain pension related items (GASB Statement No. 68). Changes in proportional share of contributions, differences between expected and actual experience, and changes in actuarial assumptions, are defer red and recognized over a period equal to the expected remaining

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUATION)

working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period.

Net position (deficit)- In basic financial statements, net position (deficit) represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the statements of net position (deficit). The net position is reported in three categories:

- **Net investment in capital**- Consists of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- **Restricted net position**- Consists of net position with constraints placed on the use either by: (1) external groups such as grantors, contributors or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted net position**- All other assets that do not meet the definition of “restricted” or “net investment in capital assets”.

It is the Corporation policy to first use restricted position prior to the use of unrestricted position when an expense is incurred for purposes for which both restricted and unrestricted position are available. Restricted position includes assets that are legally restricted as to their use.

Lease Liability - At the commencement of a lease, the Corporation measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Compensated absences- Employees accrue vacations at a rate of 2.5 days per month, up to a maximum of 60 days and accumulated sick leave at a rate of 1.5 days per month, up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rate. Accrued vacations and sick leave benefits as June 30, 2022 amounted to \$732,079.

Legislative appropriation - The Corporation uses the accrual method of accounting to record income. Under this method the income is recognized when earned. Legislative grants for permanent betterments or for any specific activity not used in the fiscal year are credited to a deferred income account and credited to income when used.

Contributions and donations - The Corporation uses the accrual method of accounting to record contributions and donations. Contributions and donations for permanent betterments or for any specific activity not used in the fiscal year are credited to an unearned income account and credited to the contributed capital or income as appropriate when used.

Impairment of long-lived assets- The Corporation follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries.

A capital asset generally should be considered impaired if both: (a) the decline in service utility of the capital asset is large in magnitude, and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. During the year ended June 30, 2022, the Corporation performed an impairment analysis of its capital assets and did not identify impairments to be recorded in its basic financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUATION)

Accounting for pension costs- The Corporation accounts for pension under the provisions of GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB No. 68, and Amendments to Certain Provision of GASB No. 67 and 68*. GASB No. 67, *Financial Reporting for Pensions Plan, Amendment GASB No. 25*. GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

For purposes of the stand-alone basic financial statements of the plan trust, the pension cost is accounted from the standpoint of a participant in a single-employer defined benefit pension plan. Accordingly, pension costs recognized are equal to the statutorily or contractually required contributions, with a liability recorded for any unpaid required contributions. The basis of accounting used by the Corporation was accrual basis.

For purposes of measuring the total pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans (the Plans) and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Risk management- The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; natural disaster; among other. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage in any of the 3 preceding years.

Termination benefits- The Corporation accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees and the amount can be estimated.

Postemployment Benefits Other Than Pensions - Other postemployment benefits ("OPEB") expense is recognized and disclosed using the accrual basis of accounting. The Corporation recognizes the total OPEB liability since the Corporation's OPEB program is funded on a pay-as-you-go basis, measured as of the Corporation's prior year-end. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. Employer's contributions made after the measurement date of the total OPEB liability are recorded as a deferred outflow of resources.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUATION)**New Accounting Standards Adopted**

As of July 1, 2021, the Corporation adopted the statements of financial accounting standards issued by the GASB Statement No. 87, *Leases* (GASB Statement No. 87).

GASB Statement No. 87 establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets including buildings, land, and equipment. Lessees are required to recognize a lease liability and an intangible right-to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. The new leases standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements on a government's resources.

The adoption effect of the new lease standard resulted in the following lease activities recognized by the Corporation as of July 1, 2021, as a lessee recording a right of use assets and a lease liability of approximately \$29,413 in the statement of net position (deficit). See Notes 3 and 10.

Future accounting pronouncements- GASB has issued the following statements that the Corporation has not yet adopted:

- **GASB Statement No. 91**, Conduit Debt Obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.
- **GASB Statement No. 94**, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged.
- **GASB Statement No. 96**, Subscription-Based Information Technology Arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged.
- **GASB Statement No. 97**, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.
- **GASB Statement No. 98**, The Annual Comprehensive Financial Report, establish the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local government. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.
- **GASB Statement No. 99**, Omnibus 2022, establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUATION)

- (SBITAs), the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
- **GASB Statement No. 100**, Accounting Changes and Error Corrections, establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). The requirements of this Statement do not apply to the initial application of U.S. generally accepted accounting principles (GAAP) established by the GASB as a financial reporting framework in circumstances in which a government is asserting for the first time that its financial statements are prepared in accordance with U.S. GAAP established by the GASB. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- **GASB Statement No. 101**, Compensated Absences . The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this statement are effective for fiscal year beginning after December 15, 2023, and all reporting periods thereafter. Earlier applications is encouraged. The Authority is evaluating the impact that these standards may have on its future financial statements.

Management is evaluating the impact that these statements will have, if any, on the Corporation's basic financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUATION)**CONCENTRATION OF RISKS**

Restricted		Unrestricted	
Book balance	Bank balance	Book balance	Bank balance
\$ 1,377,881	\$ 1,377,881	\$ 6,016,900	\$ 6,132,367

Custodial credit risk- This is the risk that in the event of a bank failure, the Corporation's deposits may not be recovered. At June 30, 2022 all the Corporation's bank accounts and deposits are maintained in domestic commercial banks, which are required by the Commonwealth to maintain collateral securities pledged for security of public deposits at amounts in excess of federal insurance coverage. Deposits either insured or collateralized are not considered to be subject to custodial credit risk.

In April 2016, the Commonwealth enacted the Puerto Rico Emergency Moratorium and Rehabilitation Act (The "Moratorium Act"), whereby the Commonwealth and certain instrumentalities suspended the payment of debt service on their respective debts and redirected certain revenues assigned to certain public corporations for the funding of operational expenses.

On April 8, 2016 the Governor of Puerto Rico signed an executive order, E0-2016-010 (EO 10), declaring GOB to be in a state of emergency pursuant to Act.21. EO 10, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments and transfer requests in respect of funds held on deposit at GOB and loan disbursements by GDB. The procedures implemented by the EO 10 resulted in restrictions on the ability of the Corporation to withdraw any funds held on deposit at GDB.

In addition, in response to this crisis, in June 2016 the U.S. Federal Government enacted the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), which among other things, establishes an oversight board (the Oversight Board) composed of seven members appointed by the U.S. Federal Government, with broad powers over the finances of the Commonwealth and its instrumentalities.

PROMESA seeks to provide the Commonwealth with (1) fiscal and economic discipline through the creation of the Oversight Board, (2) relief from creditor lawsuits through the enactment of a temporary stay on litigation to enforce rights or remedies related to outstanding liabilities of the Commonwealth and its instrumentalities and municipalities and (3) two separate process for the restructuring of the debt obligations of such entities.

In January 2018, the Commonwealth enacted the Financial Emergency and Fiscal Responsibility Act to replace certain provisions of the Moratorium Act. It extended the Governor's power to suspend debt service obligations until year 2018, by prioritizing the payment of essential services over debt service.

In addition, in February 2018 it submitted a fiscal plan that was approved by the Oversight Board, which among other initiatives, it calls for significant reductions in operational expenses and subsidies for the municipalities and the University of Puerto Rico.

In May 2018, the Commonwealth and the Oversight Board filed for bankruptcy under Title III of PROMESA for restructuring of the Commonwealth and certain of its instrumentalities.

NOTE 3 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022 was as follows:

	Balance 30-Jun-21	Increases	Decreases	Balance 30-Jun-22
Capital assets, not being depreciated:				
Art collection/Historical Trasures	\$ 568,000	\$ -	\$ -	\$ 568,000
Total capital assets, not being depreciated	568,000	-	-	568,000
Capital assets, being depreciated/amortized:				
Leasehold improvement	112,000	-	-	112,000
Furniture and equipments	297,680	-	-	297,680
Musical instruments	540,970	-	-	540,970
Library	120,543	8,675	-	129,218
Computer software	85,980	-	-	85,980
Computer equipment	91,048	-	-	91,048
Vehicles	27,648	-	-	27,648
Total capital assets, being depreciated	1,275,869	8,675	-	1,284,544
Total cost basis of capital asset	1,843,869	8,675	-	1,852,544
Less: accumulated depreciation:				
Leasehold improvement	(22,400)	(5,600)	-	(28,000)
Furniture and equipments	(255,943)	(16,600)	-	(272,543)
Musical instruments	(339,728)	(22,805)	-	(362,533)
Library	(100,459)	(4,399)	-	(104,858)
Computer software	(70,343)	(9,116)	-	(79,459)
Computer equipment	(81,763)	(9,285)	-	(91,048)
Vehicles	(27,648)	-	-	(27,648)
Total accumulated depreciation	(898,284)	(67,805)	-	(966,089)
Net capital assets	\$ 945,585	\$ (59,130)	\$ -	\$ 886,455

Right of Use Lease Assets

Changes in the Corporation's right of use lease asset for the year ended June 30, 2022, are as follows:

	Beginning Balance (1)	Additions	Deletions/ Adjustments	Ending Balance
Right of use lease assets:				
Equipment	\$ 29,413	\$ -	\$ -	\$ 29,413
	\$ 29,413	\$ -	\$ -	\$ 29,413
Less accumulated amortization for:				
Equipment	-	(9,804)	-	(9,804)
	-	(9,804)	-	(9,804)
	\$ 29,413	\$ (9,804)	\$ -	\$ 19,609

(1) Beginning balance includes the change made due to the implementation of GASB 87, Leases.

NOTE 4 LONG-TERM DEBT

Changes in non-current liabilities for the year ended June 30, 2022 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due within one year
Termination benefits	\$ 314,713	\$ -	\$ 36,160	\$ 278,553	\$ 35,031
Compensated absences	529,170	202,909	-	732,079	706,307
Leases	29,413	-	9,313	20,100	9,795
Other postemployment benefits	235,739	-	19,228	216,511	17,800
Total pension liability	8,165,769	43,118	377,438	7,831,449	386,001
Net pension liability	<u>27104778</u>	<u>-</u>	<u>15,009,949</u>	<u>12,094,829</u>	<u>1,346,608</u>
Total	<u>\$36,379,582</u>	<u>\$ 246,027</u>	<u>\$ 15,452,088</u>	<u>\$ 21,173,521</u>	<u>\$ 2,501,542</u>

NOTE 5 VOLUNTARY TERMINATION BENEFITS

On July 2, 2010 the Commonwealth enacted Act No.70, to establish a program that provides benefits of 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 services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50.0% of each employee's 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 days of creditable service of 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 Service 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 benefits program or that choose the economic incentive and have less than 15 years of creditable services in the Retirement System are eligible to receive health plan coverage for up to 12 months in health plan selected by management of the Corporation.

The financial impact resulting for the benefits granted to participants by Act No. 70 in the Corporation's basic financial statements resulted in a liability of \$314,713 which was presented in the statement of net position (deficit) as of June 30, 2022. The charges for the termination benefits were recorded net of annual payments required by Act No. 70 of \$48,185 for the year ended June 30, 2022.

NOTE 6 RETIREMENT PLAN

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) is a multi-employer defined benefit plan administered by the Retirement System Board.

The Corporation accounts for pension liability based on actuarial valuations measured as of the beginning of the year (June 30, 2019). The Corporation retirement plan were administered as trusts following the guidance in GASB Statement No. 73 since there are no assets accumulated in trusts meeting the following criteria established by GASB Statement No. 68:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

NOTE 6 RETIREMENT PLAN (CONTINUATION)

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. Defined benefit pension plan assets also are legally protected from creditors of the plan members.

On January 18, 2022, the Title III Court entered an order confirming the Eighth Amended Plan for the Commonwealth, ERS, and PBA. The Eighth Amended Plan preserves all accrued pension benefits for current retirees and employees at ERS. For further information on the Eighth Amended Plan's impact on pension benefits, refer to the final version of the Eighth Amended Plan, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

ERS

Plan Description – Prior to Act No. 106-2017, ERS administered different benefit structures pursuant to Act No. 447-1951, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (the Commonwealth, 78 municipalities, and 55 public corporations) were covered by the ERS. These benefits were paid by the ERS until June 30, 2018. Through Act No. 106-2017, the Commonwealth transformed the retirement systems into a single pay-as-you-go system (whereby future benefit payments are guaranteed by the Commonwealth's General Fund) and created the Retirement System Board as the new Retirement Systems governing body.

Certain provisions are different for the three groups of members who entered ERS prior to July 1, 2013, as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No 1) are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (contributory, defined benefit program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305-1999 or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (defined contribution program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, became members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 participants.

The Commonwealth, through Act No. 106-2017, created a "New Defined Contribution Plan" that consisted of a trust fund, not subject to the provisions of Act No. 219-2012, known as "*The Trusts Act*", that will maintain an individual account for each participant of the Retirement Systems that becomes a participant of the plan.

The following employees will participate in the New Defined Contribution Plan:

- All active participants of the ERS as of July 1, 2017

NOTE 6 RETIREMENT PLAN (CONTINUATION)

- New hires entering the public service workforce after July,1 2017
- Any business or public corporation with employees not participating in the Retirement Systems as of July 1, 2017, can, through an approved resolution by its board of directors or governing body, join the New Defined Contribution Plan. The Retirement Systems Board is responsible of establishing the eligibility requirements and procedures to be followed to join the New Defined Contribution Plan.

Enrollment in the New Defined Contribution Plan is optional for the chiefs of public corporations and for employees of public corporations of the Commonwealth of Puerto Rico working and living outside the territorial limits of Puerto Rico.

The following summary of ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in strict accordance with the applicable laws and regulations.

Service Retirements

- (a) *Eligibility for Act No. 447-1951 Members:* Act No. 447-1951 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; and (3) any age with 30 years of credited service, (4) for Public Officers in High-Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter and the Custody Office Corps), attainment of age 50 with 25 years credited service, and (5), for Mayor of Municipalities, attainment of age 50 with 8 years credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (b) *Eligibility for Act No. 1 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service and (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High-Risk Positions, any age with 30 years of credited service, (4) for Mayor, attainment of 50 age and 8 years of credited service of Mayor.

NOTE 6 RETIREMENT PLAN (CONTINUATION)

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of 55 with 30 years of credited service.

- (c) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

- (d) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a Public Officers in High-Risk Positions and attainment of age 67 otherwise.

(i) *Service Retirement Annuity Benefits*

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account was \$10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

- (a) *Accrued Benefit* as of June 30, 2013 for Act No. 447 Members: The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013 and attains 30 years of credited service by December 31, 2013, the accrued benefit equaled 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average

NOTE 6 RETIREMENT PLAN (CONTINUATION)

compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service were considered pre- July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighter, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighter, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act 447 Mayors with at least 8 years for credit service as a mayor, the accrued benefit will not be less than 5% of the highest compensation, as defined, as a mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- (b) *Accrued Benefit* as of June 30, 2013 for Act No. 1 Members: The accrued benefit as of June 30, 2013 is determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No.1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member at least 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

For Act No.1 Mayors with a least 8 years of credited service as Mayor, the accrued benefit will not be less than 5% of highest compensation as Mayor for each year the credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2% of highest compensation as Mayor for each year non-Mayoral credited of service in excess of 20 years. Non-Mayoral credited service includes service earned as Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

NOTE 6 RETIREMENT PLAN (CONTINUATION)*Compulsory Retirement*

All Act No. 447 and Act No. 1 Public Officer in High Risk Positions most retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from Superintendent of the Puerto Rico Police, the Chief of Firefighter Corps, or supervising authority as applicable.

*(ii) Special Benefits**(a) Minimum Benefits*

- i. *Past Ad hoc Increases*: The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits were paid 50% by the Commonwealth and 50% by ERS.
 - ii. *Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013)*: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007).
 - iii. *Coordination Plan Minimum Benefit*: A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.
- (b) *Cost of Living Adjustments (COLA) to Pension Benefits*: The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004, less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35-2007).

(c) Special "Bonus" Benefits

- (i) *Christmas Bonus (Act No. 144, as Amended by Act No. 3)*: An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.
- (ii) *Medication Bonus (Act No. 155, as Amended by Act No. 3)*: An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. The funding of the special benefits was provided to the ERS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

NOTE 6 RETIREMENT PLAN (CONTINUATION)**Contributions**

Contributions by members consists, as a minimum, of an 8.5% of their compensation directly deposited by the Puerto Rico Department of Treasury in the individual member accounts under the

New Defined Contribution Plan created pursuant to Act No. 106-2017. Also, as of that date, System's participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to ERS.

Participating employers are responsible for the payment of the PayGo fee to the accumulated pension benefits payment account, which is computed based on the amount of actual benefits paid to retirees, disabled and beneficiaries of each participating employer.

(iii) Early Retirement Programs

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70-2010 also established that early retirement benefits will be provided to eligible employees that have completed between 15 and 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447-1951 or age 65 for members under Act No. 1-1990, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to ERS. The General Fund of the Commonwealth will be required to continue making its required employer contributions. ERS will be responsible for benefit payments afterward.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Act No. 211 of 2015 (Act No. 211-2015), establishing a voluntary program to provide pre-retirement benefits to eligible employees, as defined. Act 106-2017 repealed Act No. 211-2015, while creating an incentives, opportunities, and retraining program for public workers.

Total Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension:

As of June 30, 2022, (measurement date June 30, 2021) the Corporation reported a liability of \$7,831,448 for its proportionate share of the total pension liability.

Total pension liability beginning of year	\$ 8,165,769
Less: Contributions	<u>(377,439)</u>
Balance after contributions	7,788,330
Increase or (decrease)	<u>43,118</u>
Total pension liability end of year	<u><u>\$ 7,831,448</u></u>

NOTE 6 RETIREMENT PLAN (CONTINUATION)

As of June 30, 2022, (measurement date June 30, 2021) the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual investment earning on pension plan investment	\$ -	\$ -
Difference between expected and actual experience	12,510	233,315
Changes of assumptions	801,688	92,543
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	133,691	54,195
Pension contributions subsequent to measurement date	386,001	-
Total	<u>\$ 1,333,890</u>	<u>\$ 380,053</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as adjustment to pension expense as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2022	\$ 185,350
2023	185,350
2024	197,136
Total	<u>\$ 567,836</u>

Actuarial Assumptions and Methods:

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement period.

Discount Rate - The discount rate for June 30, 2021 (measurement date), was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Pre-Retirement Mortality - For general employees not covered by Act No. 127-1958, PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

Post-Retirement Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected MP-2021 on a generational basis. As a generational table, it reflects mortality improvement both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

NOTE 6 RETIREMENT PLAN (CONTINUATION)

Post-Retirement Disabled Mortality- Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-Retirement Disabled Mortality- Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvement both before and after the measurement date.

Other Assumptions as of June 30, 2021(measurement date)

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increase	3.00% per year. No compensation increase assumed until July 1, 2021 as a result of Act No. 3, four-year extension of Act No. 66-2014, and the current general economy.

Sensitivity of the Corporation's proportionate share of total pension liability to change in the discount rate - The following table presents the Corporation's proportionate share of the total pension liability calculated using the current discount rate of 2.16% as well what the Corporation's proportionate share of the total pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	At 1% decrease (1.16%)	At current discount rate (2.16%)	At 1% increase (3.16%)
Total pension liability	\$ 8,947,744	\$ 7,831,448	\$ 6,926,876

Pension plan fiduciary net position - Additional information on the Retirement System is provided on its standalone basic financial statements for the year ended June 30, 2021, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico.

Plan for the Musicians of the Orquesta Sinfónica de Puerto Rico (OSPR):

Plan Description - The Retirement Committee administers the Corporación de la Orquesta Sinfónica de Puerto Rico Retirement Plan (the "Plan"), a single-employer defined benefit pension plan. Management of the Plan is vested in the OSPR Board.

Plan freeze - As of August 14, 2022 (the "Freeze Date"), as required by the fiscal plan of Puerto Rico, certified by the Financial Oversight and Management Board for Puerto Rico on January 27, 2022, pursuant to the provisions of PROMESA, the Plan is frozen at the Freeze Date. For purposes of the Plan's benefits accruals, no increases in Compensation, Final Average Compensation, and Credited Service shall be granted after the Freeze Date.

Contributions - As per the 2022 fiscal plan for Puerto Rico, certified by the Financial Oversight and Management Board for Puerto Rico on January 27, 2022, pursuant to the provisions of PROMESA, the plan shall be funded by employer contributions of \$2 million annually for 10 years (for the total of \$20 million), starting in Plan year 2022/2023. There are no additional contributions

NOTE 6 RETIREMENT PLAN (CONTINUATION)

assumed after the Freeze Date. Finally, at the request of the OSPR, the actuarially determined employer contributions are computed using the GASB 25/27 ARC methodology and assumptions. For the period of plan ended August 14, 2022, there were employer contributions of \$226,871 and employee contributions of \$106,924.

Plan Membership - At August 14, 2022, the Retirement Plan Membership consisted of the following:

Description	Count
Retirees and beneficiaries receiving benefits	42
Terminated plan participants entitled to but not yet receiving benefits	19
Active plan participants	75
Total	136

Rate of Return - For the year ended August 14, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -12.27%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Investment Managers can only provide assets information at the end of the month. Therefore, even though the actuarial valuation date is August 14th, assets employed to develop the rate of return are those at August 31st.

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that OSPR contributions of \$2,000,000 for a period of ten (10) years (for a total of \$20,000,000) will be made, starting with Plan year 2022/2023 and ending with Plan year 2031/2032. With these contributions, and assuming that Plan assets achieve annually the expected rate of 7.50%, the Plan's fiduciary net position (i.e., the Plan assets) will always be sufficient to make project benefit payments. Because of this, the S&P Municipal Bond 20 Year High Grade Rate Index (3.88%, yield to maturity at August 14, 2022) applicable when there is an insufficiency of Plan assets to pay projected benefit payments, was not employed in the determination of the discount rate.

Net Pension Liability - The components of the net pension liability at August 14, 2022, were follows:

Component of Net Pension Liability	
Total pension liability	\$13,925,700
Plan fiduciary net position	(1,830,871)
Orchestra's net pension liability	\$12,094,829
Plan fiduciary net position as a percentage of the total pension liability	13.15%

Sensitivity of the Net Pension Liability to Change in the Discount Rate - The following table presents the Net Pension Liability, calculated using the current discount rate of 7.50% as well what the Orchestra's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	At 1% decrease (6.50%)	At current discount rate (7.50%)	At 1% increase (8.50%)
Employer's net pension liability	\$ (13,493,025)	\$ (12,094,829)	\$ (10,897,390)

NOTE 6 RETIREMENT PLAN (CONTINUATION)

Actuarial assumptions – The total pension liability was determined by an actuarial valuation as of August 14, 2022 using the actuarial assumptions. These assumptions were applied to all periods included in the measurement.

The long-term expected rate return on pension plan investments was determined using the Merrill Lynch U.S. oriented Tier 1 Liquidity - Low Tax Sensitivity Model's framework generates expectations of asset class return, risk and correlations for the upcoming 25 years. This time horizon is meant to capture at least one full business cycle and can potentially contain periods of economic expansion, contraction, market peaks, and market troughs, all with varying degrees of volatility. Best estimated of long-term arithmetic real rates of return for each major assets class included in the Retirement Plan's target asset allocation as of August 14, 2022 are summarized in the following table:

Assets Class (1)	Strategic Allocation (2)	Long-Term Expected Rate of Return* (3)	Expected Weighted Average (2)x(3)
Large-cap Domestic Equity:			
Value	20%	11.50%	2.30%
Growth	10%	11.00%	1.10%
Small-cap Domestic Equity	15%	12.90%	1.94%
International Equity	15%	9.10%	1.37%
Fixed Income	35%	5.20%	1.82%
Cash	5%	3.30%	0.17%
		Total	8.69%

*As long-term expected rates of return, these are nominal rates with a long-term expected inflation rate of 2.80%.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS PLAN**Plan Description**

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employee's Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit OPEB plan.

The Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching by the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefits to the plan members that retired after June 30, 2013.

a). Actuarial assumptions Discount rate

The discount rate for June 30, 2021 was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality**Pre-retirement Mortality**

For general employees not covered under Act No. 127-1958, PubG-2010 employee rates, adjusted by 100% males and 110% females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates adjusted by 100% for males and 110% for females, project using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retired rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUATION)**Post-retirement Beneficiary Mortality**

Prior to retiree's death, beneficiary mortality assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As generational tables, it reflects mortality improvements both before and after the measurement date.

b) Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the collective total OPEB liability of the Plan at June 30, 2021 (measurement date) calculated using the discount rate of 2.16%, as well as the Plan's total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (1.16%) or 1-percentage point higher (3.16%) than the current rate:

	At 1% decrease (1.16%)	At current discount rate (2.16%)	At 1% increase (3.16%)
Total OPEB liability	\$ 237,510	\$ 216,511	\$ 198,612

OPEB Expense

The components of OPEB expense for the years ending June 30, 2021 (measurement date) is as follows:

Interest on total OPEB liability	\$ 2,400
Effect of economic /demographic gains or loss	(4,624)
Effect of assumptions changes or input	<u>839</u>
Total OPEB expense	<u>\$ (1,385)</u>

OPEB Liability

As of June 30, 2021 (measurement date) the Corporation reported a liability of \$216,511 for its proportionate share of OPEB liability:

OPEB liability beginning balance	\$ 235,739
OPEB benefits paid	(17,843)
Increase	<u>(1,385)</u>
OPEB liability as of 6/30/2020	<u>\$ 216,511</u>

NOTE 8 - GAIN ON EXTINGUISHMENT OF DEBT

On April 27, 2022, the Corporation of the Musical Arts was informed by the Public Buildings Authority (PBA) that as a result of the implementation of the "Plan de Ajuste del Gobierno de Puerto Rico", the debt it maintained for unpaid rent accumulated until March 31, 2022 had been adjusted to an amount of \$ 91,886.

This represents a reduction of \$668,604 in the Corporation's accounts payable that was recognized as a gain. The debt was paid on full on November 22, 2022.

NOTE 9 LEASES

A lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial assets, for a minimum contractual period of greater than one year, in an exchange or exchange like transaction.

The Corporation normally leases facilities and office equipment under long-term noncancellable lease agreements recorded in accordance with GASB Statement No. 87. At June 30, 2022, the Corporation had minimum principal and interest payment requirements in its lessee activity as follows:

Fiscal year ended			
June 30	Principal	Interest	Total
2023	\$ 9,795	\$ 798	\$ 10,593
2024	10,305	288	10,593
	<u>\$ 20,100</u>	<u>\$ 1,086</u>	<u>\$ 21,186</u>

NOTE 10 SUBSEQUENT EVENTS

On March 8, 2023, the Supreme Court of Puerto Rico entered a judgment in favor of the American Federation Musicians, Local 555, against the Corporación de la Orquesta Sinfónica de Puerto Rico revoking the decision issued by the Court of Appeal confirming the Award by which the arbitrator established that, pursuant to Article Tenth of the Collective Agreement, the Puerto Rico Symphony Corporation had discretion to make certain events for the benefit of the pension plan.

As a result, the Corporation is granted with a two (2) years term to hold the necessary concerts in order to cover the employer's contribution for the benefit of the pension plan corresponding to the 2018-2019 season; or in the alternative, issue a payment of \$80,000.00 additional to attorney's costs and fees, as appropriate.

Given the uncertainty of the financial results of these concerts, the obligation of the Corporación de la Orquesta Sinfónica de Puerto Rico is considered indeterminate, the accompanying financial statements do not include the possible effect of the settlement.

On March 23, 2023, a motion for reconsideration was submitted to the Puerto Rico Supreme Court.

Other Supplementary Information

Combined Schedule of Net Position (Deficit)
As of June 30, 2022

	Corporación de las Artes Musicales de Puerto Rico	Corporación de la Orquesta Sinfónica de Puerto Rico	Corporación de las Artes Escenico- Musicales de Puerto Rico	Elimination/ Reclassification Entries	Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 4,074,627	\$ 581,458	\$ 1,360,815	\$ -	\$ 6,016,900
Restricted cash and cash equivalents	1,177,881	50,000	150,000	-	1,377,881
Accounts receivable:					
Individuals and private entities	-	13,100	-	-	13,100
Government entities	51,290	70,002	19,917	-	141,209
Related companies	28,363	49,849	45,834	(124,046)	-
Other assets	-	386	-	-	386
Prepaid expenses	121	-	-	-	121
	<u>5,332,282</u>	<u>764,795</u>	<u>1,576,566</u>	<u>(124,046)</u>	<u>7,549,597</u>
NON- CURRENT ASSETS:					
Right of use lease assets, net	3,237	16,372	-	-	19,609
Capital assets, net of accumulated depreciation	585,842	293,193	7,420	-	886,455
	<u>589,079</u>	<u>309,565</u>	<u>7,420</u>	<u>-</u>	<u>906,064</u>
DEFERRED OUTFLOWS OF RESOURCES -					
OPED related	14,807	1,584	1,409	-	17,800
Pension related	1,111,041	118,017	104,832	-	1,333,890
	<u>1,125,848</u>	<u>119,601</u>	<u>106,241</u>	<u>-</u>	<u>1,351,690</u>
Total assets and deferred outflows of resources	<u>7,047,209</u>	<u>1,193,961</u>	<u>1,690,227</u>	<u>(124,046)</u>	<u>9,807,351</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable:					
Individuals and private entities	76,100	67,780	90,406	-	234,286
Government entities	125,218	19,155	20,743	-	165,116
Related companies	49,849	10,525	63,672	(124,046)	-
Lease liability	1,618	8,177	-	-	9,795
Total pension obligation	-	-	-	-	-
Accrued expenses and withholding payable	703	31,661	3,131	-	35,495
Compensated absences, current portion	347,456	342,646	16,205	-	706,307
Termination benefits payable	35,031	-	-	-	35,031
Unearned revenue	1,128,249	50,000	150,000	-	1,328,249
	<u>1,764,224</u>	<u>529,944</u>	<u>344,157</u>	<u>(124,046)</u>	<u>2,514,279</u>
NON-CURRENT LIABILITIES:					
Lease liability	1,702	8,603	-	-	10,305
Compensated absences, non-current portion	15,002	3,454	7,316	-	25,772
Termination benefits payable	225,983	17,539	-	-	243,522
Accounts payable:					
OPEB liability	178,146	21,165	17,200	-	216,511
Total pension obligation	6,501,485	12,798,143	626,650	-	19,926,278
	<u>6,922,318</u>	<u>12,848,904</u>	<u>651,166</u>	<u>-</u>	<u>20,422,388</u>
Total liabilities	8,686,542	13,378,848	995,323	(124,046)	22,936,667
DEFERRED INFLOWS OF RESOURCES:					
Pension related	315,441	34,243	30,369	-	380,053
	<u>315,441</u>	<u>34,243</u>	<u>30,369</u>	<u>-</u>	<u>380,053</u>
Total liabilities and deferred inflows of resources	<u>9,001,983</u>	<u>13,413,091</u>	<u>1,025,692</u>	<u>(124,046)</u>	<u>23,316,720</u>
NET POSITION (DEFICIT):					
Net investment in capital	585,760	292,779	7,420	-	885,959
Restricted	1,128,249	50,000	150,000	-	1,328,249
Unrestricted	(3,668,780)	(12,561,913)	507,116	-	(15,723,577)
	<u>\$ (1,954,771)</u>	<u>\$ (12,219,134)</u>	<u>\$ 664,536</u>	<u>\$ -</u>	<u>\$ (13,509,369)</u>

See accompanying notes to the combined financial statements.

Combined Schedule of Net Position (Deficit)
As of June 30, 2022

	Corporación de las Artes Musicales de Puerto Rico	Corporación de la Orquesta Sinfónica de Puerto Rico	Corporación de las Artes Escenico- Musicales de Puerto Rico	Elimination/ Reclassification Entries	Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 4,074,627	\$ 581,458	\$ 1,360,815	\$ -	\$ 6,016,900
Restricted cash and cash equivalents	1,177,881	50,000	150,000	-	1,377,881
Accounts receivable:					
Individuals and private entities	-	13,100	-	-	13,100
Government entities	51,290	70,002	19,917	-	141,209
Related companies	28,363	49,849	45,834	(124,046)	-
Other assets	-	386	-	-	386
Prepaid expenses	121	-	-	-	121
	<u>5,332,282</u>	<u>764,795</u>	<u>1,576,566</u>	<u>(124,046)</u>	<u>7,549,597</u>
NON- CURRENT ASSETS:					
Right of use lease assets, net	3,237	16,372	-	-	19,609
Capital assets, net of accumulated depreciation	<u>585,842</u>	<u>293,193</u>	<u>7,420</u>	<u>-</u>	<u>886,455</u>
	589,079	309,565	7,420	-	906,064
DEFERRED OUTFLOWS OF RESOURCES -					
OPED related	14,807	1,584	1,409	-	17,800
Pension related	<u>1,111,041</u>	<u>118,017</u>	<u>104,832</u>	<u>-</u>	<u>1,333,890</u>
Total deferred outflows of resources	<u>1,125,848</u>	<u>119,601</u>	<u>106,241</u>	<u>-</u>	<u>1,351,690</u>
Total assets and deferred outflows of resources	<u>7,047,209</u>	<u>1,193,961</u>	<u>1,690,227</u>	<u>(124,046)</u>	<u>9,807,351</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable:					
Individuals and private entities	76,100	67,780	90,406	-	234,286
Government entities	125,218	19,155	20,743	-	165,116
Related companies	49,849	10,525	63,672	(124,046)	-
Lease liability	1,618	8,177	-	-	9,795
Total pension obligation	-	-	-	-	-
Accrued expenses and withholding payable	703	31,661	3,131	-	35,495
Compensated absences, current portion	347,456	342,646	16,205	-	706,307
Termination benefits payable	35,031	-	-	-	35,031
Unearned revenue	<u>1,128,249</u>	<u>50,000</u>	<u>150,000</u>	<u>-</u>	<u>1,328,249</u>
	<u>1,764,224</u>	<u>529,944</u>	<u>344,157</u>	<u>(124,046)</u>	<u>2,514,279</u>
NON-CURRENT LIABILITIES:					
Lease liability	1,702	8,603	-	-	10,305
Compensated absences, non-current portion	15,002	3,454	7,316	-	25,772
Termination benefits payable	225,983	17,539	-	-	243,522
Accounts payable:					
OPEB liability	178,146	21,165	17,200	-	216,511
Total pension obligation	<u>6,501,485</u>	<u>12,798,143</u>	<u>626,650</u>	<u>-</u>	<u>19,926,278</u>
	<u>6,922,318</u>	<u>12,848,904</u>	<u>651,166</u>	<u>-</u>	<u>20,422,388</u>
Total liabilities	8,686,542	13,378,848	995,323	(124,046)	22,936,667
DEFERRED INFLOWS OF RESOURCES:					
Pension related	<u>315,441</u>	<u>34,243</u>	<u>30,369</u>	<u>-</u>	<u>380,053</u>
	<u>315,441</u>	<u>34,243</u>	<u>30,369</u>	<u>-</u>	<u>380,053</u>
Total liabilities and deferred inflows of resources	<u>9,001,983</u>	<u>13,413,091</u>	<u>1,025,692</u>	<u>(124,046)</u>	<u>23,316,720</u>
NET POSITION (DEFICIT):					
Net investment in capital	585,760	292,779	7,420	-	885,959
Restricted	1,128,249	50,000	150,000	-	1,328,249
Unrestricted	<u>(3,668,780)</u>	<u>(12,561,913)</u>	<u>507,116</u>	<u>-</u>	<u>(15,723,577)</u>
Total net position (deficit)	<u>\$ (1,954,771)</u>	<u>\$ (12,219,134)</u>	<u>\$ 664,536</u>	<u>\$ -</u>	<u>\$ (13,509,369)</u>

See accompanying notes to the combined financial statements.

Combined Schedule of Cash Flows
For the Year Ended June 30, 2022

	Corporación de las Artes Musicales de Puerto Rico	Corporación de la Orquesta Sinfónica de Puerto Rico	Corporación de las Artes Escénico - Musicales de Puerto Rico	Elimination/ Reclassification Entries	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from interfund services provided	\$ 245,000	\$ -	\$ -	\$ (245,000)	\$ -
Receipts from tickets sales and orchestra fees	-	150,575	130,873	-	281,448
Receipts from enrollment fees	7,755	-	-	-	7,755
Payments to suppliers	(1,033,022)	(813,557)	(136,403)	-	(1,982,982)
Payments to employees and related fringe benefits	(1,074,325)	(3,730,757)	(267,289)	-	(5,072,371)
Payments for management services used	(75,000)	(85,000)	(85,000)	245,000	-
Other operating cash receipts	1,128,249	-	-	-	1,128,249
Other	(35,932)	(37,118)	(2,406)	-	(75,456)
Net cash provided by (used in) operating activities	<u>\$ (837,275)</u>	<u>\$ (4,515,857)</u>	<u>\$ (360,225)</u>	<u>\$ -</u>	<u>\$ (5,713,357)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Legislative appropriations	1,223,174	3,573,117	267,314	-	5,063,605
Special appropriations	94,325	436,155	85,000	-	615,480
Federal assistance programs	269,353	407,153	239,244	-	915,750
Donations	55,000	22,745	-	-	77,745
Gain on extinguishment of debt	668,604	-	-	-	668,604
Other income	(894)	184	3,504	-	2,794
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Net cash provided by non-capital financing activities	<u>2,309,562</u>	<u>4,439,354</u>	<u>595,062</u>	<u>-</u>	<u>7,343,978</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal and interest paid on leases	(1,748)	(8,844)	-	-	(10,592)
Purchase of property and equipment	-	(8,675)	-	-	(8,675)
Net advances from related companies	(111,089)	134,501	(23,412)	-	-
Net cash provided by capital and related financing activities	<u>(112,837)</u>	<u>116,982</u>	<u>(23,412)</u>	<u>-</u>	<u>(19,267)</u>
Cash Flows from investing activities					
Interest from bank accounts	-	-	-	-	-
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	1,359,450	40,481	211,425	-	1,611,354
Cash and cash equivalents at beginning of year	<u>3,893,058</u>	<u>590,979.00</u>	<u>1,299,390.00</u>	<u>-</u>	<u>5,783,427</u>
Cash and cash equivalents at end of year	<u>\$ 5,252,508</u>	<u>\$ 631,460</u>	<u>\$ 1,510,815</u>	<u>\$ -</u>	<u>\$ 7,394,781</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES					
Operating (loss) gain	\$ (1,752,744)	\$ 10,452,180	\$ (420,174)	\$ -	\$ 8,279,262
Adjustment to reconcile operating loss to net cash provided by (used in) operating activities:					
Depreciation and amortization	37,359	39,509	741	-	77,609
Changes in operating assets and liabilities and deferred outflows and inflows of resources:					
Decrease (increase) in:					
Other assets	-	11,713	-	-	11,713
Accounts receivable	148,960	5,052	-	-	154,012
Prepaid expenses	(121)	-	-	-	(121)
Deferred outflows of resources from pension activities	223,909	23,797	21,270	-	268,976
Deferred outflows of resources from OPEB activities	36	4	3	-	43
Increase (decrease) in:					
Accounts payable and accrued liabilities	(599,006)	37	54,457	-	(544,512)
Lease liability	212	1,073	-	-	1,285
Unearned revenue	1,128,249	-	-	-	1,128,249
Accrued benefits and other liabilities	222,843	(12,599)	7,316.00	-	217,560
OPEB liability	(15,960)	(1,731)	(1,537)	-	(19,228)
Total pension liability	(277,545)	(15,039,974)	(26,750)	-	(15,344,269)
Deferred inflows of resources from pension activities	46,533	5,081	4,450	-	56,064
	<u>915,469</u>	<u>(14,968,038)</u>	<u>59,950</u>	<u>-</u>	<u>(13,992,619)</u>
Net cash used in operating activities	<u>\$ (837,275)</u>	<u>\$ (4,515,858)</u>	<u>\$ (360,224)</u>	<u>\$ -</u>	<u>\$ (5,713,357)</u>

The accompanying notes are an integral part of these statements.

Schedule of Expenditures and Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Treasury				
Passed-through program from: Commonwealth of Puerto Rico's Office of the Governor's	21.027	Puerto Rico Cultural Rescue	\$ -	\$ 883,750
	21.027	Premiun Pay to Essential Public & Private Sector Workers	-	32,000
Total Expenses of Federal Awards			\$ -	\$ 915,750

1. Basis of Presentation:

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal awards activity of the Puerto Rico Aqueduct and Sewer Authority (the Authority) for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

2. Basis of Accounting:

The Schedule was prepared using the accrual basis of accounting, which is the basis used by the Authority to account for its federal awards activity. The Authority's accounting system provides the primary information from which the schedule is prepared.

3. Matching Costs:

Matching costs, such as the nonfederal share of certain program costs, are not included in the Schedule.

4. Indirect Cost Rate:

The Authority has elected not to use the ten percent de minimis indirect cost rate as allowed by the Uniform Guidance.

5. Relationship to Federal Financial Reports:

U.S. Office of Management and Budget ("OMB") Uniform Guidance requires that federal financial reports and claims for reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The Authority prepares the federal financial reports and claims for reimbursements primarily based on information from the internal accounting records of the federal programs. The Authority prepares a reconciliation of the internal accounting records of the federal programs with the Authority's accounting system.

Nonfederal expenditures included	
Within other governmental funds	\$ 7,074,309
Expenditures per Schedule of Expenditures of Federal Awards	<u>915,750</u>
Total expenditures with other governmental funds	<u>\$ 7,990,059</u>



STRATEGIC CPAs

CONSULTING GROUP LLC

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Director of *Corporación de las Artes Musicales de Puerto Rico*:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Corporación de las Artes Musicales de Puerto Rico*, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise *Corporación de las Artes Musicales de Puerto Rico*'s basic financial statements, and have issued our report thereon dated June 30, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered *Corporación de las Artes Musicales de Puerto Rico*'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Corporación de las Artes Musicales de Puerto Rico*'s internal control. Accordingly, we do not express an opinion on the effectiveness of *Corporación de las Artes Musicales de Puerto Rico*'s internal control.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Corporación de las Artes Musicales de Puerto Rico*'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Strategic CPA’s
Consulting Group, LLC.*

License #LLC-342

Expiration date December 1, 2025.

Toa Baja, Puerto Rico

March 30, 2023



Notar stamp No E502590 was affixed to the original report.



STRATEGIC CPAs

CONSULTING GROUP LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Director of *Corporación de las Artes Musicales de Puerto Rico*:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited *Corporación de las Artes Musicales de Puerto Rico*'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of *Corporación de las Artes Musicales de Puerto Rico*'s major federal programs for the year ended June 30, 2022. *Corporación de las Artes Musicales de Puerto Rico*'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, *Corporación de las Artes Musicales de Puerto Rico* complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of *Corporación de las Artes Musicales de Puerto Rico* and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of *Corporación de las Artes Musicales de Puerto Rico*'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to *Corporación de las Artes Musicales de Puerto Rico*'s federal programs

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on *Corporación de las Artes Musicales de Puerto Rico's* compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about *Corporación de las Artes Musicales de Puerto Rico's* compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding *Corporación de las Artes Musicales de Puerto Rico's* compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of *Corporación de las Artes Musicales de Puerto Rico's* internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of *Corporación de las Artes Musicales de Puerto Rico's* internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on *Corporación de las Artes Musicales de Puerto Rico's* response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. *Corporación de las Artes Musicales de Puerto Rico's* response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Strategic CPA's
Consulting Group, LLC.*

License #LLC-342

Expiration date December 1, 2025.

Toa Baja, Puerto Rico

March 30, 2023.



Note: Stamp no E502591 was affixed to the original report.

Section I - Summary of Auditors' Results:

Financial Statements -

Type of auditors' report issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes None reported

Noncompliance material to financial statements noted? yes no

Federal Awards -

Internal control over major programs:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of Major Federal Programs –

Name of Federal Program	Federal Assistance Listing Number
Puerto Rico Cultural Rescue	21.027
Premium Pay to Essential Public and Private Sector Workers	21.027
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Section II – Financial Statements Findings:

None for the year ended June 30, 2022.

Section III – Federal Awards Findings and Questioned Costs:

None for the year ended June 30, 2022.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

It is the first time for Corporación de las Artes Musicales de Puerto Rico that they have obtained federal funds, therefore they do not have findings from previous years.