CORPORACIÓN DEL CONSERVATORIO DE MÚSICA DE PUERTO RICO

(A Component Unit of the Commonwealth of
Puerto Rico)

Audited Financial Statements
and Single Audit Report

For the Year Ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Corporación del Conservatorio de Música de Puerto Rico
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the **Corporación del Conservatorio de Música de Puerto Rico** (a component unit of the Commonwealth of Puerto Rico) (the Corporation), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As described in Note 7 to the basic financial statements, the Corporation has not implemented the requirements of Statement No. 73 of the Governmental Accounting Standard Board, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*, because the final audited pension information from the Employee Retirement System of the Government of the Commonwealth of Puerto Rico is not available. Therefore, the Corporation does not have nor record its proportionate share of total pension liability, deferred inflows of resources, deferred outflows of resources, and pension expense, and the Corporation has not recognized the effect of current year changes in the net pension liability as it relates to, deferred outflows of resources, deferred inflows of resources, and pension expense for the year ended June 30, 2020.

As described in Note 8 to the basic financial statements, the Corporation has not implemented the requirements of Statement No 75 of the Governmental Accounting Standard Board, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, because the Corporation has not been provided the actuarial information required for the implementation of such statement. Therefore, the Corporation has not recorded the total post-employment benefits liability, deferred inflows of resources, deferred outflows of resources, and other post-employment expense, and the Corporation has not recognized the effect of current year changes in the total post-employment benefits obligation as it related to, deferred outflows of resources, deferred inflows of resources, and other post-employment expense for the year ended June 30, 2020.

Accounting principles generally accepted in the United States of America require that the total pension liability, total other post-employment benefits liability, related deferred outflows of resources, deferred inflows of resources, as applicable, be recognized in accordance with parameters established by Statements No. 73 and 75, as well as the effect of current year changes of the respective liabilities that must be recognized in expense during the current year.

In addition, the accompanying notes to the basic financial statements do not disclose the pension related information required by Statements No. 73 and 75. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the **Corporación del Conservatorio de Música de Puerto Rico** as of June 30, 2020, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 14 to the financial statements, the Corporation is highly dependent on the Commonwealth of Puerto Rico (the Commonwealth) appropriations to finance its operations. The financial difficulties experienced by the Commonwealth, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt the Corporation's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Corporation adopted the provisions of GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, and GASB Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, because the Corporation has been provided with actuarial information as of June 30, 2017, for the implementation of such statements. Therefore, the Corporation should record its proportionate share of total pension liability, total post-employment benefits liability, deferred inflows of resources, deferred outflows of resources, pension expense, and other post- employment expense as of June 30, 2017. However, the Corporation has not recognized the effect of current year changes in the total pension liability, post-employment benefits obligation as it related to, deferred outflows of resources, deferred inflows of resources, pension expense, and other post-employment expense, effective July 1, 2019. The Corporation’s net position at the beginning of year has been adjusted for this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the GASB No. 73 and No. 75 required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the business-type activities of the **Corporación del Conservatorio de Música de Puerto Rico**. 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate 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 schedule of expenditures of federal awards is fairly stated, in all material respects in relation 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 May 31, 2021, on our consideration of Corporation'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. The purpose of that report is 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 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 Corporation's internal control over financial reporting and compliance.

De Angel & Cía, CPA

License No. LLC-317
Expires December 1, 2023

San Juan, Puerto Rico
May 31, 2021
2021-06-44

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to original

Introduction

The following discussion presents an overview of the financial position and financial activities of **Corporación del Conservatorio de Música de Puerto Rico** and its blended component unit **Corporación del Programa de Música 100x35**: Sistema de Orquestas y Coros Juveniles e Infantiles de Puerto Rico (the Corporation or Conservatory) for the year ended June 30, 2020. This discussion and analysis were prepared by the Corporation's management and should be read in conjunction with the financial statements and notes thereto which follow.

Mission

The Corporation is a specialized public university that offers professional programs of excellence at undergraduate and graduate levels, as well as services, studies and programs aimed at the community at large.

Vision

To attract, educate and develop students artistically and intellectually in the interpretation, teaching, and research of music. To ensure the perpetuity and strengthening of our Conservatory in order to transform it into a leading educational institution in Latin America.

Organizational Structure

The Corporation is governed by a nine (9) member board. Except for one faculty and one student representative (both appointed by the Corporation), "the Governor of the Commonwealth of Puerto Rico appoint and establishes the time limit of the remaining seven members of the Board". The president is appointed by the Governor, with the consent of the Senate of Puerto Rico. The Directors select the positions of Vice-President, and Secretary among their members. They also appoint the Chancellor after consultation with faculty, students, non-educational personnel, and the Academic Senate. The Chancellor is the principal executive and the maximum administrative and academic authority of the Corporation.

Programmatic Structure

Outreach programs - the Corporation has several outreach programs as follows:

- **Degree Program**: The Corporation is the only institution in Puerto Rico, which offers professional degrees in music. The principal purpose of the program is the formation of professional musicians in areas such as the performance, composition, and the music education.

- **Preparatory School**: The Preparatory School brings together non-academic offers from the Conservatory. Its mission is to provide the general community with access to outstanding musical education, encouraging the appreciation and enjoyment of the musical arts in each individual infant (from the age of 5 months), children, youth, and adults of all ages and impacting their quality of life. In addition, the Preparatory School has a pre-university program that seeks to develop potential students for programs leading to a degree.

Programmatic Structure, (Continued)

- **100x35 Music Program**: is a subsidiary public corporation ascribed to the **"Corporación del Conservatorio de Música de Puerto Rico"**. The program, promotes social rescue and development through music education, giving massive access to Puerto Rican children and youth, especially those with low resources, making music an instrument to motivate, dignify, unite, and help progress. The program created by Act 94-2012, uses as its main platform the collective teaching of orchestral, choral, and ensembles of all kinds as part of the training process. As a pedagogical instrument, musical group teaching through orchestral ensembles, corals, bands, and others are an invaluable tool for the prevention of social exclusion and violence and for developing values of community and coexistence, indispensable for living in society. The program has currently impacted more than 3,400 participants in the towns of Aguas Buenas, Bayamón, Cataño, Guaynabo, Guayama, Aibonito, Loíza, and San Juan.

- **Despertar Musical**: is a music education program created by the Conservatory in response to the need to provide a curriculum and teacher training tool in Spanish to formalize music education at an early age (for example, in programs like Head Start, Early Head Start, and Child Care) in children from an innovative, effective, practical, and attractive approach. The program also generates educational materials that stimulate school use and the development of skills and concepts specifically related to musical learning, in turn helping to rescue the tradition of singing in the family and in school.

Objectives:

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

Statistical Data

The general index of retention of the Corporation is of approximately 92%. Approximately, 97% of graduated students are working in areas related to their music studies or are studying graduated courses in other institutions.

	2020	2019	2018
Concerts and activities	127	367	273
Overall activity attendance	7,001	9,177	7,406
Non-degree students enrolled	1,077	1,057	1,032
Degree students enrolled (undergraduate, graduate, and continuing education)	404	413	416

Students

Approximately, 47% of the students are high school graduates and 26% are transfers from other universities. The Corporation has students from 58 towns or municipalities, representing 74% of the municipalities of Puerto Rico. The Degree Program has an enrollment of 404 students as of June 30, 2020. The Preparatory School, a non-degree program for the community had an enrollment of 1,077 students. The Corporation also offered a variety of institutional concerts during the year, with over 127 presentation and a public attendance of approximately 7,001 people.

Using the Financial Statements

The accounting and reporting policies of the Corporation conform with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38, which expands the applicability of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Previously, public colleges and universities had their own financial reporting model. The new reporting model should make annual reports easier to understand and be more useful to the people who use the information to make decisions: legislators, investors, creditors, and the public.

The financial statements presentation provides a comprehensive, entity-wide perspective of the Corporation's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows. The focus of these financial statements will be on the government as a whole rather than on individual funds. These statements are prepared on the full accrual basis of accounting and will have the look and feel of corporate financial statements. Users of the financial statements will be able to see the cost of providing services, and how government finances its programs, and understand the extent in which government has invested in capital assets. Other requirements are the presentation of capital assets infrastructure, reporting cash flows from operations, changes from indirect to direct method, and Management's Discussion and Analysis as supplementary information.

Overview of the Basic Financial Statements

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

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

The Statement of Activities and Changes in Net Position presents information on the changes in net position during the year. All changes in net position are reported as soon as the underlying event takes place, regardless of the timing of the related cash flows. Thus, revenues and expenses are recorded for some items that will result in cash flows in future fiscal years. The Statement of Activities and Changes in Net Position is the Corporation's income statement. Financial activities are reported as either operating or non-operating. GASB Statement No. 35 requires state appropriations, gifts, and investment and endowment income to be classified as non-operating revenues. Accordingly, the Corporation reports a net operating loss prior to the addition of non-operating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which spread the cost of an asset over its expected useful life. Tuition revenue is reduced by gift scholarships and institutional aid and is reported net of the scholarship allowance.

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

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

Financial Highlights and Analysis of Significant Variances

As of June 30, 2020, the Corporation has total assets of approximately $79.3 million, total liabilities of approximately $24.5 million and a net position of approximately $54.8 million. The Corporation net position decreased by approximately $2.6 million or 4.5%, during the year ended June 30, 2020, when compared with year ended June 30, 2019. Net investment in capital assets decreased by approximately $2.3 million, while unrestricted net position decreased in approximately $1 million. Unrestricted net position represents the portion of assets, net of the corresponding liabilities that can be used to meet ongoing obligations and new initiatives.

The schedule below presents condensed financial statements for the Corporation as of and for the years ended June 30, 2020 and 2019.

Financial Highlights and Analysis of Significant Variances

CONDENSED STATEMENTS OF NET POSITION

	2020	2019
Assets:		(Restated)
Current Assets	$ 2,679,497	$ 2,635,792
Capital Assets	69,109,291	71,467,016
Other Assets	4,179,392	3,398,239
Total Assets	75,968,180	77,501,047
Deferred Outflows of Resources	3,405,202	3,405,202
Total Assets and Deferred Outflows of Resources	79,373,382	80,906,249
Liabilities:		
Current Liabilities	1,916,909	1,815,555
Non-current Liabilities	20,107,462	20,096,564
Total Liabilities	22,024,371	21,912,119
Deferred Inflows of Resources	2,484,931	2,484,931
Net Position:		
Net Investment in Capital Assets	69,109,291	71,467,016
Restricted	4,179,392	3,398,239
Unrestricted	(18,424,603)	(18,356,056)
Total Net Position	54,864,080	56,509,199
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 79,373,382	$ 80,906,249

Assets - As of June 30, 2020, total assets amounted to approximately $79.3 million. The largest asset class was capital assets (net of depreciation) which amounted to approximately $69.1million, or 87% of total assets.

Liabilities - As of June 30, 2020, total liabilities amounted to approximately $24.3 million from which noncurrent liabilities, including compensated absences, OBEP pension liability and net pension liability represent approximately 96% of total liabilities.

Net Position - The equity of the Corporation, amounted to approximately $54.8 million as of June 30, 2020, is reported on the Statement of Net Position in three (3) categories: net investment in capital assets of $69.1 million; restricted net position totaling $4.1 million; and unrestricted net position of ($18.4 million).

Financial Highlights and Analysis of Significant Variances, (Continued)

Restricted net position is subject to externally imposed restrictions governing their use. Although unrestricted net position is not subject to externally imposed stipulations, most of the unrestricted net position has been internally designated for support of academic programs and initiatives, capital projects, and working capital requirements. Scholarship restricted endowment for 2020 and 2019 amounted to $1,600,662 and $1,580,670, respectively. These represent resources that are subject to external restrictions on how they may be used.

Total net position decreased by approximately $2.6 million during the year ended June 30, 2020. It was mainly due to a prior period adjustment of approximately $969 thousand resulting from the recognition of the Corporation's unfunded pension obligations upon implementation of the GASB Statement No. 68, as amended by GASB No. 73 with audited schedules as of June 30, 2017, issued by the Puerto Rico Retirement System Administration provided by KPMG in its audited report dated December 17, 2020. Net investment in capital asset decreased by approximately $2.3 million, primarily due to the recognition of the depreciation expense during the fiscal year. Restricted net position increased by approximately $781 thousand as a result of scholarship awarded. Unrestricted net position decreased by $1 million primarily due to prior period adjustment mentioned above. Unrestricted net position represents the portion of assets, net of the corresponding liabilities that can be used to meet ongoing obligations and new initiatives. The table below presents summary-level information on revenues, expenses, and other changes in the Corporation's net position for the years ended June 30, 2020 and 2019:

CONDENSED STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION

	2020	2019 (Restated)
Operating Revenues	$ 2,907,312	$ 2,944,409
Operating Expenses	10,725,075	10,758,540
Net Operating Loss	(7,817,763)	(7,814,131)
Non-Operating Revenues	6,129,777	5,755,370
Income (Loss) Before Other Revenues	(1,687,986)	(2,058,761)
Other Revenues	42,867	39,719
Change in Net Position	(1,645,119)	(2,019,042)
Net Position at Beginning of Year, as Previously Reported	56,509,199	59,517,937
Prior Period Adjustments	-	(989,696)
Net Position at Beginning of Year, as Restated	56,509,199	58,528,241
Net Position at End of Year	$ 54,864,080	$ 56,509,199

Financial Highlights and Analysis of Significant Variances, (Continued)

Operating revenues - For the year ended June 30, 2020, operating revenues totaled approximately $2.9 million. The primary components of operating revenues were student tuition and fees of $2.5 million; local and private sponsored programs of $108 thousand; rent of $79 thousand and other income of $126 thousand. The major increase in operating revenues was related to rent of facilities and local and private sponsored programs.

Non-Operating Revenues - The non-operating revenues increased by $374 thousand or 7%, compared to prior fiscal year. The Corporation received less governmental grants and appropriations in 2020 than in 2019. Most of the Corporation's revenues during 2020 are from non-operating revenues, which represent approximately 62% of the total revenues.

Operating expenses - For the year ended June 30, 2020, operating expenses totaled approximately $10.7 million which decreased by approximately $33 thousand or -0.3% compared with prior year. Of this amount, approximately $6.2 million were expended for educational and general programs, including salaries and benefits as well as professional consulting services. Such line items increased by approximately $27 thousand in the fiscal year ended June 30, 2020. Depreciation expense for the year amounted to approximately $2.4 million. Other significant expenses are utilities of $827 thousand, repairs and maintenance of $240 thousand and general and administrative expenses of $846 thousand approximately. During the year 2020, major fluctuations were noted in the following expense categories: salaries and fringe benefits, professional and consulting services, utilities, and scholarships, building repairs and maintenance and bad debts.

Request for information

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chancellor's Office, Corporación del Conservatorio de Música de Puerto Rico, 951 Avenida Ponce de León, San Juan, Puerto Rico 00907-3373.

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA DE PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

As of June 30, 2020

ASSETS

Current Assets:	
Cash and Cash Equivalents	$ 2,264,524
Accounts Receivable, Net	406,724
Prepaid Expenses	8,249
Total Current Assets	2,679,497
Non-Current Assets:	
Restricted Cash and Cash Equivalents	4,179,392
Capital Assets, Net of Accumulated Depreciation	69,109,291
Total Non-Current Assets	73,288,683
Total Assets	75,968,180
Deferred Outflows of Resources:	
Contributions to Employees Retirement System	3,405,202
Total Assets and Deferred Outflows of Resources	$ 79,373,382

The Notes to Financial Statements are an integral part of this Statement.

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

As of June 30, 2020

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts Payable	$ 382,046
Compensated Absences	104,777
Accrued Expenses	253,695
Unearned Income	1,176,391
Total Current Liabilities	1,916,909
Non-Current Liabilities:	
Compensated Absences	49,170
OBEP Liability	228,832
Net Pension Liability	19,829,460
Total Non-Current Liabilities	20,107,462
Total Liabilities	22,024,371
Deferred Inflows of Resources:	
Unamortized Investment in Employees Retirement System Retirement System	2,484,931
Net Position:	
Net Investment in Capital Assets	69,109,291
Restricted for:	
Scholarship Restricted Endowment Fund	1,600,662
Other Restricted Funds	2,578,730
Unrestricted	(18,424,603)
Total Net Position	54,864,080
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 79,373,382

The Notes to Financial Statements are an integral part of this Statement.

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Activities and Changes in Net Position

For the Year Ended June 30, 2020

Operating Revenues:	
Tuition and Fees (Net of Scholarship Allowance of $69,123 in 2020 and $70,412 in 2019)	$ 2,593,524
Local and Private Sponsored Programs	108,101
Rent	79,318
Other	126,369
Total Operating Revenue	2,907,312
Operating Expenses:	
Salaries and Fringe Benefits	3,602,758
Faculty Professional and Consulting Services	2,304,304
Professional and Consulting Services	355,132
Depreciation	2,411,739
Rent	33,150
Utilities	827,615
Repairs and Maintenance	240,263
Scholarships	60,646
Bad Debts	43,041
General and Administrative	846,427
Total Operating Expenses	10,725,075
Net Operating Loss	(7,817,763)

The Notes to Financial Statements are an integral part of this Statement.

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Activities and Changes in Net Position

For the Year Ended June 30, 2020

Non-Operating Revenues (Expenses):	
Contribution from Commonwealth of Puerto Rico	5,615,372
Interest Income	3,051
Gifts and Grants	474,081
Other	37,273
Total Non-Operating Revenue	6,129,777
Other Revenues:	
Additions to Term Endowments	42,867
Total Other Revenues	42,867
(Decrease) Increase in Net Position	(1,645,119)
Net Position at Beginning of Year, as Previously Reported	57,498,895
Prior Period Adjustments	(989,696)
Net Position at Beginning of Year, as Restated	56,509,199
Net Position at End of Year	$ 54,864,080

The Notes to Financial Statements are an integral part of this Statement.

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	$ 2,789,758
Local and Private Sponsored Programs	118,875
Payments to Employees and Related Fringe Benefits	(6,229,858)
Payments to Suppliers	(1,982,425)
Other Receipts, Including Rent	194,913
Net Cash Used in Operating Activities	(5,108,737)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Contribution from Commonwealth of Puerto Rico	5,615,372
Other Income	474,081
Gifts and Grants	37,273
Net Cash Provided by Non-Capital Financing Activities	6,126,726
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Addition to Term Endowment	42,867
Acquisition of Capital Assets	(54,014)
Net Cash Used in Capital and Related Financing Activities	(11,147)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	3,051
Net Change in Cash and Cash Equivalents	1,009,893
Cash and Cash Equivalents at Beginning of Year	5,434,023
Cash and Cash Equivalents at End of Year	$ 6,443,916

The Notes to Financial Statements are an integral part of this Statement.

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

For the Year Ended June 30, 2020

AS PRESENTED IN THE STATEMENT OF NET POSITION	
Cash	$ 2,264,524
Restricted Cash and Cash Equivalents	4,179,392
Total Cash and Cash Equivalents	$ 6,443,916
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating Loss	$ (7,817,763)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:	
Depreciation	2,411,739
Bad Debts	43,041
(Increase) Decrease in Assets:	
Accounts Receivable	105,070
Prepaid Expenses	36,924
Increase (Decrease) in Liabilities:	
Accounts Payable	(11,186)
Accrued Expenses	32,274
Unearned Income	91,164
Total Adjustments	2,709,026
Net Cash Used in Operating Activities	$ (5,108,737)

The Notes to Financial Statements are an integral part of this Statement.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The Corporation is governed by a nine-member (9) board, the president is appointed by the Governor, with the consent of the Senate of Puerto Rico. The Corporation is responsible for providing the Puerto Rico community, and especially its youths, with the required facilities to educate and perfect their musical skills, including secondary educational program for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprises, and particular citizens. The Commonwealth provides financial support to the Corporation through legislative appropriations.

Financial Reporting

The accompanying basic financial statements of the Corporation are presented in conformity with U.S. Generally Accepted Accounting Principles (US GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying basic financial statements present the financial position of the Corporation, the results of operations, and its cash flows of the business-type activities. The basic financial statements are presented as of June 30, 2020, and for the year then ended.

a) *Financial Reporting Entity* - The basic financial statements of the Corporation include the accounts of **Corporación del Conservatorio de Música de Puerto Rico** and its related company **Corporación Del Programa de Musica 100 X 35**: Sistema de Orquestas y Coros Juveniles e Infantiles de Puerto Rico. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include when the Corporation appoints a voting majority of an organization's governing body and it has (i) the ability to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Corporation. In situations where the Corporation has not appointed the voting majority of an organization's governing body, the GASB has then provided as criteria for financial accountability the fiscal dependency of such organizations on the Corporation when there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Corporation.

As required by US GAAP, these basic financial statements present the Corporation and its component units.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

The financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statements No. 39 and No. 61.

b) *Blended Component Units* - The following entity, while legally separate from the Commonwealth, meet the blending criteria to be reported as part of the primary government as follows:

   Corporación del Programa de Música 100x35: Sistema de Orquestas y Coros Juveniles e Infantiles de Puerto Rico" is a public corporation created by Law No. 94 of May 23, 2012. The Corporation was created to promote the music education to low-income children in order to prevent social problems and promoting individual social development.

Measurement Focus and Basis of Accounting

For financial reporting purposes, the Corporation is considered a special purpose governmental agency engaged only in business-types activities, as defined by the GASB 35. Accordingly, the Corporation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under accrual basis, revenues are recognized when earned, and expenses are recorded when the liability was incurred regardless of the timing of related cash flow. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Application of Accounting Standards

The Corporation complies with accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles, which became effective September 15, 2009, replaces the FASB's previous four-part GAAP hierarchy with a single source of GAAP. GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, issued in December 2010, effective July 1, 2012, incorporates the FASB, APB, and ARB pronouncements issued on or before November 30th, 1989, which do not conflict with or contradict GASB pronouncements. While GASBS No. 62 keeps the substance of that guidance, it nevertheless modifies the guidance to recognize the effects of the governmental environment and the needs of governmental financial statement users. GASB No. 62 also supersedes GASB No. 20, thus eliminating the election that allowed enterprise funds and business-type activities to apply FASB Statements and Interpretations issued after November 30, 1989, that did not conflict with or contradict GASB pronouncements.

The Corporation accounts for pension under the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB No. 27, and Statement No. 71 *Pension Transition for Contribution Made Subsequent to the Measurement Date*. This Statement established standards for measurement, recognition, and display of pension expense and related liabilities in financial statements of state and local governmental employers.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Application of Accounting Standards, (Continued)

The Corporation follows the provisions of GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. There was no impact on the Corporation's financial statements as a result of the implementation of this statement.

Classification of Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Corporation are tuition and fees, rent, federal grants, local and private sponsored programs and other. Operating expenses for proprietary funds include mainly salaries, faculty professional and consulting services, and other general and administrative operating expenses. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues as defined by GASB No. 34, including appropriations, investment income and gifts. Restricted and unrestricted resources are spent and tracked at the discretion of the Corporation within the guidelines of donor restricted, if any.

Designation of Management

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

Capacity to Manage Operations

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

Use of Estimates in the Preparation of Financial Statements

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Corporation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Corporation maintains cash and cash equivalents in deposit accounts with high credit financial institutions. The laws of the Commonwealth of Puerto Rico require that public funds deposited in commercial banks be collateralized when funds exceed the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth of Puerto Rico.

Allowance for Doubtful Accounts

The allowance for uncollectible accounts and other receivables is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collections of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

Capital Assets

Property, plant, equipment, and books and materials are stated at historical cost when purchased or at estimated fair value when donated. Costs of normal maintenance and repairs that do not add value to the asset or neither extend assets lives are not capitalized. Improvements to building and other assets that significantly increase the value or extend the useful life of the assets are capitalized. Depreciation is computed on a straight-line basis over the following estimated useful lives:

Assets	Years
Building	40
Library	40
Furniture and Equipment	15
Musical Instruments	15
Leasehold Improvements	7
Motor Vehicles	5
Software	5

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Impairment of Long-Lived Assets

The Corporation follows the provision of GASB 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, 2020, the Company evaluated its capital assets for impairment amount, if any, would not have a material impact in the Corporation's financial statements.

Net Position Classifications

Net Position is classified and displayed in the following three categories:

a) **Net Investment in Capital Assets** - consists of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

b) **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 less related liabilities.

c) **Unrestricted Net Position** - net position whose use by the Corporation is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may be limited by contractual agreements with outside parties.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Corporation's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. The primary restricted assets are related to scholarship endowment fund, and donations that are fully explained on Note 9.

Compensated Absences

From July 1, 2016, and until April 28, 2017, with the exceptions explained below, the Corporation employees were granted vacations and sick leave in accordance with the *"Reglamento de Personal Docente"* reviewed on July 14,2014 and *"Reglamento de Personal No Docente"* reviewed on August 29, 2016 (Personnel Regulations). Law No. 66 of June 17, 2014, for Fiscal and Operational Sustainability of the Government of the Estado Libre Asociado de Puerto Rico (Law 66-2014) limited the accrual of vacation and sick leave, and the payment for excess days accrued.

Law No. 8 of February 4, 2017, for the Administration and Transformation of Human Resources in the Government of Puerto Rico (Law 8-2017) and Law 26 of April 29, 2017, for Compliance with the Fiscal Plan (Law 26-2017) established new parameters for the accrual of vacations and sick leave.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Compensated Absences, (Continued)

During year 2020, the Corporation's employees were granted vacations and sick leave as follows:

Vacations

Vacations were accrued as follows:

Type of Employment	Monthly Accrual	Maximum Annual Balance
Regular Employment	1.25 days	15 days
Temporary Employment	1.25 days	15 days

For the period between April 29, 2017, to December 16, 2019, all employees accrued 1.25 vacation days monthly, equivalent to fifteen (15) days annually, and up to a maximum of sixty (60) days. Accrued days more than sixty (60) days cannot be paid. Any excess of sixty (60) days accrued by employees prior to April 29, 2017, had to be used by December 31 of each year.

Sick leave

For the period between July 1, 2016 and April 28, 2017, employees accrued sick leave as follows:

Type of Employment	Monthly Accrual	Maximum Annual Balance
Regular Employment	1.50 days	18 days
Temporary Employment	1.50 days	18 days

After April 29, 2017, and while Law 26-2017 remains in effect, the following applies to all Corporation employees:

	Monthly Accrual	Maximum Annual Balance
Regular Employment	1.50 days	18 days
Temporary Employment	1.50 days	18 days

Days in excess of the ninety (90) day accrual limit cannot be paid.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

The Corporation accrues a liability for compensated absences which meet the following criteria:

1. The Corporation's obligations relating to employee's rights to receive compensation for futures absences are attributable to employee's services already rendered.
2. The obligation relates to right that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASB No. 16; the Corporation has accrued a liability for compensated absences, which has been earned but not taken by Corporation's employees. For the financial statements, the current portion is the amount estimated to be used in the following years. Accrued compensated absences for the fiscal year ended June 30, 2020, for vacation days only, amounted to $157,947.

Contributions from Commonwealth of Puerto Rico

The Corporation receives annually legislative appropriations from the Government of the Commonwealth of Puerto Rico. These appropriations are for the operations of the Corporation and are recognized when granted. The legislative appropriations for any specific activity not used in the fiscal year are credited to unearned income and credited to income when used.

Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of activities and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Corporation and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as operating revenue in the Corporation's financial statements.

Gifts and Pledges

Unconditional promises to give (pledges) from organizations and individuals are recorded as receivables and revenues in the year promised, at the present value of expected cash flows. Conditional promises to give are not recognized until they become unconditional, that is when the conditions are substantially met. Gifts of noncash assets are recorded at the fair market value at the date of contribution. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and are not recorded as assets until the related gift has been received.

Risk Financing

The Corporation carries commercial insurance to cover casualty, theft, claims and other losses. However, during the year 2020, the Corporation decided to self-insure the Property area. The current insurance policies have not been cancelled or terminated. The Corporation has not settled any claims in excess of its insurance coverage for the year ended June 30, 2020.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

New Accounting Pronouncements

GASB has issued the following statements which the Corporation will be analyzing their impact in future years for implementation:

GASB Statement Number		Adoption Required in Fiscal Year
		July 1st to June 30th
83	Certain Asset Retirement Obligation	2019
84	Fiduciary Activities	2020
87	Leases	2021
88	Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	2019
89	Accounting for Interest Cost Incurred before the End of a Construction Period	2020
90	Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61	2019
91	Conduit Debt Obligations	2021
92	Omnibus 2020	2022
93	Replacement of Interbank Offered Rates	2023
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2023
95	Postponement of the Effective Dates of Certain Authoritative Guidance	2021
96	Subscription-Based Information Technology Arrangements	2023
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32	2022

The impact of these statements has not yet been determined by the Corporation.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Effects of New Accounting Standards

Statement No. 85, *OMNIBUS 2017*, the objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This statement had no impact on the basic financial statement of the Corporation.

Statement No.86, *Certain Debt Extinguished Issue*, the primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Effects of New Accounting Standards. (Continued)

Statement No. 87, *Advance Refundings Resulting in Defeasance of Debt*, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. This statement had no impact on the basic financial statements of the Corporation.

Statement No. 88, *Certain Disclosures related to Debt,* including Direct Borrowing and Direct Placement, the primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This statement had no impact on the basic financial statements of the Corporation.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Effects of New Accounting Standards. (Continued)

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, the objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This statement had no impact on the basic financial statements of the Corporation.

Statement No. 90, *Majority Equity Interest an amendment of GASB Statement No.14 and No. 61*, the primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Effects of New Accounting Standards. (Continued)

Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. This statement had no impact on the basic financial statements of the Corporation.

2. CHANGE IN ACCOUNTING PRINCIPLES

The Corporation has implemented the requirements of Statement No 75 of the Governmental Accounting Standard Board, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", and Statement 73, "*Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB 68, and amendments to certain provision of GASB Statement 67 and 68*" in the fiscal year June 30, 2018, because the Corporation has been provided the actuarial information required for the implementation of such statements. Therefore, the Corporation has recorded the total net pension liability, post-employment benefits liability, deferred inflows of resources, deferred outflows of resources, pension expenses, and other post- employment expense for that period. In relation to GASB 75, because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share which are recognized immediately during the measurement year. To adjust the Net OBEP and the Net Pension Liability Position Proportioned Share beginning balance of July 1, 2019 to the audited amount as of June 30, 2019 of the Puerto Rico Employee Retirement System Administration, the Net OBEP Liability was increased by $228,832 and the Net Pension Liability were adjusted reducing it by $2.6 million and increasing deferred outflows/inflows by $3.3 million for a net effect of $760,864. The management of the Corporation believes that this adoption presents more appropriately the financial position of the Corporation in line with the requirements established by the adopted Statements.

Accordingly, the beginning net position balance was restated as follows:

Beginning Net Position, As Previously Reported, June 30, 2019		$ 57,498,895
Net Pension Liability - measurement date as of June 30, 2017	2,615,529	
Net OBEP Liability - measurement date as of June 30, 2017	(228,832)	
Deferred Outflows - measurement date as of June 30, 2017	(1,321,042)	
Deferred Inflows - measurement date as of June 30, 2017	(2,055,351)	
Total Prior Period Adjustments		(989,696)
Beginning Net Position, As Restated, July 1, 2019		$ 56,509,199

3. DEPOSITS

The Corporation maintains its cash and cash equivalents in bank deposit accounts at high credit qualified financial institutions.

	Book Balance			
	Unrestricted	Restricted	Total	Bank Balance
Deposits in Financial Institutions	$ 2,263,843	$ 4,179,392	$ 6,443,235	$ 6,674,422
Petty Cash	681	-	681	-
Total	$ 2,264,524	$ 4,179,392	$ 6,443,916	$ 6,674,422

The Corporation follows the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No.3.* Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of Corporation at June 30, 2020:

- *Credit Risk* - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2020, Corporation has cash and cash equivalents in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of $250,000, and in other financial institutions, including insurance company. No investments in debt or equity securities were made during the fiscal year ended June 30, 2020; however, the amounts in excess of the FDIC coverage amounted to $3.6 million, approximately. Therefore, Corporation's management has concluded that the credit risk related to any possible loss related to defaults by commercial and government banks on the Corporation's deposits is considered high at June 30, 2020.

- *Interest Rate Risk* - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Corporation manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2020, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks' deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. At June 30, 2020, the interest rate risk associated with the Corporation's cash and cash equivalents are considered low since they have no investment portfolio.

- *Foreign Exchange Risk* - This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. Corporation is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Corporation's deposits is considered low at June 30, 2020.

4. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts of student tuition and fees, contract and grant reimbursements due from third parties, reported net of allowances. Allowances for uncollectible accounts, are reported based on management's best estimate as of fiscal year-end considering type, collection history, and other factors considered appropriate.

As of June 30, 2020, the Corporation reported the following amounts as accounts receivable:

Account receivables represent amounts of student tuition and fees, contract and grant reimbursements due from third parties, reported net of allowances. Allowances for uncollectible accounts, are reported based on management's best estimate as of fiscal year-end considering type, collection history, and other factors considered appropriate.

As of June 30, 2020, the Corporation reported the following amounts as accounts receivable:

Corporación del Conservatorio de Música de Puerto Rico:

Students Tuition and Fees	$	477,111
Contracts and Grants		269,170
Other		23,795
		770,076
Less: Allowance for Doubtful Accounts		(431,522)
Subtotal	$	338,554

Corporación del Programa de Música 100x35: Sistema de Orquestas y Coros Juveniles e Infantiles de Puerto Rico:

Contracts and Grants	$	74,170
Less: Allowance for Doubtful Accounts		(6,000)
Subtotal		68,170
Accounts Receivable, Net	$	406,724

5. CAPITAL ASSETS

Corporación del Conservatorio de Música de Puerto Rico:

	June 30, 2019	Increase	Decrease	June 30, 2020
Capital Assets Not Being Depreciated:				
Land	$ 5,156,500	$ -	$ -	$ 5,156,500
Capital Assets Being Depreciated:				
Building	81,534,780	-	-	81,534,780
Library	375,670	-	-	375,670
Furniture and Equipment	3,856,054	25,038	-	3,881,092
Leasehold Improvements	1,330,579	-	-	1,330,579
Musical Instruments	2,846,908	16,792	-	2,863,700
Software's	415,645	8,297	-	423,942
Motor Vehicles	17,500	-	-	17,500
Total Capital Assets Being Depreciated	90,377,136	50,127	-	90,427,263
Less Accumulated Depreciation:				
Building	(17,650,785)	-	(2,038,369)	(19,689,154)
Library	(259,317)	-	(9,392)	(268,709)
Furniture and Equipment	(2,636,762)	-	(187,618)	(2,824,380)
Leasehold Improvements	(1,330,579)	-	-	(1,330,579)
Musical Instruments	(1,858,231)	-	(148,264)	(2,006,495)
Software's	(350,697)	-	(24,432)	(375,129)
Motor Vehicles	(17,500)	-	-	(17,500)
Total Accumulated Depreciation	(24,103,871)	-	(2,408,075)	(26,511,946)
Subtotal	$ 71,429,765	$ 50,127	$(2,408,075)	$ 69,071,817

5. CAPITAL ASSETS, (Continued)

Corporación del Programa de Música 100x35: Sistema de Orquestas y Coros Juveniles e Infantiles de Puerto Rico

	June 30, 2019	Increase	Decrease	June 30, 2020
Capital Assets Being Depreciated:				
Furniture and Equipment	$ 19,711	$ 2,387	$ -	$ 22,098
Musical Instruments	139,502	1,500	-	141,002
Total Capital Assets Being Depreciated	159,213	3,887	-	163,100
Less Accumulated Depreciation:				
Furniture and Equipment	(11,416)	-	(1,064)	(12,480)
Musical Instruments	(110,546)	-	(2,600)	(113,146)
Total Accumulated Depreciation	(121,962)	-	(3,664)	(125,626)
Subtotal	$ 37,251	$ 3,887	$ (3,664)	$ 37,474
Net Capital Assets	$ 71,467,016	$ 54,014	$(2,411,739)	$ 69,109,291

6. UNEARNED INCOME

Unearned income includes student tuition and fees paid in advance for the next academic semester, and contracts/grants for specific restricted use. As of June 30, 2020, the Corporation reported the following amounts as unearned revenue:

Corporación del Conservatorio de Música de Puerto Rico:

Student Tuition and Fees	$ 116,194
Contracts and Grants	913,412
Subtotal	1,029,606

Corporación del Programa de Música 100x35: Sistema de Orquestas y Coros Juveniles e Infantiles de Puerto Rico:

Contracts and Grants	146,785
Unearned Income	$ 1,176,391

7. RETIREMENT SYSTEM

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Commonwealth) pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. The System's governance is vested in an eleven-member Board of Trustees (the Board), which sets policy and oversees the operations consistent with applicable laws. Pursuant to Act No. 106 of August 23, 2017 (Act No. 106-2017), the Board was substituted by the Retirement Board of the Government of Puerto Rico.

The System administered different benefit structures pursuant to Act No. 447 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 a member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by the System. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth and the Commonwealth's public corporations at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the System are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval.

Certain plan provisions are different for the three groups of members who entered the System 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 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, become 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.

The assets of the defined benefit program, the defined contribution program, and the Contributory Hybrid Program are pooled and invested by the System. Future benefit payments will be paid from the same pool of assets.

7. RETIREMENT SYSTEM, (Continued)

Service Retirement Eligibility Requirements:

Eligibility for Act No 447 Members - Act No. 447 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. 447 members could retire upon (1) attainment of age 55 with twenty five (25) years of credited service, (2) attainment of age 58 with ten (10) years of credited service, (3) any age with thirty (30) years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with twenty five (25) years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with eight (8) years of credited service as a Mayor. In addition, No. 447 members who attained thirty (30) years of credited service by December 31, 2013, are 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 thirty (30) years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with ten (10) years of credited service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
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

Eligibility for Act No 1 Members - Act No. 1 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 members could retire upon (1) attainment of age 55 with twenty-five (25) years of credited service or (2) attainment of age 65 with ten (10) years of credited service.

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 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

7. RETIREMENT SYSTEM, (Continued)

Eligibility for Members Hired after June 30, 2013: Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

Service Retirement Annuity Benefits - An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the 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 hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

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.

If the Act No. 447 member had at least thirty (30) years of credited service as of June 30, 2013, the accrued benefit equals 66% 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 56 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.6% of average compensation up to $6,600 multiplied by years of credited service, up to thirty (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 thirty (30) years of credited service as of June 30, 2013 and attains thirty (30) years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1 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 are considered pre-July 1, 2013 contributions; the contributions to the 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 equals 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., the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated 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.

7. RETIREMENT SYSTEM, (Continued)

Accrued Benefit as of June 30, 2013, for Act No. 1 Members - The accrued benefit as of June 30, 2013 shall be 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.

Member Contributions - Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year. Members may voluntarily make additional contributions to their hybrid contribution account.

Employer Contributions - Effective July 1, 2011, employer contributions are 9.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 125% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

Supplemental Contributions from the Commonwealth's General Fund - Effective July 1, 2013, the System will receive a supplemental contribution of $2,000 (of which $800 corresponds to the pension plan and $1,200 corresponds to the post employment healthcare benefits plan) each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

Special Benefit Contributions - The amount of Special Benefits Contributions is established by law and is not actuarially determined. The total amount of Special Benefits Contributions of approximately $195 million in 2017 mainly represents contributions from the Commonwealth's General Fund, public corporations, and municipalities to finance special benefits granted by special laws as identified above. The funding of the special benefits is provided by the Commonwealth's General Fund (through legislative appropriations each July 1) for former government employees of the Commonwealth and of certain public corporations without their own treasuries, and by certain public corporations with their own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for their special benefits. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in a trust for the payment of other pension benefits. During the fiscal year ended June 30, 2017, the System transferred to the Commonwealth's General Fund approximately $56.7 million monthly to cover any deficiency in the payment of special benefits and pensions. The Additional Uniform Contribution (AUC) is to be paid by the Commonwealth's General Fund, public corporations with their own treasuries, and municipalities. The AUC determined for the fiscal year ended June 30, 2017, was approximately $776 million. The AUC was subsequently eliminated by Act No. 106-2017.

7. RETIREMENT SYSTEM, (Continued)

GASB Statement No. 68 requires participating employers in the System to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense. The employer allocation percentages presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ratio of the contributions of an individual employer to total contributions to the System, as defined, during the year ended June 30, 2017.

At June 30, 2017, the Corporation reports a liability of $19,829,460 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Corporation's proportion of the Net Pension Liability was based on a projection of the Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Corporation's proportion was 0.5795%.

ERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in October 23,2020. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, ERS expects to continue using a discount rate net of administrative expenses for GASB's No. 67 and 68 calculations through at least the 2017-2018 fiscal years. ERS will continue to check the materiality of the difference in calculation until such time as actuarial have changed his methodology.

For the year ended June 30, 2017, the Corporation recognized pension expense of $1,627,345 without the effect of the application of GASB No. 68 and a Net Pension Liability of $19,829,460, determined as follows:

Change in Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Proportional Share
Beginning Balance	$ (36,432,873,000)	$ (1,265,885,000)	$ (37,698,758,000)	$(21,846,430)
Change for the year:				-
Service Cost	(628,025,000)	-	(628,025,000)	(363,940)
Interest on Total Pension Liability	(1,034,186,000)	-	(1,034,186,000)	(599,311)
Effect of Economic/Demographic (Gains) of Loses	248,414,000	-	248,414,000	143,956
Effect of Assumptions Changes or Inputs	4,179,110,000	-	4,179,110,000	2,421,794
Benefit Payments	1,558,266,000	(1,558,266,000)	-	-
Administrative Expenses		(26,142,000)	(26,142,000)	(15,149)
Other Expenses	-	(394,324,000)	(394,324,000)	(228,511)
Costs of Bonds	-	(198,084,000)	(198,084,000)	(114,790)
Member Contributions	-	320,095,000	320,095,000	185,495
Net Investment Income or Losses	-	92,188,000	92,188,000	53,423
Employer Contributions	-	921,538,000	921,538,000	534,031
Ending Balance	$ (32,109,294,000)	$ (2,108,880,000)	$ (34,218,174,000)	$(19,829,460)

7. RETIREMENT SYSTEM, (Continued)

The Corporation has implemented the Governmental Accounting Standards Board (GASB) Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and amendments to certain provision of GASB Statement 67 and 68", in the fiscal year ended June 30, 2018. The implementation of the Statement required the Corporation to allocate its proportionate share of the local Government Employees' Retirement System net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and the effects on the net position of contributions made by the Corporation during the measurement period. To adjust Net Position Proportioned Share beginning balance of July 1, 2019 to the audited amount as of June 30, 2019 of the Puerto Rico Employee Retirement System Administration, the Net Pension Liability, the Deferred Outflows, and Deferred Inflows were adjusted by $760,864. The management of the Corporation believes that this adoption presents more appropriately the financial position of the Corporation in line with the requirements established by the adopted Statements. Also, adjustment to Net Position were made to reflect the effects of the proportioned share of net pension liability.

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2020, the Corporation 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
Differences between expected and actual experience	$ 13,396	$ 350,936
Changes of Assumptions	2,592,245	2,018,165
Net Difference between Projected and Actual Investments Earnings on Pension Plan Investments	799,561	115,830
	$ 3,405,202	$ 2,484,931

7. RETIREMENT SYSTEM, (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2017, will be recognized in pension expense as follows:

Year Ending June 30,	Collective Data	Proportional Share
2018	$ 331,506,706	$ 1,464,598
2019	379,113,154	1,674,923
2020	391,332,952	1,728,910
2021	(155,731,936)	(688,024)
2022	(737,920,670)	(3,260,136)
	$ 208,300,206	$ 920,271

Actuarial Methods and Assumptions

The total pension liability as of June 30, 2017 (the measurement date) was determined by an actuarial valuation as of July 1, 2016, that was rolled forward to June 30, 2017 and assuming no gains or losses. This actuarial valuation used the following actuarial methods and assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021, as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

The mortality tables used in the June 30, 2017, actuarial valuation were as follows:

- Pre-retirement Mortality – For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 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.

7. RETIREMENT SYSTEM, (Continued)

- Post-retirement Healthy Mortality – Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects 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 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 30, 2017, valuation were based on the results of a 2009 actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the Corporation proportionate share of the net pension asset calculated using the discount rate of 3.58 percentage, as well as what the Corporation's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage lower (1.85 percent) or one percentage point higher (3.85 percent) than the current rate:

	At 1 Percent Decrease (2.58%)	At Current Discount Rate (3.58%)	At 1 Percent Increase (4.58%)
Net Pension Liability	$ 38,701,889	$ 34,218,174,000	$ 30,527,686,000
Proportional Share	$ 23,042	$ 19,829,460	$ 18,175,494

7. RETIREMENT SYSTEM, (Continued)

Pension Expense

The components of allocable pension expense, which exclude amounts attributable to employer paid member contributions and pension expense related to specific liabilities of individual employers, for the System employers for the year ending June 30, 2017 are as follows:

	Amount	Proportional Share
Service Cost	$ 628,025,000	$ 363,940
Interest on Total Pension Liability	1,034,186,000	599,311
Member Contributions	(320,095,000)	(185,495)
Administrative Expense	26,142,000	15,149
Other Expenses	394,297,000	228,495
Interest on Bonds Payable	198,084,000	114,808
Recognition of Deferred Inflows/Outflows of Resources:		
Amortization of Assumption Changes or Inputs	580,467,024	336,381
Amortization of Differences Between Expected and Actual Experience	(152,669,070)	(88,472)
Amortization of Projected Versus Actual Investment Earmingns on Pension Plan Investment	(96,291,246)	(55,801)
Change in Proportion and Differences Between Employer Contribution and Proportional Share of Contributions	-	299,029
	$ 2,292,145,708	$ 1,627,345

Effective July 1, 2017, the Commonwealth of Puerto Rico, its component units and municipalities were required to implement a “pay-as-you-go” (PayGo) system for the payment of pensions pursuant to Circular Letter No. 1300-46-17 issued by the Department of Treasury of the Commonwealth of Puerto Rio (CL-1300-46-17). Act No. 106 of August 23, 2017 (Act No. 106-2017) provided the legal framework for the Commonwealth of Puerto Rico to implement the PayGo system.

Pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. Also, the employers’ contributions and the Additional Uniform Contribution were eliminated.

8. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees Retirement System (the Plan) is an unfunded, multi-employer 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 No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Therefore, the schedules of employer allocations and the schedules of OPEB amounts by employer (collectively, the Schedules) present the OPEB amounts attributable to the Commonwealth reporting entity and exclude the OPEB amounts of other participating employers that are not included in the Commonwealth reporting entity.

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. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. 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 the applicable pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of the Commonwealth to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

The Corporation has implemented GASB Statement No 75 because the Corporation has been provided the actuarial information report as of June 30, 2018 (measurement date), which is required for the implementation of this statement. Consequently, the Corporation has recorded the post-employment benefits liability, and the other post-employment expense for that year. However, because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share which are recognized immediately during the measurement year. To adjust the Net OBEP Position Proportioned Share beginning balance of July 1, 2019 to the audited amount as of June 30, 2019 of Puerto Rico Employee Retirement System Administration, the Net OBEP Liability increasing it by $228,832. The management of the Corporation believes that this adoption presents more appropriately the financial position of the Corporation in line with the requirements established by the adopted Statement.

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Allocation Methodology

GASB Statement No. 75 requires participating employers to recognize their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The employer allocation percentages presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ratio of Corporation to the total actual benefit payments paid during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

Collective Total OPEB Liability and Actuarial Information

The total OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. The total OPEB liability as of June 30, 2016 was determined by an actuarial valuation as of June 30, 2016. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Actuarial assumptions

Discount rate

The discount rate for June 30, 2017 and 2016 was 3.58% and 2.85%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer 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, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees-based experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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, 2017, calculated using the discount rate of 3.58%, as well as the Plan total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (2.58%) or 1-percentage point higher (4.58%) than the current rate:

	At 1 Percent Decrease (2.58%)	At Current Discount Rate (3.58%)	At 1 Percent Increase (4.58%)
Net OBEP Liability	$ 1,013,673,958	$ 920,517,428	$ 841,862,264
Proportional Share	$ 251,999	$ 228,832	$ 209,287

9. NON-CURRENT LIABILITIES

Changes in non-current liabilities for the year ended June 30, 2020, are as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due within One Year
Compensated Absences	$ 122,990	$ 79,509	$ 48,552	$ 153,947	$104,777

10. RESTRICTED ASSETS

a. Scholarship Restricted Endowment Fund

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

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

Fundación Angel Ramos	$ 200,000
Fundación Banco Popular	300,000
Donations Made by Individuals	13,495
	513,495
Transfer Approved by Board of Directors	483,301
Matching Federal Funds, Title V	363,495
Accumulated Interest from Endowment Investments	481,986
Scholarships Awarded	(241,615)
Total	$ 1,600,662

b. Other Restricted Fund

State Funds	$ 97,270
Federal Funds	490,863
Donations	1,783,308
Other Restricted Funds (100 x 35)	207,289
Total	$ 2,578,730
Grand Total	$ 4,179,392

11. PROMISES TO GIVE

Included in "*Other Receivable*" are the following conditioned promises to give:

Promises Conditioned for the Acquisition of Musical Instruments, Technological Equipment, Furniture and Fixtures for the New Building in Miramar, PR	$	369,120
Less: Conditional Promises Already Received		(369,120)
Conditional Promises Still Pending to be Received	$	-

12. COMMITMENTS AND CONTINGENCIES

The Corporation participates in various federal financial assistance's programs. These programs are subject to audits in accordance with the provisions of Title 2 CFR part 200, subpart F. Any disallowed cost, including already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures that could be disallowed by the grantors cannot be determined at this time.

13. LEGAL CLAIMS

The Corporation is a defendant in various legal claims arising out from the normal course of business. Since these claims are in the early stage of the discovery process as of June 30, 2020, it is Management's opinion, based on legal counsels' analysis, that the ultimate liability, if any, resulting from these pending proceedings, will not be material in relation to the financial statements taken as a whole.

14. GOING CONCERN

The discussion in the following paragraphs regarding the Corporation financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Corporation ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary.

Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default or debt and/or restructurings or noncompliance with capital or reserve requirement, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that area considered in this evaluation.

14. GOING CONCERN, (Continued)

The Corporation faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet future obligations when they come due. These circumstances together with other factors further described below, have led management to conclude that doubts could exist as to the ability of the corporation to continue operations as usual if they do not make significant operational and programmatic adjustments, which would be necessary to avoid a financial distress that would impair the ability of the Corporation to continue as a going concern. This statement is required to comply with GASB Statement No. 56.

The Corporation has had significant recurring operating losses and it is highly dependent on the Commonwealth appropriations to finance its operations. Approximately 62% of the Corporation's total revenues are derived from the Commonwealth's appropriations which amounted to approximately $5.6 million for the year ended June 30, 2020. Moreover, the Corporation has limited ability to raise operating revenues due to the economic and political challenges of Puerto Rico. The Corporation ability to continue receiving similar operational support and financing from the Commonwealth is uncertain.

The Commonwealth's recurring deficits, negative financial positon, further deterioration of its economic condition, and inability to access the credit markets raise substantial doubt about the Commonwealth's ability to continue as a going concern. The significant financial difficulties being experienced by the Commonwealth is likely to have a significant adverse impact on the Corporation, given its reliance on Commonwealth appropriations.

During 2019, the Corporation presented to the Oversight Board, through the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), its fiscal plan for the following ten years. Faced with the challenges discussed above, the Corporation developed a fiscal plan focusing on: (i) reducing the dependency of the contributions from Commonwealth of Puerto Rico; (ii) an aggressive campaign to increase student's population; (iii) fiscal initiatives and organizational transformation, which reflects updated economic projections as a result of the effects of the COVID-19 pandemic.

There is no certainty that the certified fiscal plan (as revised and amended) will be fully implemented, or if implemented will provide the intended results. All these fiscal plans and measures, and the Corporation's ability to reduce its deficits, achieve a balanced budget, and pay its obligations in the normal course of business depend on a number of factors and risks, some of which are not wholly within its control.

15. SUBSEQUENT EVENTS

The Act 176 of December 16, 2019, amends subsections (1) and (2) of Section 9.1 of Article 9 of Law 8-2017, as amended, known as the "Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico" to amend the subsections 1 (a) and 2 (b) of Article 2.04 of Chapter 2 of Law 26 2017, as amended, known as the "Law of Compliance with the Fiscal Plan", for the purpose of restoring vacation and sick leave days to Public employees as follows:

1. Vacation license:

   The employee shall have the right to accumulate vacation leave, at a rate of two and a half days (2.5) for each month of service, up to a maximum of sixty (60) business days at the end of each calendar year. The vacation leave will begin to accrue once the three (3) months in employment are completed and will be retroactive to the date of commencement of employment. Reduced regular or part-time employees will accumulate vacation leave proportional to the number of hours they provide services regularly.

2. Sick leave:

   Every employee will have the right to accumulate due to illness, at the rate of one and a half days (1.5) for each month of service. Employees to reduced regular or part-time will accumulate sick leave in proportion to the number of hours they provide services regularly. This leave will be used when the employee is ill, incapacitated or exposed to a contagious disease that requires his absence from work for the protection of his health or that of other persons. In addition, every employee may have.

Since December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. The World Health Organization has declared COVID-19 a pandemic resulting in federal, state, and local governments and private entities mandating various restrictions, where businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

After close monitoring and responses and guidance from federal, state, and local governments, in an effort to mitigate the spread of COVID- 19, effective March 15, 2020, the Corporation closed all of its operation for at least ten (10) weeks. The Corporation continues to monitor developments, including government requirements and recommendations at the national, state, and local level to evaluate possible extensions to all or part of such closures. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

15. SUBSEQUENT EVENTS, (Continued)

The Corporation has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended June 30, 2020, have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and financial institutions responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Corporation for future periods.

The Corporation evaluated its subsequent events until May 31, 2021, date on which the financial statements were ready for issuance. The Corporation's management understands that no other material events occurred subsequent to May 31, 2021, that requires being recorded or required additional disclosures in the financial statements.

SUPPLEMENTARY INFORMATION

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA DE PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA or Grant Number	Total Federal Expeditures
U.S. Department of Educations:		
Student Financial Assistance Cluster Program		
Federal Pell Grant Program	84.063	$ 1,271,805
William D. Ford Federal Direct Loan Program	84.268	413,863
Federal Work-Study Program	84.033	23,445
Federal Supplemental Educational Opportunity Grants	84.007	20,073
Total Expenditures of Cluster Award		1,729,186
CARES Act: Higher Education Emergency Relief Fund	84.425E	523,018
Total Expenditures of Federal Awards		$ 2,252,204

The accompanying Notes are an integral part of this Schedule.
See Independent Auditors' Report.

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

1. BASIS PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Corporation under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Corporation, it is not intended to and does not present the financial position, changes in net assets or cash flows of Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures included in the Schedule are reported on the accrual basis of accounting, which is further explained in Note 1 to the accompanying financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, where in certain types of expenditures are not allowable or limited as to reimbursements. The amounts in the Schedule agree with the amounts reported in the accompanying financial statements.

3. RELATION TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying schedule, which is prepared on the basis of accounting explained in Note 1.

Set forth in 200.327 Financial reporting and 200.328 Monitoring and reporting program performance, if a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. The Corporation's prepares the federal financial reports on accrual basis of accounting primarily based on information from the internal accounting records of the Corporation.

4. RELATION TO FINANCIAL STATEMENTS

Federal awards revenues and expenses are reported in the Corporation's Statement Activities and Changes in Net Position, in accordance with standards issued by the Government Accounting Standards Board (GASB) No. 35. Because the Schedule of Expenditures of Federal Awards presents only federal activities of the Corporation, it is not intended to and does not present the financial position, assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, as a whole.

5. CLUSTER PROGRAMS

2 CFR 200.17 defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to this definition, Federal Student Financial Assistance Programs were deemed to be a cluster of programs and were tested accordingly.

6. LOAN PROGRAM

William D. Ford Federal Direct Loan - The Corporation is responsible only for the performance of certain administrative duties with respect to the William D. Ford Federal Direct Loan. Accordingly, balances and transactions relating to this program are not included in the Corporation's basic financial statements. Therefore, it is not practical to determine the balance of Loans outstanding to students and former students of the Corporation at June 30, 2020.

Federally guaranteed loans issued to students of the Corporation during the year ended June 30, 2020, are summarized as follows:

	CFDA Number	2020
William D. Ford Federal Direct Loan Program	84.268	$ 413,863

7. DISTINCTION BETWEEN TYPE A AND TYPE B PROGRAMS

The dollar threshold for Type A and Type B programs amounted to $750,000.

8. MATCHING COSTS

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

9. INDIRECT COST

For the purpose of charging indirect costs to federal award, the Corporation has not prepared or submitted indirect cost proposal as permitted by CFR 200.414 of the Uniform Guidance.

10. PASS-TROUGH

No federal grant dollar has been passed through to sub-recipient.

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INDEPENDENT AUDITORS' 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

To Board of Directors of
Corporación del Conservatorio de Música de Puerto Rico
San Juan, 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 business-type activities of **Corporación del Conservatorio de Música de Puerto Rico** (the Corporation), which comprise the statement of net position as of June 30, 2020, and the related statements of activities and changes in net position, and cash flows for the year then ended, and the related notes to the basic financial statements and have issued our report thereon dated May 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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 many exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corporation'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 determination of financial statement amounts. 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*.

Other Matters

We noted certain matters that we reported to management of **Corporación del Conservatorio de Música de Puerto Rico** in a separate letter dated May 31, 2021.

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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

De Angel & Cía, CPA

License No. LLC-317
Expires on December 1, 2023

San Juan, Puerto Rico
May 31, 2021
2021-06-45

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

To the Board of Directors of
Corporación del Conservatorio de Música de Puerto Rico
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Corporación del Conservatorio de Música de Puerto Rico** (the Corporation), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2020. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance*). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation's 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, 2020.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, material weakness may exist that have not been identified.

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.

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San Juan, Puerto Rico
May 31, 2021
2021-06-46

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CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	☐	Unmodified Opinion	X	Qualified Opinion
Internal Control Over Financial Reporting:				
Material weakness(es) identified?	☐	Yes	X	No
Significant deficiency(ies) identified not considered to be material weaknesses?	☐	Yes	X	None reported
Noncompliance material to financial statements noted?	X	Yes	☐	No

Federal Awards

Internal Control Over Major Programs:				
Material weakness(es) identified?	☐	Yes	X	No
Significant deficiency(ies) identified not considered to be material weaknesses?	☐	Yes	X	No
Type of auditors' report issued on compliance for major programs?	X	Unmodified Opinion	☐	Qualified Opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)	☐	Yes	X	No

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Cluster Program:	
Federal Pell Grant Program	84.063
William D. Ford Federal Direct Loan Program	84.268
Federal Work-Study Program	84.033
Federal Supplemental Educational Opportunity Grants	84.007

Dollar threshold used to distinguish between Type A and Type B programs:	X	$750,000		
Auditee qualified as low-risk auditee?	X	Yes	☐	No

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION II – FINDING – FINANCIAL STATEMENTS AUDIT

- None Reported.

SECTION III - FEDERAL AWARDS FINDINGS,

- None Reported.

CORPORACIÓN DEL CONSERVATORIO DE MÚSICA DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

- None Reported.

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May 31, 2021

To the Board of Directors
Corporación del Conservatorio de Música
de Puerto Rico
San Juan, Puerto Rico

The stockholders and staff of De Angel & Compañía, CPA, LLC, are pleased to announce the successful completion of an independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPAs in public practice, industry, government, and education.

In 1988, the members of the AICPA overwhelmingly approved a proposal to require members in public practice to participate in a practice-monitoring program. With the adoption of this proposal, the AICPA implemented a peer review program of unprecedented scope in the CPA profession or any other. Our participation in peer review demonstrates our firm's desire to measure up to the profession's high standards of professionalism and our commitment to maintaining and improving the quality of our practice.

In August 2000, the Puerto Rico Society of CPAs (PRSCPA) adopted a voluntary peer review program, which follows the lead established by the AICPA.

Our peer review was conducted by ***Roman Toro & Co. CPA, PSC***, an independent firm (the Reviewer). The Reviewer first determined that we have an adequate quality control system, and then checked to see that professional's standards were followed in a representative sample of our accounting and auditing engagements.

After thorough study of our policies and procedures, the Reviewer concluded our firm complies with the stringent quality control standards established by the AICPA and the PRSCPA. Our firm is committed to periodic peer review to foster quality performance.

Bankers, bonding agents, investors, suppliers, legal advisors, and others use the financial statements our firm audits, reviews, or compiles. We think those people, our clients, and our own staff deserves independent quality assurance that our firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

Carlos De Ángel

Carlos De Ángel Ramírez
President

ROMAN TORO & CO., PSC
Certified Public Accountants
Honesty - Integrity - Experience

Members of:
American Institute of Certified Public Accountants
and PR Society of Certified Public Accountants
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Report on the Firm's System of Quality Control

January 28, 2019

To the Partners of De Angel & Compañía, CPA, LLC
and the Peer Review Committee of the Puerto Rico Society of CPAs.

We have reviewed the system of quality control for the accounting and auditing practice of De Angel & Compañía, CPA, LLC (the firm) in effect for the year ended April 30, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Review established by Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit, and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of De Angel & Compañía, CPA, LLC, in effect for the year ended April 30, 2018 has been suitable designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firm can receive a rating of *pass, pass with deficiency(ies), or fail.* De Angel & Compañía, CPA, LLC, has received a peer review rating of pass.

ROMAN TORO & CO., CPA, P.S.C.
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