

**CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
DE PUERTO RICO AND RELATED COMPANY**

(A Component Unit of the Commonwealth of
Puerto Rico)

Audited Financial Statements
and Single Audit Report

For the Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
**Corporación del Conservatorio de Música
de Puerto Rico and Related Company**
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying combined financial statements of the business-type activities of the **Corporación del Conservatorio de Música de Puerto Rico and Related Company** (a component unit of the Commonwealth of Puerto Rico) (the Corporation), as of and for the year ended June 30, 2019, and the related notes to the combined financial statements, which collectively comprise the Corporation's basic combined 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 combined 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 combined 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

Auditors' Responsibility, (Continued)

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 6 to the basic combined 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 period 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, 2019.

As described in Note 7 to the basic combined 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 period 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, 2019.

Accounting principles generally accepted in the United States of America require that the total pension liability, total other post-employment benefits liability and 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 period changes of the respective liabilities that must be recognized in expense during the current period.

In addition, the accompanying notes to the basic combined 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 combined 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 and Related Company** as of June 30, 2019, 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 combined financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 14 to the combined 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 in regard to 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.

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 5 through 11 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined 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 combined financial statements. Such missing information, although not a part of the basic combined 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 combined 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 combined 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 September 29, 2020, 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.



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San Juan, Puerto Rico
September 29, 2020
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**CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
DE PUERTO RICO AND RELATED COMPANY**
(A Component Unit of the Commonwealth of Puerto Rico)

Management Discussion and Analysis

For the Year Ended June 30, 2019

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 related company Corporación del Programa de Música 100x35: Sistema de Orquestas y Coros Juveniles e Infantiles de Puerto Rico (the Corporation) for the year ended June 30, 2019. 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 PRCM), "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.

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Management Discussion and Analysis

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Programmatic Structure, (Continued)

- **Preparatory School:** The Preparatory School brings together non-academic offers from the Puerto Rico Conservatory of Music. 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 infants (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.
- **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.

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Management Discussion and Analysis

For the Year Ended June 30, 2019

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.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Concerts and activities	367	273	262
Overall activity attendance	9,177	7,406	9,596
Non-degree students enrolled	1,057	1,032	1,038
Degree students enrolled (undergraduate, graduate, and continuing education)	413	416	449

Students

Approximately, 76% of the students are high school graduates and 24% are transfers from other universities. The Corporation has students from 60 towns or municipalities, representing 77% of the municipalities of Puerto Rico. The Degree Program has an enrollment of 413 students as of June 30, 2019. The Preparatory School, a non-degree program for the community had an enrollment of 1,057 students. The Corporation also offered a variety of institutional concerts during the year, with over 367 presentation and a public attendance of approximately 9,177 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 general public.

The combined 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.

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Management Discussion and Analysis

For the Year Ended June 30, 2019

Overview of the Basic Financial Statements

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

Financial Highlights and Analysis of Significant Variances

As of June 30, 2019, the Corporation has total assets of approximately \$82.2 million, total liabilities of approximately \$24.7 million and a net position of approximately \$57.5 million. The Corporation net position decreased by approximately \$2 million or 3.4%, during the year ended June 30, 2019, when compared with year ended June 30, 2018. Net investment in capital assets decreased by approximately \$2.3 million, while unrestricted net position decreased in approximately \$294 thousand. Unrestricted net position represents the portion of assets, net of the corresponding liabilities that can be used to meet ongoing obligations and new initiatives.

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Management Discussion and Analysis

For the Year Ended June 30, 2019

Financial Highlights and Analysis of Significant Variances, (Continued)

The schedule below present condensed combined financial statements for the Corporation as of and for the years ended June 30, 2019 and 2018.

CONDENSED COMBINED STATEMENTS OF NET POSITION

	2019	2018
Assets:		
Current Assets	\$ 2,635,792	\$ 2,919,126
Capital Assets	71,467,016	73,782,275
Other Assets	3,398,239	2,807,277
Total Assets	77,501,047	79,508,678
Deferred Outflows of Resources	4,726,244	4,726,244
Total Assets and Deferred Outflows of Resources	82,227,291	84,234,922
Liabilities:		
Current Liabilities	1,815,555	1,755,322
Non-current Liabilities	22,483,261	22,532,083
Total Liabilities	24,298,816	24,287,405
Deferred Inflows of Resources	429,580	429,580
Net Position:		
Net Investment in Capital Assets	71,467,016	73,782,275
Restricted	3,398,239	2,807,277
Unrestricted	(17,366,360)	(17,071,615)
Total Net Position	\$ 82,227,291	\$ 84,234,922

Assets - As of June 30, 2019, total assets amounted to approximately \$82.2 million. The largest asset class was capital assets (net of depreciation) which amounted to approximately \$71.4 million, or 87% of total assets.

Liabilities - As of June 30, 2019, total liabilities amounted to approximately \$24.3 million from which noncurrent liabilities, including compensated absences, termination benefit and net pension liability represent approximately 93% of total liabilities.

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Management Discussion and Analysis

For the Year Ended June 30, 2019

Financial Highlights and Analysis of Significant Variances, (Continued)

Net Position - The equity of the Corporation amounted to approximately \$57.5 million as of June 30, 2019, is reported on the Statement of Net Position in three categories: net investment in capital assets of \$71.4 million; restricted net position totaling \$3.4 million; and unrestricted net position of (\$17.3 million).

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 2019 and 2018 amounted to \$1,580,670 and \$1,550,658, respectively. These represent resources that are subject to external restrictions on how they may be used.

Total net position decreased by approximately \$2 million during the year ended June 30, 2019. 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 \$590 thousand as a result of scholarship awarded. Unrestricted net position decreased by \$294 thousand primarily due to the net operating results.

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, 2019 and 2018:

**CONDENSED COMBINED STATEMENTS OF
ACTIVITIES AND CHANGES IN NET POSITION**

	2019	2018
Operating Revenues	\$ 2,944,409	\$ 3,426,549
Operating Expenses	10,758,540	10,035,886
Net Operating Loss	(7,814,131)	(6,609,337)
Non-Operating Revenues	5,755,370	6,116,203
Income (Loss) Before Other Revenues	(2,058,761)	(493,134)
Other Revenues	39,719	30,130
Change in Net Position	(2,019,042)	(463,004)
Net Position at Beginning of Year	59,517,937	59,980,941
Net Position at End of Year	<u>\$ 57,498,895</u>	<u>\$ 59,517,937</u>

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Management Discussion and Analysis

For the Year Ended June 30, 2019

Financial Highlights and Analysis of Significant Variances, (Continued)

Operating revenues - For the year ended June 30, 2019, operating revenues totaled approximately \$2.9 million. The primary components of operating revenues were student tuition and fees of \$2.6 million; local and private sponsored programs of \$91 thousand; rent of \$136 thousand and other income of \$84 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 decreased by \$360 thousand or 6%, compared to prior fiscal year. The Corporation received less governmental grants and appropriations in 2019 than in 2018. Most of the Corporation's revenues during 2019 are from non-operating revenues, which represent approximately 66% of the total revenues.

Operating expenses - For the year ended June 30, 2019, operating expenses totaled approximately \$10.7 million which increased by approximately \$722 thousand or 7.2% 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 \$771 thousand in the fiscal year ended June 30, 2019. Depreciation expense for the year amounted to approximately \$2.4 million. Other significant expenses are utilities of \$925 thousand, repairs and maintenance of \$168 thousand and general and administrative expenses of \$868 thousand approximately. During the year 2019, 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 AND RELATED COMPANY**
(A Component Unit of the Commonwealth of Puerto Rico)

Combined Statement of Net Position

As of June 30, 2019

ASSETS

	Corporación del Conservatorio de Música de Puerto Rico	Corporación del Programa de Música 100 x 35	Eliminations	Total	
				2019	2018
Current Assets:					
Cash and Cash Equivalents	\$ 2,035,784	\$ -	\$ -	\$ 2,035,784	\$ 2,001,341
Accounts Receivable:					
Related Company	-	344,139	(344,139)	-	-
Other, Net of Allowance for Doubtful Accounts	483,022	71,813	-	554,835	916,961
Prepaid Expenses	45,173	-	-	45,173	824
Total Current Assets	2,563,979	415,952	(344,139)	2,635,792	2,919,126
Non-Current Assets:					
Restricted Cash and Cash Equivalents	3,071,311	326,928	-	3,398,239	2,807,277
Capital Assets, Net of Accumulated Depreciation	71,429,765	37,251	-	71,467,016	73,782,275
Total Non-Current Assets	74,501,076	364,179	-	74,865,255	76,589,552
Total Assets	77,065,055	780,131	(344,139)	77,501,047	79,508,678
Deferred Outflows of Resources:					
Contributions to Employees Retirement System	4,726,244	-	-	4,726,244	4,726,244
Total Assets and Deferred Outflows of Resources	\$ 81,791,299	\$ 780,131	\$ (344,139)	\$ 82,227,291	\$ 84,234,922

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

**CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
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Combined Statement of Net Position

As of June 30, 2019

LIABILITIES AND NET POSITION

	Corporación del Conservatorio de Música de Puerto Rico	Corporación del Programa de Música 100 x 35	Eliminations	Total	
				2019	2018
Current Liabilities:					
Accounts Payable	\$ 392,588	\$ 644	\$ -	\$ 393,232	\$ 429,424
Due to a Related Party	344,139	-	(344,139)	-	-
Compensated Absences	84,718	-	-	84,718	66,853
Accrued Expenses	230,131	5,617	-	235,748	302,240
Unearned Income	946,108	139,119	-	1,085,227	935,362
Termination Benefits	16,630	-	-	16,630	21,443
Total Current Liabilities	2,014,314	145,380	(344,139)	1,815,555	1,755,322
Non-Current Liabilities:					
Compensated Absences	38,272	-	-	38,272	74,438
Termination Benefits	-	-	-	-	12,656
Net Pension Liability	22,444,989	-	-	22,444,989	22,444,989
Total Non-Current Liabilities	22,483,261	-	-	22,483,261	22,532,083
Total Liabilities	24,497,575	145,380	(344,139)	24,298,816	24,287,405
Deferred Inflows of Resources:					
Unamortized Investment in Employees Retirement Retirement System	429,580	-	-	429,580	429,580
Net Position:					
Net Investment in Capital Assets	71,429,765	37,251	-	71,467,016	73,782,275
Restricted for:					
Scholarship Restricted Endowment Fund	1,580,670	-	-	1,580,670	2,807,277
Other Restricted Funds	1,544,102	273,467	-	1,817,569	-
Unrestricted	(17,690,393)	324,033	-	(17,366,360)	(17,071,615)
Total Net Position	56,864,144	634,751	-	57,498,895	59,517,937
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 81,791,299	\$ 780,131	\$ (344,139)	\$ 82,227,291	\$ 84,234,922

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

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

Combined Statement of Activities and Changes in Net Position

For the Year Ended June 30, 2019

	Corporación del Conservatorio de Música de Puerto Rico	Corporación del Programa de Música 100 x 35	Eliminations	Total	
				2019	2018
Operating Revenues:					
Tuition and Fees (Net of Scholarship Allowance of \$70,412 in 2019 and \$83,058 in 2018)	\$ 2,633,367	\$ -	\$ -	\$ 2,633,367	\$ 2,795,025
Local and Private Sponsored Programs	90,911	-	-	90,911	6,747
Rent	135,985	-	-	135,985	89,198
Other	84,146	-	-	84,146	535,579
Total Operating Revenue	2,944,409	-	-	2,944,409	3,426,549
Operating Expenses:					
Salaries and Fringe Benefits	3,052,144	520,099	-	3,572,243	2,778,181
Faculty Professional and Consulting Services	2,352,618	-	-	2,352,618	2,391,544
Professional and Consulting Services	104,693	205,028	-	309,721	293,524
Depreciation	2,415,614	3,585	-	2,419,199	2,436,552
Rent	39,323	-	-	39,323	65,408
Utilities	925,723	-	-	925,723	783,512
Repairs and Maintenance	163,990	4,702	-	168,692	188,519
Scholarships	73,253	-	-	73,253	55,184
Bad Debts	29,332	-	-	29,332	13,774
General and Administrative	789,079	79,357	-	868,436	1,029,688
Total Operating Expenses	9,945,769	812,771	-	10,758,540	10,035,886
Net Operating Loss	(7,001,360)	(812,771)	-	(7,814,131)	(6,609,337)

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

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

Combined Statement of Activities and Changes in Net Position

For the Year Ended June 30, 2019

	Corporación del Conservatorio de Música de Puerto Rico	Corporación del Programa de Música 100 x 35	Eliminations	Total	
				2019	2018
Non-Operating Revenues (Expenses):					
Legislative Appropriations	4,589,372	612,000	-	5,201,372	5,612,825
Interest Income	6,270	-	-	6,270	6,131
Gifts and Grants	303,372	202,369	-	505,741	467,243
Other	41,987	-	-	41,987	30,483
Interest Expenses	-	-	-	-	(479)
Total Non-Operating Revenue	4,941,001	814,369	-	5,755,370	6,116,203
Other Revenues:					
Additions to Term Endowments	39,719	-	-	39,719	30,130
Total Other Revenues	39,719	-	-	39,719	30,130
(Decrease) Increase in Net Position	(2,020,640)	1,598	-	(2,019,042)	(463,004)
Net Position at Beginning of Year	58,884,784	633,153	-	59,517,937	59,980,941
Net Position at End of Year	\$ 56,864,144	\$ 634,751	\$ -	\$ 57,498,895	\$ 59,517,937

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

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

Combined Statement of Cash Flows

For the Year Ended June 30, 2019

	Corporación del Conservatorio de Música de Puerto Rico	Corporación del Programa de Música 100 x 35	Eliminations	Total	
				2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Tuition and Fees	\$ 3,116,040	\$ -	\$ -	\$ 3,116,040	\$ 2,483,567
Local and Private Sponsored Programs	90,911	-	-	90,911	6,747
Payments to Employees and Related Fringe Benefits	(5,541,758)	(795,083)	-	(6,336,841)	(6,082,276)
Payments to Suppliers	(2,127,501)	(28,468)	-	(2,155,969)	(2,221,611)
Other Receipts, Including Rent	220,115	-	-	220,115	624,777
	-	-	-	-	-
Net Cash Used in Operating Activities	(4,242,193)	(823,551)	-	(5,065,744)	(5,188,796)
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>					
Legislative Appropriations	4,589,372	612,000	-	5,201,372	5,612,825
Other Income	41,987	-	-	41,987	30,483
Gifts and Grants	303,372	202,369	-	505,741	467,243
	-	-	-	-	-
Net Cash Provided by Non-Capital Financing Activities	4,934,731	814,369	-	5,749,100	6,110,551
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Capital Gifts and Grants	39,719	-	-	39,719	30,130
Payments for Capital Assets	(103,940)	-	-	(103,940)	(39,609)
Payments to Lines-of-credit	-	-	-	-	(40,224)
Interest Paid	-	-	-	-	(479)
	-	-	-	-	-
Net Cash Used in Capital and Related Financing Activities	(64,221)	-	-	(64,221)	(50,182)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Interest Income	6,270	-	-	6,270	6,131
	-	-	-	-	-
Net Change in Cash and Cash Equivalents	634,587	(9,182)	-	625,405	877,704
Cash and Cash Equivalents at Beginning of Year	4,472,508	336,110	-	4,808,618	3,930,914
Cash and Cash Equivalents at End of Year	\$ 5,107,095	\$ 326,928	\$ -	\$ 5,434,023	\$ 4,808,618

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

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

Combined Statement of Cash Flows

For the Year Ended June 30, 2019

	Corporación del Conservatorio de Música de Puerto Rico	Corporación del Programa de Música 100 x 35	Eliminations	Total	
				2019	2018
<u>AS PRESENTED IN THE STATEMENT OF NET POSITION</u>					
Cash	\$ 2,035,784	\$ -	\$ -	\$ 2,035,784	\$ 2,001,341
Restricted Cash and Cash Equivalents	3,071,311	326,928	-	3,398,239	2,807,277
Total Cash and Cash Equivalents	<u>\$ 5,107,095</u>	<u>\$ 326,928</u>	<u>\$ -</u>	<u>\$ 5,434,023</u>	<u>\$ 4,808,618</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</u>					
Operating Loss	<u>\$ (7,001,360)</u>	<u>\$ (812,771)</u>	<u>\$ -</u>	<u>\$ (7,814,131)</u>	<u>\$ (6,609,337)</u>
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:					
Depreciation	2,415,614	3,585	-	2,419,199	2,436,552
Bad Debts	29,332	-	-	29,332	13,774
(Increase) Decrease in Assets:					
Accounts Receivable	395,730	(62,936)	-	332,794	(624,973)
Prepaid Expenses	(44,349)	-	-	(44,349)	7,444
Increase (Decrease) in Liabilities:					
Accounts Payable	(21,243)	(14,949)	-	(36,192)	(106,741)
Accrued Expenses	(98,263)	(3,999)	-	(102,262)	(619,029)
Unearned Income	82,346	67,519	-	149,865	313,514
Total Adjustments	<u>2,759,167</u>	<u>(10,780)</u>	<u>-</u>	<u>2,748,387</u>	<u>1,420,541</u>
Net Cash Used in Operating Activities	<u>\$ (4,242,193)</u>	<u>\$ (823,551)</u>	<u>\$ -</u>	<u>\$ (5,065,744)</u>	<u>\$ (5,188,796)</u>

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

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

Notes to Combined Financial Statements

June 30, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

The combined financial statements include the accounts of **Corporación del Conservatorio de Música de Puerto Rico** and its related company **Corporación del Programa de Música 100x35: Sistema de Orquestas y Coros Juveniles e Infantiles de Puerto Rico** (hereinafter "the Corporation" or "the Corporation and its related company"). All intercompany transactions and balances have been eliminated in combination.

Organization

The **Corporación del Conservatorio de Música de Puerto Rico** 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 seven-member 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.

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 combined 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.

**CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
DE PUERTO RICO AND RELATED COMPANY**
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Notes to Combined Financial Statements

June 30, 2019

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

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

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.

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

Notes to Combined Financial Statements

June 30, 2019

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

Financial Independence

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

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 combined 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 combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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.

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

Notes to Combined Financial Statements

June 30, 2019

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

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:

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

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, 2019, the Company evaluated its capital assets for impairment amount, if any, would not have a material impact in the Corporation's financial statements.

**CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
DE PUERTO RICO AND RELATED COMPANY**
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Notes to Combined Financial Statements

June 30, 2019

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

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.

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Notes to Combined Financial Statements

June 30, 2019

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

Compensated Absences, (Continued)

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.

During year 2019, 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

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Notes to Combined Financial Statements

June 30, 2019

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

Sick leave, (Continued)

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.

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, 2019, amounted to \$122,990.

Legislative Appropriations

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.

**CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
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Notes to Combined Financial Statements

June 30, 2019

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

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.

Total Columns

The total columns are presented only to facilitate additional analysis. The information in those columns does not present the financial position, results of operations, or the cash flows in conformity with generally accepted accounting principles in the United States of America.

Prior-Year Summarized Information

The basic financial statements include certain prior-year summarized comparative information in total but not at level detail required for presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Risk Financing

The Corporation carries commercial insurance to cover casualty, theft, claims and other losses. However, during the year 2019, 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, 2019.

**CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
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Notes to Combined Financial Statements

June 30, 2019

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
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.

**CORPORACIÓN DEL CONSERVATORIO DE MÚSICA
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Notes to Combined Financial Statements

June 30, 2019

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.

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Notes to Combined Financial Statements

June 30, 2019

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 combined 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.

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

Effects of New Accounting Standards. (Continued)

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 combined financial statements of the Corporation.

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 combined 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.

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

Effects of New Accounting Standards. (Continued)

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. 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 combined financial statements of the Corporation.

2. DEPOSITS

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

	Book Balance			Bank Balance
	Unrestricted	Restricted	Total	
Deposits in Financial Institutions	\$ 2,035,003	\$ 3,398,239	\$ 5,433,242	\$ 4,221,507
Petty Cash	781	-	781	-
Total	\$ 2,035,784	\$ 3,398,239	\$ 5,434,023	\$ 4,221,507

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, 2019:

- Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2019, 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, 2019; 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, 2019.

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2. DEPOSITS. (Continued)

- 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, 2019, (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, 2019, 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, 2019.

3. 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, 2019, the Corporation reported the following amounts as accounts receivable:

Corporación del Conservatorio de Música de Puerto Rico:

Students Tuition and Fees	\$ 438,621
Contracts and Grants	459,097
Other	29,585
	<u>927,303</u>
Less: Allowance for Doubtful Accounts	<u>(444,281)</u>
Accounts Receivable	<u><u>\$ 483,022</u></u>

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

Contracts and Grants	\$ 77,813
Less: Allowance for Doubtful Accounts	<u>(6,000)</u>
	<u><u>\$ 71,813</u></u>

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4. CAPITAL ASSETS

Corporación del Conservatorio de Música de Puerto Rico:

	June 30, 2018	Increase	Decrease	June 30, 2019
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	3,786,178	69,876	-	3,856,054
Leasehold Improvements	1,330,579	-	-	1,330,579
Musical Instruments	2,832,011	14,897	-	2,846,908
Software's	400,837	14,808	-	415,645
Motor Vehicles	17,500	-	-	17,500
Total Capital Assets Being Depreciated	90,277,555	99,581	-	90,377,136
Less Accumulated Depreciation:				
Building	(15,612,415)	-	(2,038,370)	(17,650,785)
Library	(249,926)	-	(9,391)	(259,317)
Furniture and Equipment	(2,444,887)	-	(191,875)	(2,636,762)
Leasehold Improvements	(1,330,579)	-	-	(1,330,579)
Musical Instruments	(1,706,277)	-	(151,954)	(1,858,231)
Software's	(326,673)	-	(24,024)	(350,697)
Motor Vehicles	(17,500)	-	-	(17,500)
Total Accumulated Depreciation	(21,688,257)	-	(2,415,614)	(24,103,871)
Net Capital Assets	<u>\$ 73,745,798</u>	<u>\$ 99,581</u>	<u>\$ (2,415,614)</u>	<u>\$ 71,429,765</u>

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4. CAPITAL ASSETS. (Continued)

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

	June 30, 2018	Increase	Decrease	June 30, 2019
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 19,711	\$ -	\$ -	\$ 19,711
Musical Instruments	135,143	4,359	-	139,502
Total Capital Assets Being Depreciated	154,854	4,359	-	159,213
Less Accumulated Depreciation:				
Furniture and Equipment	(10,432)	-	(984)	(11,416)
Musical Instruments	(107,945)	-	(2,601)	(110,546)
Total Accumulated Depreciation	(118,377)	-	(3,585)	(121,962)
Net Capital Assets	<u>\$ 36,477</u>	<u>\$ 4,359</u>	<u>\$ (3,585)</u>	<u>\$ 37,251</u>

5. UNEARNED INCOME

Unearned income includes appropriations for which the Corporation had not yet received approval to spend the funds, and student tuition and fees, received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2019, the Corporation reported the following amounts as unearned revenue:

Corporación del Conservatorio de Música de Puerto Rico:

Student Tuition and Fees	\$ 303,762
Contracts and Grants	642,346
	<u>\$ 946,108</u>

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

Contracts and Grants	<u>\$ 139,119</u>
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6. RETIREMENT SYSTEM

The Corporation's employees have historically participated in the Employees Retirement System (ERS) of the Commonwealth of Puerto Rico.

The following discussion provides information about ERS before the Pay-Go Reform described below:

Substantially all full-time employees of the Corporation participate in the ERS. The Employees Retirement System was a statutory trust created by Act No. 447 of May 15, 1951, as amended ("Act 447"), and a component unit of the Commonwealth.

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3, became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS as further discussed below.

Members who had entered the ERS before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 ("Act 447 Participants") were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 ("Act 1 Participants") were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 ("Act 1 of 1990").

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as System 2000). Members who entered the ERS on or after January 1, 2000 (System 2000 Participants) participate solely in System 2000. Act 3- 2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, was to be paid from the same pool of assets of the ERS.

Retirement and related benefits provided by the ERS and required contributions to the ERS by employers and employees, were determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 ("Act 116"), the statutory employer contribution for the ERS increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll and was supposed to increase annually until fiscal year 2021.

Required employee contributions for the ERS varied according to how the individual employee's retirement benefits were coordinated with social security benefits. Act 3- 2013 increased the employee contribution from 8.275% to 10% of covered payroll.

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6. RETIREMENT SYSTEM, (Continued)

The ERS provided basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administered benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits included, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

On September 30, 2016, the ERS was designated by the Oversight Board as a Covered Territorial Instrumentality pursuant to PROMESA. On May 21, 2017, the Oversight Board filed a petition for the Retirement System in the United States District Court for the District of Puerto Rico, commencing a Title III case for the Retirement System. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases.

After Act No. 106 became effective as discussed below, the System Administered Pension Benefits began to be funded on a pay-as-you-go basis by the participating employers, including the Corporation. The System Administered Pension Benefits corresponding to former employees of the Corporation are obligations of the Corporation. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

PayGo Pension Reform

On June 27, 2017, the Puerto Rico Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) mechanism for the Commonwealth Retirement Systems. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the additional uniform contribution were all eliminated. ERS will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality, including the Corporation.

In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Governor signed into law the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act No. 106), which reformed the Commonwealth Retirement Systems so that their active participants would deposit their individual contributions in a new Defined Contributions Plan, that will be managed by a private entity. Act No. 106 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system. Approximately \$2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act No. 106 also created a Defined Contributions Plan, similar to a 401(k) plan, which mandates the contributions of public servants, because future benefits will not be paid by the Commonwealth Retirement Systems.

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6. RETIREMENT SYSTEM, (Continued)

Act No. 106, among other things, amended Act No. 12 with respect to the ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106, the ERS's Board of Trustees was substituted with a new retirement board (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems.

Act No. 106 terminated the previously existing pension programs for ERS participants as of June 30, 2018. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the members account in the new defined contributions program. ERS's active members in the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act No. 106 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Commonwealth Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act 8 of February 8, 2017.

Total amount paid by the Corporation under the PayGo System during the year ended June 30, 2019 amounted to \$512 thousand which represents 100% of the contributions required under this system.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

Until the PayGo Reform described above, the Corporation was required to follow the provisions of Statement No. 68, *"Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27"*, Statement No. 71 *"Pension Transition for Contributions Made Subsequent to the Measurement Date"*, an amendment of GASB Statement No. 68 and Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which became effective for the year ended June 30, 2015. GASB 68 replaces the requirements of Statement No. 27, *"Accounting for Pensions by State and Local Governmental Employers"*, as well as the requirements of Statement No. 50, *"Pension Disclosures"*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the ERS. As the result of such reform, the Corporation is required to implement the requirements of 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"* during the year ended June 30, 2019.

The most recent audited financial statements available of the ERS were as of June 30, 2016, where the ERS was severely underfunded with a net pension liability of approximately \$37,699 million and its fiduciary net position of approximately negative \$1,266 million. ERS has not issued its 2017 and 2018 basic financial statements, nor has it provided the Corporation with the required information to fully implement the requirements of GASB 73 as of June 30, 2019. ERS has only provided the Corporation with its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of and for the year ended June 30, 2017.

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6. RETIREMENT SYSTEM, (Continued)

As mentioned before, the Corporation adopted the provisions of GASB No. 68 during the year ended June 30, 2018. Accordingly, the Corporation recorded deferred outflows and inflows, or resources related to pensions and net pension liability during the year ended June 30, 2018, amounting to approximately \$4.7 million, \$429 thousand and \$22.5 million, respectively.

Because the Corporation has been unable to implement GASB 73, it has not recorded the effect on the deferred outflows and inflows of resources related to pensions and the pension liability previously recorded under GASB 68, and has not recognized the effect of current period changes in the total pension liability as it relates to, deferred outflows of resources, deferred inflows of resources and pension expense for the year ended June 30, 2019.

In addition, the accompanying notes to the basic combined financial statements do not disclose the pension related information required by Statement No. 73.

Pension Plan Fiduciary Net Position

Additional information on ERS is provided in its standalone financial statements for the fiscal year ended June 30, 2016, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

7. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Corporation agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit as Other Post-Employment Benefits Plan (the "Plan").

The OPEB can be amended by action of the Corporation subject to applicable collective bargaining and employment agreements. The OPEB Plan does not issue a stand-alone financial report because there are no assets legally segregated for the sole purpose of paying benefits under the OPEB plan.

Funding Policy

The obligations of the Plan members' employer are established by action of the Corporation pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Corporation currently contributes enough money to the OPEB Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the OPEB Plan are paid by the Corporation.

Employees Covered

At June 30, 2019 the following employees were covered by benefits terms:

Active members	1
Retired members	-

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7. OTHER POST-EMPLOYMENT BENEFITS, (Continued)

GASB Statement No. 75

The Corporation is required to implemented GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits other than Pensions*", during fiscal year 2019. In addition to pension benefits as described in Note 15, the Corporation administer a single-employer defined benefit other postemployment benefit (OPEB) plan as described above.

The Corporation did not implement the requirement of statement 75 because the actuarial information required for the implementation it not readily available.

Therefore, the Corporation has not recorded the total post-employment benefits deferred inflows of resources, deferred outflows of resources and other post-employment expense, the Corporation has not recognized the effect of current period charges in total post-employment benefit obligation as it related to deferred outflows of resources, deferred inflows of resources and other post-employment expense for the year ended June 30, 2019.

In addition, the accompanying notes to the basic combined financial statement do not disclose the pension related information required by statement No. 75.

8. NON-CURRENT LIABILITIES

Changes in non-current liabilities for the year ended June 30, 2019, are as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due within One Year
Compensated Absences	\$ 141,291	\$ 48,552	\$ 66,853	\$ 122,990	\$ 84,718
Termination Benefits	\$ 34,099	\$ -	\$ 17,469	\$ 16,630	\$ 16,630

9. 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.

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9. RESTRICTED ASSETS, (Continued)

a. Scholarship Restricted Endowment Fund, (Continued)

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
	<u>513,495</u>
Transfer Approved by Board of Directors	483,301
Matching Federal Funds, Title V	363,495
Accumulated Interest from Endowment Investments	442,003
Scholarships Awarded	<u>(221,624)</u>
Total	<u>\$ 1,580,670</u>

b. Other Restricted Fund

State Funds	\$ 96,630
Federal Funds	232,519
Donations	1,214,953
Other Restricted Funds (100 x 35)	273,467
	<u>273,467</u>
Total	<u>\$ 1,817,569</u>
Grand Total	<u>\$ 3,398,239</u>

10. 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	<u>(352,500)</u>
Conditional Promises Still Pending to be Received	<u>\$ 16,620</u>

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11. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth Enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Corporation.

Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the Corporation will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 days of creditable service of the Retirement System.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement Service and the age for retirement or who have the age for retirement. The economic incentive will consist of a lump sum payment ranging from one-month to six months' salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement benefits program of that chose the economic incentive and have less than 15 years of creditable services in the Retirement System are eligible to receive health plan coverage for up to 12 months in health plan selected by management of the Corporation.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Corporation's financial statement of a liability of \$16,630 in the statement of net position as of June 30, 2019. At June 30, 2019, unpaid long-term benefits granted on this program were discounted at 1.38%.

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, 2019, 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.

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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 are considered in this evaluation. 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 60% of the Corporation's total revenues are derived from the Commonwealth's appropriations which amounted to approximately \$5.2 million for the year ended June 30, 2019. 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 position, 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.

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

Notes to Combined Financial Statements

June 30, 2019

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:

- a. 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.

A check in the amount of \$138,298 dated on October 25, 2019, was received from the Puerto Rico Department of Treasury related to a Certificate of Deposit negotiated with Banco Santander when the endowment fund was created in 2001. The financial institution deposited this Certificate of Deposit in the Office of Financial Affairs "OCIF" since the Certificate of Deposit did not have movement since inception and OCIF returned check to the Corporation and it was deposited in donation account until the Board of Director decided to buy another instrument or investment.

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.

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

Notes to Combined Financial Statements

June 30, 2019

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, 2019, 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 September 29, 2020, date on which the financial statements were ready for issuance. The Corporation's management understands that no other material events occurred subsequent to June 30, 2019, 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, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA or Grant Number	Total Federal Expenditures
U.S. Department of Educations:		
Student Financial Assistance Cluster Program		
Federal Pell Grant Program	84.063	\$ 1,189,168
William D. Ford Federal Direct Loan Program	84.268	514,056
Federal Work-Study Program	84.033	18,340
Federal Supplemental Educational Opportunity Grants	84.007	<u>15,845</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,737,409</u></u>

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, 2019

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, 2019. 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.

**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, 2019

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, 2019.

Federally guaranteed loans issued to students of the Corporation during the year ended June 30, 2019, are summarized as follows:

	CFDA Number		2019
William D. Ford Federal Direct Loan Program	84.268	\$	514,056

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

Matching 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, 2019, 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 September 29, 2020.

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 may 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 September 29, 2020.

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.



License No. LLC-317
Expires on December 1, 2020

San Juan, Puerto Rico
September 29, 2020
2020-09-48

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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, 2019. 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, 2019.

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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**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, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	<input type="checkbox"/> Unmodified Opinion	<input checked="" type="checkbox"/> Qualified Opinion
Internal Control Over Financial Reporting:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal Control Over Major Programs:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Type of auditors' report issued on compliance for major programs?	<input checked="" type="checkbox"/> Unmodified Opinion	<input type="checkbox"/> Qualified Opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> 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:	<input checked="" type="checkbox"/> \$750,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> 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, 2019

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, 2019

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

➤ None Reported.



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September 29, 2020

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 Ramírez
President

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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