

**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, 2015

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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, 2015, 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.

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 more fully described in Note 6 to the financial statements, the Corporation does not disclose the cost and obligations associated with Pension Plans reported as required by GASB No. 68 “*Accounting and Financial Reported for Pensions*”. A quantification of the effects on the financial statements is not practicable.

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, 2015, and the respective changes in its financial position and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements of the business-type activities of the **Corporación del Conservatorio de Música de Puerto Rico and Related Company**. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 December 10, 2015, 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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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, 2015

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, 2015. This discussion and analysis was prepared by the Corporation's management and should be read in conjunction with the financial statements and notes thereto which follow.

The Corporation is a public institution of higher education, which offers a comprehensive curriculum of and extensive schedule of performances, master classes, and professional workshops.

Vision

The Corporation seeks to encourage the development of individual musical identity while enriching our musical community.

Organizational Structure

The Corporation is governed by a Board of Directors composed of seven (7) members appointed by the Governor of Puerto Rico. The Directors select the positions of President, 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

Development of the Musical Talent Program

Program Description:

- Degree programs - the Corporation is the only institution in Puerto Rico, which offers professional degrees in music. The principal purpose of the program is the formation of professional musicians in areas such as the performance, composition, and the music education.
- Preparatory School - offers non-degree education for all ages to provide for the music needs of the community at large. Also, the Preparatory School provides continuing education for professional musicians and music teachers.
- Outreach programs - the Corporation has several outreach programs such as "Música 100x35" and "Despertar Musical", which provide musical training programs for the development of the musical talent of children and youth under privileged communities.

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Management Discussion and Analysis

For the Year Ended June 30, 2015

Objectives:

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

Statistical Data

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Concerts and Activities	251	208	240
Overall Activity Attendance	11,200	9,689	10,064
Non-degree Students Enrolled	1,211	1,067	1,030
Degree Students Enrolled (undergraduate, graduate, and continuing education)	487	512	496

Students

Approximately, 71% of the students are high school graduates and 29% are transfers from other universities. The Corporation has students from 67 towns or municipalities, representing 86% of the municipalities of Puerto Rico. The Degree Program has an enrollment of 487 students as of June 30, 2015. The Preparatory School, a non-degree program for the community had an enrollment of 1,211 students. The Corporation also offers a variety of institutional concerts with more than 208 annually and a public attendance of approximately 11,200 people annually.

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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* effective for fiscal years beginning July 1, 2001. 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 provide 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, changed from indirect to direct method, and Management's Discussion and Analysis is required as supplementary information.

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, and 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 on the Corporation's assets, liabilities and net position, all 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 flow. 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.

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For the Year Ended June 30, 2015

Overview of the Basic Financial Statements, (Continued)

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, 2015, the Corporation has total assets of approximately \$84.9 million, total liabilities of approximately \$4.6 million and a net position of approximately \$80.2 million. The Corporation net position decreased by approximately \$1.1 million, during the year ended June 30, 2015, when compared with year ended June 30, 2014. Net investment in capital assets decreased by approximately \$2.4 million, while unrestricted net position increase in approximately \$1.8 million. Unrestricted net position represents the portion of assets, net of the corresponding liabilities that can be used to meet ongoing obligations and new initiatives.

The schedules below presents condensed combined financial statements for the Corporation as of and for the years ended June 30, 2015 and 2014.

CONDENSED COMBINED STATEMENTS OF NET POSITION

	2015	2014
Current Assets	\$ 2,426,990	\$ 1,115,112
Capital Assets	80,925,952	83,379,215
Other Assets	1,590,041	2,676,433
Total Assets	84,942,983	87,170,760
Current Liabilities	3,680,702	3,968,109
Non-current Liabilities	991,000	1,774,189
Total Liabilities	4,671,702	5,742,298
Net Position:		
Net Investment in Capital Assets	80,925,952	83,379,215
Restricted	1,590,041	2,107,760
Unrestricted	(2,244,712)	(4,058,513)
Total Net Position	\$ 80,271,281	\$ 81,428,462

Assets - As of June 30, 2015, total assets amounted to approximately \$84.9 million. The largest asset class was capital assets (net of depreciation) which amounted to approximately \$80.9 million, or 96% of total assets.

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Management Discussion and Analysis

For the Year Ended June 30, 2015

Financial Highlights and Analysis of Significant Variances, (Continued)

Liabilities - As of June 30, 2015, total liabilities amounted to approximately \$4.6 million from which current liabilities, including accounts payable, unearned income and lines-of-credit represent approximately 79% of total liabilities. Liabilities also include the retainage amount of the construction project.

Net Position - The equity of the Corporation amounted to approximately \$80.2 million as of June 30, 2015, is reported on the Statement of Net Position in three categories: net investment in capital assets of \$80.9 million; restricted net position totaling \$1.6 million; and unrestricted net position of (\$2.2 million).

Restricted net position is subject to externally imposed restrictions governing their use. Although unrestricted net position are 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 2015 and 2014 amounted to \$1,035,648 and \$1,022,886, respectively. These represent resources that are subject to external restrictions on how they may be used.

Total net position decreased by approximately \$1.1 million during the year ended June 30, 2015. Net investment in capital asset decreased by approximately \$2.4 million, primarily due to the recognition of the depreciation expense during the fiscal year. Restricted net position decreased by approximately \$517 thousand as a result of construction improvements agreement completed. Unrestricted net position increased by \$1.8 million primarily due to the net operating results.

The table below present summary-level information on revenues, expenses, and other changes in the Corporation's net position for the years ended June 30, 2015 and 2014:

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

	2015	2014
Operating Revenues	\$ 3,233,341	\$ 3,045,096
Operating Expenses	12,668,749	13,039,905
Net Operating Loss	(9,435,408)	(9,994,809)
Non-Operating Revenues	8,247,375	13,221,164
Income (Loss) Before Other Revenues	(1,188,033)	3,226,355
Other Revenues	30,852	119,004
Change in Net Position	(1,157,181)	3,345,359
Net Position at Beginning of Year	81,428,462	78,083,103
Net Position at End of Year	\$ 80,271,281	\$ 81,428,462

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Management Discussion and Analysis

For the Year Ended June 30, 2015

Financial Highlights and Analysis of Significant Variances, (Continued)

Operating revenues - For the year ended June 30, 2015, operating revenues totaled approximately \$3.2 million. The primary components of operating revenues were student tuition and fees of \$2.9 million; local and private sponsored programs of \$15.0 thousand; rent of \$93.1 thousand and other income of \$215.1 thousand. The major increase in operating revenues was related to net student tuition and fees, and rent of facilities.

Operating expenses - For the year ended June 30, 2015, operating expenses totaled approximately \$12.6 million which decreased by approximately \$371 thousand or 2.7% compared with prior year. Of this amount, approximately \$7.1 million were expended for educational and general programs, including salaries and benefits as well as professional consulting services. Such line items decreased by approximately \$114 thousand in the fiscal year ended June 30, 2015. Depreciation expense for the year amounted to \$2.5 million. Other significant expenses are utilities of \$1.0 million, repairs and maintenance of \$353.8 thousand and general and administrative expenses of \$1.4 million. During the year 2015, 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, 2015

ASSETS

	Corporación del Conservatorio de Música de Puerto Rico	Corporación del Programa de Música 100 x 35	Eliminations	Total	
				2015	2014
Current Assets:					
Cash and Cash Equivalents	\$ 1,676,232	\$ -	\$ -	\$ 1,676,232	\$ 165,577
Accounts Receivable:					
Government Agencies, Net of Allowance for Doubtful Accounts	35,993	-	-	35,993	37,186
Related Company	-	566,321	(566,321)	-	-
Other, Net of Allowance for Doubtful Accounts	668,883	1,705	-	670,588	906,306
Prepaid Expenses	44,177	-	-	44,177	6,043
Total Current Assets	2,425,285	568,026	(566,321)	2,426,990	1,115,112
Non-Current Assets:					
Restricted Cash and Cash Equivalents	1,544,100	45,941	-	1,590,041	2,676,433
Capital Assets, Net of Accumulated Depreciation	80,884,176	41,776	-	80,925,952	83,379,215
Total Non-Current Assets	82,428,276	87,717	-	82,515,993	86,055,648
Total Assets	\$ 84,853,561	\$ 655,743	\$ (566,321)	\$ 84,942,983	\$ 87,170,760

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 Net Position

As of June 30, 2015

LIABILITIES AND NET POSITION

	Corporación del	Corporación del	Eliminations	Total	
	Conservatorio de Música de Puerto Rico	Programa de Música 100 x 35		2015	2014
Current Liabilities:					
Accounts Payable	\$ 1,741,564	\$ 50,469	\$ -	\$ 1,792,033	\$ 1,681,048
Due to a Related Party	566,321	-	(566,321)	-	-
Current Portion of Lines of Credit	184,346	216,866	-	401,212	-
Compensated Absences	360,110	-	-	360,110	308,873
Accrued Expenses	275,263	6,541	-	281,804	406,638
Unearned Income	815,114	10,110	-	825,224	849,133
Retainage Payable	-	-	-	-	702,098
Termination Benefits	20,319	-	-	20,319	20,319
Total Current Liabilities	3,963,037	283,986	(566,321)	3,680,702	3,968,109
Non-Current Liabilities:					
Compensated Absences	538,365	-	-	538,365	554,907
Lines of Credit	377,241	-	-	377,241	1,125,484
Termination Benefits	75,394	-	-	75,394	93,798
Total Non-Current Liabilities	991,000	-	-	991,000	1,774,189
Total Liabilities	4,954,037	283,986	(566,321)	4,671,702	5,742,298
Net Position:					
Net Investment in Capital Assets	80,884,176	41,776	-	80,925,952	83,379,215
Restricted for:					
Construction of New Facilities	-	-	-	-	1,084,874
Scholarship Restricted Endowment Fund	1,544,100	45,941	-	1,590,041	1,022,886
Unrestricted	(2,528,752)	284,040	-	(2,244,712)	(4,058,513)
Total Net Position	79,899,524	371,757	-	80,271,281	81,428,462
Total Liabilities and Net Position	\$ 84,853,561	\$ 655,743	\$ (566,321)	\$ 84,942,983	\$ 87,170,760

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, 2015

	Corporación del Conservatorio		Eliminations	Total	
	de Música de Puerto Rico	Programa de Música 100 x 35		2015	2014
Operating Revenues:					
Tuition and Fees (Net of Scholarship Allowance of \$105,610 in 2015 and \$101,244 in 2014)	\$ 2,909,086	\$ -	\$ -	\$ 2,909,086	\$ 2,889,344
Local and Private Sponsored Programs	15,268	-	-	15,268	6,350
Rent	93,905	-	-	93,905	81,972
Other	76,782	138,300	-	215,082	67,430
Total Operating Revenue	3,095,041	138,300	-	3,233,341	3,045,096
Operating Expenses:					
Salaries and Fringe Benefits	3,542,409	479,475	-	4,021,884	4,263,660
Faculty Professional and Consulting Services	2,539,812	-	-	2,539,812	2,519,405
Professional and Consulting Services	348,964	208,130	-	557,094	449,925
Depreciation	2,480,882	22,869	-	2,503,751	2,493,243
Rent	72,078	2,155	-	74,233	77,458
Utilities	1,018,011	-	-	1,018,011	1,114,425
Repairs and Maintenance	347,944	5,888	-	353,832	503,850
Scholarships	96,059	22,077	-	118,136	132,018
Bad Debts	101,342	-	-	101,342	68,250
General and Administrative	1,328,398	52,256	-	1,380,654	1,417,671
Total Operating Expenses	11,875,899	792,850	-	12,668,749	13,039,905
Net Operating Loss	(8,780,858)	(654,550)	-	(9,435,408)	(9,994,809)

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, 2015

	Corporación del		Eliminations	Total	
	Conservatorio de Música de Puerto Rico	Programa de Música 100 x 35		2015	2014
Non-Operating Revenues (Expenses):					
Legislative Appropriations	6,750,561	800,000	-	7,550,561	7,456,320
Construction Fund	-	-	-	-	5,000,000
Interest Income	3,982	-	-	3,982	2,485
Gifts and Grants	464,408	258,327	-	722,735	831,780
Other	24,197	-	-	24,197	75,125
Interest Expenses	(38,098)	(16,002)	-	(54,100)	(144,546)
Total Non-Operating Revenue	7,205,050	1,042,325	-	8,247,375	13,221,164
Other Revenues:					
Capital Gifts and Grants	5,328	-	-	5,328	94,399
Additions to Term Endowments	25,524	-	-	25,524	24,605
Total Other Revenues	30,852	-	-	30,852	119,004
(Decrease) Increase in Net Position	(1,544,956)	387,775	-	(1,157,181)	3,345,359
Net Position at Beginning of Year	81,444,480	(16,018)	-	81,428,462	78,083,103
Net Position at End of Year	\$ 79,899,524	\$ 371,757	\$ -	\$ 80,271,281	\$ 81,428,462

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, 2015

	Corporación del Conservatorio de Música de Puerto Rico	Corporación del Programa de Música 100 x 35	Eliminations	Total	
				2015	2014
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Tuition and Fees	\$ 3,020,744	\$ -	\$ -	\$ 3,020,744	\$ 3,498,962
Local and Private Sponsored Programs	15,268	-	-	15,268	6,350
Payments to Employees and Related Fringe Benefits	(6,015,763)	(1,211,571)	-	(7,227,334)	(7,211,877)
Payments to Suppliers	(3,468,867)	(105,244)	-	(3,574,111)	(7,435,075)
Other Receipts, Including Rent	170,687	138,300	-	308,987	204,993
Net Cash Used in Operating Activities	(6,277,931)	(1,178,515)	-	(7,456,446)	(10,936,647)
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>					
Legislative Appropriations	6,750,561	800,000	-	7,550,561	7,456,320
Other Income	24,197	-	-	24,197	75,125
Gifts and Grants	464,408	258,327	-	722,735	831,780
Net Cash Provided by Non-Capital Financing Activities	7,239,166	1,058,327	-	8,297,493	8,363,225
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Capital Gifts and Grants	30,852	-	-	30,852	119,005
Construction Fund	-	-	-	-	5,000,000
Payments for Capital Assets	(50,487)	-	-	(50,487)	(431,427)
Advances from Lines-of-credit	-	-	-	-	11,120
Payments to Lines-of-credit	(347,031)	-	-	(347,031)	(311,139)
Interest Paid	(54,100)	-	-	(54,100)	(144,546)
Net Cash (Used in) Provided by Capital and Related Financing Activities	(420,766)	-	-	(420,766)	4,243,013
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Interest Income	3,982	-	-	3,982	2,485
Net Change in Cash and Cash Equivalents	544,451	(120,188)	-	424,263	1,672,076
Cash and Cash Equivalents at Beginning of Year	2,675,881	166,129	-	2,842,010	1,169,934
Cash and Cash Equivalents at End of Year	\$ 3,220,332	\$ 45,941	\$ -	\$ 3,266,273	\$ 2,842,010

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, 2015

	Corporación del	Corporación del	Eliminations	Total	
	Conservatorio de Música de Puerto Rico	Programa de Música de Música 100 x 35		2015	2014
<u>AS PRESENTED IN THE STATEMENT OF NET POSITION</u>					
Cash	\$ 1,676,232	\$ -	\$ -	\$ 1,676,232	\$ 165,577
Restricted Cash and Cash Equivalents	1,544,100	45,941	-	1,590,041	2,676,433
Total Cash and Cash Equivalents	<u>\$ 3,220,332</u>	<u>\$ 45,941</u>	<u>\$ -</u>	<u>\$ 3,266,273</u>	<u>\$ 2,842,010</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</u>					
Operating Loss	<u>\$ (8,780,858)</u>	<u>\$ (654,550)</u>	<u>\$ -</u>	<u>\$ (9,435,408)</u>	<u>\$ (9,994,809)</u>
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:					
Depreciation	2,480,882	22,869	-	2,503,751	2,493,243
Bad Debts	101,342	-	-	101,342	68,250
(Increase) Decrease in Assets:					
Accounts Receivable	135,567	-	-	135,567	605,994
Prepaid Expenses	(38,133)	-	-	(38,133)	(2,387)
Increase (Decrease) in Liabilities:					
Accounts Payable	(166,215)	(424,898)	-	(591,113)	(4,131,675)
Accrued Expenses	(108,543)	-	-	(108,543)	21,113
Unearned Income	98,027	(121,936)	-	(23,909)	3,624
Total Adjustments	<u>2,502,927</u>	<u>(523,965)</u>	<u>-</u>	<u>1,978,962</u>	<u>(941,838)</u>
Net Cash Used in Operating Activities	<u>\$ (6,277,931)</u>	<u>\$ (1,178,515)</u>	<u>\$ -</u>	<u>\$ (7,456,446)</u>	<u>\$ (10,936,647)</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, 2015

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 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**

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Combined Financial Statements

June 30, 2015

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. GASBS No. 62 also supersedes GASBS No. 20, thus eliminating the election that allowed enterprise funds and business-type activities to apply FASB Statements and Interpretations issued after November 30, 1989, that did not conflict with or contradict GASB pronouncements.

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.

During the fiscal year 2014, the Corporation adopted 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.

**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, 2015

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

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.

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.

**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, 2015

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Allowance for Doubtful Accounts

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

Capital Assets

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

<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

**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, 2015

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

Impairment of Long-Lived Assets

The Corporation follows the provision of GASB No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and For Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. During the year ended June 30, 2015, the Company evaluated its capital assets for impairment amount, if any, would not have a material impact in the Corporation's financial statements.

Net Position Classifications

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

- a) **Net Investment in Capital Assets** - consists of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- b) **Restricted Net Position** - consists of net position with constraints placed on the use either by 1) external groups such as grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation less related liabilities.
- c) **Unrestricted Net Position** - net position whose use by the Corporation is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may be limited by contractual agreements with outside parties.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Corporation's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. The primary restricted assets are related to scholarship endowment fund that was fully explained on Note 8.

Compensated Absences

The vacation and sick leave pay are accrued when incurred using the pay or salary rates in effect at the balance sheet date. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences.

The vacation policy of the Corporation generally provides for the accumulation of 2.5 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave generally at rate of 1.5 days per month up to a maximum of 90 days. Accrued vacations and sick leave benefits as of June 30, 2015, amounted to \$898,475.

**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, 2015

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

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 a deferred income and credited to income when used.

Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of activities and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Corporation and the amount that is paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as operating revenue in the Corporation's financial statements.

Gifts and Pledges

Unconditional promises to give (pledges) from organizations and individuals are recorded as receivables and revenues in the year promised at the present value of expected cash flows. Conditional promises to give are not recognized until they become unconditional, that is when the conditions are substantially met. Gifts of noncash assets are recorded at the fair market value at the date of contribution. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for No Exchange 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, 2014, from which the summarized information was derived.

Risk Financing

The Corporation carries commercial insurance to cover casualty, theft, claims and other losses. 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, 2015.

**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, 2015

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

Reclassification

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

New Accounting Pronouncements

GASB has issued the following statements that the Corporation has not yet adopted:

<u>GASB Statement Number</u>		<u>Adoption Required in Fiscal Year</u>
72	Fair Value Measurement and Application	2016
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	2016
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	2016
77	Tax Abatement Disclosures	2017

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

Effects of New Accounting Standards

Statement No. 68, *Accounting and Financial Reporting for Pension-* and amendment to GASB- 27 was effective for fiscal year 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

Statement No. 69, *Government Combinations and Disposal of Government Operations* was effective for fiscal year 2015 and had no impact on the basic financial statements of the Corporation.

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantee* was effective for fiscal year 2015 and had no impact on the basic financial statements of the Corporation.

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DE PUERTO RICO AND RELATED COMPANY**

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Combined Financial Statements

June 30, 2015

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

Effects of New Accounting Standards. (Continued)

Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*—an amendment of GASB statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement had no impact on the basic 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.

	2015			Bank Balance
	Book Balance			
	Unrestricted	Restricted	Total	
Deposits in Financial Institutions	\$ 1,675,632	\$ 1,590,041	\$ 3,265,673	\$ 3,339,013
Petty Cash	600	-	600	-
Total	\$ 1,676,232	\$ 1,590,041	\$ 3,266,273	\$ 3,339,013

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, 2015:

- Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, 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, 2015; however, the amounts in excess of the FDIC coverage amounted to \$2.9 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, 2015.
- 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, 2015, (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, 2015, the interest rate risk associated with the Corporation's cash and cash equivalents are considered low since they have no investment portfolio.

**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, 2015

2. DEPOSITS, (Continued)

- *Custodial Credit Risk* - In the case of deposits, this is the risk that in the event of a bank failure, Corporation's deposits may not be recovered. At June 30, 2015, Corporation has balances deposited in commercial banks and other financial institutions amounting to \$3.3 million approximately, which are insured by the FDIC up to a maximum of \$250,000. At June 30, 2015, all Corporation's bank balance in aggregate amounted to \$3.3 million; therefore it is exposed to custodial credit risk since such deposits maintained at the bank are uninsured by approximately \$2.9 million. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk. Therefore, Corporation's management has concluded that at June 30, 2015, the custodial credit risk associated with Corporation's cash and cash with fiscal agents is considered high.
- *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, 2015.

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, 2015, the Corporation reported the following amounts as accounts receivable:

Corporación del Conservatorio de Música de Puerto Rico:

	2015
Students Tuition and Fees	\$ 364,755
Contracts, Grants, and Conditional Promises	668,867
Government, Agencies and Other	1,062,454
	2,096,076
Less: Allowance for Doubtful Accounts	(1,391,200)
Accounts Receivable, Net	\$ 704,876

These receivables are presented net of allowance in the Statement of Net Position as follows:

Government Agencies	\$ 35,993
Other	668,883
Accounts Receivable, Net	\$ 704,876

**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, 2015

3. ACCOUNTS RECEIVABLE, (Continued)

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

Contracts and Grants	\$	6,512
Less: Allowance for Doubtful Accounts		(4,807)
	\$	1,705

4. CAPITAL ASSETS

Corporación del Conservatorio de Música de Puerto Rico

	June 30, 2014	Increase	Decrease	June 30, 2015
Capital Assets Not Being Depreciated:				
Land	\$ 5,156,500	\$ -	\$ -	\$ 5,156,500
Capital Assets Being Depreciated:				
Building	81,545,160	-	10,380	81,534,780
Library	375,670	-	-	375,670
Furniture and Equipment	3,623,276	31,894	-	3,655,170
Leasehold Improvements	1,330,579	-	-	1,330,579
Musical Instruments	2,809,791	13,320	-	2,823,111
Software's	289,805	15,654	-	305,459
Motor Vehicles	17,500	-	-	17,500
Total Capital Assets Being Depreciated	89,991,781	60,868	10,380	90,042,269
Less Accumulated Depreciation:				
Building	(7,459,469)	(2,037,837)	-	(9,497,306)
Library	(212,360)	(9,391)	-	(221,751)
Furniture and Equipment	(1,586,595)	(230,898)	-	(1,817,493)
Leasehold Improvements	(1,330,579)	-	-	(1,330,579)
Musical Instruments	(970,769)	(187,763)	-	(1,158,532)
Software's	(256,439)	(14,993)	-	(271,432)
Motor Vehicles	(17,500)	-	-	(17,500)
Total Accumulated Depreciation	(11,833,711)	(2,480,882)	-	(14,314,593)
Net Capital Assets	\$ 83,314,570	\$ (2,420,014)	\$ 10,380	\$ 80,884,176

**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, 2015

4. CAPITAL ASSETS, (Continued)

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

	June 30, 2014	Increase	Decrease	June 30, 2015
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 14,834	\$ -	\$ -	\$ 14,834
Musical Instruments	126,037	-	-	126,037
Total Capital Assets Being Depreciated	<u>140,871</u>	<u>-</u>	<u>-</u>	<u>140,871</u>
Less Accumulated Depreciation:				
Furniture and Equipment	(5,873)	(1,648)	-	(7,521)
Musical Instruments	(70,353)	(21,221)	-	(91,574)
Total Accumulated Depreciation	<u>(76,226)</u>	<u>(22,869)</u>	<u>-</u>	<u>(99,095)</u>
Net Capital Assets	<u>\$ 64,645</u>	<u>\$ (22,869)</u>	<u>\$ -</u>	<u>\$ 41,776</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, 2015, the Corporation reported the following amounts as unearned revenue:

Corporación del Conservatorio de Música de Puerto Rico:

Student Tuition and Fees	\$ 270,747
Contracts and Grants	537,940
Conditional Promises	<u>6,427</u>
	<u>\$ 815,114</u>

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

Contracts and Grants	<u>\$ 10,110</u>
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**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, 2015

6. RETIREMENT SYSTEM

The Employees' Retirement System of the Commonwealth and its instrumentalities (the Retirement System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Corporation under age 55 at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits. Disability benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits are vested after ten years of plan participation.

Members who have attained 61 years of age and have completed at least 25 years of creditable service or members who have attained 61 years of age and have completed at least 10 years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent (1.5%) of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus two percent (2.0%) of the average compensation multiplied by the number of years of creditable service in excess of 20 years. In no case, the annuity will be less than \$280 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the "Merit Annuity". Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined, otherwise they will receive 75% of the average compensation. Disability benefits are available to member for occupational and non-occupational disability. However, for non-occupational disability a member must have at least 10 years of service. No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2001. Employees participating in the current system as of December 31, 1999, elected either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, are only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution will be used to fund the deficiency of the defined benefit plan.

**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, 2015

6. RETIREMENT SYSTEM, (Continued)

System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary up to \$6,600 and 8.275% for the salary in excess of \$6,600 for employees hired on or before April 1, 1990. The Corporation's contributions are 13.275% of gross salary for 2015 and 12.275% for 2014. For the years ended June 30, 2015 and 2014, the payroll covered by the System amounted to approximately \$2,667,081 and \$2,567,616, respectively. The pension expense for the years ended June 30, 2015 and 2014 amounted to approximately \$354,055 and \$327,371, respectively.

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

The most recent actuarial valuation is as of June 30, 2013:

Interest Rate	6.4% a year
Salary Increases	3% a year.
Pre-Retirement Mortality	RP-2000 Employee mortality rate for males and females projected on a generational basis using Scale AA.
Post-Retirement Health Mortality	Rates vary by gender are assumed for healthy retirees and beneficiaries were based on a study of plan's experience from 2007-2012.
Post-Retirement Disabled Mortality	Rates vary by gender are assumed for disabled retirees were based on a study of plan's experience from 2007-2012.

**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, 2015

6. RETIREMENT SYSTEM, (Continued)

Termination	Annual rate of termination 2.0%. Current terminated members with a vested benefit are assumed to retire at the age of 58 by Act No. 447 and at the age of 65 by Act No. 1.
Disability	75% of Third Railroad Retirement Table Rates.
Retirement	Rates of retirement vary by employment category, Act, age, and years of Creditable Service.
Marriage	70% of participants assumed to be married at retirement with males four years older than females.
Number of Employees Electing Higher Contributions	15% of retiring employees assumed to pay Contributions retroactive contributions at retirement.

The required and realized contribution by the employees and the employer for the years ended June 30, 2015, 2013, and 2012 are as follows:

	2015	2014	2013
Required and realized contribution by the employer	\$ 354,055	\$ 327,371	\$ 293,854
% that represents the total of payroll covered	13.275%	12.275%	11.275%
Required and realized contribution by the employees	\$ 269,301	\$ 269,764	\$ 238,814
% that represents the total of payroll covered	10.000%	10.000%	8.275%

On July 1, 2013 became effective Act No. 3 of April 4, 2013, which represents a comprehensive reform of the ERS. Act No. 3 amends the provisions of the different benefits structures under the ERS, including, but not limited, to the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013, will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.

**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, 2015

6. RETIREMENT SYSTEM, (Continued)

- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the “Merit Annuity” available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new State and Municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate will increase from 8.275% to 10%.
- The employer contribution rate will increase 1% per year until fiscal year 2016 and 1.25% per year until final year 2021.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and Summer Bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The Summer Bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.

In addition, the Commonwealth has proposed incremental annual contributions from the General Fund of \$140 million per year, for the next 20 years, to increase the liquidity and solvency of the ERS. An appropriation for such annual contribution has been included in the Commonwealth’s proposed budget for the fiscal year 2015.

Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3-2013, along with the additional annual contributions of \$140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the System’s current and future obligations.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

**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, 2015

6. RETIREMENT SYSTEM, (Continued)

In June 2012, the GASB issued Statement No. 68, "Accounting and financial Reporting for Pensions", effective for the Corporation fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Corporation to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. However, as of June 30, 2015, the Corporation was unable to obtain the corresponding support of the unfunded pension liability, net pension liability and related deferred inflows/outflows of resources related to the Puerto Rico Retirement System due to the information was not provided by the third party. Therefore, these financial statements does not considered the effect of the implementation of GASB No. 68.

The financial statements and required supplementary information for the Retirement System is available by writing to Administrator-Employees' Retirement system of the Commonwealth of Puerto Rico, PO Box 42003, Minillas Station, Santurce, PR 00940.

7. NON-CURRENT LIABILITIES

Changes in non-current liabilities for the year ended June 30, 2015, are as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due within One Year
Compensated Absences	\$ 863,780	\$ 285,088	\$ 250,393	\$ 898,475	\$ 360,110
Termination Benefits	\$ 114,117	\$ -	\$ 18,404	\$ 95,713	\$ 20,319

8. 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 PR 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.

**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, 2015

8. 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
	513,495
Matching Federal Funds, Title V	363,495
Accumulated Interest from Endowment Investments	317,316
Scholarships Awarded	(158,658)
	\$ 1,035,648
Total	

9. LINES-OF-CREDIT

During 2012, the Corporation entered into an agreement with Banco Gubernamental de Fomento de Puerto Rico consisting of a non-revolving line-of-credit for the purchase of equipment to be used in the new building facilities in Miramar. This agreement provides for borrowings up to \$1,020,000, with interest rate at 150 base points over prime rate but not less than 6%. The principal should be paid with the donations received by the Corporation, or with their own funds on October 9, 2018.

During year 2011, the Corporation entered into two financing agreements with Banco Gubernamental de Fomento de Puerto Rico. One of these agreements consists of a non-revolving line-of-credit to finance the operational costs of "Música 100 x 35" project. This agreement provides for borrowings up to \$2,000,000, with a minimum interest rate of 6% payable on June 30, 2011. The principal should be paid with the assigned budget to the project. Subsequently, it was amended to extend the maturity date until January 31, 2016.

The second financing agreement consists of a non-revolving line-of-credit to finance the operational costs of the "Distrito Escolar de las Artes" project. This agreement provides for borrowings up to \$1,700,000, with interest rate at 150 base points over prime rate but not less than 6%. The principal shall be paid with the earlier between the reimbursement of expenses by the PR Department of Education or its due date. On July 5, 2011, the agreement was amended to establish a minimum interest rate of 6%, and extended the due date through January 31, 2013. Subsequently, the line-of-credit was amended to extend its maturity date until January 31, 2016.

**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, 2015

9. LINES-OF-CREDIT, (Continued)

For the year ended June 30, 2015, the aggregate outstanding balance amounted to \$778,453. The following represents lines-of-credit activity for the period year June 30, 2015:

Corporación del Conservatorio de Música de Puerto Rico

	Beginning Balance	Additions	Deductions	Ending Balance
Lines-of-Credit	\$ 789,421	\$ -	\$ 227,834	\$ 561,587

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

Lines-of-Credit	\$ 336,063	\$ -	\$ 119,197	\$ 216,866
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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	\$ 1,523,120
Less: Conditional Promises already received	(954,000)
Conditional Promises Still Pending to be Received	\$ 569,120

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.

**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, 2015

11. VOLUNTARY TERMINATION BENEFITS, (Continued)

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 \$95,713 in the statement of net position as of June 30, 2015. At June 30, 2015, unpaid long-term benefits granted on this program were discounted at 2%.

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. SUBSEQUENT EVENT

In preparing these combined financial statements, we evaluated these transactions and other events and transactions for potential recognition or disclosures through December 10, 2015, the date the combined financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA or Grant Number	Expenditures
Student Financial Assistance Cluster Program		
Federal Pell Grant Program	84.063	\$ 1,222,745
William D. Ford Federal Direct Loan Program	84.268	569,900
Federal Work-Study Program	84.033	23,463
Federal Supplemental Educational Opportunity Grants	84.007	<u>14,482</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,830,590</u></u>

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

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

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

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, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, "*Audits of States, Local Governments and Non-Profit Organizations*". 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. 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 mounts 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.

OMB Circular A-133 requires that federal financial reports for claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The Corporation's prepares the federal financial reports and claims for reimbursements primarily based on information from the internal accounting records of the Corporation and related company.

4. RELATION TO FINANCIAL STATEMENTS

Federal awards revenues and expenses are reported in the Corporation's statement of revenues, expenses and changes in net assets 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 and related company, it is not intended to and does not present the financial position, assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, as a whole.

5. CLUSTER PROGRAMS

OMB Circular A-133 defines a cluster of programs as a grouping of closely related programs that hare 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 AND RELATED COMPANY**

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

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, 2015.

Federally guaranteed loans issued to students of the Corporation during the year ended June 30, 2015, are summarized as follows:

	CFDA Number		2015
William D. Ford Federal Direct Loan Program	84.268	\$	569,900

7. DISTINCTION BETWEEN TYPE A AND TYPE B PROGRAMS

The dollar threshold for Type A and Type B programs amounted to \$300,000.

8. MATCHING COSTS

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



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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 and Related Company**
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 **Conservatorio de Musica de Puerto Rico and Related Company** (the Corporation), which comprise the combined statement of net position as of June 30, 2015, 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 financial statements and have issued our report thereon dated December 10, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and question costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. Finding 2015-01.

A significant *deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider that deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies.

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 **Conservatorio de Musica de Puerto Rico and Related Company** in a separate letter dated December 10, 2015.

Corporation's Response to Findings

The Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



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San Juan, Puerto Rico
December 10, 2015
2015-12-87

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited **Conservatorio de Musica de Puerto Rico and Related Company** (the Corporation), compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2015. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Student Financial Aid Cluster

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, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs. Our opinion on each major federal program is not modified with respect to these matters.

The Corporation's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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San Juan, Puerto Rico
December 10, 2015,
2015-12-88

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

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

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 checked="" type="checkbox"/> Yes	<input 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 Circular A-133, Section .510(a)	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Dollar threshold used to distinguish between Type A and Type B programs:	<input checked="" type="checkbox"/> \$300,000	
Auditee qualified as low-risk auditee?	<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

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

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

SECTION II – FINDING – FINANCIAL STATEMENTS AUDIT

Area: Financial Records and Reports

Ref. No.	Finding
2015-01	<p>Criteria:</p> <p>2CFR 200.302, Financial Management establishes the financial management system of each non-Federal entity must provide for accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements.</p> <p>Category:</p> <p>Internal control</p> <p>Condition:</p> <p>The accounting records of Conservatorio de Música de Puerto Rico and Related Company (the Corporation) are incomplete since, the Corporation was unable to obtain the corresponding support of the unfunded pension liability, net pension liability and related deferred inflows/outflows of resources related to the Puerto Rico Retirement System due to the information was not provided by the third party. Therefore, these financial statements does not considered the effect of the implementation of GASB No. 68. Accordingly, the Corporation was unable to comply with generally accepted accounting principle in the United States of América.</p> <p>Cause and Effect:</p> <p>During our procedures over the Corporation amounting records, we noted a lack of information of the financial transactions of the Pension Plan for current and previous fiscal years.</p> <p>As a result, noncompliance with the above mentioned requirements could lead to administrative actions by the grantor. It could also be interpreted as a failure to manage federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements.</p>

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

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

SECTION II - FINDING - FINANCIAL STATEMENTS AUDIT, (Continued)

Ref. No.	Finding
2015-01	<p>Recommendation:</p> <p>The Corporation must obtain then necessary information to comply with the GASB No. 68 requirements considering among other things the following:</p> <p><i>Net Pension Liability on the Balance Sheet</i> - Government employers that sponsor Defined Benefits plans will now recognize a net pension liability (unfunded accrued liability) in their statement of net position (balance sheet). This is the difference between total pension liability (actuarial accrued liability) and plan assets (at fair value). The entry age normal actuarial cost method must be used to calculate total pension liability.</p> <p><i>As under GASB 27</i> - future salary increases, expected future service, and automatic COLAs must be included in the liability calculation. Unlike current rules, GASB 68 requires that ad hoc postretirement benefit increases, including ad hoc COLAs, also be included, if considered substantively automatic.</p> <p><i>New Discount Rate</i> - The discount rate can continue to be the expected long-term rate of return on plan investments where current assets plus future contributions are projected to cover all future benefit payments. We expect this requirement will be met if the employer funds the actuarially determined contribution, provided it pays off the unfunded liability over a reasonable period. However, plans where current assets plus future contributions are projected not to cover all future benefit payments must use a municipal bond rate to discount the “<i>non-covered</i>” payments. The municipal bond rate is a yield or index rate for 20-year, tax-exempt general obligation bonds with an average rating of AA/Aa or higher (currently below 4%). Including a municipal bond rate as part of the discount rate increases liabilities. In addition, changes in the municipal bond rate or assumed rate of return on plan investments between measurement dates introduce more volatility into calculating liabilities and expense.</p> <p><i>More Variable Pension Expense</i> - Pension expense will now be based on the net pension liability change between reporting dates, with some sources of the change recognized immediately in expense and others amortized over years. Service cost, interest on net pension liability, and expected investment earnings — as well as liability for any plan benefit change related to past service since the last reporting period — must also be expensed immediately. Changes in actuarial assumptions and experience gains and losses must be amortized over a closed period equal to the average remaining service of active and inactive plan members (who have no future service) — a much shorter than typical period. Investment gains and losses must be recognized in pension expense over closed 5-year periods.</p>

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

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

SECTION II - FINDING - FINANCIAL STATEMENTS AUDIT, (Continued)

Ref. No.	Finding
2015-01	<p>Recommendation, (Continued):</p> <p><u>Cost-sharing Employers</u> - (those in plans where assets are pooled and can be used to pay benefits of any employer in the pool) Report a Proportionate Liability – These employers will now report a net pension liability and pension expense equal to their proportionate share of the cost-sharing plan. Among others, this may affect Puerto Rico Retirement System employers that participate in pooled plans.</p> <p><i>Special Funding Situation</i> – This occurs when a government entity is legally responsible for contributing directly to a plan for employees of another government entity, with the amount fixed by statute or plan provisions. An example would be a State that’s legally required to contribute to a plan for local school districts’ teachers. Under GASB 68, the non-employer contributing entity must recognize a proportionate share of the plan’s net pension liability and pension expense.</p> <p><i>More Extensive Disclosures and Required Supplementary Information</i> – More extensive note disclosures are required, including types of benefits and covered employees, how plan contributions are determined, and assumptions/methods used to calculate the pension liability. Employers in single-employer or agent employer pension plans must report each source of the change in net pension liability from the prior reporting period, with a schedule of those changes for the last 10 years in the Required Supplementary Information (RSI). This will affect Commonwealth of Puerto Rico government employers that maintain their own plan or participate in non-pooled plans. Employers in cost-sharing plans will report RSI in addition to more extensive note disclosures.</p> <p><i>Defined Contribution Plan Accounting Unchanged</i> – As under current accounting standards, a Defined Contribution plan’s pension expense equals contributions or credits for employee service in the current period reduced by any forfeited amounts not reallocated to other participants. A pension liability is recognized for any difference between the pension expense and actual employer contributions.</p> <p>Corrective Action Plan:</p> <p>The Letter Num . 1300-12-16 of July 12, 2015 issued by the Department of Treasury of Puerto Rico that establish the guidelines for the implementation of GASB 68. It states that the Employees Retirement System of the Commonwealth and its instrumentalities (the Retirement System) prepare the requirements of the report for the implementation of GASB 68. Once the Retirement System establish the final amount on concern to the Corporación del Conservatorio de Música de Puerto Rico will proceed to register the amount on the accounting books.</p>

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

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

SECTION III - FEDERAL AWARDS FINDINGS:

No audit findings came to our attentions that are required to be reported.

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

(A Component Unit of the Commonwealth of Puerto Rico)

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2015

SECTION III – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Ref. No.	Finding
2014-001	<p>Condition:</p> <p>During our audit procedures over the Federal Work Study Program, we identified various disbursements containing conflicts between the working and studying hours. These conflicts were identified in six (6) students, which represented 67% of our sample.</p> <p>Status:</p> <p>Corrected</p>
2014-002	<p>Condition:</p> <p>The total amount of withdrawal populations was seventeen (17) cases, from which we tested 59%. Our procedures revealed that one (1) case of the ten (10) samples selected were not processed within the required forty five (45) days.</p> <p>Status:</p> <p>Corrected</p>



De Angel & Compañía
CORPORACIÓN PROFESIONAL
CONTADORES PÚBLICOS AUTORIZADOS

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December 10, 2015

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

The stockholders and staff of De Angel & Compañía, CPA, CSP, 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 **PKF Torres Llompарт Sánchez Ruíz, LLC**, 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

Carlos de Ángel, CPA
Partner
De Ángel & Compañía, CPA, PSC
San Juan, Puerto Rico

SYSTEM REVIEW REPORT

We have reviewed the system of quality control for the accounting and auditing practice of De Ángel & Compañía, CPA, PSC (the firm) in effect for the year ended April 30, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. 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 materials respects. 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. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of De Ángel & Compañía, CPA, PSC in effect for the year ended April 30, 2012, has been suitably 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. Firms can receive a rating of *pass*; *pass with deficiency(ies)* or *fail*. De Ángel & Compañía, CPA, PSC has received a peer review rating of *pass*.

December 6, 2012
License No. 10
San Juan, Puerto Rico



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to the original of this report.