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December 28, 2018

To the Board of Directors of
Corporación del Conservatorio de Música
de Puerto Rico and Related Company
951 Ave. Ponce de León
San Juan, PR 00907-3373

We have audited the financial statements of **Corporación del Conservatorio de Música de Puerto Rico and Related Company** (the Corporation), as of and for the year ended June 30, 2017, and have issued our report thereon dated December 28, 2018, in accordance with auditing standards generally accepted in the United States of America. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practice

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended on June 30, 2017. We noted no transaction entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- Allowance for Uncollectible Accounts – the methodology used by management is based on review of outstanding receivables, historical collection information, economic conditions and prior credit loss experience.

- Depreciation of Property and Equipment is provided using the straight-line method over estimated useful lives of several years depending on the classification of the assets.

We evaluated the key factors and assumptions used to develop the accounting estimates described above in determining that they are reasonable in relation to the financial statements taken as whole.

Difficulties Encountered in Performing the Audit

During our audit procedures for the year ended June 30, 2017, everything went as expected, and when an issue comes up the Management resolved promptly. In our judgment, we received full cooperation of the Corporation's management and staff and had unrestricted access to the Corporation's senior management in the performance of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purpose of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representation

We have requested certain representations from management that are included in the management representation letter dated December 28, 2018.

Consultations with Other Independent Accountant

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings and Issues

Each year we generally discuss a variety of matters, including the applications of accounting principles and auditing standards, with management each year prior the retention as the Corporation's independent auditors. However, these discussions occurred in normal course of our professional relationship and our response were not a condition to our retention.

Emphasis-of-Matter

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Control-Related Matters

We have identified, and included in Appendix A, certain matters involving the Corporation's internal control over financial reporting that we consider to be material weakness and/or significant deficiency under standards established by the American Institute of Certified Public Accountants. The definitions of a deficiency and a material weakness are also set forth in Appendix A.

This information is intended solely for the use of the Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very Truly Yours,

Carlos De Angel, CPA
President

Appendix A

Section I– Definitions

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation financial statements will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Section II–Material Weakness

Unsecured Cash Balance

While conducting the audit of cash we noted that the Corporations had cash on deposits in excess of the federally insured limit in a Financial Institution. This present a potential for losses to the Corporation in the event of bank or institutional failure. We strongly suggest that management closely monitor cash balances and transfer excess cash balance to other banks, where possible, to reduce the potential for loss of monetary amounts in excess of the federally insured level.

GASB-68 Implementation

Our procedures with respect to pension plan disclose the cost and obligations associated with Employer Pension reported as required by GASB No.68 Accounting Annual Financial Reported for Pension", due the information was not provided by a third party. A quantification of the effects on the financial statements is not practicable, accordingly we recommend the implementation of GASB-68. A summary of GASB 68's requirements follows:

- *Net Pension Liability on the Balance Sheet* - 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.

- As under GASB 27 - 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.

- New Discount Rate - 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 "*non-covered*" 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.

- More Variable Pension Expense - 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.
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- Cost-sharing Employers - (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.

- Special Funding Situation - 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.

- More Extensive Disclosures and Required Supplementary Information - 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.

- Defined Contribution Plan Accounting Unchanged - 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.

Section III – Significant Deficiency

Long Range Plan and Disaster Recovery Plan

CMPR does not have well defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities. We suggest that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage
- A listing of all data files that would have to be obtained from the off-site storage location
- Identification of a back-up location (name and telephone number) with similar or compatible equipment for emergency processing (Management should make arrangements for such back-up with another company, a computer vendor, or a service center. The agreement should be in writing.)
- Responsibilities of various personnel in an emergency
- Priority of critical applications and reporting requirements during the emergency period
- Review and/or update corrective action plan on finding detected by internal auditors on October 20, 2015.