

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**BASIC FINANCIAL STATEMENTS**  
**AND SINGLE AUDIT REPORTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

RODRÍGUEZ  
&  
ESPADA

**ESCUELA DE ARTES PLASTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**BASIC FINANCIAL STATEMENTS**  
**AND SINGLE AUDIT REPORTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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**ESCUELA DE ARTES PLASTICAS DE PUERTO RICO  
 (A Component Unit of the Commonwealth of Puerto Rico)  
 BASIC FINANCIAL STATEMENTS  
 AND SINGLE AUDIT REPORTS  
 FOR THE YEAR ENDED JUNE 30, 2009**

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RODRÍGUEZ  
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E S P A D A

Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORTS**

***ESCUELA DE ARTES PLASTICAS DE PUERTO RICO***  
***(A Component Unit of the Commonwealth of Puerto Rico)***  
***San Juan, Puerto Rico***

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escuela de Artes Plásticas de Puerto Rico (the School) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escuela de Artes Plásticas de Puerto Rico, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2009 on our consideration of the School'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

*Escuela de Artes Plásticas de Puerto Rico  
(A Component Unit of the Commonwealth of Puerto Rico)  
San Juan, Puerto Rico*

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 35 through 37, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Escuela de Artes Plásticas de Puerto Rico's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



*Rodríguez & Espada,*  
Rodríguez & Espada, CPA PSC

September 25, 2009  
The CPA stamp number 2433582  
was affixed to the original of this report.

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT' S DISCUSSION AND ANALYSIS**  
**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussions and analysis of the Escuela de Plásticas de Puerto Rico provides an overview of the financial performance and the activities for the fiscal year ended June 30, 2009.

The discussion and analysis is an introduction to the School's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

This report includes government-wide financial statements as required by GASB Statements 34 already implemented by the School.

***Government- wide Statements (Reporting the School as Whole)***

The Statements of Net Assets and Statement of Activities are two financial statements that report information about the School, as a whole, and about its activities that should help answer this question: Is the School, as a whole, better off or worse off as a results of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenue and expense are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (page 12) presents all of the School's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets is an indicator of whether the School's financial position is improving or deteriorating.

The Statement of Activities (page 13) presents information showing how the School's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expense are reported in the statements for some items that will only result in cash flows in the future fiscal periods.

***Fund Financial Statements (Reporting the School's Major Funds)***

The funds financial statements provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts the School uses to keep track of specific sources of funding and spending for a particular purpose.

*Escuela de Artes Plásticas de Puerto Rico*  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Management's Discussion and Analysis*

***Governmental Funds***

All the School's basic services are reported in the governmental funds, which focus in how money flows into and out of those funds and the balances left at year-end that are available for future spending. Consequently, the governmental fund financial statements provide a detailed short-term view of the School general operation and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. These funds are reported using modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Under this method, revenues are recognized when measurable and available. Expenditures are generally recognized when the related fund liability is incurred. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than governmental-wide statements, two schedules are presented which briefly explains the adjustments necessary to reconcile the fund statements with the governmental wide statements.

- Governmental funds include the General Fund and Other Governmental funds that accounts for resources provided under federal grants and local special assignment funds legally restricted for expenditures for education programs oriented to plastic arts.
- Governmental funds also employ encumbrance accounting. Under the encumbrance system, all purchase orders; contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation.

***Additional Required Supplementary Information***

Following the basis financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements.

*Escuela de Artes Plásticas de Puerto Rico  
 (A Component Unit of the Commonwealth of Puerto Rico)  
 Management's Discussion and Analysis*

**HIGHLIGHTS**

***Government-wide:***

- The assets of the School exceeded its liabilities at the close of the fiscal year by \$9,450,773 (reported as net assets).

***Fund Level:***

- As of the close of the fiscal year, the School's governmental funds reported combined ending fund balances of \$1,723,642. This includes unreserved fund balances of \$(1,542,887) for the General Fund, \$2,892,200 for the Special Revenue Fund and \$50,199 for the Capital Projects Fund. Reserve for encumbrances totaled \$324,130.

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

The School's net assets decreased by \$208,450 over the course of this year's operations due primarily to the decrease in general and administrative expenses during this year. The School recorded its long-term liabilities related to compensated absences such as vacation and sick leave, and the capital assets and their corresponding accumulated depreciation and expense in accordance with the GASB. The School's net assets at the end of the fiscal year ended on June 30, 2009 were \$9,450,773. (See table below).

	<b>CONDENSED Statement of Net Assets as of June 30, 2009</b>	<b>CONDENSED Statement of Net Assets as of June 30, 2008</b>	<b>Change</b>	<b>%</b>
<b>ASSETS</b>				
Cash and other assets	\$2,285,612	\$ 2,486,361	\$(200,749)	(8%)
Capital assets, net	8,438,916	8,502,134	(63,218)	(1%)
<b>Total Assets</b>	<b>10,724,528</b>	<b>\$10,988,495</b>	<b>\$(263,967)</b>	<b>(2%)</b>

*Escuela de Artes Plásticas de Puerto Rico*  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Management's Discussion and Analysis*

	<b>CONDENSED</b> <i>Statement of</i> <i>Net Assets as of</i> <i>June 30, 2009</i>	<b>CONDENSED</b> <i>Statement of</i> <i>Net Assets as of</i> <i>June 30, 2008</i>	<i>Change</i>	<i>%</i>
<b>LIABILITIES</b>				
Liabilities	\$1,273,755	\$1,215,622	\$ 58,133	5%
<b>Total Liabilities</b>	<u>1,273,755</u>	<u>1,215,622</u>	<u>58,133</u>	<u>5%</u>
Net Assets:				
Investment in capital assets	8,438,916	8,502,134	(63,218)	(1%)
Restricted	840,138	854,415	(14,277)	(2%)
Unrestricted	171,719	302,674	(130,955)	(43%)
<b>Total Net Assets</b>	<u>\$9,450,773</u>	<u>\$9,659,223</u>	<u>\$(208,450)</u>	<u>(2%)</u>

The largest component of the School's net assets as of June 30, 2009 represents its investment in capital assets (e.g. building, building improvements, furniture and fixtures, other equipment, computers, software's and motor vehicles, less the related accumulated depreciation). Consequently, unrestricted net assets showed a \$171,719 balance at the end of this year.

The following financial information was derived from the government-wide Statement of Activities for fiscal year ended June 30, 2009 and reflects how the School's net assets changed:

	<b>CONDENSED</b> <i>Statement of Activities</i>			
	<i>Fiscal Year Ending</i> <i>June 30, 2009</i>	<i>Fiscal Year Ending</i> <i>June 30, 2008</i>	<i>Change</i>	<i>%</i>
<b>PROGRAM REVENUES:</b>				
Charges for services	\$ 828,755	\$ 788,248	\$ 40,507	5%
Operating grants and contributions	5,444,579	5,549,197	(104,618)	(2%)
<b>Total program revenues</b>	<u>6,273,334</u>	<u>\$6,337,445</u>	<u>(64,111)</u>	<u>(1%)</u>

*Escuela de Artes Plásticas de Puerto Rico*  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Management's Discussion and Analysis*

	CONDENSED Statement of Activities			
	<i>Fiscal Year Ending June 30, 2009</i>	<i>Fiscal Year Ending June 30, 2008</i>	<i>Change</i>	<i>%</i>
<b>GENERAL REVENUES:</b>				
Investment income	660	11,630	(10,970)	(94%)
<i>Total revenues</i>	6,273,994	6,349,075	(75,081)	(1%)
<b>EXPENSES:</b>				
Payroll and related costs	3,154,140	2,236,254	917,886	41%
Other expenses	2,801,090	3,278,816	(477,726)	(15%)
Depreciation	527,214	463,771	63,443	14%
<i>Total expenses</i>	6,482,444	5,978,841	503,603	8%
Increase (decrease) in net assets	\$ (208,450)	\$ 370,234	\$(578,684)	

The 2008-2009 revenues decreased by \$75,081 when compared with last fiscal year, mainly due to a decrease in operating grants and contributions. Total program expenses increased by \$503,603 mainly due to the increase in payroll and related costs, despite a decrease in certain general and administrative expenses, such as professional services.

*Escuela de Artes Plásticas de Puerto Rico*  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Management's Discussion and Analysis*

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

A comparative analysis of overall fund financial activities is presented below:

	June 30,			
	2009	2008	Change	%
<b>ASSETS</b>				
Cash	460,565	685,762	(225,197)	(33%)
Account rec.-tuition fees	984,910	946,184	38,726	4%
Due from other funds	743,675	693,760	49,915	7%
Restricted investment	840,138	854,415	(14,277)	(2%)
	<u>3,029,288</u>	<u>\$3,180,121</u>	<u>\$(150,833)</u>	<u>(5%)</u>
<b>LIABILITIES</b>				
Account payable	561,971	574,106	(12,135)	(2%)
Due to other funds	743,675	693,760	49,915	7%
	<u>1,305,646</u>	<u>1,267,866</u>	<u>37,780</u>	<u>3%</u>
<b>REVENUES</b>				
Legislative appropriations	3,443,379	3,746,000	(302,621)	(8%)
Federal grants	2,001,200	1,779,558	221,642	12%
Investments income	660	11,630	(10,970)	(94%)
Tuition fees and other	828,755	811,887	16,868	2%
	<u>6,273,994</u>	<u>6,349,075</u>	<u>(75,081)</u>	<u>(1%)</u>
<b>EXPENDITURES</b>				
Payroll and related costs	3,249,257	2,236,254	1,013,003	45%
Payments for public services	220,707	268,668	(47,961)	(18%)

*Escuela de Artes Plásticas de Puerto Rico*  
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*Management's Discussion and Analysis*

June 30,

	2009	2008	Change	%
Professional services	605,342	1,234,163	(628,821)	(51%)
Insurance expenses	94,407	119,857	(25,450)	(21%)
Other expenses	1,785,517	1,656,128	129,389	8%
Capital outlay	464,046	150,866	313,180	208%
	<u>\$6,419,276</u>	<u>\$5,665,936</u>	<u>\$753,340</u>	<u>13%</u>

The school's governmental funds showed a decrease in assets of \$150,833, due to a decrease in cash during the current year. At the same time revenues from legislature decrease by \$302,621 while federal grants increase by \$221,642. Total expenditures increased by \$753,340 mainly due to an increase in payroll and related costs and capital outlay while professional services showed a decrease compared with prior year.

***General Fund Budgetary Highlights:***

The 2008-2009 General Fund Final expenditures budget was \$4,273,673, or \$1,092 under the actual spending of \$4,274,765. The difference was due to changes in expenditures such as expenses related to contracted and professional services. The budgeted revenues exceed by \$1,262 the actual revenues, due to that estimated tuition fees were over the actual. The results showed expenditures in excess of revenues by \$2,354. Liabilities remained constant during the year.

*Escuela de Artes Plásticas de Puerto Rico*  
*(A Component Unit of the Commonwealth of Puerto Rico)*  
*Management's Discussion and Analysis*

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of the fiscal year 2008-2009, the School had invested \$8,438,916, net of accumulated depreciation, in a broad range of capital assets (*See table below*). Depreciation charged for this fiscal year totaled \$527,214.

**Capital Assets as of June 30, 2009**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Assets</b>
Buildings	\$ 7,000,000	\$ 787,500	\$6,212,500
Buildings improvements	2,059,386	486,333	1,573,053
Furniture and fixtures	673,566	451,090	222,476
Other equipment	724,726	495,200	229,526
Computers	844,939	654,183	190,756
Software	247,617	237,012	10,605
Motor vehicles	37,294	37,294	-
<b>Total</b>	<b>\$11,587,528</b>	<b>\$3,148,612</b>	<b>\$8,438,916</b>

***Compensated Absences***

At the end of the fiscal year 2008-2009, the School had a debt to cover future commitments for vacation and sick leave amounting of \$711,785.

***Escuela de Artes Plásticas de Puerto Rico  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis***

***Economic Outlook***

Prior to year 2008-2009, the School obtained a Restoration of Building grant through the Municipality of San Juan, to be used to make improvements in the School's principal building during the next fiscal year. No funds had been received at year end.

As is explain in Note 8, after year end, 21 employees were awaiting layoffs letters from the School as part of the initiatives to reduce government workers as was established by the fiscal-emergency Law 7 of March 9, 2009, representing 38% of the total School's staff and would have a significant effect over its operations, internal controls system and even future federal funds could be affected as a result of this decision.

The School is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the next fiscal year (2009-2010).

***Contacting The School's Office of Financial Management***

This report is designed to provide a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have any questions about this report or need additional information, contact the School's Administration Office at (787) 725-8120.

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

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**ASSETS**

Cash	\$ 460,565
Accounts Receivable - Tuition fees and other, net	984,910
Restricted investments	840,138
Capital assets, net of accumulated depreciation	<u>8,438,916</u>
<i><b>Total assets</b></i>	<u><u>\$10,724,528</u></u>

**LIABILITIES**

Accounts payable	\$ 561,971
Compensated absences:	
Expected to be paid within one year	77,632
Expected to be paid after one year	<u>634,153</u>
<i><b>Total liabilities</b></i>	<u><u>1,273,766</u></u>

**NET ASSETS**

Invested in capital assets	8,438,916
Restricted for:	
Student aid	840,138
Unrestricted	<u>171,719</u>
<i><b>Total net assets</b></i>	<u><u>\$ 9,450,773</u></u>

*See independent auditor's report  
and accompanying notes to the  
basic financial statements.*

**ESCUELA DE ARTES PLASTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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**EXPENSES:**

Education:

General and administrative:

Payroll and related costs	\$3,154,140
Payments for public services	315,824
Professional services	605,342
Insurance expense	94,407
Other expenses	1,785,517
Depreciation	<u>527,214</u>

***Total Program expenses*** 6,482,444

**PROGRAM REVENUES:**

Charges for services	828,755
Operating grants and contributions	5,444,579
Investment income	<u>660</u>

***Total program revenues*** 6,273,994

Change in net assets (208,450)

**NET ASSETS AS OF JUNE 30, 2007, as restated** 9,659,223

**NET ASSETS AS OF JUNE 30, 2009** \$ 9,450,773

*See independent auditor's report  
and accompanying notes to the  
basic financial statements.*

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2009**

	<i>General Fund</i>	<i>Special Revenue Fund</i>	<i>Capital Projects Fund</i>	<i>Total Governmental Funds</i>
<b>ASSETS</b>				
Cash in banks	\$(2,140,596)	\$2,796,773	\$(195,612)	\$ 460,565
Account Receivable	240,831	94,079	650,000	984,910
Due from other funds	693,460	50,215	-	743,675
Restricted investment	211,447	628,691	-	840,138
<i>Total assets</i>	<u>\$ (994,858)</u>	<u>\$3,569,758</u>	<u>\$454,388</u>	<u>\$3,029,288</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 381,362	\$179,813	\$ 796	\$ 561,971
Due to other funds	50,215	290,067	403,393	743,675
<i>Total Liabilities</i>	<u>431,577</u>	<u>469,880</u>	<u>404,189</u>	<u>1,305,646</u>
<b>FUND BALANCES</b>				
Reserved for encumbrances	116,452	207,678	-	324,130
Unreserved, reported in:				
General fund	(1,542,887)	-	-	(1,542,887)
Special revenue fund	-	2,892,200	-	2,892,200
Capital projects fund	-	-	50,199	50,199
Total fund balances	<u>(1,426,435)</u>	<u>3,099,878</u>	<u>50,199</u>	<u>1,723,642</u>
Total liabilities and fund balances	<u>\$ (994,858)</u>	<u>\$3,569,758</u>	<u>\$454,388</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	\$ 8,438,916
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*See independent auditor's report and accompanying notes to the basic financial statements.*

ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)  
BALANCE SHEET - GOVERNMENTAL FUNDS (CONT.)  
JUNE 30, 2009

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	<i>Total Governmental Funds</i>
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(711,785)</u>
Net assets of governmental activities	<u>\$ 9,450,773</u>

*See independent auditor's report  
and accompanying notes to the  
basic financial statements.*

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<i>General Fund</i>	<i>Special Revenue Fund</i>	<i>Capital Projects Fund</i>	<i>Total Governmental Funds</i>
<b>REVENUES:</b>				
Legislative appropriations	\$3,443,379	\$ -	\$ -	\$3,443,379
Federal grants	-	2,001,200	-	2,001,200
Investment income	-	660	-	660
Tuition fees and other	753,738	75,017	-	828,755
<i>Total revenues</i>	<u>4,197,117</u>	<u>2,076,877</u>	<u>\$ -</u>	<u>6,273,994</u>
<b>EXPENDITURES:</b>				
Education:				
General and administrative:				
Payroll and related costs	\$3,144,502	\$ 104,755	\$ -	\$3,249,257
Payments for public services	160,319	60,388	-	220,707
Professional services	241,178	362,508	1,656	605,342
Insurance expense	94,407	-	-	94,407
Other expenses	462,642	1,322,875	-	1,785,517
Capital outlay	55,265	197,945	210,836	464,046
<i>Total expenditures</i>	<u>4,158,313</u>	<u>2,048,471</u>	<u>212,492</u>	<u>6,419,276</u>
Excess of revenues over (under)	<u>38,804</u>	<u>28,406</u>	<u>(212,492)</u>	<u>(145,282)</u>
<b>FUND BALANCES AS OF JUNE 30, 2008</b>	(1,554,309)	3,203,919	262,645	1,912,255
Prior period adjustments	89,070	(132,447)	46	(43,331)
Fund balances June 30, 2008, as restated	<u>(1,465,239)</u>	<u>3,071,472</u>	<u>262,691</u>	<u>1,868,924</u>
<b>FUND BALANCES AS OF JUNE 30, 2009</b>	<u>\$ (1,426,435)</u>	<u>\$ 3,099,878</u>	<u>\$ 50,199</u>	<u>\$ 1,723,642</u>

*See independent auditor's report  
and accompanying notes to the  
basic financial statements.*

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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**NET CHANGE IN FUND BALANCES - Total governmental funds** \$ (145,282)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital assets outlays in the current period. (63,168)

Change in net assets of governmental activities \$(208,450)

*See independent auditor's report and accompanying notes to the basic financial statements.*

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Escuela de Artes Plásticas de Puerto Rico (the School), is a component unit of the Commonwealth of Puerto Rico. Law No. 52 of June 21, 1971 (as amended) created the School. Through Law No. 54 of August 22, 1990, the School acquired its autonomy, which gave it the right to determine its purpose, powers and functions separate from the Institute of Culture of Puerto Rico. The School was created to develop, promote, plan and coordinate programs of study in higher education oriented to the plastic arts, teaching artistic techniques and to help students to develop humanistic values.

The School's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the funds financial statements, Financial Accounting Standard Board (FASB) Pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and more significant accounting are discussed in subsequent subsections of this note.

***FINANCIAL REPORTING ENTITY***

The School's financial reporting entity comprises all significant activities on which the School exercises oversight responsibility. There are not blended component units. The School complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity".

***BASIS OF PRESENTATION***

**Government-wide Financial Statements:**

The government-wide financial statements include the statement of net assets and statement of activities. These statements report financial information for the School as whole excluding fiduciary activities. The statements distinguish between governmental and business-type activities. There are no business-type activities at the School. Governmental activities generally are financed through intergovernmental revenues, state and federal grants.

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by columns, (b) are on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations (c) internal activity is eliminated. The school's net assets are reported in three parts-invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets. The school first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the School's functions and activities. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related programs revenues, operating and capital grants. Program revenues must be directly associated with the function or activity. The net cost (by function activity) are normally covered by general revenue.

The school does not allocated indirect costs. An administrative service fee is charged by the General Fund to the other operating funds that is eliminated like a reimbursement (reducing the revenue and expenses in the General Fund) to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal technology management, etc.)

This government-wide focus is more on the sustain ability of the school as an equity and the change in the school's resulting from the current year's activities.

***Fund Financial Statements***

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major using if it is the primary operating fund (the general fund) or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual fund are at least 10% of the corresponding total for all funds of that category or type; and,

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- b. Total assets, liabilities, revenues or expenditures/expenses of the individual fund are at least 5% of the corresponding total for all governmental funds combined.

The funds of the School are described below:

**Governmental Funds**

*General Fund*

The General Fund is the primary operating fund of the School and always classified as a major fund. It is used to account for all activities except those required legally or administratively to be accounted for in other funds. This fund is primarily financed through appropriations from the Legislature of the Commonwealth of Puerto Rico, federal grants, and tuition fees paid by the students.

*Special Revenue Fund*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. Revenue sources are derived from federal and state grants restricted. The School administers the following Special Revenue Funds:

- Title IV-US Department of Education
- Title V-US Department of Education
- Grants from the Puerto Rico Council of Superior Education
- Restricted donation from private sectors for specific purposes

*Capital Project Fund*

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The School has one capital project fund and is used to account for the restoration and improvement of its buildings. Revenues are derived from State Government legislative resolutions.

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Major and Non-major Funds**

<u>Fund</u>	<u>Description</u>
<i>Major:</i>	
<i>General Fund</i>	See above for description
<i>Special Revenue Fund</i>	Title V-Strengthening Institution-Hispanic Serving Institution Title IV - Federal Pell Grant Program
<i>Capital Project Funds</i>	Legislature Appropriation for Restoration of School building
<i>Other funds:</i>	Supplemental Opportunity Grant (SEOG), Federal Work Study Program (FWSP)

***MEASUREMENT FOCUS AND BASIS OF ACCOUNTING***

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement applied.

**Measurement Focus**

On the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus (Cont.)**

- b. Agency Funds are not involved in the measurement of results of operations; therefore measurement focus is not applicable to them.

**Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business -like activities are presented using the accrual method of accounting. Under this method, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this method, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures, (including capital outlays) are recorded when the related fund is incurred.

***ASSETS, LIABILITIES, AND EQUITY***

**Cash and Investment**

For the purpose of the Statement of Net Assets "cash" includes all demand, savings accounts and certificates of deposits of the School. Cash is maintained mainly in a pooled account with the fiduciary entity, the Government Development Bank of Puerto Rico (GDB). Each fund's portion of the pool is displayed on its respective balance sheet as Cash with fiduciary agent. The School considers highly liquid investment (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Federal deposit insurance corporation provide protection of School's cash as well as qualified pledged or pooled securities holding the assets. The institutions as well as the cash maintained at the GDB holds such collateral.

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***ASSETS, LIABILITIES, AND EQUITY (CONT.)***

**Cash and Investment (Cont.)**

Investments are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximate fair value. Securities traded on a national exchange are valued at their last reported sales price or current exchange rates. School investments are maintained with a private brokerage firm in an endowment fund invested approximately 58% in stocks and options, and 42% invested in mutual funds and cash and sweep balances. Assets are held at broker's house, which carries their account and acts as their custodian for funds and securities deposited with them.

**Custodial Credit Risk for Deposits**

Custodial credit risk for deposits is the risk that, in an event of a bank failure, the school's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the GDB of the Commonwealth. The Company is discretely presented component unit of the Commonwealth of Puerto Rico.

**Custodial Credit Risk for Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the primary government may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2009 securities investments were unregistered and uninsured held by the counterparty's trust department or agent in the School's name.

**Investment Income**

Investment income, which includes changes in the fair value of the investment, is administratively assigned to the Special Revenue Fund.

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***ASSETS, LIABILITIES, AND EQUITY (CONT.)***

**Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Interfund loans are reported as "inter-fund receivables and payables". Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

**Fixed Assets**

The accounting treatment over property and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated assets, which are recorded at their estimated fair value at the date of the donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the asset's estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***ASSETS, LIABILITIES, AND EQUITY (CONT.)***

**Fixed Assets (Cont.)**

Building	40 years
Building improvements	20 years
Furniture and fixtures	10 years
Other equipments	5 years
Computers	4 years
Software	2 years
Motor vehicles	5 years

**Restricted assets**

Restricted assets include cash maintained in an account for the restoration of the building, and investments in trust accounts that are legally restricted as to their use for special grants or purpose.

**Compensated Absences**

The School policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only compensated absence liability payable from expendable available financial resources.

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Equity Classification**

*Government-wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or invested in capital assets.

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

***REVENUES, EXPENDITURES AND EXPENSES***

Operating revenues and expenses for government-wide financial statement are classified by function or activity for governmental activities.

***USE OF ESTIMATES***

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

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***RECENTLY ISSUED ACCOUNTING STANDARDS***

The Government Accounting Standard Board has issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits other Than Pensions*, which is effective for periods beginning after December 15, 2006, December 15, 2007 or December 15, 2009, depending on the level of total annual revenues; GASB Statement No. 47, *Accounting for Termination Benefits*, which is effective in two parts: for termination benefits provided through an existing defined benefit other post employment benefits plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45; for all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues*, which is effective for fiscal years beginning after December 15, 2006; GASB Statement No. 49, *Pollution Remediation Obligations*, and GASB Statement No. 50 - *Pension Disclosure* which is effective for fiscal years beginning after December 15, 2007; GASB Statement No. 52 - *Accounting and Financial Reporting for Intangible Assets* which is effective for fiscal year beginning after June 15, 2009; GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for fiscal years beginning after June 15, 2009. The provisions of these statements did not affect the accompanying financial statements.

***ACCOUNTING FOR THE IMPAIRMENT OR CAPITAL ASSETS***

The Company accounts for asset impairment under the provisions of GAB Statement No. 42, *Accounting and Financial Reporting for Impairment 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. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. The provisions of this statement did not affect the accompanying financial statements.

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 NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

By its nature as a government unit, and as recipient of federal grants, the School is subject to various federal and local laws and regulations. An analysis of the School's compliance with significant laws and regulations and demonstration of its stewardship over School's resources follows:

***FUND ACCOUNTING REQUIREMENT***

The School complies with all local and federal funds laws and regulations requiring the use of separate funds. The legally required funds used by the School include the following:

<u>Fund</u>	<u>Required By</u>
Title V-US Department of Education	Grant Agreement
Capital Project Fund-Restoration of Building	Local Agreement
Title IV-Pell Grant	Grant Agreement
SEOP and FWS program	Grant Agreement
ACG/National SMART Program	Grant Agreement
Join Resolution	Local Agreement

***DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS***

In accordance with federal law, all uninsured deposits in financial institutions with acceptable collateral valued at the lower of market or par. The government of the Commonwealth of Puerto Rico has placed collateral to secure uninsured bank accounts for all its agencies and local governments.

***REVENUE RESTRICTIONS***

The School has various restriction placed over certain revenue sources from local or federal requirements. The primary restricted revenue sources include:

- |  |                          |
|--|--------------------------|
| • Title V-US Department of Education           | Legal Restriction of Use |
| • Puerto Rico Council of Superior Education    | Legal Restriction of Use |
| • Title IV-Pell Grant                          | Legal Restriction of Use |
| • Supplemental Educational Opportunity Program | Legal Restriction of Use |
| • Federal Work Study Program                   | Legal Restriction of Use |
| • ACG/National SMART Program                   | Legal Restriction of Use |
| • Capital Project-Restoration of Building      | Legal Restriction of Use |

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**NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONT.)**

***REVENUE RESTRICTIONS***

For the year ended June 30, 2009, the School complied, in all material respects, with these revenue restrictions.

Also, for the year ended June 30, 2009, the School received federal grants for \$2,001,200 of which \$603,859 represents reimbursements to students and is showed as other expense in the special revenue fund. Therefore, the net amount available for the School operations was \$1,397,341.

**NOTE 3 - CUSTODIAL RISK RELATED TO DEPOSITS AND INVESTMENTS**

As of June 30, 2009, the Company's custodial credit risk was approximately \$489,753, which is the bank balance of the cash held by the Government Development Bank for Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth.

The School established an endowment fund to support their actual and future operations of the School. The objective of the fund is obtaining resources that can be invested and become a permanent source of income for the School. During the years 2008 and 2009, the School received a grant of \$489,540 and \$488,007, respectively from Title V (Hispanic Serving Institution Program) of the Federal Department of Education. Accordingly, these fund are subject to all rules and regulations of the Title V Endowment Regulations Code (Code of Federal Regulations, Parts 606), to the Endowment Challenge Grant Program (34 Code of Federal Regulations, Part 628 (as amended) en the United State Code 1065. Other sources of income of the fund are donations from private parties, special fund raising campaigns and any other special assignments from federal or state governments.

The School established an investment guide for the purpose of defining and assigning responsibilities to all persons and entities involve in the process of control and invest the fund's resources. There is a special committee within the Board of Directors of the School with the responsibility to assure that management of the fund is consistent with the investment guide requirements. In addition, an external investment consultant, licensed by the Security an Exchange Commission, should be contracted to evaluate the investment portfolio regularly and determine if the investments have been made according to the rules established. The consultant must provide recommendations to the investment committee of any action necessary to accomplish the goals and objectives of the fund.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 3 - CUSTODIAL RISK RELATED TO DEPOSITS AND INVESTMENTS (CONT.)**

Following is detail information of the types and amount of the investments maintained by the School as of June 30, 2009:

<b>Types of Investment</b>	<b>Fair Value/Carrying Amount</b>	<b>Cost</b>
Mutual funds and cash and sweep balances	\$352,903	\$396,641
Stocks and options	487,235	535,583
	<u>\$840,138</u>	<u>\$932,224</u>

Investments are uninsured and unregistered held by the counterparty's trust department or agent in the school's name.

**NOTE 4 - DETAIL ON TRANSACTIONS CLASSES/ACCOUNTS**

The following notes presents detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

***CAPITAL ASSETS***

Capital assets activity for the year ended June 30, 2009, was as follows:

	<b><i>Balance at July 1, 2008</i></b>	<b><i>Additions (Retirements)</i></b>	<b><i>Balance at June 30, 2009</i></b>
Buildings	\$ 7,000,000	\$ -	\$ 7,000,000
Building Improvements	1,848,550	210,836	2,059,386
Furniture and fixtures	672,168	1,398	673,566
Other equipment	622,886	101,840	724,726

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DETAIL ON TRANSACTIONS CLASSES/ACCOUNTS (CONT.)**

**CAPITAL ASSETS CONT.**

	<i>Balance at July 1, 2008</i>	<i>Additions (Retirements)</i>	<i>Balance at June 30, 2009</i>
Computers	\$ 796,567	\$ 48,372	\$ 844,939
Software	172,678	74,939	247,617
Motor vehicles	37,294	-	37,294
<b>Total capital assets</b>	<b>\$11,150,143</b>	<b>\$437,385</b>	<b>\$11,587,528</b>

The accumulated depreciation is as follows:

	<i>Balance at July 1, 2008</i>	<i>Additions (Retirements)</i>	<i>Balance at June 30, 2009</i>
Building	\$ 630,000	\$ 157,500	\$ 787,500
Building Improvements	391,848	94,485	486,333
Furniture and Fixture	408,609	42,481	451,090
Other equipment	426,627	68,573	495,200
Computers	584,307	69,876	654,183
Software	170,903	66,109	237,012
Motor Vehicles	35,715	1,579	37,294
	2,648,009	500,603	3,148,612
	<b>\$8,502,134</b>	<b>\$ (63,218)</b>	<b>\$8,438,916</b>

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 4 - DETAIL ON TRANSACTIONS CLASSES/ACCOUNTS (CONT.)**

***COMPENSATED ABSENCES***

As of June 30, 2009, the accrued compensated absences debt of the School consisted of following:

	<b>Beginning of Year</b>	<b>Accrued</b>	<b>Expensed</b>	<b>Ending of Year</b>
Vacations	\$187,721	\$ (3,428)	\$ (16,280)	\$168,013
Vested sick leave	453,795	154,165	(64,188)	543,772
	<b>\$641,516</b>	<b>\$150,737</b>	<b>\$ (80,468)</b>	<b>\$711,785</b>

**NOTE 5 - RETIREMENT PLAN**

The School is a participant in the employee's retirement system of the Government of Puerto Rico and instrumentalities (ERS), a multiple-employer contributory retirement plan, which covers substantially all government employees. The system provides retirement, death and disability benefits and annuities to employees not covered by other governmental agency retirement system.

Act No. 447, approved on May 15, 1951, as amended, determines retirement and related benefits and contributions to the system by employees. Monthly contributions to the ERS equal 8% of the participating employee's salary through March 31, 1990, and 9.27% thereafter.

For the year ended June 30, 2009, substantially all employees were covered under the above mentioned system. Covered payroll refers to all compensation paid by the School to active employees covered by the ERS on which contributions to the pension are based.

Members who have attained an age of at least fifty five years and have completed at least twenty five years of creditable service, or members who have completed at least eight years (sixty five years for employees becoming members after March 31, 1990), and have completed at least ten years of creditable service, are entitled to an annual benefit, payable monthly for life. Contributions for the year ended June 30, 2009 amounted to \$175,928.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - CONTINGENCIES**

In the normal course of operations, the School participates in various and local grants programs from year to year. The grant programs are often subject to additional audits by agents of the granting agency, the purpose of that is to ensure compliance with the specific conditions of the grant. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

The School is also subject to regular audits by the Government Office of The Comptroller of Puerto Rico. Based on audit reports received, the School does not have significant violation of laws that many have a material effect in the Financial Statements.

As of the date of the audit report, various lawsuits against the School for damage and prejudice were in process pending of additional hearings, some documents or information requested by the courts. Total amount claimed in these lawsuits remained undetermined. However, the School's lawyer believes that the cases are nuisance suits where damages claimed are clearly of proportion with the damages suffered by claimants, and ultimately settlements will be reached for much smaller amounts, if any. In addition, the School as a component unit of government of the Commonwealth of Puerto Rico, is covered by contingency fund of the central government created for this purpose.

As of the date of the audit report, several personnel claims against the School were in process in JASAP (Joint Administration of the Personnel System of the Commonwealth of Puerto Rico). These actions were basically for employment restitutions and do not involve monetary damages, or at least, damages if any, will be miscellaneous.

The School Management and their legal counsel believe that any resulting monetary damages from the lawsuits would be immaterial to the financial statements, and, such damages will be covered by the general contingency fund of the Commonwealth of Puerto Rico. Accordingly, financial statements do not include a reserve for the possible outcome of these cases.

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 NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 7 -PRIOR PERIOD ADJUSTMENTS**

Below is reconciliation of the beginning fund balance as previously reported and the balances as restated:

*Statement of Revenues, Expenditures and Changes in Fund Balance:*

Fund balance as of June 30, 2009 as previously reported	\$1,912,255
Adjustments to correct inter fund balances, cash and other accounts	<u>(43,331)</u>
Fund balance as of June 30, 2009	<u><u>\$1,868,924</u></u>

*Statement of Activities:*

Net assets as of June 30, 2009 as previously reported	\$9,772,873
Adjustments to correct various accounts	<u>(113,650)</u>
Net assets as of June 30, 2009, as restated	<u><u>\$9,659,223</u></u>

**NOTE 8 - SUBSEQUENT EVENTS**

After June 30, 2009, we were notified that 21 employees were awaiting layoffs letters from the School as part of the initiatives to reduce government workers as was established by the fiscal-emergency Law 7 of March 9, 2009. This represents approximately 38% of the total School's staff and would have a significant effect over its operations, internal controls system and even future federal funds could be affected as a result of this decision.

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
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**BUDGET-TO-ACTUAL COMPARISON SCHEDULE**  
**GENERAL FUND - UNAUDITED**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>General Fund</b>			Variance Positive (Negative)
	Original Budget	Amended Budget	Actual	
<b>Revenue:</b>				
Legislative appropriations	\$3,382,000	\$3,443,379	\$3,443,379	\$ -
Tuition fees and other	2,168,000	755,000	753,738	(1,262)
<i>Total revenues</i>	<u>5,550,000</u>	<u>4,198,379</u>	<u>4,197,117</u>	<u>(1,262)</u>
<b>Expenditures:</b>				
Payroll and related costs	\$2,838,000	\$3,145,250	\$3,144,502	\$ 748
Payments for public services	455,000	160,355	160,319	36
Professional services	1,141,000	198,369	241,178	(42,809)
Contracted services	727,000	393,928	397,217	(3,289)
Other expenses	389,000	375,771	331,549	44,222
<i>Total expenditures</i>	<u>5,550,000</u>	<u>4,273,673</u>	<u>4,274,765</u>	<u>(1,092)</u>
Excess of revenues (under) over expenditures	<u>-</u>	<u>(75,294)</u>	<u>(77,648)</u>	<u>\$ (2,354)</u>

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**ON BUDGETARY ACCOUNTING AND CONTROL**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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**BUDGETARY ACCOUNTING AND CONTROL**

**Budget Law**

The School prepares its annual operating budget under the provision of the Budget and Management Office of the Commonwealth of Puerto Rico. In accordance with those provisions, the following process is used to adopt the annual budget.

- a. School's department managers submit its budget to the chancellor according to their projected goals and objectives.
- b. After a carefully evaluation of the individual department budgets and the result of operation of the preceding year of the school, a final budget is prepared with a recommendation to the Board of Directors.
- c. The Board of Directors evaluates the proposed budget and gives its approval or demands any necessary adjustment.
- d. After the Board of Directors finally approves the budget is submitted to the Budget and Management Office for its approval. In this stage the School management has to defend it according to their necessities, projections, goals and objectives.
- e. Once approved or modified by the Budget and Management Office, it is submitted with a recommendation to the Governor of the Commonwealth of Puerto Rico.
- f. According to the available funds certified by the Treasury Department of Puerto Rico in term of the general fund estimates and the Governmental Development Bank and their credit margin, a final recommendation is grouped in the Government Annual Budget of Operating Expenses and Permanent Improvements that Governor presents to the Puerto Rico Legislature. This process takes places between January to March every year.
- g. Public hearings are conducted at regular Legislature meetings to obtain comments about the work plans and projections of every state department or office.
- h. Subsequent to the public hearings, but no later than July 1, the Puerto Rico Legislature legally enacts the budget through the passage of a resolution.

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
ON BUDGETARY ACCOUNTING AND CONTROL (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2009**

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**Budgetary Accounting**

The annual operating budgets of governmental funds are prepared and presented on the modified accrual basis of accounting.

Encumbrances outstanding at year end represent the estimated amount of the expenditures ultimately to result if unperformed contracts (i.e., purchase orders, other commitments) in process are completed. Encumbrances are reported as reservations of fund balances in the GAAP governmental funds statements since they do not constitute expenditures or liabilities but do commit appropriations. Encumbrances are carried forward and added to the subsequent year's appropriations. The unencumbered balance of each appropriation lapses at year-end and revert to the respective fund which it was appropriated and becomes available for future appropriation.

The principal differences between the GAAP and budgetary basis and the necessary adjustments to convert the results of operations of the general fund from the GAAP basis of accounting to the budgetary basis of accounting are as follows:

	<i>For the year ended June 30, 2009</i>
Excess of expenditures over revenues per Statement of Revenues, Expenditures, and Changes in Fund Balance; accounting basis	\$4,158,313
Current year encumbrances of annually budgeted funds recognized as expenditures on the budgetary basis	<u>116,452</u>
Excess of expenditures over revenues per Statement of Revenues, and Expenditures -Budget and Actual; budgetary basis	<u><u>\$4,274,765</u></u>

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Amount
<b>US DEPARTMENT OF EDUCATION</b>		
<b>Direct Programs:</b>		
Federal Pell Grant Program	84.063	\$1,431,729
Federal Supplemental Education Opportunity Grant Program	84.007	15,925
Federal Work-Study Program	84.033	18,454
ACG/National SMART Grant Program	84.375 84.376	47,850
Title V Developing Hispanic Serving Institutions Program	84.031S	<u>488,007</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u><u>\$2,001,965</u></u>

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**( A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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**1. General**

The accompanying Schedule of Expenditures of Federal Awards Program presents the expenditures of the federal programs administered by the Escuela de Artes Plásticas de Puerto Rico.

**2. Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards Programs is presented using accrual basis of accounting.

**3. Relationship to Financial Statements**

Federal financial assistance revenues are reported in the School's Statement of Revenues, Expenditures and Changes in Fund Balances as Federal grants for students and Federal Grant Title V. The reconciliation of expenses in the Schedule of Expenditures of Federal Awards Programs to the financial statements follows:

Expenditures per financial statements	\$2,048,471
Plus:	
Other expenditures	<u>(46,506)</u>
Expenditures per Schedule of Federal Awards Programs	<u><u>\$2,001,965</u></u>

**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**

*Escuela de Artes Plásticas de Puerto Rico  
(A Component Unit of the Commonwealth of Puerto Rico)  
San Juan, Puerto Rico*

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escuela de Artes Plásticas de Puerto Rico (the School) (a component unit of the Commonwealth of Puerto Rico) as of and for the year ended June 30, 2009 which collectively comprise the School's basic financial statements and have issued our report thereon dated September 25, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures 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 of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

*A control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

*A material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

*Escuela de Artes Plásticas de Puerto Rico  
(A component Unit of the Commonwealth of Puerto Rico)  
San Juan, Puerto Rico*

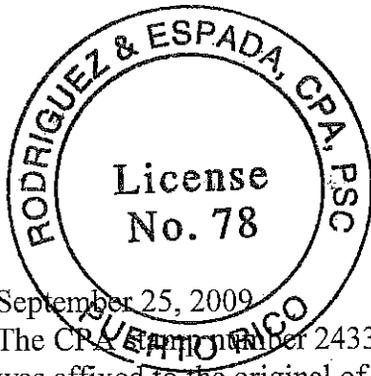
**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With Government Auditing Standards**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's basic financial statements are free of material misstatement, we performed test of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect in 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 opinion. The results of our test disclosed no instances of noncompliance or other matters that is required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of School's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



*Rodriguez & Espada, CPA*  
Rodríguez & Espada, CPA, PSC

September 25, 2009  
The CPA license number 2433583  
was affixed to the original of this report.

**Report on Compliance With Requirements Applicable  
to Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

*Escuela de Artes Plásticas de Puerto Rico  
(A Component Unit Of the Commonwealth of Puerto Rico)  
San Juan, Puerto Rico*

**Compliance**

We have audited the compliance of the Escuela de Artes Plásticas de Puerto Rico (the School) (a Component unit of the Commonwealth of Puerto Rico) with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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 a 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 School'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. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the Escuela de Artes Plásticas de Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. The result of our auditing procedures also disclosed other instances of noncompliance with those requirements, 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 as item 09-01.

**Report on Compliance With Requirements Applicable  
to Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

*Escuela de Artes Plásticas de Puerto Rico  
(A Component Unit Of the Commonwealth of Puerto Rico)  
San Juan, Puerto Rico*

**Internal Control Over Compliance**

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on mayor federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 School's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basic. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

**Report on Compliance With Requirements Applicable  
to Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

*Escuela de Artes Plásticas de Puerto Rico  
(A Component Unit Of the Commonwealth of Puerto Rico)  
San Juan, Puerto Rico*

**Internal Control Over Compliance (Cont.)**

This report is intended solely for the information and use of School's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



*Rodríguez & Espada, CPA*  
Rodríguez & Espada, CPA, PSC

September 25, 2009  
The CPA stamp number 2433584  
was affixed to the original of this report.

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO  
( A Component Unit of the Commonwealth of Puerto Rico)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**Section I- Summary of Auditor's Results**

**Financial Statements**

Type of auditor's	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified.	No
• Reportable conditions identifies that are not considered to be a material weakness.	No
Noncompliance material to financial statements noted.	No

**Federal Awards Programs**

Type of auditor's report issued on compliance for major programs:

Internal control over major programs:

• Material weaknesses identified.	No
• Reportable conditions identifies that are not considered to be a material weakness.	Yes

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133.	Yes
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Identification of major programs:

<b><u>CFDA Number</u></b>	<b><u>Name of Federal Program</u></b>
84.063	Federal Pell Grant
84.007	Federal Supplemental Education Opportunity Grant Program
84.033	Federal Work-Study Program
84.031S	Title V-Developing Hispanic Serving Institution Program
Dollar threshold used to distinguish between Type A and B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009

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Section II - Financial Statements Audit Findings

None

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2009**

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**Section II - Federal Awards Audit Findings - Questioned Costs**

**Finding Number 09-01**

**Catalog Number**

CFDA #84.063

**Program Title**

Federal Pell Grant Program

**Category**

Compliance/Internal Control over Compliance

**Compliance Requirement**

Return of Title IV Funds

**Criteria**

The Return of Title IV Funds criteria is meant to ensure that the institution has a fair and equitable refund policy as listed in Section 484B of the HEA, as amended. Refunds must be made of unearned tuition, fees, room, board and other charges to a student who received SFA assistance if a student: does not register for the period of enrollment for which the student has been charged; withdraws, drops out, is expelled, or otherwise fails to complete the period of enrollment.

**Condition**

During our Return of Title IV program funds test, we noted that even though the professor had notified Administrative Services that one student was not attending, the Institution failed to return the funds assigned for this course.

**Cause**

There is no adequate internal control over the process and documents used to determine if a student withdraws, drops out, is expelled or otherwise fails to complete the period of enrollment.

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2009**

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**Section II - Federal Awards Audit Findings - Questioned Costs (Cont.)**

**Effect**

As consequence the institution may not comply with fair and equitable refund policy of unearned tuition as explained earlier in the criteria section.

**Questioned Costs**

Assigned funds	\$1,182
Amount to be returned (50%)	\$591

**Recommendation**

Management should create procedures to ascertain accuracy of the information used to determine student status over if he fails to complete the period of enrollment.

**Management Reponse**

See Correction Action Plan

**ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Schedule of Findings and Questioned Costs and Disposition from Prior Years**  
**Year Ended June 30, 2009**

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**Section III - Financial Statements Audit Findings**

**None**

**Section III - Federal Awards Audit Findings**

**None**