

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**BAKER TILLY PUERTO RICO, CPAs, PSC**  
**Certified Public Accountants**

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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PO Box 366202  
San Juan, PR 00936-6202

Certified Public Accountants

T: 787-622-8855  
F: 787-622-8848

**INDEPENDENT AUDITORS' REPORT**

[www.bakertillypr.com](http://www.bakertillypr.com)

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and each major fund of the Escuela de Artes Plásticas y Diseño de Puerto Rico, a component unit of the Commonwealth of Puerto Rico ("the School"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continues)

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

*Summary of Opinions*

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Special Revenue Fund	Unmodified
Capital Project Fund	Unmodified

*Basis for Qualified Opinion on Governmental Activities*

The School was unable to obtain from the Retirement System Administration the financial and technical information necessary for the proper recognition of its total pension liability as of June 30, 2019. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. Also, the School’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statements No. 73. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In addition, the School was unable to obtain from the pension administrator the information about the employment allocations and other postemployment benefit amounts necessary to comply with the requirements of GASB No. 75 “Accounting and Financial Reporting for Postretirement Benefits Other than Pensions”, as of June 30, 2019 and therefore the amounts to be reported as deferred outflow/inflow of resources and net liability related to the postretirement benefit other than pensions, applicable disclosures and required supplementary information have been omitted.

We were unable to obtain sufficient appropriate audit evidence about the amount by which these departures would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the School’s financial statements.

*Qualified Opinion on Government Activities*

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to in the first paragraph of this report present fairly, in all material respects, the financial position of the Governmental Activities of the School, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continues)

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

***Unmodified Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, of the School as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 5-10 and 50-51, respectively be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, are required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted for the year ended June 30, 2019 historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statements No.73 and 75, that accounting principles generally accepted to the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in a appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

(Continues)

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Guidance Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

The schedule of expenditure of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2020 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering School's internal control over financial reporting and compliance.

Guaynabo, Puerto Rico

December 28, 2020  
The stamp number E436533 was  
affixed to the original of this report.

*Baker Tilly Puerto Rico, CPAs, PSC*  
**BAKER TILLY PUERTO RICO, CPAs, PSC**

License No. 218  
Expires December 1, 2023

**ESCUELA DE ARTES PLÁSTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Management's Discussion and Analysis**  
**June 30, 2019**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussions and analysis of the Escuela de Artes Plásticas y Diseño de Puerto Rico provides an overview of the financial performance and the activities for the fiscal year ended June 30, 2019.

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.

***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 result 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 Position (page 11) 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 12) 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 PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Management's Discussion and Analysis**  
**June 30, 2019**

***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.

**Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

***Required Supplementary Information***

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

**HIGHLIGHTS**

*Government-wide:*

- The assets of the School are over its liabilities at the close of the fiscal year by \$1,255,634 (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 \$4,309,208.



**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Management's Discussion and Analysis**  
**June 30, 2019**

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

The School's net assets at the end of the fiscal year ended on June 30, 2019 was \$1,225,634. (See table below).

	CONDENSED <i>Statement of Net Assets as of June 30, 2019</i>	CONDENSED <i>Statement of Net Assets as of June 30, 2018</i>	<i>Change</i>	%
<b>ASSETS</b>				
Cash and other assets	\$ 4,829,023	\$ 4,145,468	\$ 683,555	16%
Capital assets, net	7,741,791	7,655,710	86,081	1%
Total Assets	12,570,814	11,801,178	769,636	7%
Deferred Outflows	3,595,169	3,595,169	-	0%
<b>LIABILITIES</b>				
Liabilities	14,641,377	14,928,815	(287,438)	(2%)
Total Liabilities	14,641,377	14,928,815	(287,438)	(2%)
Deferred Inflows	268,972	268,972	-	0%
<b>NET ASSETS</b>				
Invest. in capital assets	7,741,791	7,655,710	86,081	1%
Restricted	2,579,025	2,525,573	53,452	2%
Unrestricted	(9,065,182)	(9,982,723)	917,541	9%
Total Net Assets	\$ 1,255,634	\$ 198,590	\$ 1,057,044	532%

The largest component of the School's net assets as of June 30, 2019 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 (\$9,065,182) balance at the end of this year.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Management's Discussion and Analysis**  
**June 30, 2019**

The following financial information was derived from the government-wide Statement of Activities for fiscal year ended June 30, 2019 and reflects how the School's net assets changed:

CONDENSED Statement of Activities				
	<i>Fiscal Year Ended June 30, 2019</i>	<i>Fiscal Year Ended June 30, 2018</i>	<i>Change</i>	<i>%</i>
<b>PROGRAM REVENUES:</b>				
Charges for services	\$ 2,326,535	\$ 1,673,542	\$ 652,993	39%
Operating grants and Contributions	4,064,808	4,625,129	(560,321)	(12%)
<b>Total program revenues</b>	<b>6,391,343</b>	<b>6,298,671</b>	<b>92,672</b>	<b>1%</b>
<b>GENERAL REVENUES:</b>				
Investment income	72,018	212,255	(140,237)	(66%)
<i>Total Revenues</i>	<i>6,463,361</i>	<i>6,510,926</i>	<i>(47,565)</i>	<i>(1%)</i>
<b>EXPENSES:</b>				
Payroll and related costs	1,773,715	1,979,995	(206,280)	(10%)
Other expenses	3,230,413	2,377,226	853,187	36%
Depreciation	397,085	372,962	24,123	6%
<i>Total Expenses</i>	<i>5,401,213</i>	<i>4,730,183</i>	<i>671,030</i>	<i>14%</i>
 (Increase) decrease in net assets	 \$ 1,062,148	 \$ 1,780,743	 (\$ 718,595)	 (40%)

The 2018-2019 revenues decreased by \$47,565 when compared with last fiscal year, mainly due to a decrease in operating grants and contributions. Total program expenses increased by \$671,030 mainly due to an increase in general and administrative expenses, such as professional services.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Management's Discussion and Analysis**  
**June 30, 2019**

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

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

	<i>2019</i>	<i>2018</i>	<i>Change</i>	<i>%</i>
<b>ASSETS</b>				
Cash	\$ 1,241,784	\$ 628,321	\$ 613,463	98%
Account receivable tuition fee	1,008,214	991,574	16,640	2%
Due from other funds	1,075,499	1,050,299	25,200	2%
Restricted investment	2,579,025	2,525,573	53,452	2%
	<u>5,904,522</u>	<u>5,195,767</u>	<u>708,755</u>	<u>14%</u>
<b>LIABILITIES</b>				
Account payable	519,995	807,773	(287,778)	(36%)
Due to other funds	1,075,499	1,050,299	25,200	2%
	<u>1,595,494</u>	<u>1,858,032</u>	<u>(262,538)</u>	<u>(14%)</u>
<b>REVENUES</b>				
Legislative appropriations	2,329,591	2,916,810	(587,219)	(20%)
Federal grants	1,735,217	1,709,319	25,898	2%
Investments income	72,018	212,255	(140,237)	(66%)
Tuitions fees and others	2,326,535	1,673,542	652,993	39%
	<u>6,463,361</u>	<u>6,511,926</u>	<u>(48,576)</u>	<u>(1%)</u>
<b>EXPENDITURES</b>				
Payroll and related costs	1,773,415	1,996,647	(223,232)	(11%)
Payments for public services	617,126	305,140	311,986	102%
Professional services	1,358,987	1,034,548	324,439	31%
Insurance expenses	79,333	92,003	(12,670)	(14%)
Other expenses	1,174,967	945,535	229,432	24%
Capital outlay	483,166	329,230	153,936	47%
	<u>\$ 5,486,994</u>	<u>\$ 4,703,103</u>	<u>\$ 783,891</u>	<u>17%</u>

The School's governmental funds showed an increase in assets of \$708,755. At the same time revenues from legislature decrease by \$587,219, investment income decrease by \$140,237 and federal grant, tuition fee and others increase by \$652,993. Total expenditures increased by \$783,891. All expenditures categories increase with compared to prior year except payroll and related costs and insurance expenses.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Management's Discussion and Analysis**  
**June 30, 2019**

***General Fund Budgetary Highlights:***

The 2018-2019 General Fund final expenditures budget was \$4,268,000, or \$1,421,156 over the actual spending of \$2,893,656. The difference was due to changes in expenditures such as expenses related to contracted and professional services. Actual revenues were over by \$46,802 the budgeted revenues, due to that estimated legislature appropriation and tuition fees were under the actual.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of the fiscal year 2018-2019, the School had invested \$7,741,791, net of accumulated depreciation, in a broad range of capital assets (See table below). Depreciation charged for this fiscal year totaled \$397,085.

	Cost	Ace. Depreciation	Net Assets
Building	\$ 7,000,000	\$2,362,500	\$4,637,500
Buildings improvements	4,459,861	1,665,907	2,793,954
Furniture and fixture	27,632	21,999	5,633
Other equipment	909,623	632,282	277,341
Computers	498,777	471,414	27,363
Software	219,216	219,216	-
<b>Total</b>	<b>\$13,115,109</b>	<b>\$5,373,318</b>	<b>\$7,741,791</b>

***Compensated Absences***

At the end of the fiscal year 2018-2019, the School had a debt to cover future commitments for vacation expenses amounting to \$67,977 showing a minimum change in comparison with prior year.

***Economic Outlook***

For the year ended June 30, 2019, the School received federal grants for \$1,735,217. From this amount, \$833,350 represents reimbursements to students and is presented as part of the other expenses in the special revenue fund. Therefore, the net amount available for the School operations was \$901,867. Mainly these funds were used to pay for professional services recorded as expense in the general fund.

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 (2019-2020).

***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 PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Statement of Net Position**  
**June 30, 2019**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 1,241,784
Account receivables – Tuition fees and other, net	1,008,214
Investments	<u>2,579,025</u>
Total current assets	<u>4,829,023</u>
Non-current assets	
Capital assets - Net of accumulated depreciation	<u>7,741,791</u>
<b>TOTAL ASSETS</b>	<u>12,570,814</u>
Deferred Outflows of Resources:	
Contributions to Employees Retirement System	<u>3,595,169</u>

**LIABILITIES**

Current liabilities	
Accounts payable	519,995
Compensated absences: Expected to be paid within one year	<u>41,682</u>
Total current liabilities	<u>561,677</u>
Net pension liability	14,053,405
Other liabilities	<u>26,295</u>
Total non-current liabilities	<u>14,079,700</u>
Total liabilities	<u>14,641,377</u>
Deferred Inflows of Resources:	
Unamortized Investment in Employees Retirement System	<u>268,972</u>

**NET POSITION (DEFICIT):**

Invested in capital assets, net	7,741,791
Restricted for:	
Student aid	2,579,025
Deficit	<u>(9,065,182)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,255,634</u>

The accompanying notes are an integral part of these financial statements.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Statement of Activities**  
**Year Ended June 30, 2019**

Function/Program		
Primary institution		
General administration:		
Payroll and related costs	\$ 1,773,715	
Payment for public services	617,126	
Professional services	1,358,987	
Insurance expense	79,333	
Operation and maintenance	1,174,967	
Depreciation	<u>397,085</u>	
Total program expenses		<u>5,401,213</u>
 PROGRAM REVENUES:		
Program revenue- tuition and fees		<u>2,326,535</u>
General revenues:		
Operating grants and contributions	4,064,808	
Investment income	<u>72,018</u>	<u>4,136,826</u>
Total revenues		<u>6,463,361</u>
 Change in net position		<u>1,062,148</u>
 Net position, beginning of year		<u>198,560</u>
Prior Year Adjustment (note 9)		<u>(5,074)</u>
Net position, beginning of year, restated		<u>193,486</u>
 Net position, end of year		<u><u>\$ 1,255,634</u></u>

The accompanying notes are an integral part of these financial statements.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Balance Sheets**  
**Governmental Funds**  
**June 30, 2019**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Capital Project Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 69,332	\$ 343,497	\$ 828,955	\$ 1,241,784
Account receivables	68,519	1,200	938,495	1,008,214
Due from other funds	131,516	8,383	935,600	1,075,499
Restricted investment	487,375	2,091,650	-	2,579,025
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 756,742	\$ 2,444,730	\$ 2,703,050	\$ 5,904,522
<b>LIABILITIES</b>				
Account payables	\$ 255,822	\$ 238,988	\$ 25,185	\$ 519,995
Due to other funds	1,075,499	-	-	1,075,499
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	1,331,321	238,988	25,185	1,595,494
<b>FUND BALANCES</b>				
Restricted	-	2,205,742	-	2,205,742
Assigned	-	-	-	-
Unassigned	(574,579)	-	2,677,865	2,103,286
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	(574,579)	2,205,742	2,677,865	4,309,028
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 756,742	\$ 2,444,730	\$ 2,703,050	\$ 5,904,522

The accompanying notes are an integral part of these financial statements.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Position**  
**June 30, 2019**

Amounts reported as Net Assets for Governmental Activities in the Statement of Net Position are different than the amount reported as Fund Balance in the Governmental Funds Balance Sheet because:

Total Fund balances as shown on the Balance Sheet – Governmental Funds	\$ 4,309,028
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the governmental funds	7,741,791
Deferred Outflows of Resources in Governmental Activities are not recorded in the funds in the current period	3,595,169
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds	( 268,972)
Net Pension Liability used in Governmental Activities are not financial resources and, therefore are not report in the funds	( 14,053,405)
Compensated absences used in governmental activities are not financial resources and, therefore are not report in the funds.	<u>( 67,977)</u>
Total net position of governmental activities	<u>\$ 1,255,634</u>



**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Statement of Revenue, Expenditure and**  
**Changes in Fund Balances- Governmental Funds**  
**Year ended June 30, 2019**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Capital Project Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES:</b>				
Legislative appropriations	\$ 1,782,000	\$ -	\$ 547,591	\$ 2,329,591
Federal grants	-	1,735,217	-	1,735,217
Investment income	13,610	58,408	-	72,018
Tuition fees and other	1,459,148	341,324	526,063	2,326,535
Total revenues	3,254,758	2,134,949	1,073,654	6,463,361
<b>EXPENDITURES:</b>				
Education:				
General and administrative:				
Payroll and related cost	1,544,897	228,518	-	1,773,415
Payment for public services	617,126	-	-	617,126
Professional services	267,649	1,029,535	61,803	1,358,987
Insurance expense	79,333	-	-	79,333
Other expenses	241,815	851,159	81,993	1,174,967
Capital outlays	13,076	-	470,090	483,166
Total expenditures	2,763,896	2,109,212	613,886	5,486,994
Excess of revenue over expenditures	490,862	25,737	459,768	976,367
FUND BALANCE as of June 30, 2018	(1,063,812)	2,183,450	2,218,097	3,337,735
Prior year adjustments	(1,629)	(3,445)	-	(5,074)
Fund Balance as of June 30, 2018, as restated	(1,065,441)	2,180,005	2,218,097	3,332,661
FUND BALANCE as of June 30, 2019	(\$ 574,579)	\$ 2,205,742	\$ 2,677,865	\$ 4,309,028

The accompanying notes are an integral part of these financial statements.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Reconciliation of Statement of Revenue, Expenditures and**  
**Changes in Fund Balances- Governmental Funds to the Statement of Activities**  
**Year ended June 30, 2019**

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

Net change in fund balances as reported in the accompanying statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 976,367
Governmental funds report capital outlays as expenditures. However, in the accompanying statement of activities, the cost of those assets is allocated over their estimated useful lives.	483,166
Depreciation expenses	( 397,085)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	<u>(300)</u>
Changes in net position of governmental activities	<u><u>\$ 1,062,148</u></u>

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 1- FINANCIAL REPORTING ENTITY**

The Escuela de Artes Plásticas y Diseño 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 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.

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".

The financial statements of the School are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the School. They do not purport to, and do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**NOTE 2 SUMMARY OF SIGNIFIANT ACCOUNTING POLICIES**

**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.

The government-wide Statement of Net position, is on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any internal activity is eliminated. The school's net position is reported in three parts-invested in capital assets, net of related debt, restricted net position, and unrestricted net position. The school first use restricted resources to finance qualifying activities.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-wide Financial Statements (Continued):**

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) is normally covered by general revenue.

The school does not allocate 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.)

**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. 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,
- 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.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Governmental Funds (Continued)**

*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
- Restricted donation from private sectors for specific purposes
- State Fiscal Stabilization Fund

*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.

Major and Non-major Funds

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

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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.
- 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. 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 provides protection of School's cash as well as qualified pledged or pooled securities holding the assets.

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 100% 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.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*ASSETS, LIABILITIES, AND EQUITY (CONTINUED)*

*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.

*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, 2019 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.

*Interfund Receivables and Payables*

During the course of operations, numerous transactions occur between individual funds that may results 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.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*ASSETS, LIABILITIES AND EQUITY (CONTINUED)*

*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:

Building	40 years
Building improvement	20 years
Furniture and fixtures	10 years
Other equipment	5 years
Computers	4 years
Software	2 years
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*

Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. According to GASB 16, the liability for compensated absences recorded in the accompanying government-wide statement of net position is strictly limited to leave that: (1) is attributable to services already rendered on or before June 30, 2019, and (2) is not contingent on a specific event (such as illness) that is outside the control of the School and the employee.

The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes, Medicare taxes, employer contributions to retirement system and others).



**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*ASSETS, LIABILITIES AND EQUITY (CONTINUED)*

*Accounting for Pension Cost*

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 67, *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25*, replaces the requirements of GASB Statement Nos. 25 and 50 for plans administered by pension systems through trusts or equivalent arrangements. In addition, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the School's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the School to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB 68*, is required to be implemented simultaneously with the provisions of GASB 68. The School accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan.

This statement establishes accounting and financial reporting for pensions provided to the employees of state and local government employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable;
- pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms;
- pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Accounting for Pension Cost*

GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68 is the effective for the School starting July 1, 2017. As required by the accounting pronouncement, governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. the School does not have the required information to implement the referred accounting pronouncement. Prior to July 2017, the School accounted for pension costs under the provisions of GASB 68.

*Accounting for Other Postemployment Benefits (“OPEB”)*

GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” is effective for the School starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The School does not have the necessary information to implement the referred accounting pronouncement. The School’s contribution for OPEB is included as part of the “Paygo” charges billed on a monthly basis by the Puerto Rico Department of Treasury (“PRDT”).

Equity Classification

*Government-wide Statements*

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

- a. Invested is 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 (b) 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 non spendable, restricted committed, assigned or unassigned.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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.

*RECENTLY ISSUED ACCOUNTING STANDARDS*

The GASB has issued the following accounting standards which were adopted, when applicable, by the School or are being evaluated for the impact that these standards will have in the financial statements:

GASB Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. For reporting periods beginning after December 15, 2019.

GASB Statement No. 88, Certain Disclosures related to debt, including direct borrowings and direct placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement defines debt for purposes of disclosure in notes to financial statement as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting period's beginning after December 15, 2019. Earlier application is encouraged.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*ACCOUNTING FOR THE IMPAIRMENT OR CAPITAL ASSETS*

The School accounts for asset impairment under the provisions of GASB 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.

**NOTE 3- 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>
Capital Project Fund-Restoration of Building	Local Agreement
Title IV-Pell Grant	Grant Agreement
SEOP and FWS program	Grant Agreement
State Legislative Resolutions	Local Agreement

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 3- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

*REVENUE RESTRICTIONS*

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

- |  |                          |
|--|--------------------------|
| • 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 |
| • Capital Project-Restoration of Building      | Legal Restriction of Use |
| • State Fiscal Stabilization Fund              | Legal Restriction of Use |

For the year ended June 30, 2019, the School complied, in all material respects, with these revenue restrictions.

Also, for the year ended June 30, 2019, the School received federal grants for \$1,735,217 of which \$833,350 represents reimbursements to students and is showed as part of other expenses in the special revenue fund. Therefore, the net amount available for the School operations was \$901,867.

**NOTE 4 - CUSTODIAL RISK RELATED TO DEPOSITS AND INVESTMENTS**

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.

Following is detail information of the types and amount of the investments maintained by the School as of June 30, 2019.

Mutual Funds and cash and sweep balances	\$ 2,649,611
Cash and sweep balances	(70,586)
	\$ 2,579,025

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

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 5- 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, 2019, was as follows:

	<i>Balance at</i>			<i>Balance at</i>
	<i>June 30,2018</i>	<i>Additions</i>	<i>Retirements</i>	<i>June 30,2019</i>
Buildings	\$7,000,000	\$ -	-	\$7,000,000
Building Improvements	3,991,162	468,699	-	4,459,861
Furniture and fixtures	27,632	-	-	27,632
Other equipment	904,232	5,391	-	909,623
Computers	489,701	9,076	-	498,777
Software	219,216	-	-	219,216
<i>Total capital assets</i>	<u>\$12,631,943</u>	<u>\$483,166</u>		<u>\$13,115,109</u>

The accumulated depreciation is as follows:

	<i>Balance at</i>			<i>Balance at</i>
	<i>June 30,2018</i>	<i>Additions</i>	<i>Retirements</i>	<i>June 30,2019</i>
Buildings	\$2,205,000	\$157,500	-	\$2,362,500
Building Improvements	1,489,932	175,975	-	1,665,907
Furniture and fixtures	21,131	868	-	21,999
Other equipment	571,877	60,405	-	632,282
Computers	469,077	2,337	-	471,414
Software	219,216	-	-	219,216
<i>Total Accum. Depreciation</i>	<u>\$4,976,233</u>	<u>\$397,085</u>	-	<u>\$5,373,318</u>
Net capital assets	<u>\$7,655,710</u>	<u>\$86,081</u>	-	<u>\$7,741,791</u>

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 5- DETAIL ON TRANSACTIONS CLASSES/ACCOUNTS (CONTINUED)**

*COMPENSATED ABSENCES*

As of June 30, 2019, the accrued compensated absences of the School consisted of following:

	Beginning Year	Accrued	Expensed	Ending Year
Vacations	\$ 67,677	300		\$ 67,977
	\$ 67,677	300		\$ 67,977

**NOTE 6 - DEFERRED OUTFLOW/INFLOW OF RESOURCES**

Pursuant to GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the School recognized deferred outflows of resources in the government-wide financial statements. These items are a consumption of net position by the School that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The School has one item that are reportable on the Government-wide Statement of Net Position that is relates to outflows from changes in the net pension liability.

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds Balance Sheet report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of the deferred outflows of resources reported in the basic financial statements were as follows:

Governmental Activities:	
Deferred Outflows of Resources	
Contributions to the Employees Retirement System	\$ 3,595,169
Deferred Inflows of Resources	
Unamortized Investments in the Employees Retirement System	\$ 268,972

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**NOTE 7 - PENSION PLAN**

*Description of the Plan*

Employees of the School participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended (Act No. 447) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced. Act No. 1 of February 16, 1990 (Act No. 1) and Act No. 305 of September 24, 1999 (Act No. 305 or Hybrid Program) establish, among other things, a defined contribution program. The ERS is a pension trust of the Commonwealth. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems are eligible to participate in the ERS. As of June 30, 2016, there were 206 participating employers (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the ERS). The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA)

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Contribution Program)
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contribution Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the Define Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Define Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Define Contribution Hybrid Program.

Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credit to the member's account semiannually. The Commonwealth does not guarantee benefits retirement age.

The assets of the Defined Benefit Program, the Defined Contribution Program and the Contribution Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets.

*Participant of the Program*

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.



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**NOTE 7 - PENSION PLAN (CONTINUED)**

Membership in the ERS is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Comptroller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112 of 2004).

As of July 1, 2013, every employee who is a participant of the ERS, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the ERS, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars (\$10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars (\$10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, based on the contributions made since the date said annuitant returned to service until his/her separation from it.

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

(1) Creditable Service

- (a) Creditable Service for Act No. 447 members – the years and months for plan participation, during which contributions have been made, beginning on the later of date of hire or January 1, 1952 and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

<b>Service During a Fiscal Year</b>	<b>Creditable Service Earned</b>
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	½ year
5 months and 15 days to 8 months and 14 days	¾ year
8 months and 15 days to 12 months	1 year

Note: All the days must be during the same months

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

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**NOTE 7 - PENSION PLAN (CONTINUED)**

(1) Creditable Service (Continued)

- (b) Creditable Service for Act No. 1 members – the years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Article 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	½ year
6 to 8 months	¾ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

(2) Service Retirements

- (a) Eligibility for Act No. 447 Members – members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

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**NOTE 7 - PENSION PLAN (CONTINUED)**

(2) Service Retirements (Continued)

- (b) Eligibility for Act No. 1 Members – members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (c) Eligibility for System 2000 Members – members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of Birth	Attained Age	Retirement Eligibility Age
as of June 30, 2013		
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

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

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**NOTE 7 - PENSION PLAN (CONTINUED)**

(3) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 member, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity.

- (a) Accrued Benefit as of June 30, 2013 for Act No. 447 Members – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation, if the member was under age 55 as of June 30, 2013 or 60% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

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**NOTE 7 - PENSION PLAN (CONTINUED)**

(3) Service Retirement Annuity Benefits (Continued)

- (b) Accrued Benefit as of June 30, 2013 for Act No. 1 Members – The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, pus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- (c) Coordination with Social Security Act for Act No. 447 Members – Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the ERS with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustment at SSRA. At any time, up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the ERS, retroactive to the later of July 1, 1968 or the date of plan entry, that will bring their career Accumulated Contributions to the Option (2) level. All police, mayors and employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementation Plan.

(4) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(5) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contributions account is \$10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

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**NOTE 7 - PENSION PLAN (CONTINUED)**

(5) Termination Benefits

(b) Deferred Retirement

Eligibility: A member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 and Act No. 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013.

(6) Death Benefits

(a) Pre-Retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members.

(b) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

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**NOTE 7 - PENSION PLAN (CONTINUED)**

(c) Post-Retirement Death Benefit for Members who retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105, as amended by Act No. 4):

- (i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees.
  - (ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case, shall the benefit be less than \$1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to \$250, between (1) the accumulated contributions less the lifetime annual income paid and (2) \$1,000. The ERS pays for the rest.
- (d) Post-Retirement Death Benefit for Members who began receiving a monthly benefit after to June 30, 2013

Eligibility: Any retiree or disabled member who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

- (e) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits

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**NOTE 7 - PENSION PLAN (CONTINUED)**

(7) Disability Benefits

(a) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447 and Act No. 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(b) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who disabled in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Benefit: 80% (100% for Act No. 447 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127 of 1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

(c) Members who qualified for occupational or non-occupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(d) Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator.



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**NOTE 7 - PENSION PLAN (CONTINUED)**

(8) Special Benefits

(a) Minimum Benefits

(i) Past Ad hoc Increases

The Legislature, from time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the ERS.

(ii) Minimum Benefit for Members who retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007). The increase in the minimum monthly benefit from \$200 per month to \$300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from \$300 per month to \$400 per month is to be paid by the ERS for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(iii) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(b) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the ERS. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

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**NOTE 7 - PENSION PLAN (CONTINUED)**

(8) Special Benefits (Continued)

(iii) Coordination Plan Minimum Benefit (Continued)

(c) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. This amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(9) Contributions

(a) Member Contributions

Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 7% of compensation up to \$6,600 plus 10% of compensation in excess of \$6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to \$6,600 plus 10% of compensation in excess of \$6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to \$6,600 plus 8.275% of compensation in excess of \$6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have voluntary contribution of up to 1.725% of compensation prior to July 1, 2013.

(b) Employer Contributions (Article 2-116, as Amended by Act No. 116 of 2010 and Act No. 3)

Prior to July 1, 2011, employer contributions were 9.275% of compensation. On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

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**NOTE 7 - PENSION PLAN (CONTINUED)**

(9) Contributions (Continued)

(c) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)

Effective July 1, 2013, the ERS will receive a supplemental contribution of \$2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefiting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(d) Additional Uniform Contribution (Act No. 32, as Amended)

The additional uniform contribution (AUC) will be certified by the external actuary of the ERS each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below \$1 billion. The AUC is to be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities.

Only a fraction of the AUC from prior years has been received by the ERS. Accordingly, the current overall AUC payment schedule is as follows:

Payment Year	Amount	Comment
FY 2016-17	\$596 million	Collective FY 2016-17 AUC
	\$180 million	Pat due and payable immediately by selected employers
	\$776 million	Total due in FY 2016-17
FY 2018-18	\$685 million	Total due in FY 2017-18
FY 2018-19 to FY 2032-33	\$685 million	Estimated amount payable annually, subject to significant change due to annual re-measurement

(10) Service Purchase

Prior to July 1, 2013, active members with eligible service from prior employment may elect to purchase service in ERS. The cost of the purchase is calculated by applying the ERS statutory contribution rates to the member's salary during the years of service at the former employer. The amount due to member contributions is accumulated at 9.5% per year (6% prior to April 4, 2013) until 6 months after the time of the service purchase request. Any amount not covered by asset transfers from the member's prior pension fund is payable by the member (Act No. 10 of 1992, Act No. 14 of 1981, Act No. 122 of 2000, Act Nos. 203 and 33 of 2007). Effective July 1, 2013, only veterans may purchase service for time spent under military service are permitted to make voluntary contributions to the Defined Contribution Hybrid Contribution Account during the years of military leave.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 7 - PENSION PLAN (CONTINUED)**

(11) Early Retirement Programs

On July 2, 2010, the Commonwealth Enacted Act No. 70 of 2010 (Act No. 70) establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Additional window periods occurred through December 31, 2012. Under Section 4A of Act No. 70, active members could terminate employment immediately and receive a bonus equal to one, three, or six months of salary (paid by the Commonwealth). Under Section 4B of Act No. 70, active members who had at least 15 years of service, but less than 30 years of creditable services, could retire immediately with an enhanced benefit ranging from 37.5% to 50% of salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporation for their employees until the member reaches the later of age 55 or the date the member would have completed 30 years of service had the member continued working. The ERS will pay the benefit after this time period.

While the General Fund / Public Corporation is paying the pension benefit to the member or any surviving beneficiary, the General Fund / Public Corporation will also pay a contribution equal to the employer contribution rate [(12.275% for the 2013-2014 fiscal year plus the employee contribution rate for Public Corporation (currently 10%)] of final salary to the ERS. The employer contribution rate applies applied to final salary increases as under Act No. 116 to a rate of 20.525% of payroll in 2020-2021 and thereafter. Under Section 4C of Act No. 70, active members who had at least 30 years of service could retire immediately and receive a bonus equal to six months of salary (paid by Commonwealth). For any active employee who retired under Section 4C, the Public Corporation will pay a contribution equal to the employer contribution rate (12.275% for 2013-2014 fiscal year, increasing to 20.525% in 2020-2021 and thereafter) plus the employee contribution rate (currently 10%) of final salary to the ERS for five years after retirement.

The contribution requirement to the ERS is established by law and is not actuarially determined. The special benefits contributions of approximately \$229 million in 2014 mainly represent contributions from the General Fund, public corporation and municipalities for the special benefits identified above granted by special laws. The funding of the special benefits is provided to the ERS through legislative appropriations each July 1 by the General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the ERS for the special benefits. Deficiencies in legislative appropriations are covered by the ERS's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

(12) Changes in Plan Provisions since Prior Valuation

Act No. 211-2015 is an early retirement incentive program that was passed on December 8, 2015 which was amended by Act No. 170-2016 to expand the eligible group of members. No retirements due to Act No. 211-2015 or Act No. 170-2016 have occurred as of the June 30, 2016 measurement date of this valuation. Impacts of Act No. 211-2015 and Act No. 170-2016 will be reflected in future valuation. Impacts of Act No. 211-2015 and Act No. 170-2016 will be reflected in future valuations when retirements have actually occurred, and census data is available.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
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**Notes to Basic Financial Statements**  
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**NOTE 7 - PENSION PLAN (CONTINUED)**

(13) Other Postemployment Benefits (OPEB) – Healthcare Benefits

ERS MIPC is a cost-sharing, multi-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. ERS MIPC covers a payment of up to \$100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). Substantially all fulltime employees of the Commonwealth’s primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, were covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

At July 1, 2016, the membership, as adjusted by changes in participants established by Act No. 3, consisted of the following:

<b>Membership</b>	<b>Amount</b>
Retired Members	<u>94,071</u>
Disabled Members	<u>14,722</u>
Total Membership	<u>108,793</u>

The contribution requirement of ERS MIPC is established by Act No. 95 approve on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Thus, these OPEB are 100% unfunded. During the year ended June 30, 2017, OPEB contributions amounted to \$91 million.

The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth’s General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
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**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 7 - PENSION PLAN (CONTINUED)**

(13) Other Postemployment Benefits (OPEB) – Healthcare Benefits (Continued)

Liquidity Risk and Uncertainties

ERS is a mature retirement system with a significant retiree population. Based on the statutory funding requirements, the annual benefit payments and administrative expenses paid by the ERS were significantly larger than the member and employer contributions made to the ERS. Thus, investment income must have had to be used to cover negative cash flow. If the increasing and additional contributions stipulated by law are not paid in full on an annual basis, the ERS will continue being rapidly defunded and gross assets will be exhausted. In addition, annual cash flow estimates for the foreseeable future are presently estimated to be insufficient to cover the ERS's obligations unless other measures are taken.

If the ERS's assets are exhausted it would be operating solely on a "pay-as-you-go" basis, which means that it would be unable to pay benefits that exceed the actual employer and employee contributions received (net of administrative and other expenses), unless the Commonwealth provides the funding required to meet the pay-as-you-go retirement benefits. Additionally, future employers' contributions have been pledged for the payment of debt service, further depletion of the ERS's assets could result in the inability to repay its bond obligations. Consequently, the ERS's funding requirements, together with the funding requirements of JRS and the Puerto Rico System of Annuities and Pensions for Teachers, could have a direct negative effect on the Commonwealth's General Funds, since the Commonwealth is the primary sponsor and is obligated to make contributions to fund each of the ERS.

The Commonwealth and the other participating employers have been facing several fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The widening of credit spreads for the Commonwealth's public sector debt, the continued downgrading of the Commonwealth's credit ratings and those of many of its instrumentalities to noninvestment grade categories, and the lowered-than-projected revenues have put further stain on the Commonwealth liquidity and have affected its access to both the capital markets and private sources of financing, as well as the borrowing cost of any such funding.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contributions as provided by Act No. 32 of June 25, 2013 (Act No. 32), for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32, as amended by Act No. 244 of 2014, which provides for incremental annual contributions (Additional Uniform Contribution) from the Commonwealth's General Fund, public corporations and municipalities beginning in fiscal year 2014 and up to the fiscal year 2033. The AUC determined for fiscal year 2014 was defined as \$120.0 million and subsequent annual amounts will be determined annually based on actuarial studies to be performed by the ERS's actuaries as necessary for the ERS's gross assets to remain above \$1.0 billion. An appropriation for such AUC of approximately \$98 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of the Commonwealth's General Fund revenue shortfall, compared to budget, the Commonwealth made certain adjustments to the fiscal year 2014 budgetary appropriations following the "priority norms" for the disbursement of public funds that apply during any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year. These adjustments included the reduction in full of the portion of the Act No. 32 AUC by executive Order 29-2014.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 7 - PENSION PLAN (CONTINUED)**

(13) Other Postemployment Benefits (OPEB) – Healthcare Benefits (Continued)

Liquidity Risk and Uncertainties (Continued)

For fiscal year 2015 and 2016, the certification of the AUC was not available at least 120 days before the commencement of the applicable fiscal year. ACT No. 32, as amended, provides that in this situation, the AUC for fiscal year will be the AUC applicable for the preceding year. Thus, the AUC determined for fiscal years 2015 and 2016 was \$120 million.

Timely payment of the AUC is a critical component of the reform in order for the ERS to be able to make payments as they come due without depleting all its assets first. However, as a result of continued budget deficits in fiscal years 2014 and 2015, the Commonwealth and other participating employers have been unable to make the AUC required in full for these fiscal years (other than \$34.4 million paid by municipalities and public corporations for fiscal year 2014 and \$22.7 million paid by the Commonwealth and \$37.1 million paid by public corporations and municipalities for fiscal year 2015). In February 2016, the ERS's actuaries recalculated the AUC for fiscal year 2017 and subsequent years. Based on certain assumptions (which do not account for any fiscal adjustment that the Commonwealth may undertake to address its fiscal challenges), the projected AUC for fiscal year 2017 and subsequent years was approximately \$596.0 million (of which approximately \$370.0 million corresponds to the Commonwealth, to be funded from its General Fund, and the remaining portion corresponds to the participating public corporations and municipalities).

Remediation Plan

To improve the liquidity and solvency of the ERS, on July 6, 2011, the Commonwealth enacted Act No. 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

On April 4, 2013, the Legislature enacted Act No. 3 which amended the Act No. 447, Act No. 1, and Act No. 305. Act No. 3 reformed the ERS by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefits program, replacing most of the defined benefit elements with a defined contribution structure. The reform intended to address the Commonwealth's future cash flow needs and "pay-as-you-go" requirement, while recognizing that the ERS would become insolvent. As such, the reform was intended to provide enough cash for the ERS to be able to pay benefits (as amended through the reform) and debt service on the pension obligation bonds, while maintaining projected ERS gross assets at no less than \$1.0 billion at all times.

To achieve this goal, the reform contemplated that the Commonwealth and other participating employers would have to provide additional annual funding above the statutorily prescribed contributions as required by Act No. 32. As a long-term plan, it was recognized that constant monitoring would be required to ensure that the ERS remained on track to meet the reform's goals. The receipt of the additional uniform contribution of Act No. 32 is critical to the ERS's ability to make payments as they become due.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 7 - PENSION PLAN (CONTINUED)**

(13) Other Postemployment Benefits (OPEB) – Healthcare Benefits (Continued)

Remediation Plan (Continued)

Act No. 3 established a contribution hybrid program (the Contribution Hybrid Program) like the System 2000 program that will eventually result in all active and retired members participating in a member-funded hybrid program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under Act No. 447 and Act No. 1 (defined benefit program), and thereafter, all future benefits will accrue under the defined contribution formula used for the System 2000 program participants. Ceasing future defined benefit accruals under Act No. 447 and Act No. 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service. Act No.3 incorporate the provisions of the Defined Contribution Hybrid Program and System 2000 in Chapter 5 of the ERS.

Participants in the defined benefit program who as of June 30, 2013 were entitled to retire and receive a pension, may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013 were not entitled to retire can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 program who as of June 30, 2013 had reached the age of 60 may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 program who as of June 30, 2013 had not reached the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the ERS including, but not limited to, the following:

- Retirement age – The retirement age for the frozen accrued benefits of Act No. 447 is gradually increased from age 58 to age 61, and from age 60 to age 65 for System 2000 program members, which results in a delay in cash outflow and thus lower cumulative future benefit payments to these members. Reduced early retirement was eliminated for Act No. 1, which also results in a delay in cash outflow. The retirement age for new employees was increased to age 67.
- Member contributions – The prior member contribution rate of 8.275% (varying for some members) is increased to 10% of pay. While this will result in higher hybrid program benefits in the future, it will provide more assets in the near term that can support current benefit payments and bonds payable debt service.
- Mandated annuitization – System 2000 program notional accounts were available as lump sum payments at termination/retirement. With a full cohort of active System 2000 program members completing careers at roughly the same time that bonds payable principal payments begin, lump sum payments would have had a deleterious effect on the System's assets. Act No. 3 hybrid accounts, which include the System 2000 program accounts, are subject to mandatory annuitization, which will benefit the System on a cash flow basis by stretching out payments over time, thus providing the System “catch-up” time. The ERS has the authority for determining the annuitization factors and for updating the factors in future years.



**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
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**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 7 - PENSION PLAN (CONTINUED)**

- Survivor benefits – Act No. 447 and Act No. 1 offered survivor benefits at no cost to the retiree. For future retirees, the defined benefit portion of the Act No. 447 or Act No. 1 frozen annuity and the hybrid program Act No. 3 annuity with a survivor benefit, resulting in lower future cash outflow.
- The occupational death benefit and the one year of salary death benefit were eliminated for Act No. 447 and Act No. 1 members, resulting in lower future cash outflow.
- Disability benefits, other than those provided under Law No. 127, were eliminated, resulting in lower future cash outflow. (A member who becomes disabled may receive their hybrid account balance and their accrued benefit if applicable under Act No. 447 or Act No. 1.)
- Special law benefits are reduced for current retirees and eliminated for future retirees. The Christmas bonus payable to current retirees was reduced from \$600 to \$200. The summer bonus was eliminated. The employers will continue making contributions to the ERS as if all special law benefits were still in place for current and future Act No. 447 and Act No. 1 retirees, which will result in additional cash that can be used for benefit payments and bonds payable debt service.
- Minimum benefits – The minimum pension payable was increase from \$400 to \$500 per month for current retirees only.
- Merit Annuity – The “Merit Annuity” available to participants who joined the ERS prior to April 1, 1990 was eliminated.

Other measures taken to improve the liquidity of the ERS include, among others, 1) revision of the personal loan policy by limiting personal and cultural loan amounts to \$5,000 each, from \$15,000 and \$10,000, respectively; and 2) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by the Puerto Rico Sales Tax Financing Corporation (the COFINA Bonds).

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

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 7 - PENSION PLAN (CONTINUED)**

*Reform of ERS's governance and administration*

Act 106 of August 23, 2017, "Law to Guarantee Payment to Our Pensioners and Establish a New Defined Contributions Plan for Public Servers" establishes that it will be the General Fund, through the "Pay as You Go" system, who assumes the payments that the Retirement System of the Employees of the Government of Puerto Rico, the Retirement System for Teachers and the Retirement System for the Judiciary cannot perform; provide that the three Retirement Systems continue to comply with their obligations towards their beneficiaries and pensioners by contributing to the General Fund their available funds and funds from the liquidations of their assets; establish the New Defined Contributions Plan and provide for its administration. The payment of the accumulated pensions will be disbursed starting July 1, 2017 from the funds deposited in a trust held controlled by the Secretary of the Treasury Commonwealth of Puerto Rico, but separated from the assets of the Commonwealth of Puerto Rico. The payment benefits of all pensioners will be guaranteed by the general fund of the Commonwealth of Puerto Rico.

Pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. As a result, the plans operated by ERS under various benefit structures prior to July 1, 2017 are administered through a trust that do not meet the requirements of GASB Statement No. 68 as of July 1, 2017 and instead, the pension plans are subject to the requirements of GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the School at PO Box 9021112, San Juan, PR 00902-1112.

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions; other required disclosures under GASB Statement 73*

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a PayGo funding administered by the PRDT. As a result, the plans operated by ERS under various benefit structures prior to July 1, 2017 are administered through a trust that do not meet the requirements of GASB Statement No. 68 as of July 1, 2017 and instead, the pension plans are subject to the requirements of GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".

Since the School was unable to obtain the necessary information to implement the provisions of GASB Statement No. 73 as of and for the years ended June 30, 2019 and 2018, amounts related to pensions reported in the financial statements are the same amounts reported in the 2017 financial statements under GASB Statement No. 68. Amounts reported as deferred outflows \inflows of resources related to pensions and net pension liability in the financial statements had not been updated since previous years.

*OPEB liabilities, OPEB expense, and deferred outflows or resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures*

The School was also unable to obtain information about the schedules of employment allocations and OPEB amounts by employer at the respective measurement date in order to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as of June 30, 2019 and 2018. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

**NOTE 8- 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's 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 believe 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.

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 reaches 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.

**NOTE 9 -PRIOR PERIOD ADJUSTMENT**

Below is reconciliation of the beginning net position as previously reported and the balances as restated:

Statement of Activities:

Net position as of June 30, 2018, as previously reported	\$ 198,560
Account payable understated	( 5,074)
Net position as of June 30,2018, as restated	<u>\$ 193,486</u>

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, 2018, as previously reported	\$3,337,735
Account payable understated	( 5,074)
Fund balance as of June 30, 2018, as restated	<u>\$3,332,661</u>

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Budgetary Comparison Schedule**  
**June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance</u> <u>with Final</u> <u>Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note 1)</u>	
Revenues:				
Legislature appropriations	\$ 2,229,000	\$ 2,229,000	\$ 2,329,591	\$ 100,591
Tuition fees and other	2,039,000	2,039,000	1,985,211	(53,789)
Total revenues	<u>\$ 4,268,000</u>	<u>\$ 4,268,000</u>	<u>\$ 4,314,802</u>	<u>\$ 46,802</u>
Expenditures:				
Payroll and related costs	\$ 2,441,000	\$ 2,441,000	\$ 1,544,897	\$ 896,103
Payment for public services	288,000	288,000	617,156	(329,156)
Professional services	679,000	679,000	329,452	349,548
Contracted services	628,000	628,000	79,333	548,667
Other expenses	232,000	232,000	322,808	(90,808)
Total expenditures	<u>\$ 4,268,000</u>	<u>\$ 4,268,000</u>	<u>\$ 2,893,646</u>	<u>\$ 1,374,354</u>
Revenue (expenditure)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,421,156</u>	<u>\$ 1,421,156</u>

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to the Budgetary Comparison Schedule**  
**June 30, 2019**

**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.

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.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal Grantor/Program Title	Federal Grantor/Pass-Through CFDA Number	Amount
<b>US DEPARTMENT OF EDUCATION</b>		
Direct Programs:		
Federal Pell Grant Program	84.063	\$ 1,696,955
Federal Supplemental Education Opportunity Grant Program	84.007	20,758
Federal Work-Study Program	84.033	17,504
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u>\$ 1,735,217</u>

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

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 y Diseño de Puerto Rico.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards Programs is presented using the 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. The reconciliation of expenses in the Schedule of Expenditures of Federal Awards Programs to the financial statements follows:

Expenditures per financial statements	\$2,109,212
Less:	
Other expenditures	<u>( 373,995)</u>
Expenditures per Schedule of Federal Awards Programs	<u>\$ 1,735,217</u>

**INDEPENDENT AUDITOR'S 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**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Escuela de Artes Plásticas y Diseño de Puerto Rico, a component unit of the Commonwealth of Puerto Rico ("the School"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's financial statements, and have issued our report thereon dated December 28, 2020.

#### **Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

(Continues)



To the Board of Directors of  
Escuela de Artes Plásticas y Diseño de Puerto Rico

**INDEPENDENT AUDITOR'S 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 (CONTINUED)**

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Guaynabo, Puerto Rico

December 28, 2020  
The stamp number E436534 was  
affixed to the original of this report.

*Baker Tilly Puerto Rico, CPAs, PSC*  
**BAKER TILLY PUERTO RICO, CPAs, PSC**

License No. 218  
Expires December 1, 2023

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

**Report on Compliance for Each Major Federal Program**

We have audited Escuela de Artes Plásticas y Diseño de Puerto Rico, a component unit of the Commonwealth of Puerto Rico (“the School”)’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Escuela de Artes Plásticas y Diseño de Puerto Rico’s major federal programs for the year ended June 30, 2019. 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.

***Management’s Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the School’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirement of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the School’s compliance.

***Opinion on Each Major Federal Program***

In our opinion, Escuela de Artes Plásticas y Diseño de Puerto Rico, a component unit of the Commonwealth of Puerto Rico (“the School”) complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

(Continues)

To the Board of Directors of  
Escuela de Artes Plásticas y Diseño de Puerto Rico

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)**

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

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

**Report on Internal Control over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Guaynabo, Puerto Rico

December 28, 2020  
The stamp number E436535 was  
affixed to the original of this report.

*Baker Tilly Puerto Rico, CPAs, PSC*  
**BAKER TILLY PUERTO RICO, CPAs, PSC**

License No. 218  
Expires December 1, 2023

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2019**

**SECTION I - SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued: *[modified]*

Internal control over financial reporting:

- Material weakness (es) identified?                    yes                    no
- Significant deficiency(ies) identified  
Those are not considered to be  
Material of weakness (es)?                    yes                    none reported

Noncompliance material to financial  
Statements noted?                    yes                    no

**Federal Awards**

Internal control over major programs:

- Material weakness (es) identified?                    yes                    no
- Significant deficiency(ies) identified  
Those are not considered to be  
Material of weakness(es)?                    yes                    no

Type of auditors' report issued on compliance for major programs: *[unmodified]*

Any audit findings disclosed that are  
required to be reported in accordance  
with 2 CFR section 200.515(d)                    yes                    no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish  
between type A and Type B program:                    \$750,000

**Federal Awards**

Auditee qualified as low-risk auditee?                    yes                    no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COST**

Our audit disclosed a finding that is required to be reported herein in accordance with 2 CFR 200.516 (a).

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Schedule of Findings and Questioned Cost**  
**Year Ended June 30, 2019**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING NO. 2019-001**

Federal Program: CFDA 84.063 Federal Pell Grant Program

Category: Compliance – Special tests and provision – Return of Title IV funds.

Criteria: Per 34 CFR Section 668.173(b), returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to U.S. Department of Education as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR part 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements*, section 200.303 also states that non-federal entities must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: During our test work over return of Title IV funds, we noted that in three (3) instances out of a sample of 8 students selected, the Institution returned after the allowable 45 days.

Questioned Costs: No questioned costs were identified.

Perspective Information: We selected eight (8) students, from the population of withdrew students during the fiscal year 2018 - 2019.

Cause and effect: During the periodic review of refunds payable to the U.S. Department of Education, the students were not properly identified. As a result, the federal funds were not returned on a timely basis.

Recommendation: The Institution should reinforce the Return of Title IV the revision procedures of the computation of refund to ascertain the timely return of any amount due to the U.S. Department of Education.

Views of Responsible Officials and Planned Corrective Actions: See Institution’s corrective action plan.

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**Schedule of Prior Year Findings and Questioned Cost**  
**Year Ended June 30, 2019**

**THERE WERE NO PRIOR YEAR AUDIT FINDINGS**

## **CORRECTIVE ACTION PLAN**

**ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO**  
**CORRECTIVE ACTION SINGLE AUDIT 2018-2019**

FINDING NO.	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION	Name Contact person responsible for corrective action Plan	Comments
<u>2019-01 Compliance - Special tests and provision - Return of Title IV funds</u>				
<p>Per 34 CFR Section 668.173(b), returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to U.S. Department of Education as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR part 200), Uniform Administrative Requirements, Cost Principles, and Audit Requirements, section 200.303 also states that non-federal entities must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.</p>	<p>We recommend that the Administration establish adequate supervision and related procedures to ensure compliance of this requirement</p>	<p>The institution accepts this finding and expresses that the event was a miscalculation event that promoted a late refund of funds to Title IV.</p> <p>The SFA Office and the staff have received appropriate training in R2T4 procedures and were assigned to take the Return to Title IV calculation process for Credit Hour Programs offered as part of the FSA E-Training.</p> <p>The school will conduct a monthly reconciliation exercise for all R2T4 cases to confirm the process's correctness, timing, and transmission for adjustment as necessary.</p>	<p>Mr. Brian Ayala and Dean Jesus Oliveras</p>	<p>The school is aware of the procedures and is willing to accept all recommendations related to improving compliance. Please note the finding does not result in questionable costs</p>