

ESCUELA DE ARTES PLÁSTICAS Y DISEÑO DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2022

BAKER TILLY PUERTO RICO, CPAs, PSC
Certified Public Accountants

ESCUELA DE ARTES PLÁSTICAS Y DISEÑO DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditors' Report..... 1- 3
Management's Discussion and Analysis..... 4-9

BASIC FINANCIAL STATEMENTS:

Government-Wide Financial Statements:

Statement of Net Position 10
Statement of Activities 11

Fund Financial Statements:

Governmental Funds:

Balance Sheet 12
Reconciliation of the Balance Sheet of Governmental Fund to the
Statement of Net Position..... 13
Statement of Revenues, Expenditures and Changes in Fund Balances 14
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities 15
Notes to the basic Financial Statements 16-47

Required Supplementary Information:

Budgetary Comparison Schedule – General Funds..... 48
Notes to the Budgetary Comparison Schedule 49

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE:**

Schedule of Expenditure of Federal Awards..... 50
Notes to the Schedule of Expenditure of Federal Awards..... 51
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and
Other Matters based on an audit of financial statements performed in accordance with Government Auditing
Standards..... 52-53
Independent Auditors' Report on Compliance for each Major Program and on Internal Control Over
Compliance required by the Uniform Guidance..... 54-56
Schedule of Findings and Questioned Costs 57
Schedule of Prior Year Findings and Questioned Costs..... 58

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

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INDEPENDENT AUDITORS' REPORT

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the School, as of June 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 4-9 and 48-49 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is 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.

(Continues)

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Supplementary 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 accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are 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 March 29, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's 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

March 29, 2023
The stamp number E520937 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, 2022

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis of the Escuela de Artes Plásticas y Diseño de Puerto Rico provide an overview of the financial performance and the activities for the fiscal year ended June 30, 2022.

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 10) 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 11) 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, 2022

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's 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 the 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 explain the adjustments necessary to reconcile the fund statements with the governmental wide statements.

- Governmental funds include the General Fund and Other Governmental funds that account 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 \$9,400,170 (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 \$6,059,257.

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, 2022

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The School's net position at the end of the fiscal year ended on June 30, 2022 was \$9,400,170. (See table below).

	CONDENSED <i>Statement of Net Assets as of June 30, 2022</i>	CONDENSED <i>Statement of Net Assets as of June 30, 2021</i>	<i>Change</i>	<i>%</i>
ASSETS				
Cash and other assets	\$ 6,220,886	\$ 5,574,060	\$ 646,826	12%
Capital assets, net	7,709,319	7,888,178	(178,859)	(2%)
Total Assets	13,930,205	13,462,238	467,967	3%
Deferred Outflows	854,459	906,287	(51,828)	(6%)
LIABILITIES				
Liabilities	5,153,006	5,366,067	(213,061)	(4%)
Total Liabilities	5,153,006	5,366,067	(213,061)	(4%)
Deferred Inflows	231,488	240,647	(9,159)	(4%)
NET POSITION:				
Invested in capital assets	7,709,319	7,888,178	(178,859)	(2%)
Restricted	2,653,205	3,063,938	(410,733)	(13%)
Unrestricted	(962,354)	(2,190,305)	1,227,951	56%
Total net position	\$ 9,400,170	\$ 8,761,811	\$ 638,359	7%

The largest component of the School's net position as of June 30, 2022 represents its investment in capital assets (e.g. building, building improvements, furniture and fixtures, other equipment, computers, and motor vehicles, less the related accumulated depreciation). Consequently, unrestricted net assets showed a (\$962,354) 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, 2022

The following financial information was derived from the government-wide Statement of Activities for the fiscal year ended June 30, 2022 and reflects how the School's net position changed:

CONDENSED Statement of Activities				
	<i>Fiscal Year Ended June 30, 2022</i>	<i>Fiscal Year Ended June 30, 2021</i>	<i>Change</i>	<i>%</i>
PROGRAM REVENUES:				
Charges for services	\$ 1,292,483	\$ 730,457	\$ 562,026	77%
Operating grants and Contributions	6,363,493	5,188,635	1,174,858	23%
Total program revenues	7,655,976	5,919,092	1,736,884	29%
GENERAL REVENUES:				
Investment appreciation and dividend income	142,754	648,126	(505,372)	(78%)
<i>Total Revenues</i>	7,798,730	6,567,218	1,231,512	19%
EXPENSES:				
Payroll and related costs	2,087,643	1,737,231	350,412	20%
Other expenses	4,585,769	3,590,466	995,303	28%
Depreciation	481,122	462,521	18,601	4%
<i>Total Expenses</i>	7,154,534	5,790,218	1,364,316	24%
Change in net position	\$ 644,196	\$ 777,000	\$ (132,804)	(17%)

The 2021-2022 revenues increased by \$1,231,512 when compared with the last fiscal year, mainly due to an decrease in the value of the investments. Total program expenses increased by \$1,364,316 mainly due to an increase in general and administrative 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, 2022

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

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

	2022	2021	Change	%
ASSETS				
Cash	\$ 2,534,987	\$ 1,468,454	\$ 1,066,533	73%
Account receivable tuition fee	1,032,694	1,041,668	(8,974)	(1%)
Due from other funds	1,895,513	1,076,519	818,994	76%
Restricted investments	2,653,205	3,063,938	(410,733)	(13%)
	8,116,399	6,650,579	1,465,820	22%
LIABILITIES				
Account payable	161,629	244,542	(82,913)	(34%)
Due to other funds	1,895,513	1,076,519	818,994	76%
	2,057,142	1,321,061	736,081	56%
REVENUES				
Legislative appropriations	2,855,430	2,967,704	(112,274)	(4%)
Federal grants	3,508,063	2,220,931	1,287,132	58%
Investments appreciation and dividend income	142,754	648,126	(505,372)	(78%)
Tuitions fees and others	1,292,483	730,457	562,026	77%
	7,798,730	6,567,218	1,231,512	19%
EXPENDITURES				
Payroll and related costs	2,175,222	1,686,904	488,318	29%
Payments for public services	751,736	689,444	62,292	9%
Professional services	1,601,923	1,302,753	299,170	23%
Insurance expenses	12,787	24,742	(11,955)	(48%)
Other expenses	2,219,323	1,573,527	645,796	41%
Capital outlays	302,263	375,916	(73,653)	(20%)
	\$ 7,063,254	\$ 5,653,286	\$ 1,409,968	25%

The School's governmental funds showed an increase in assets of \$1,231,512. At the same time revenues from legislature and investment income decrease by \$617,646, legislative appropriations and others increase by \$1,849,158. Total expenditures increase by \$1,409,968. All expenditures categories increase with compared to prior year except payments for insurance expenses and capital outlays.

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, 2022

General Fund Budgetary Highlights:

The 2021-2022 General Fund final expenditures budget was \$4,470,000, or \$1,262,904 over the actual spending of \$3,207,096. The difference was due to changes in expenditures such as expenses related to contracted and professional services. Actual revenues were under by \$322,301 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 2021-2022, the School had invested \$7,709,319, net of accumulated depreciation, in a broad range of capital assets (See table below). Depreciation charged for this fiscal year totaled \$481,122.

	Cost	Acc. Depreciation	Net Capital Assets
Building	\$ 7,000,000	\$2,835,000	\$4,165,000
Building improvements	5,231,027	2,311,678	2,919,349
Furniture and fixture	70,288	30,206	40,082
Other equipment	873,355	386,896	486,459
Computers	215,298	116,869	98,429
Total	\$13,389,968	\$5,680,649	\$7,709,319

Compensated Absences

At the end of the fiscal year 2021-2022, the School had a debt to cover future commitments for vacation expenses amounting to \$122,830 showing a minimum change in comparison with the prior year.

Economic Outlook

For the year ended June 30, 2022, the School received federal grants for \$3,484,649. From this amount, \$1,482,220 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 \$2,002,429. Mainly these funds were used to pay for professional services recorded as expenses in the general fund and other expenses.

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 (2022-2023).

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, 2022

ASSETS

Current assets	
Cash and cash equivalents	\$ 2,534,987
Account receivables – Tuition fees and other, net	1,032,694
Investments	<u>2,653,205</u>
Total current assets	<u>6,220,886</u>

Non-current assets	
Capital assets - Net of accumulated depreciation	<u>7,709,319</u>

TOTAL ASSETS	<u>13,930,205</u>
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Deferred Outflows of Resources:

Related to pension plans	844,859
Related to post-employment benefits	<u>9,600</u>
	854,459

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 14,784,664</u>
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LIABILITIES

Current liabilities	
Accounts payable	\$ 161,729
Compensated absences: Expected to be paid within one year	<u>47,153</u>
Total current liabilities	<u>208,882</u>

Net pension liability	4,754,385
Other postemployment benefit plan	114,062
Other liabilities	<u>75,677</u>

Total non-current liabilities	<u>4,944,124</u>
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Total liabilities	<u>5,153,006</u>
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Deferred Inflows of Resources:

Unamortized investment in Employees Retirement System	<u>231,488</u>
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NET POSITION:

Invested in capital assets, net	7,709,319
Restricted for:	
Student aid	2,653,205
Deficit	<u>(962,354)</u>

TOTAL NET POSITION	<u>9,400,170</u>
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TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 14,784,664</u>
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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, 2022

Function/Program		
Primary institution		
General administration:		
Payroll and related costs	\$ 2,087,643	
Payment for public services	751,736	
Professional services	1,601,923	
Insurance expense	12,787	
Operation and maintenance	2,219,323	
Depreciation	<u>481,122</u>	
Total program expenses		<u>7,154,534</u>
Program revenue		
Tuition and fees		<u>1,292,483</u>
General revenues:		
Operating grants and contributions	6,363,493	
Investment appreciation and dividend income	<u>142,754</u>	<u>6,506,247</u>
Total revenues		<u>7,798,730</u>
Change in net position		<u>644,196</u>
Net position, beginning of year as previously reported		8,761,811
Prior year adjustment (note 10)		<u>(5,837)</u>
Net position, beginning of year, restated		<u>8,755,974</u>
Net position, end of year		<u><u>\$ 9,400,170</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, 2022

	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,383,780	\$ 346,783	\$ 804,424	\$ 2,534,987
Account receivables	92,999	1,200	938,495	1,032,694
Due from other funds	814,465	9,403	1,071,645	1,895,513
Restricted investments	501,909	2,151,296	-	2,653,205
Total assets	\$ 2,793,153	\$ 2,508,682	\$ 2,814,564	\$ 8,116,399
LIABILITIES				
Account payables	\$ 85,824	\$ 69,133	\$ 6,672	\$ 161,629
Due to other funds	1,895,513	-	-	1,895,513
Total liabilities	1,981,337	69,133	6,672	2,057,142
FUND BALANCES				
Restricted	-	2,439,549	-	2,439,549
Unassigned	811,816	-	2,807,892	3,619,708
Total fund balances	811,816	2,439,549	2,807,892	6,059,257
Total liabilities and fund balances	\$ 2,793,153	\$ 2,508,682	\$ 2,814,564	\$ 8,116,399

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, 2022

Amounts reported as net position for governmental activities in the statement of net position are different from the amount reported as fund balance in the governmental funds balance sheet because:

Total fund balances as shown on the balance sheet – Governmental funds	\$ 6,059,257
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	7,709,319
Deferred outflows of resources in governmental activities are not recorded in the funds in the current period	854,459
Deferred inflows of resources in governmental activities corresponded to a future period and therefore are not reported in the funds	(231,488)
Net pension liability used in governmental activities are not financial resources and, therefore are not reported in the funds	(4,754,385)
Other post-employment benefit plan in governmental activities are not financial resources and, therefore are not reported in the funds	(114,062)
Compensated absences used in governmental activities are not financial resources and, therefore are not reported in the funds.	(122,830)
Other payable no recorded in governmental funds	<u>(100)</u>
Total net position of governmental activities	<u><u>\$ 9,400,170</u></u>

ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenue, Expenditures and
Changes in Fund Balances- Governmental Funds
Year ended June 30, 2022

	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
REVENUES:				
Legislative appropriations	\$ 2,188,229	\$ -	\$ 667,201	\$ 2,855,430
Federal grants	-	3,508,063	-	3,508,063
Investment revenue	27,006	115,748	-	142,754
Tuition fees and others	1,292,269	214	-	1,292,483
Total revenues	3,507,504	3,624,025	667,201	7,798,730
EXPENDITURES:				
Education:				
General and administrative:				
Payroll and related cost	1,553,528	474,575	147,119	2,175,222
Payment for public services	751,736	-	-	751,736
Professional services	175,828	1,380,139	45,956	1,601,923
Insurance expense	12,787	-	-	12,787
Other expenses	384,652	1,760,618	74,053	2,219,323
Capital outlays	47,457	240,826	13,980	302,263
Total expenditures	2,925,988	3,856,158	281,108	7,063,254
Excess of revenue over expenditures	581,516	(232,133)	386,093	735,476
FUND BALANCE as of June 30, 2021	236,037	2,671,682	2,421,799	5,329,518
Prior year adjustments	(5,737)	-	-	(5,737)
Fund balance as of June 30, 2021, as restated	230,300	2,671,682	2,421,799	5,323,781
FUND BALANCE as of June 30, 2022	\$ 811,816	\$ 2,439,549	\$ 2,807,892	\$ 6,059,257

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, 2022

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	\$ 735,476
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.	302,263
Depreciation expenses	(481,122)
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>87,579</u>
Changes in net position of governmental activities	<u><u>\$ 644,196</u></u>

ESCUELA DE ARTES PLÁSTICAS Y DISEÑO DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
June 30, 2022

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 and 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 no 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 the 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, 2022, 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 SIGNIFICANT ACCOUNTING POLICIES

Government-wide Financial Statements:

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the School as a 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, and 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 uses 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, 2022

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 a separate accounting entity. 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 is 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, 2022

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- and Title V US Department of Education
- Restricted donations from the private sector 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

<u>Fund</u>	<u>Description</u>
<i>Major:</i>	
<i>General Fund</i>	See above for a description
<i>Special Revenue Fund</i>	Title IV- Federal Pell Grant Program, Supplemental Opportunity Grant (SEOG), Federal Work Study Program (FWSP), Developing Serving Hispanic Institutions Title V and Cares Act funds
<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, 2022

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. The 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 Position 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 is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from an exchange and exchange-like transaction 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 position "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 a fiduciary agent. The School considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Federal Deposit Insurance Corporation provides protection for the 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 approximates 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 a broker's Firm, 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, 2022

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, 2022 securities investments were unregistered and uninsured and 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 result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Interfund loans are reported as "inter-fund receivables and payables". Inter-fund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

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 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, 2022

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES AND EQUITY (CONTINUED)

Government-wide Statements

In 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 position. Depreciation is provided over the asset's estimated useful life 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 purposes.

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, 2022, 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 includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as the employer's share of Social Security taxes, Medicare taxes, employer contributions to the 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, 2022

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Pension Cost

As required by GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68 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.

Accounting for Other Postemployment Benefits (“OPEB”)

As required by GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” (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’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 position and displayed in three components:

- a. Invested in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position - Consists of net position 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 position- All other net position 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 nonspendable, 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, 2022

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUES, EXPENDITURES AND EXPENSES

Operating revenues and expenses for government-wide financial statements 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 on the financial statements:

:

Recently Issued Accounting Pronouncements

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. 91, Conduit Debt Obligations. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payments Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, Leases, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement (SCA). This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. 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, 2022

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

GASB Statement No. 96, Subscription Based Information Technology Arrangements. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 99, *Omnibus 2022*. The provisions of this statement are effective as follows:

- The requirements related to extensions of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarifications of certain provisions in statement No. 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPP's and SBITAs are effective for fiscal year beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal year beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections*-an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for fiscal years beginning after June 15, 2023. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.

The impact of these statements on the School's financial statements, if any, has not yet been determined.

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, 2022

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 vent 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 a 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 a demonstration of its stewardship over the 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
Developing Hispanic Serving Institutions Title V and Cares Act funds	Grant Agreements
SEOG 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, 2022

NOTE 3- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

REVENUE RESTRICTIONS

The School has various restrictions 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 |
| • Developing Hispanic Serving Institutions- Title V | Legal Restriction of Use |
| • Cares Act Funds | 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, 2022, the School complied, in all material respects, with these revenue restrictions.

Also, for the year ended June 30, 2022, the School received federal grants for \$3,484,649 of which \$1,482,220 represents reimbursements to students and is shown as part of other expenses in the special revenue fund. Therefore, the net amount available for the School operations was \$2,002,429.

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 involved in the process of controlling and investing 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 and 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. 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, 2022

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, 2022, was as follows:

	<i>Balance at</i>			<i>Balance at</i>
	<i>June 30,2021</i>	<i>Additions</i>	<i>Retirements</i>	<i>June 30,2022</i>
Buildings	\$ 7,000,000	\$ -	\$ -	\$7,000,000
Building Improvements	5,231,027			5,231,027
Furniture and fixtures	56,250	14,038		70,288
Other equipment	599,881	273,474		873,355
Computers	200,547	14,751		215,298
<i>Total capital assets</i>	<u>\$ 13,087,705</u>	<u>\$302,263</u>	<u>\$ -</u>	<u>\$13,389,968</u>

The accumulated depreciation is as follows:

	<i>Balance at</i>			<i>Balance at</i>
	<i>June 30,2021</i>	<i>Additions</i>	<i>Retirements</i>	<i>June 30,2022</i>
Buildings	\$2,677,500	\$157,500	\$ -	\$2,835,000
Building Improvements	2,105,786	205,892		2,311,678
Furniture and fixtures	22,571	7,635		30,206
Other equipment	309,838	77,058		386,896
Computers	83,832	33,037		116,869
<i>Total Accum. Depreciation</i>	<u>\$5,199,527</u>	<u>\$481,122</u>	<u>-</u>	<u>\$5,680,649</u>
Net capital assets	<u>\$7,888,178</u>	<u>(\$178,859)</u>	<u>\$ -</u>	<u>\$7,709,319</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, 2022

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

COMPENSATED ABSENCES

As of June 30, 2022, the accrued compensated absences of the School consisted of the following:

	Beginning Year	Accrued	Expensed	Ending Year
Vacations	\$141,423		\$(18,593)	\$122,830
	\$141,423		\$(18,593)	\$122,830

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 consumption of the 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	
Related to pension plans	\$ 844,859
Related to post-employment benefits	\$ 9,600
Deferred Inflows of Resources	
Unamortized Investments in the Employees Retirement System	\$ 231,488

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, 2022

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 component units not covered by their own retirement systems are eligible to participate in 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 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 the 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.

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, 2022

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:

Service During a Fiscal Year	Creditable Service Earned
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).

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, 2022

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.

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, 2022

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.

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, 2022

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 the 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 the 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 the 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.

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, 2022

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 determined 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, plus 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 the 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.

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, 2022

NOTE 7 - PENSION PLAN (CONTINUED)

(5) Termination Benefits

(b) Deferred Retirement

Eligibility: A member is eligible upon the 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.

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, 2022

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

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, 2022

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 is 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.

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, 2022

NOTE 7 - PENSION PLAN (CONTINUED)

(8) Special Benefits

(a) Minimum Benefits

(i) Past Ad hoc Increases

The Legislature, from time to 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.

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, 2022

NOTE 7 - PENSION PLAN (CONTINUED)

(8) Special Benefits (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, 2022.

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, 2022

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 their own treasuries employees or by certain public corporations with their 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 their own treasuries, and municipalities.

- (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, 2022

NOTE 7 - PENSION PLAN (CONTINUED)

(11) Early Retirement Programs

On July 2, 2010, the Commonwealth Enacted Act No. 70 of 2010 (Act No. 70) established 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 their salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporations 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.

Changes in Total pension liability

Changes in total pension liability as of June 30, 2022 (measurement date June 30, 2021) was as follows:

	<u>Amount</u>
Balance at July 1, 2020	\$ 4,858,530
Changes for the measurement year:	
Service cost	39,262
Interest on total pension liability	307,915
Effect of plan changes	-
Effect of economic/demographic gains and losses	(350,952)
Effect of assumptions changes or inputs	128,769
Benefit payments	<u>(229,139)</u>
Net changes	(104,145)
Balance at June 30, 2021 (measurement date)	<u>\$ 4,754,385</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, 2022

NOTE 7 - PENSION PLAN (CONTINUED)

Sensitivity analysis

The following presents the total pension liability calculated using the discount rate of 2.16%, as well as what the total pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (1.16%) or 1 percentage point higher (3.16%) than the current rate:

	1% Decrease	Discount rate	1% Increase
	1.16%	2.16%	3.16%
Total pension liability as of June 30, 2021 (measurement date)	\$ 5,432,833	\$ 4,754,385	\$ 4,204,873

Changes in assumptions

Following is a description of changes in assumptions that affected the measurement of the total pension liability since the prior measurement date:

The index rate and resulting discount rate decreased from 2.21% as of June 30, 2020 to 2.16% as of June 30, 2021 (measurement date)

The post-retirement mortality assumptions were revised based on an experience study covering the period from July 1, 2013 through June 30, 2018. The base mortality rates reflect the Society of Actuaries Pub-2010 mortality tables, which were published in January 2019 and are based on public plan experience. For healthy retirees and beneficiaries prior to the member's death, the postretirement mortality base rates were revised to 100% and 110% of the Pub-2010 general healthy retiree mortality table for males and females, respectively. For disabled retirees, the postretirement mortality base rates were revised to 80% and 100% of the Pub-2010 general disabled retiree mortality table for males and females, respectively. For beneficiaries after the retiree's death, the postretirement mortality base rates were revised to 110% and 120% of the Pub-2010 general below median contingent survivor mortality table for males and females, respectively.

The preretirement mortality assumption was also revised. For general employees not covered under Act 127-1958, the preretirement mortality base rates were revised to 100% and 110% of the Pub-2010 general employee mortality table for males and females, respectively. For members covered under Act 127-1958, the preretirement mortality base rates were revised to the Pub-2010 public safety employee rates.

The projected mortality improvement scale was updated from Scale MP-2020 to Scale MP-2021.

Pension expense

Following are the components of the School's pension expense recognized in the accompanying statement of activities for the year ended June 30, 2022 (measurement period ending June 30, 2021):

	Amount
Service cost	\$ 39,262
Interest on total pension liability	307,915
Effect of plan changes	-
Recognition (amortization) of deferred inflows/outflows of resources	
Effect of economic/demographic gains and losses	(253,206)
Effect of assumptions changes or inputs	128,769
Pension expense	\$ 222,740

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, 2022

NOTE 7 - PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities

Deferred outflows and deferred inflows of resources from pension activities by source reported by the School in the statement of net position as of June 30, 2022(measurement date as of June 30, 2021) follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 7,595	\$ 141,643
Changes in assumptions	486,696	56,180
Changes in employer's proportion and differences between the employer's contribution and the employer's proportionate share of contributions	66,553	33,665
Pension contributions subsequent to measurement date	284,015	-
	<u>\$ 844,859</u>	<u>\$ 231,488</u>

Deferred outflows of resources related to pensions resulting from the payment of benefits subsequent to the measurement date of June 30, 2021 (year ended June 30, 2022) were approximately \$284,015 and will be recognized as a reduction of the total pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows/inflows of resources from pension activities are scheduled to be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2022	\$ (109,785)
2023	(109,785)
2025	(109,786)
Totals	<u>\$ (329,356)</u>

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, that 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 and 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.

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, 2022

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS PLAN

Plan Description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, multi-employer-defined benefit other post-employment healthcare benefit plan (OPEB). The Plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Therefore, the schedules of employer allocations and the schedules of OPEB amounts by the employer (collectively, the Schedules) present the OPEB amounts attributable to the Commonwealth reporting entity and exclude the OPEB amounts of other participating employers that are not included in the Commonwealth reporting entity.

The Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

Basis of Presentation

The schedules of employer allocations and the schedules of OPEB amounts by the employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of the Commonwealth or its component units. Accordingly, they do not purport to be a complete presentation of the financial position or changes in the financial position of the Commonwealth or its component units.

The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires the management of the Commonwealth to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Allocation of Methodology

GASB Statement No. 75 requires participating employers to recognize their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The employer allocation percentages presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by the employer are based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by the employer may result in immaterial differences.

Collective Total OPEB Liability and Actuarial Information

The total OPEB liability as of June 30, 2022 was determined by an actuarial valuation as of June 30, 2021, which was rolled forward to June 30, 2021. The total OPEB liability as of June 30, 2022 was determined by an actuarial valuation as of June 30, 2021. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

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, 2022

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

a) Actuarial assumptions Discount rate

The discount rate for June 30, 2021 and 2020 was 2.16% and 2.21%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2021 from the 2006 base year and projected forward using MP-2021 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue-collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2021 from the 2006 base year and projected forward using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

b) Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the collective total OPEB liability of the Plan at June 30, 2022 (measurement date of June 30, 2021) calculated using the discount rate of 2.16%, as well as the Plan's total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (1.16%) or 1-percentage point higher (3.16%) than the current rate:

	At 1% decrease (1.16%)	At current discount rate (2.16%)	At 1% increase (3.16%)
Total OPEB liability	\$ 125,124	\$ 114,062	\$ 104,632

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, 2022

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

c) Changes in Total OPEB liability of OPEB Plan

Changes in total OPEB liability as of June 30, 2022 (measurement date June 30, 2021) was as follows:

	Amount
Balance at July 1, 2020	\$ 121,572
Changes for the measurement year:	
Interest on total OPEB liability	(2,755)
Effect of economic / demographic gains and losses	5,308
Effect of assumptions changes or inputs	(963)
Benefit payments	(9,400)
Net changes	(7,810)
Balance at June 30, 2021 (measurement date)	\$ 113,762

d) OPEB Expense

Following are the components of the School's OPEB expense recognized in the accompanying statement of activities for the year ended June 30, 2022 (measurement period ending June 30, 2021):

	Amount
Interest on total OPEB liability	\$ (2,755)
Recognition of deferred inflows/outflows of resources	
Effect of economic / demographic gains and losses	5,308
Effect of assumptions changes or inputs	(963)
OPEB expense	\$ 1,590

Deferred Outflows of Resources and Deferred Inflow of Resources

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

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, 2022

NOTE 9- 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 believed the amount, if any, would not be material. The School is also subject to regular audits by the Government Office of the Comptroller of Puerto Rico.

As of the date of the audit report, various lawsuits against the School for damage and prejudice were in process pending of additional hearings, some documents or information requested by the courts. Total amount claimed in these lawsuits remained undetermined. However, the School's lawyer believes that the cases are nuisance suits where damages claimed are clearly of proportion with the damages suffered by claimants, and ultimately settlements will be reached for much smaller amounts if any. In addition, the School as a component unit of the government of the Commonwealth of Puerto Rico is covered by a 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 believes after consultation with the legal counsel 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 10 -PRIOR PERIOD ADJUSTMENT

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

Net position as of June 30, 2021, as previously reported	\$ 8,761,811
Account payable understated	<u>(5,837)</u>
Net position as of June 30,2021, as restated	<u>\$8,755,974</u>

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

Fund balance as of June 30, 2021, as previously reported	\$ 5,329,518
Account payable understated	<u>(5,737)</u>
Fund balance as of June 30, 2021, as restated	<u>\$5,323,781</u>

NOTE 11 – SUBSEQUENT EVENTS

The School's management has evaluated subsequent events through March 29, 2023, the date on which the financial statements were available to be issued.

ESCUELA DE ARTES PLASTICAS Y DISEÑO DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Budgetary Comparison Schedule
June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Notes to the Schedule)</u>	<u>Variance with Final Budget - Positive</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
Legislature appropriations	\$ 2,512,000	\$ 2,512,000	\$ 2,855,430	\$ 343,430
Tuition fees and other	1,958,000	1,958,000	1,292,269	(665,731)
Total revenues	<u>\$ 4,470,000</u>	<u>\$ 4,470,000</u>	<u>\$ 4,147,699</u>	<u>(\$ 322,301)</u>
Expenditures:				
Payroll and related costs	\$ 2,274,000	\$ 2,274,000	\$ 1,700,647	\$ 573,353
Payment for public services	393,000	393,000	751,736	(358,736)
Professional services	1,216,000	1,216,000	221,784	994,216
Insurance	-	-	12,787	(12,787)
Other expenses	587,000	587,000	520,142	66,858
Total expenditures	<u>\$ 4,470,000</u>	<u>\$ 4,470,000</u>	<u>\$ 3,207,096</u>	<u>\$ 1,262,904</u>
Revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 940,603</u>	<u>\$ 940,603</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, 2022

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 careful evaluation of the individual department budgets and the result of the 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, 2022

Federal Grantor/Program Title	Assistance Listing Number	Amount
US DEPARTMENT OF EDUCATION		
Direct Programs:		
Student Financial Aid Cluster:		
Federal Pell Grant Program	84.063	\$ 1,821,456
Federal Supplemental Education Opportunity Grant Program	84.007	21,482
Federal Work-Study Program	84.033	19,038
TOTAL STUDENTS FINANCIAL AID PROGRAMS		<u>1,861,976</u>
Other Programs:		
CARES Act: Higher Education Emergency Relief Fund	84.425E	944,201
CARES Act: Higher Education Emergency Relief Fund	84.425F	<u>209,011</u>
Total Other Programs		<u>1,153,212</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 3,015,188</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, 2022

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 (the School).

2. Basis of accounting

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

3. Administrative costs

The School does not have a federally negotiated indirect cost rate applicable to the programs and therefore there is no election to the 10 percent de minimis cost rate as defined in 2 CFR 200.414.

4. Assistance Listing Number (ALN)

The ALN included in this schedule are determined based on the program name, review of grant contract information and the U.S. Office of Management and Budget's Federal Assistance Listing.

5. 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 Expenditures in the special revenue fund in the financial statements follows:

Expenditures per financial statements	\$ 2,233,927
Plus:	
Other expenditures	<u>22,379</u>
Expenditures per Schedule of Federal Awards Programs	<u>\$ 2,256,306</u>

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

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**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, 2022, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated March 29, 2023.

Report on 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) as a basis for designing 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on 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 financial statements. 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)

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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 entity'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

March 29, 2023
The stamp number E520938 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



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

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

Report on Compliance for Each Major Federal Program

Opinion on 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 identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the School’s major federal programs for the year ended June 30, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School’s federal programs.

(Continues)

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

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Escuela de Artes Plásticas y Diseño de Puerto Rico, a component unit of the Commonwealth of Puerto Rico (“the School”)’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the School’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

(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)**

Report on 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 a 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 Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

March 29, 2023
The stamp number E520939 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, 2022

SECTION I - SUMMARY OF AUDIT RESULTS

Financial Statements

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

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:

Assistance Listing Number	Name of Federal Program or Cluster
84.063	Federal Pell Grant Program
84.007	Federal Supplement Education Opportunity Grant
84.033	Federal Work-Study Program
84.425	CARES ACT: Higher Education Emergency Relief Fund

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

None.

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, 2022

There were no findings reported for the year ended June 30, 2021.