



Kevane
Grant Thornton

Financial Statements and Report of
Independent Certified Public Accountants

Puerto Rico Council on Education

(A Component Unit of the Commonwealth of Puerto Rico)

June 30, 2014

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Table of Contents

Report of Independent Certified Public Accountants 1-2

Management’s Discussion and Analysis 3-8

Financial Statements:

 Statement of Net Position 9

 Statement of Activities 10

 Balance Sheet – Governmental Funds 11

 Reconciliation of the Balance Sheet of Governmental
 Funds to the Statement of Net Position 12

 Statement of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds 13

 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities 14

Notes to Financial Statements 15-28

Required Supplemental Information:

 Statement of Revenues, Expenditures and Changes in
 Fund Balances – Governmental Funds – Budget and Actual (unaudited) 29

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 30-31



Report of Independent Certified Public Accountants

**To the Board of Trustees of the
Puerto Rico Council on Education
San Juan, Puerto Rico**

Kevane Grant Thornton LLP
33 Calle Bolivia, Ste 400
San Juan, Puerto Rico 00917-2013
T +1 787 754 1915
F +1 787 751 1284
www.kevane.com

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of the **Puerto Rico Council on Education** (the Council), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Puerto Rico Council on Education**, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Budget and Actual on pages 3 through 8 and 30, respectively, be presented to supplement the basic financial statements. Such information, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2014 on our consideration of the Council's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Council's internal control over financial reporting and compliance.

San Juan, Puerto Rico,
October 31, 2014.

Kevane Grant Thornton LLP



Puerto Rico Council on Education

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2014

Management's discussion and analysis

This section represents a discussion and analysis of the Council's financial performance, which provides an overview of the Council's financial activities for the fiscal year ended June 30, 2014 and identifies changes in the Council's financial position. This section should be read, in conjunction with the Council's basic financial statements including the notes thereto.

Overview of financial statements

This discussion and analysis is intended to serve as an introduction to the Council's basic financial statements. The Council's basic financial statements include three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains supplemental information in addition to the basic financial statements themselves.

Basic financial statements

The basic financial statements include two kinds of financial statements that present different views: the government wide financial statements and the fund financial statements. These statements also include the notes to the financial statements.

The government-wide financial statements are designed to present an overall picture of the Council's finance, in a manner similar to private sector business. These statements consist of:

- a) Statement of Net Position
- b) Statement Activities

The Statement of Net Position combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the Council's assets and liabilities. Net Position is the difference between the Council's assets and liabilities, and represents one measure of the Council's financial health. An increase or decrease in the Council's net position from one year to the next is an indicator of whether its financial health is improving or deteriorating.

The Statement of Activities focus on both the gross and net cost of various activities, (governmental and other). These costs are paid by appropriations from the Central Government, charges to institution and other general revenues. This statement summarizes the cost of providing specific government services, and includes all current year revenues and expenses.

The second group of basic financial statements is comprised of the governmental funds that include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Reporting on the Council's most significant funds

Funds financial statements present financial information in a form more familiar to experienced users of governmental financial statement. However, these statements now focus on the most significant funds. A fund is a separate accounting entity with a self-balancing set of accounting. The Council uses funds to keep track of sources of funding and spending related to specific activities. Use these funds to find more detailed information about the Council's most significant activities.

Puerto Rico Council on Education

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2014

Governmental Funds

A majority of the Council activities are reported in governmental funds. Reporting of these fund focuses on how money flows into and out of these funds and the balances left at year-end that are available for future spending. Governmental funds are accounted for using the modified accrual method of accounting, which measures cash and other assets that can be readily converted in cash. The governmental funds statements provide a detailed short-term view of the Council's general governmental operation and basic services it provides. The information should help you determine whether there are more or less resources available for the Council's programs. The General Fund and Special Financial Aid Fund were reported as major funds.

Financial analysis of the Council

Total assets of the Council as June 30, 2014, amounted to approximately \$13 million composed of current assets of \$12.6 million and \$178 thousand invested in capital assets. Current assets of the Council as of June 30, 2014 are \$5.9 million in accounts receivable and \$6.7 million in cash. The accounts receivable balance is mainly related to legislative appropriations amounting to approximately \$5 million, which \$1 million was collected in July 2014. Total current liabilities as of June 30, 2014 were approximately \$695 thousand and are mostly related to accounts payable, voluntary termination benefits, and compensated absences. Total noncurrent liabilities balance amounted to approximately \$1.9 million at June 30, 2014, mostly composed of voluntary termination benefits of \$1.4 million and compensated absences of \$560 thousand.

Total net position as of June 30, 2014, amounted to approximately \$10 million of which \$178 thousand were invested in capital assets; and \$5.3 million were restricted for student financial aid and other purposes.

Changes in net assets

The Council has total revenue of approximately \$31.6 million for the year ended June 30, 2014, mainly composed of \$1.2 million of charges for services related to licenses and accreditation fees and non-compliance fees and penalties to educational institutions, \$28 million in legislative appropriations from the Commonwealth of Puerto Rico for operating grants and contributions, and \$2.4 million of federal grant under the Improving Teacher Quality State Grant, and \$346 thousand in legislative appropriations for the operational cost of the Alternative Education Commission.

The Council's expenses amounted to approximately \$28 million for the year ended June 30, 2014, which incurred mostly in providing student financial aid and managing the higher education component of Puerto Rico's Federal Improving Teacher Quality State Grant. The most significant components of the Council's expenses are \$1.6 million of salaries and benefits, and \$24.7 million of students' financial aid and Improving Teacher Quality State Grant. As a result, there was an increase in net position of \$3 million for the year ended June 30, 2014.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis
June 30, 2014

The following is condensed financial information on assets, liabilities and net position of governmental activities as of June 30, 2014 and 2013:

	Governmental Activities <u>June 30, 2014</u>	Governmental Activities <u>June 30, 2013</u>
Assets:		
Current assets	\$ 12,628,814	\$ 10,467,517
Capital assets, net	<u>178,483</u>	<u>218,336</u>
Total assets	<u>12,807,297</u>	<u>10,685,853</u>
Liabilities:		
Current liabilities	695,231	1,551,411
Noncurrent liabilities	<u>1,983,363</u>	<u>2,153,312</u>
Total liabilities	<u>2,678,594</u>	<u>3,704,723</u>
Net position:		
Investment in capital assets	178,483	218,336
Restricted	5,319,622	6,904,680
Unrestricted	<u>4,630,598</u>	<u>(141,886)</u>
Total net position	<u>\$ 10,128,703</u>	<u>\$ 6,981,130</u>

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis
June 30, 2014

The following is condensed financial information on revenues, expenses and changes in net position of the governmental activities for the years ended June 30, 2014 and 2013:

	Governmental Activities June 30, 2014	Governmental Activities June 30, 2013
Revenues:		
Programs revenues -		
Charges for licences and penalties	\$ 1,259,810	\$ 523,729
Commonwealth appropriations- Operating grant	2,954,831	3,761,016
Commonwealth appropriations- Student financial aid	25,000,000	25,000,000
Commonwealth appropriations- Alternative education	346,000	-
Special revenue grants	2,079,504	3,009,337
Total programs revenue	31,640,145	32,294,082
General revenues -		
Interest income	46,945	24,886
Other income	71,343	19,416
Service revenues	22,842	21,365
Total general revenues	141,130	65,667
Total revenues	31,781,275	32,359,749
Expenses:		
General government and other	3,812,763	4,552,764
Student financial aid and other grants	24,820,939	28,907,562
Total expenses	28,633,702	33,460,326
Change in net position	3,147,573	(1,100,577)
Net position, beginning of year	6,981,130	8,081,707
Net position, end of year	\$ 10,128,703	\$ 6,981,130

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis
June 30, 2014

Governmental activities

The Governmental Activities Programs Revenues are approximately \$31.6 million including charges for licenses and accreditation of \$1.2 million, operating grant from legislative appropriation of \$2.9 million, and \$27 million of special revenue (\$25 million for the State Financial Aid Program, \$2 million from the Federal Improving Teacher Quality State Grant and \$346 thousand for the operational costs of the Alternative Education Commission). Total general revenues amounted to \$141 thousand corresponding to interest and other income.

	Legislative Appropriation	Licenses and Accreditation	General Revenues	Special Revenue Grants
Revenues	\$2,954,831	\$1,259,810	\$141,130	\$27,079,504

Financial analysis of the Council funds

The General Fund balance increased during the fiscal year 2014 by approximately \$24 thousand. The general fund main source of revenue is legislative appropriations, which amounted to approximately \$2.9 million for the year ended June 30, 2014. Also, the general fund receives income from academic transcript fees, photocopies charges, credential fees, penalties, and licenses fees of approximately \$805 thousands. General and administrative expenses allocated to this fund amounted to approximately \$3.8 million with significant components related to \$2.4 million of salaries and benefits, \$531 thousand of professional services and \$555 thousand in office rent and utilities.

The Special Financial Aid Fund Balance decreased by approximately \$1.8 million during the year ended June 30, 2014. The principal sources of revenues for this fund correspond to legislative appropriations, which amounted to approximately \$21million for the year ended June 30, 2014. Expenditures of this fund are mostly related to educational aid distributed to students, which for the year ended June 30, 2014 amounted to approximately \$22.7 million.

The Federal Grant Fund consists of federal grant received under the Improving Teacher Quality State. The majority of the amounts granted were expended in supporting professional development activities for teachers. Federal grants and the corresponding expenditures of the program for the year ended June 30, 2014 amounted to approximately to \$2 million.

General fund budgetary highlights economic factors

The Council prepares an annual operating budget for all governmental funds. The General Fund budget for the fiscal year 2013-2014 included total revenue of \$3 million (on the official letter CC Number 115-14, the Office of Management and Budget Commonwealth of Puerto Rico enforced for a reduction of \$87,150 on the approved annual operating budget) and expenditure \$3.8 million.

For fiscal year 2013-2014 the Commonwealth of Puerto Rico approved \$2,905,000 for operations, including \$394 thousand for the promotion of research in matter relative to basic and higher education (on the official letter CC Number 115-14, the office of management and budget Commonwealth of Puerto Rico enforced for a reduction of \$87,150 on the approved annual operating budget).

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis
June 30, 2014

Capital assets

At June 30, 2014 the Council had \$178,483 (net of accumulated depreciation) invested in four categories of capital assets, including computer and peripheral equipment (see table below).

	Governmental Activities <u>June 30, 2014</u>	Governmental Activities <u>June 30, 2013</u>
Furniture and equipment	\$ 602,752	\$ 700,084
Vehicles	22,190	44,158
Computer and peripheral equipment	446,460	449,987
Leasehold improvements	<u>475,748</u>	<u>475,748</u>
Total	1,547,150	1,669,977
Less: accumulated depreciation and amortization	<u>(1,368,667)</u>	<u>(1,451,641)</u>
	<u>\$ 178,483</u>	<u>\$ 218,336</u>

More detailed information about the Council's capital assets is presented in note (4) to the basic financial statements. The Council's capital is free of commitments.

Contacting the Council's financial management

This financial report is designated to provide our citizens, taxpayers, customers, students and creditors with a general overview of the Council's finances and to demonstrate the Council's accountability for the funds it receives. If you have question about this report, or need additional financial information, contact Mr. Héctor Román, Director of the Financial and Administration Office at Hato Rey Center Building, 15th floor, Ponce de León Ave. #268, Hato Rey, PR 00918.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position
June 30, 2014

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 6,681,271
Accounts receivable	5,947,543
	<hr/>
Total current assets	12,628,814
	<hr/>
Capital assets, net of accumulated depreciation and amortization of \$1,368,667	178,483
	<hr/>
Total assets	12,807,297
	<hr/>
<u>Liabilities and Net Position</u>	
Current liabilities:	
Accounts payable and accrued liabilities	462,480
Voluntary termination benefits, current portion	116,821
Compensated absences, current portion	115,930
	<hr/>
Total current liabilities	695,231
	<hr/>
Non-current liabilities:	
Voluntary termination benefits, net of current portion	1,422,537
Compensated absences, net of current portion	560,826
	<hr/>
Total non-current liabilities	1,983,363
	<hr/>
Total liabilities	2,678,594
	<hr/>
Net position:	
Net investment in capital assets	178,483
Restricted	5,319,622
Unrestricted	4,630,598
	<hr/>
Total net position	<u>\$ 10,128,703</u>

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Activities
Year Ended June 30, 2014

	Program Revenues				Net Revenue and Change in Net Position
	Expenses	Charges for Services	Commonwealth Appropriations	Special Revenue Grants	
Governmental activities:					
General government and other	\$ 3,812,763	\$ 1,142,842	\$ 2,954,831	\$ 346,000	\$ 630,910
Special financial aid fund	22,741,435	116,968	25,000,000	-	2,375,533
Education	2,079,504	-	-	2,079,504	-
Total governmental activities	<u>\$ 28,633,702</u>	<u>\$ 1,259,810</u>	<u>\$ 27,954,831</u>	<u>\$ 2,425,504</u>	<u>3,006,443</u>
General revenues:					
Services revenues					22,842
Interest income					46,945
Other income					71,343
Total general revenues					<u>141,130</u>
Change in net position					<u>3,147,573</u>
Net position at beginning of the year					<u>6,981,150</u>
Net position at end of year					<u>\$ 10,128,703</u>

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet - Governmental Funds
June 30, 2014

	General Fund	Special Financial Aid Fund	Other Special Fund	Total
Assets:				
Cash and cash equivalents	\$ 2,404,145	\$ 4,085,932	\$ 191,194	\$ 6,681,271
Accounts receivable -				
Institutions and others	353,646	5,116,969	288,649	5,759,264
Other governmental funds	32,279	-	156,000	188,279
Due from other funds	18,748	-	-	18,748
Total assets	<u>\$ 2,808,818</u>	<u>\$ 9,202,901</u>	<u>\$ 635,843</u>	<u>\$ 12,647,562</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 178,982	\$ 2,094	\$ 281,404	\$ 462,480
Payable to other governmental funds	-	11,503	7,245	18,748
Total liabilities	<u>178,982</u>	<u>13,597</u>	<u>288,649</u>	<u>481,228</u>
Deferred inflows of resources--				
unavailable revenue	<u>364,572</u>	<u>4,116,968</u>	<u>156,000</u>	<u>4,637,540</u>
Fund balances:				
Restricted	56,092	5,072,336	191,194	5,319,622
Assigned for research and encumbrances	624,221	-	-	624,221
Unassigned	1,584,951	-	-	1,584,951
Total fund balances	<u>2,265,264</u>	<u>5,072,336</u>	<u>191,194</u>	<u>7,528,794</u>
Total liabilities and fund balances	<u>\$ 2,808,818</u>	<u>\$ 9,202,901</u>	<u>\$ 635,843</u>	<u>\$ 12,647,562</u>

The accompanying notes are an integral part of this financial statement.

Puerto Rico Council on Education

(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2014

Total fund balance of governmental funds	\$	7,528,794
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in governmental funds balance sheet		178,483
The statement of net position reports receivables at their net realizable value. However, receivables not available to pay for current period expenditures are deferred in governmental funds		4,637,540
Liabilities not due and payable in the current period, and therefore, are not reported in governmental funds balance sheet		<u>(2,216,114)</u>
Total net position of governmental activities	\$	<u>10,128,703</u>

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2014

	<u>General Fund</u>	<u>Special Financial Aid Fund</u>	<u>Other Special Fund</u>	<u>Total</u>
Revenues:				
Legislative appropriations	\$ 2,927,601	\$ 21,000,000	\$ -	\$ 23,927,601
Federal grants	-	-	2,079,504	2,079,504
Licenses and accreditations	805,500	-	-	805,500
Interest income	8,224	37,527	1,194	46,945
Services income	22,842	-	-	22,842
Other income	71,343	-	190,000	261,343
	<u>3,835,510</u>	<u>21,037,527</u>	<u>2,270,698</u>	<u>27,143,735</u>
Expenditures:				
General and administrative	3,796,413	110,405	75,360	3,982,178
Educational aid	-	22,741,435	2,004,144	24,745,579
Capital expenditures	14,924	1,950	-	16,874
	<u>3,811,337</u>	<u>22,853,790</u>	<u>2,079,504</u>	<u>28,744,631</u>
Excess (deficiency) of revenues over (under) expenditures	24,173	(1,816,263)	191,194	(1,600,896)
Fund balances at beginning of year	<u>2,241,091</u>	<u>6,888,599</u>	<u>-</u>	<u>9,129,690</u>
Fund balances at end of year	<u>\$ 2,265,264</u>	<u>\$ 5,072,336</u>	<u>\$ 191,194</u>	<u>\$ 7,528,794</u>

Puerto Rico Council on Education

(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$	(1,600,896)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and amortization exceed capital outlays in the current period		
		(39,852)
Some revenues in the statement of activities do not provide current financial resources and therefore, are not reported as revenues in the funds		
		4,637,540
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds		
		<u>150,781</u>
Change in net position of governmental activities	<u>\$</u>	<u>3,147,573</u>

Puerto Rico Council on Education

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

(1) **Organization and summary of significant accounting policies:**

i. **Organization –**

The Puerto Rico Council on Education (the Council) began operations on July 1, 2011, and was formed from the merger of the Puerto Rico Council on Higher Education (PRCHE) and the Puerto Rico Council on General Education (PRCGE). The Council was created under the provisions of the Reorganization Plan No. 1 of July 26, 2010 under Act 182 of December 17, 2009 known as “Act of Reorganization and Modernization of the Executive Branch of the Government of Puerto Rico of 2009”.

The main responsibilities of the Council include among others, licensure of public and private educational institutions operating in Puerto Rico at all academic levels, from kindergarten to postgraduate university level, accreditation of public and private educational institutions at the k-12 and postsecondary non degree granting levels, administration of student financial assistance programs that support opportunities for low-income students completing postsecondary education, establishing education data systems to support the agency's duties, and promoting and conducting research on educational issues. The Council is also responsible for managing governmental funds (state and federal) and funds received or assigned to the Council by other sources to conduct the responsibilities established by applicable laws and regulations.

The Council is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) and accordingly, is included in the Commonwealth's financial reporting entity. The Council's Board of Directors is composed of nine members, a President and eight additional members, all appointed by the Governor of Puerto Rico with the consent of the Senate.

On April, 2014 the Governor of Puerto Rico presented a Project of Law to the Legislature (PC 1904). The Project has the purpose of eliminating the Council and creating a new Board of License and Accreditation as part of the Puerto Rico Department of Education. As of October 31, 2014, PC 1904 is still under consideration by the House of Representatives

The accompanying financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Government Accounting Standard Board (GASB).

ii. **Summary of significant accounting policies –**

(i) **Government-wide and fund financial statements –**

Government-wide financial statements - include the statement of net position and the statement of activities. These statements report financial information of the Council as a whole. The effect of interfund activity has been removed from these government wide financial statements.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Council governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and

Puerto Rico Council on Education

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2014

contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund financial statements - the fund financial statements provide information about Council's funds. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column.

The Council reports the following major governmental funds:

- **General Fund** - this is the Council's primary operating fund. It accounts for all resources of the Council, except those required to be accounted for in another fund. The services, which are administered by the Council and accounted for in the General Fund include, among others, licensure of public and private educational institutions, accreditation of public and private educational institutions, and promoting and conducting research on educational issues, and funds received.
- **Special Financial Aid Fund** - this fund accounts for the Commonwealth appropriations which are distributed as financial aids to Puerto Rican students.
- **Other Special Fund** - this fund accounts for federal grants received under the Title II, Part A, Subpart 3 of the No Child Left Behind Program and for the operational cost of the Alternative Education Commission.

(ii) **Measurement focus and basis of accounting** –

The government-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Council considers revenues to be available if they are collected within 60 days of the end of the fiscal year. A deferred inflow of resources arises in the Governmental Funds Balance Sheet when potential revenue does not meet the earned and available criteria for recognition in the current period. Unavailable revenue consists of revenues not deemed available to finance operation of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue is recognized as soon as it is earned regardless of its availability. Thus, the deferred inflow created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated. Expenditures are recorded when the related fund liability is incurred. However, expenditures relating to compensated absences, voluntary termination benefits, and claims and judgments are recorded only when the liability has matured. Capital assets acquisitions are reported as expenditures.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

(iii) Cash and cash equivalents –

The Council considers as cash and cash equivalents all highly liquid investments with original or remaining maturities at the date of acquisition of three months or less.

(iv) Capital assets –

Cost basis –

Capital assets are recorded at historical cost or estimated historical cost in the government wide statement of net position. The cost of property and equipment includes costs for furniture, office equipment, computer and peripheral equipment, vehicles, and leasehold improvements.

Capitalization policy –

Capital assets are defined by the Council as assets that have a cost of \$300 or more at the date of acquisition. The cost of normal maintenance and repairs that do not add value to the assets or materially extend assets lives are not capitalized.

Depreciation and amortization of capital assets –

Depreciation is provided using the straight-line method over an estimated useful life of three years for computers and peripheral equipment, and five years for furniture, office equipment and vehicles. Amortization is provided, over leasehold improvements, using the straight-line method over an estimated useful life of fifteen years.

Impairment of capital assets –

The Council accounts for impairment of capital assets in accordance with GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establish 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 clarifies and establishes accounting requirements for insurance recoveries.

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Council evaluated its capital assets as required by GASB No. 42 and no impairment was identified during the year ended June 30, 2014.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

(v) **Net position** –

In the government-wide financial statements, equity is displayed in three components as follows:

- **Invested in capital assets** - this consists of capital assets, net of accumulated depreciation.
- **Restricted** - this consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Council's policy to use unrestricted resources first, then restricted resources when they are needed.
- **Unrestricted** - this consists of net position that do not meet the definition of "restricted" or "invested in capital assets".

(vi) **Fund balance classifications** –

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Council is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Non-spendable** - this classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- **Restricted** - this classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed** - this classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Council did not have any committed resources as of June 30, 2014.
- **Assigned** - this classification represents amounts that are constrained by resolution of the Board of Directors to be used for a specific purpose. Remaining fund balances are reported as unassigned.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

- Unassigned - this classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Council typically uses unassigned fund balances first, followed by assigned resources, and then restricted resources, as appropriate opportunities arise.

(vii) Deferred inflows of resources –

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Council has only one type of item, which arises only under the modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

(viii) Compensated absences (vacation and sick leave) –

The employees of the Council are entitled to 2.5 days per month for vacation and 1.5 days per month for sick leave. Vacation and sick leave can be accumulated up to a maximum of 60 and 90 days, respectively. Any excess over the maximum of accumulated sick leave (maximum of 5 days) is paid to the employees during March of the next fiscal year. Sick leave is payable to the employee upon retirement provided the employee has at least 10 years of services when retired. Any excess up to 108 days over the maximum of accumulated vacations is liquidated to the employees on or before December 31st of the next fiscal year.

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is only reported in governmental funds financial statements if they have matured.

(ix) Termination benefits –

The Council accounts for termination benefits in accordance with GASB Statement No. 47, Accounting for Termination Benefits. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

In fund financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits are recognized when due.

(x) **Revenue recognition** –

General fund - includes Commonwealth appropriations and license and accreditation fees. Revenue is recognized when they are both measureable and available.

Special financial aid fund - includes revenues received for restricted grants distributions and federal grants which are recorded when expenditures are incurred.

Other special fund - includes revenues for federal grants received under Title II, Part A, Subpart 3 of the No Child Left Behind Program. Grants are recorded when related expenditures are incurred. In addition, it includes revenues received for the operational cost of The Alternative Education Commission which are recognized when available and all applicable eligibility requirements are met.

(xi) **Use of estimates** –

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

(2) **Budget policy and practice:**

The Council prepares an annual operating budget request for all governmental funds. The budget is incorporated into the Commonwealth's consolidated budget project submitted by the executive body to the legislature. Public hearings and discussions are held toward the legal enactment of the consolidated budget project on or before the commencement of the fiscal year for which the budget project was prepared (the first of July of each fiscal year). Once the budget project is approved, legally adopted, and in effect, the Council's management can request the transfer of budgeted and approved amounts. The Constitution of the Commonwealth of Puerto Rico requires that budgeted expenditures be balanced with estimated revenues. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The comparison of actual results of operations to the governmental fund budget is presented for analytical purposes only.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

(3) Deposits:

Cash and cash equivalents consist of demand deposits and interest-bearing accounts. The carrying amount of deposits at June 30, 2014 consists of the following:

	<u>Carrying amount</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Commercial banks	\$ 105,780	\$ -	\$ 105,780
Governmental banks	1,645,520	4,929,971	6,575,491
Total	<u>\$ 1,751,300</u>	<u>\$ 4,929,971</u>	<u>\$ 6,681,271</u>

Restricted cash and cash equivalents as of June 30, 2014 represent funds for the sole purpose of granting student financial aid, alternative education program and research.

The Council is authorized to deposit cash only in institutions approved by the Department of Treasury of the Commonwealth of Puerto Rico, and such deposits are maintained in separate accounts in the name of the Council.

Custodial credit risk - deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Council's deposits may not be returned to it. Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance of the Council's deposits at June 30, 2014 amounts to \$6,883,873.

As of June 30, 2014, the Council's custodial credit risk was \$6,778,173, which is the bank balance of cash deposited, at the Government Development Bank (the Trustee). These deposits are exempt from the collateral requirement established by the Commonwealth.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

(4) Capital assets:

The following schedule summarizes the capital assets held by the Council as of June 30, 2014:

	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance at June 30, 2014</u>
Furniture and equipment	\$ 700,084	\$ 494	\$ (97,826)	\$ 602,752
Vehicles	44,158	-	(21,968)	22,190
Computer and peripheral equipment	449,987	16,379	(19,906)	446,460
Leasehold improvements	475,748	-	-	475,748
Total	1,669,977	16,873	(139,700)	1,547,150
Less: accumulated depreciation and amortization	(1,451,641)	(56,726)	139,700	(1,368,667)
	<u>\$ 218,336</u>	<u>\$ (39,853)</u>	<u>\$ -</u>	<u>\$ 178,483</u>

Depreciation expense amounted to \$56,726 for the year ended June 30, 2014, and is included within the governmental activities in the accompanying statement of activities.

(5) Deferred inflows of resources:

The Governmental Funds Balance Sheet reports deferred inflows of resources in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. At June 30, 2014, the General Fund, Special Financial Aid Fund and Other Special Fund reported inflows of resources on the Balance Sheet of \$364,572, \$4,116,968 and \$156,000, respectively.

(6) Non-current liabilities:

Changes in non-current liabilities for the year ended June 30, 2014 were as follows:

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Retirement/ Adjustments</u>	<u>Balance at June 30, 2014</u>	<u>Due within one year</u>	<u>Due over one year</u>
Voluntary terminations benefits	\$ 1,602,724	\$ -	\$ 63,366	\$ 1,539,358	\$ 116,821	\$ 1,422,537
Compensated absences	764,172	310,811	398,227	676,756	115,930	560,826
Total	<u>\$ 2,366,896</u>	<u>\$ 310,811</u>	<u>\$ 461,593</u>	<u>\$ 2,216,114</u>	<u>\$ 232,751</u>	<u>\$ 1,983,363</u>

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

(7) Pension plans:

Employees of the Council participate in one of the three pension plans available at the Council, as follows:

- i. The Council's employees that were employed by the University of Puerto Rico (the University) before the Council's creation participate in the University of Puerto Rico (UPR) Retirement System.
- ii. The employees that became part of the Council after its creation participate in the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) and its instrumentalities.
- iii. A Council's employee that was employed by the Puerto Rico General Council on Education before the Council's creation participates in the Puerto Rico System of Annuities and Pensions for Teachers (TRS).

Additional information on the University of Puerto Rico Retirement System is provided in its financial statements for the year ended June 30, 2014, a copy of which can be obtained from the UPR Retirement System Administrator, P. O. Box 21769, UPR Station, San Juan, Puerto Rico 00931. For more information on the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities, refer to its financial statements, a copy of which can be obtained from the Administrator of Retirement System Administration, P. O. Box 42003, San Juan, Puerto Rico 00949. For more information on the Puerto Rico System of Annuities and Pensions for Teachers, refer to its financial statements, a copy of which can be obtained from the TRS Administrator of Retirement System Administration, P.O. Box 191879, San Juan, Puerto Rico 00919.

Total payroll covered during the year ended June 30, 2014 amounted to \$1,722,021.

University of Puerto Rico Retirement System (UPRRS)

The UPRRS is a single-employer defined benefit pension plan that provides retirement, disability, and death benefits. Cost-of-living adjustments are provided at the discretion of the UPRRS's Board of Trustees. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios of the members' average compensation computed based on a benefit rate set forth by Commonwealth statute.

The University employees are required to contribute 4% to 11% of their annual salary to the UPRRS, depending on certain qualifications. The Council was required to contribute 14.7% of applicable payroll in 2014. The contributions are established by law, and are not actuarially determined. Although the University has not expressed any intent to terminate the Plan administered by the UPRRS, it may do so at any time. In the event of termination, the right of participants and beneficiaries are non-forfeitable to the extent funded.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

Total contributions to the UPRRS for the Council for the year ended June 30, 2014 were as follows:

Employees	\$	32,536
Employer		<u>58,661</u>
Total	\$	<u><u>91,197</u></u>

Employee's Retirement System of the Government of Commonwealth of Puerto Rico and its Instrumentalities (the System or ERS)

All Council's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute.

The System, a cost-sharing multiple employer defined benefit pension plan created pursuant to Act No. 447 of May 1, 1951, also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation required employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Council was required by the same statute to contribute 10.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951 was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the Council on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

On April 4, 2013, by means of Act No. 3, an amendment to Act No. 447 of May 1, 1951, which created the System 2000, was enacted for the purpose of establishing a new pension program effective July 1, 2013 for all active participants. Under the Act No. 3, all active participants at July 1, 2013 under Act No. 447 joined a "hybrid" program, a combination of defined benefits and defined contribution program.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

All active participants under Act No. 447 preserve benefits accrued as of June 30, 2013. The annuity for these participants will be computed based on the average compensation multiplied by the credited years of service as of June 30, 2013 and contributions made to the new defined contribution program after June 30, 2013. For participants under System 2000, all contributions made before June 30, 2013 were transferred to the new defined contribution program.

To qualify for an annuity under the new “Hybrid Program”, participants have to meet two conditions: five years of credited service and \$10,000 or more in contributions made under this program. The annuity will be based on a distribution of all contributions made, divided by a factor of life expectancy of the participant at the age of retirement.

Effective July 1, 2013, all participants contribute a minimum of 10% with no maximum restriction of their gross monthly salary to the program. The Council will pay contribution of 12.275% of the employee’s gross monthly salary and will increase 1% per year until fiscal year 2016 and 1.25% per year until fiscal year 2021.

The new pension program also established a new age for retirement as follows:

For participants who entered the program before April 1, 1990 (Act No. 447):

<u>Age at June 30, 2013</u>	<u>Age under new program</u>
57 years or more	59 years
56 years	60 years
55 years or less	61 years

For participants who entered the program after April 1, 1990 through December 31, 1999 (Act No. 1):

<u>Age at June 30, 2013</u>	<u>Age under new program</u>
65 years or less	65 years

For participants who entered the program after January 1, 2000 through June 30, 2013 (System 2000):

<u>Age at June 30, 2013</u>	<u>Age under new program</u>
59 years	61 years
58 years	62 years
57 years	63 years
56 years	64 years
55 years or less	65 years

For participants who entered in to the program on or after July 1, 2013 (Act No. 3) the retirement age will be sixty-seven (67) years.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

Total contributions to the System for the Council for the year ended June 30, 2014 were as follows:

Employees	\$	116,297
Employer		<u>142,754</u>
Total	\$	<u>259,051</u>

Puerto Rico Systems of Annuities and Pensions for Teachers (TRS)

The TRS is a cost-sharing multiple employers defined benefit pension plan that provides retirement, disability, and death benefits to teachers of Puerto Rico's public schools. Created by virtue of Act No. 218 of May 6, 1951, benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios of the members' average compensation computed based on a benefit rate set forth by Commonwealth statute.

The Council has one former teacher which transferred from the Puerto Rico General Council on Education on July 1, 2011, even though the employee is no longer a teacher, decided to remain participating in the TRS and no contribution was necessary from the Council prior to the Council's creation date. The contributions are established by law, and any change in the benefits structure of the TRS shall be backed by prior actuarial studies.

Participating employee is required to contribute 8.5% of their compensation to the TRS, while the employer was required to contribute 10.5% of the applicable payroll. However, Act No. 114 provides for annual employer contribution increases of 1% for the fiscal years 2013 to 2016, and 1.25% annually for the fiscal years 2017 to 2021. The Council is required to contribute 11.5% of applicable payroll for the year ended June 30, 2014.

Total contributions to the TRS for the Council for the year ended June 30, 2014 were as follows:

Employees	\$	3,780
Employer		<u>4,830</u>
Total	\$	<u>8,610</u>

(8) Voluntary termination benefits:

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement benefits or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Council. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Commonwealth's sponsored contributory pension plans (collectively known as the Retirement System) and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee's salary, as defined. In this early retirement benefit program, the Council will make the employer contributions to the Retirement System and pay the corresponding pension until the

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Council and paid by the Commonwealth. The financial impact resulting for the benefits granted to participants on this program during the year ended June 30, 2014, was the recognition of a charge in the statement of activities in the amount of \$63,365. At June 30, 2014, unpaid long-term benefits granted on this program were discounted at an interest rate of 2.84%. As of June 30, 2014, a total of seven (7) employees participate in this program that will be receiving benefits granted on the program for a period of 18 years.

(9) Risk management:

To minimize its risk of loss the Council purchases insurance coverage for public liability, hazard, property, natural disasters and directors and officers automobile, crime and bonding as well as medical and workmen's insurance for employees. The selection of the insurer must be approved by the Commonwealth Treasury Department's insurance office. Claims and liabilities are accounted for when it is probable that a claim has occurred and the amount of loss can be reasonably estimated. At June 30, 2014, there are no outstanding claims.

(10) Commitments and contingencies:

Lease commitments

The Council leased office facilities under an operating non-cancelable lease agreement that expired in 2012. As of June 30, 2014, the lease agreement has not been renewed and continues in a month-to-month basis. Rent expense for leased facilities for the year ended June 30, 2014 amounted to \$416,584.

Contingencies

The Council is defendant in several lawsuits arising out of the normal course of business. Management, based on advise of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of the Council.

Encumbrances

The Council has commitments related to unperformed contracts of services, amounting to \$199,775, for the year ended June 30, 2014. Those encumbrances are presented as assigned fund balance in the general and special financial aid fund by \$186,975 and \$12,800, respectively.

Puerto Rico Council on Education
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements
June 30, 2014

(11) Related parties transactions:

In accordance with Act No. 435 of September 22, 2004, the Council receives annually from the Commonwealth of Puerto Rico legislative appropriations of \$25 million to be mostly distributed as financial aid to students in Puerto Rico. Of this total, the Council recorded \$25 million as revenue and distributed as financial aid approximately \$22.7 million during the year ended June 30, 2014, of which \$1.2 million were from the Special Financial Aid fund balance. The Council also received legislative appropriations of approximately \$2.8 million for operations, including research in matters relative to higher education during the year ended June 30, 2014.

In addition, during the years ended June 30, 2014, the Council received \$90,687 from the Commonwealth of Puerto Rico as reimbursements of expenses related to the voluntary termination program.

(12) Interfund transactions:

As of June 30, 2014, there is an interfund balance receivable in the General Fund of \$18,748 and an interfund balance payable in the Special Financial Aid Fund and Other Special Fund of \$11,503 and \$7,245, respectively. The purpose of the interfund balances is to record amounts paid by the General Fund on behalf of such funds.

(13) Subsequent events:

Subsequent events were evaluated through October 31, 2014, the date the basic financial statements of the Council were available to be issued, to determine if any such events should either be recognized or disclosed in the 2014 basic financial statements.

Puerto Rico Council on Education

(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplemental Information

Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Budget and Actual (unaudited)

Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Commonwealth appropriations	\$ 22,905,000	\$ 27,817,850	\$ 23,927,601	\$ 3,890,249
Federal grants	-	2,079,504	2,079,504	-
Licenses and accreditations	-	-	805,500	(805,500)
Investment income	-	-	46,945	(46,945)
Other income	-	156,000	284,185	(128,185)
Total revenues	22,905,000	30,053,354	27,143,735	2,909,619
Expenditures:				
Current:				
General and administrative:				
Operational Fund	2,905,000	3,960,577	3,501,601	458,976
Licenses and accreditation	-	-	480,577	(480,577)
Sub-total General and Administrative	2,905,000	3,960,577	3,982,178	(21,601)
Educational aid	20,000,000	27,925,568	24,745,579	3,179,989
Capital expenditures	-	8,525	16,874	(8,349)
Total expenditures	22,905,000	31,894,670	28,744,631	3,150,039
Excess (deficit) of revenues over expenditures	-	(1,841,316)	(1,600,896)	(240,420)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Net change in fund balance	-	(1,841,316)	(1,600,896)	(240,420)
Fund balance - at beginning of year	9,129,690	9,129,690	9,129,690	-
Fund balance - at end of year	\$ 9,129,690	\$ 7,288,374	\$ 7,528,794	\$ (240,420)

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

**The Board of Trustees of the
Puerto Rico Council on Education
San Juan, Puerto Rico**

Kevane Grant Thornton LLP
33 Calle Bolivia, Ste 400
San Juan, Puerto Rico 00917-2013
T +1 787 754 1915
F +1 787 751 1284
www.kevane.com

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 the Puerto Rico Council on Education (the Council), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 Council'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 the 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 a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Council in a separate letter dated October 31, 2014.

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 Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico,
October 31, 2014.

Kevane Grant Thornton LLP



