RODRÍGUEZ
&
ESPADA

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORTS

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escuela de Artes Plásticas de Puerto Rico (the School) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escuela de Artes Plásticas de Puerto Rico, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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

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

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

RODRIGUEZ & ESPADA, CPA, PSC
License No. 78
PUERTO RICO

Rodríguez & Espada, CPA

Rodríguez & Espada, CPA PSC

September 27, 2010
The CPA stamp number 2502188
was affixed to the original of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussions and analysis of the Escuela de Plásticas de Puerto Rico provides an overview of the financial performance and the activities for the fiscal year ended June 30, 2010.

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

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

Government- wide Statements (Reporting the School as Whole)

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

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

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

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

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

Governmental Funds

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

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

Additional Required Supplementary Information

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

HIGHLIGHTS

Government-wide:

- The assets of the School exceeded its liabilities at the close of the fiscal year by $10,396,261 (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 $2,943,205. This includes unreserved fund balances of $(1,588,254) for the General Fund, $4,466,772 for the Special Revenue Fund and $(92,495) for the Capital Projects Fund. Reserve for encumbrances totalized $157,154.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The School's net assets increased by $1,173,529 over the course of this year's operations due primarily to an increase in Operating grants and decrease in Payroll and related costs during this year. The School recorded its long-term liabilities related to compensated absences such as vacation and sick leave, and the capital assets and their corresponding accumulated depreciation and expense in accordance with the GASB. The School's net assets at the end of the fiscal year ended on June 30, 2010 were $10,396,261. *(See table below).*

	CONDENSED *Statement of Net Assets as of June 30, 2010*	**CONDENSED** *Statement of Net Assets as of June 30, 2009*	*Change*	*%*
ASSETS				
Cash and other assets	$3,625,666	$2,285,612	$1,340,054	59%
Capital assets, net	8,208,373	8,438,916	(230,543)	(3%)
Total Assets	11,834,039	10,724,528	$1,109,511	(10%)

	CONDENSED *Statement of Net Assets as of June 30, 2010*	CONDENSED *Statement of Net Assets as of June 30, 2009*	*Change*	%
LIABILITIES				
Liabilities	$1,437,777	$1,273,755	$ 164,022	13%
Total Liabilities	1,437,777	1,273,755	164,022	13%
Net Assets:				
Investment in capital assets	8,208,373	8,438,916	(230,543)	(3%)
Restricted	905,165	840,138	65,027	8%
Unrestricted	1,282,723	171,719	1,111,004	647%
Total Net Assets	$10,396,261	$9,450,773	$ 945,488	652%

The largest component of the School's net assets as of June 30, 2010 represents its investment in capital assets (e.g. building , building improvements, furniture and fixtures, other equipment, computers, software's and motor vehicles, less the related accumulated depreciation). Consequently, unrestricted net assets showed a $1,282,723 balance at the end of this year.

The following financial information was derived from the government-wide Statement of Activities for fiscal year ended June 30, 2010 and reflects how the School's net assets changed:

	CONDENSED Statement of Activities			
	Fiscal Year Ending June 30, 2010	*Fiscal Year Ending June 30, 2009*	*Change*	%
PROGRAM REVENUES:				
Charges for services	$ 884,518	$ 828,755	$ 55,763	7%
Operating grants and contributions	6,238,240	5,444,579	793,661	15%
Total program revenues	7,122,758	6,273,334	849,424	14%

	CONDENSED Statement of Activities			
	Fiscal Year Ending June 30, 2010	*Fiscal Year Ending June 30, 2009*	*Change*	*%*
GENERAL REVENUES:				
Investment income	66,364	660	65,704	100%
Total revenues	7,189,122	6,273,994	915,128	15%
EXPENSES:				
Payroll and related costs	2,462,210	3,154,140	(691,930)	(22%)
Other expenses	3,106,717	2,801,090	305,627	11%
Depreciation	446,666	527,214	(80,548)	(15%)
Total expenses	6,015,593	6,482,444	(466,851)	(7%)
Increase (decrease) in net assets	$1,173,529	$ (208,450)	$1,381,979	-

The 2009-2010 revenues increased by $915,128 when compared with last fiscal year, mainly due to an increase in operating grants and contributions. Total program expenses decreased by $466,851 mainly due to the decrease in payroll and related costs, despite a increase in certain general and administrative expenses, such as professional services.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

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

	June 30,			
	2010	**2009**	**Change**	**%**
ASSETS				
Cash	1,359,085	460,565	898,520	195%
Account rec.-tuition fees	1,361,416	984,910	376,506	38%
Due from other funds	912,574	743,675	168,899	23%
Restricted investment	905,165	840,138	65,027	8%
	4,538,240	3,029,288	1,508,952	50%
LIABILITIES				
Account payable	682,460	561,971	120,489	21%
Due to other funds	912,574	743,675	168,899	23%
	1,595,034	1,305,646	289,388	22%
REVENUES				
Legislative appropriations	2,650,759	3,443,379	(792,620)	(23%)
Federal grants	3,587,481	2,001,200	1,586,281	79%
Investments income	66,364	660	65,704	9955%
Tuition fees and other	884,518	828,755	55,763	7%
	7,189,122	6,273,994	915,128	15%
EXPENDITURES				
Payroll and related costs	2,462,210	3,249,257	(787,047)	(24%)
Payments for public services	341,291	220,707	120,584	55%

	June 30,			
	2010	**2009**	**Change**	**%**
Professional services	1,370,941	605,342	765,599	126%
Insurance expenses	89,109	94,407	(5,298)	(6%)
Other expenses	1,305,376	1,785,517	(480,141)	(27%)
Capital outlay	274,598	464,046	(189,448)	(41%)
	5,843,525	$6,419,276	(575,751)	(9%)

The School's governmental funds showed an increase in assets of $1,508,952, due to an increase in cash and accounts receivable during the current year. At the same time revenues from legislature decrease by $792,620 while federal grants increase by $1,586,281. Total expenditures decreased by $575,751 mainly due to a decrease in payroll, other expenses and capital outlay while professional services showed an increase compared with prior year.

General Fund Budgetary Highlights:

The 2009-2010 General Fund Final expenditures budget was $4,606,277, or $949,508 over the actual spending of $3,656,769. The difference was due to changes in expenditures such as expenses related to contracted and professional services. The budgeted revenues exceed by $949,508 the actual revenues, due to that estimated tuition fees were over the actual. The results showed revenues in excess of expenditures by $24,771. Liabilities remained constant during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2009-2010, the School had invested $8,208,373, net of accumulated depreciation, in a broad range of capital assets *(See table below)*. Depreciation charged for this fiscal year totaled $446,666.

Capital Assets as of June 30, 2010

	Cost	Accumulated Depreciation	Net Assets
Buildings	$ 7,000,000	$ 945,000	$6,055,000
Buildings improvements	2,153,343	566,240	1,587,103
Furniture and fixtures	673,566	493,431	180,135
Other equipment	805,284	564,564	240,720
Computers	875,718	746,323	129,395
Software	258,447	242,427	16,020
Motor vehicles	37,294	37,294	-
Total	$11,803,652	$3,585,279	$8,208,373

Compensated Absences

At the end of the fiscal year 2009-2010, the School had a debt to cover future commitments for vacation and sick leave amounting of $755,317.

Economic Outlook

Prior to year 2009-2010, the School obtained a Restoration of Building grant through the Municipality of San Juan, to be used to make improvements in the School's principal building during the next fiscal year of this amount $100,000 had been received at year end.

During the year the School was authorized to receive $798,000 from the State Fiscal Stabilization Fund (SFSF) under the Education State Grant Recovery Act, of this amount the School received $248,028 which was used for payroll and related expenses during the year.

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 (2010-2011).

Contacting The School's Office of Financial Management

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

ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET ASSETS
JUNE 30, 2010

ASSETS	
Cash	$ 1,359,085
Accounts Receivable - Tuition fees and other, net	1,361,415
Restricted investments	905,165
Capital assets, net of accumulated depreciation	8,208,373
Total assets	$11,834,038
LIABILITIES	
Accounts payable	$ 682,460
Compensated absences:	
Expected to be paid within one year	83,085
Expected to be paid after one year	672,232
Total liabilities	1,437,777
NET ASSETS	
Invested in capital assets	8,208,373
Restricted for:	
Student aid	905,165
Unrestricted	1,282,723
Total net assets	$10,396,261

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

ESCUELA DE ARTES PLASTICAS DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

EXPENSES:	
Education:	
General and administrative:	
Payroll and related costs	$2,462,210
Payments for public services	341,291
Professional services	1,370,941
Insurance expense	89,109
Other expenses	1,305,376
Depreciation	446,666
Total Program expenses	6,015,593
PROGRAM REVENUES:	
Charges for services	884,518
Operating grants and contributions	6,238,240
Investment income	66,364
Total program revenues	7,189,122
Change in net assets	1,173,529
NET ASSETS AS OF JUNE 30, 2009, *as restated*	9,222,732
NET ASSETS AS OF JUNE 30, 2010	$10,396,261

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

ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	*Special Revenue Fund*	*Capital Projects Fund*	*Total Governmental Funds*
ASSETS				
Cash in banks	$(2,190,932)	$3,573,936	$(23,919)	$1,359,085
Account Receivable	201,640	781,612	378,163	1,361,415
Due from other funds	826,622	85,952	-	912,574
Restricted investment	211,447	693,718	-	905,165
Total assets	$(1,651,224)	$5,835,218	$354,245	$4,538,239
LIABILITIES				
Accounts payable	$488,425	$193,383	$ 652	$ 682,460
Due to other funds	85,952	423,229	403,393	912,574
Total Liabilities	$574,376	$616,612	$404,045	$1,595,034
FUND BALANCES				
Reserved for encumbrances	62,654	51,834	42,666	157,154
Unreserved, reported in:				
General fund	(1,588,254)			(1,588,254)
Special revenue fund		4,466,772		4,466,772
Capital projects fund			(92,467)	(92,467)
Total fund balances	(1,525,600)	4,518,606	(49,801)	2,943,205
Total liabilities and fund balances	$ (951,223)	$5,135,218	$354,244	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	$ 8,208,373

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

ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEET - GOVERNMENTAL FUNDS (CONT.)
JUNE 30, 2010

	Total Governmental Funds
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(755,317)
Net assets of governmental activities	$10,396,261

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

ESCUELA DE ARTES PLÁSTICAS DE PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	*Special Revenue Fund*	*Capital Projects Fund*	*Total Governmental Funds*
REVENUES:				
Legislative appropriations	$2,650,759			$2,650,759
Federal grants	-	3,587,481		3,587,481
Investment income	1,169	65,195		66,364
Tuition fees and other	872,458	12,060		884,518
Total revenues	$3,524,386	3,664,736		7,189,122
EXPENDITURES:				
Education:				
General and administrative:				
Payroll and related costs	2,063,519	398,691		2,462,210
Payments for public services	341,291	-		341,291
Professional services	807,501	563,440		1,370,941
Insurance expense	89,109	-		89,109
Other expenses	175,788	1,129,588		1,305,376
Capital outlay	22,407	152,191	100,000	274,598
Total expenditures	3,499,615	2,243,910	100,000	5,843,525
Excess of revenues over (under)	24,771	1,420,826	(100,000)	1,345,597
FUND BALANCES AS OF JUNE 30, 2009	(1,426,435)	3,099,878	50,199	1,723,642
Prior period adjustments	(123,936)	(2,098)		(126,034)
Fund balances June 30, 2009, as restated	(1,550,371)	3,097,780	50,199	1,597,608
FUND BALANCES AS OF JUNE 30, 2010	$(1,525,600)	$4,518,606	$(49,801)	$2,943,205

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