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**PUERTO RICO COUNCIL ON HIGHER EDUCATION**  
(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements  
June 30, 2009

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## INDEPENDENT AUDITORS' REPORT

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

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 Higher Education, a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2009, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and 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 financial position of the governmental activities, each major fund, and the aggregated remaining fund information of the Puerto Rico Council on Higher Education, a component unit of the Commonwealth of Puerto Rico, as of June 30, 2009 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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The Board of Trustees  
Puerto Rico Council on Higher Education  
San Juan, Puerto Rico  
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In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2009 on our consideration of the Puerto Rico Council on Higher Education, a component unit of the Commonwealth of Puerto Rico, 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 financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by the 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.



PKF, LLP  
License No. 22  
Expires December 1, 2010

September 28, 2009

## PUERTO RICO COUNCIL ON HIGHER EDUCATION

Management's Discussion and Analysis  
June 30, 2009

Nature of Organization

The Puerto Rico Council on Higher Education (the Council) is the governmental entity that sets policy on quality in higher education and administered student aid funds for postsecondary students. The Council mission is to promote higher education quality and excellence that allows the development of highly qualified human resources to the social, economic and cultural well-being of Puerto Rico to increase their competitiveness at the international level. The Council is governed by a board of trustees, which is comprised of eight Governor-appointed members and the Puerto Rico's Secretary of Education, who are not compensated; each serves six year terms. The Council holds scheduled monthly meetings.

Among the duties and responsibilities of the Council are to:

- a) Authorize license to operate to all higher education institutions.
- b) Authorize higher education institutions to offer education programs in Puerto Rico.
- c) Administer the state student financial aid program of postsecondary education institutions, with the exception of the University of Puerto Rico.
- d) Promote research and investigation in areas relative to higher education matters.
- e) Manage the Integrated Postsecondary Education Data System (IPEDS).
- f) Manage the postsecondary education component of PR's Federal No Child Left Behind Program (Title II, Part A, subpart 3).

The Council has an Executive Director who is a full time employee responsible of the coordination of the Council matters, three (3) Programmatic Directors (License and Accreditation, Education Support Program and Research and Documentation on Higher Education) and one Administration and Finance Director.

**Governmental Activities:**

The Council's basic services include: (1) the authorization of licenses to operate postsecondary education institutions (public and private) in Puerto Rico, (2) the administration of the state student financial aid program of the postsecondary level, (3) administration of the Integrated Postsecondary Education Data System (IPEDS), and (4) administration of the postsecondary education component of Puerto Rico Federal No Child Left Behind Program. During fiscal year 2009, the Commonwealth of Puerto Rico's General Fund financed in part some of the first three activities.

## PUERTO RICO COUNCIL ON HIGHER EDUCATION

Management's Discussion and Analysis (continued)  
June 30, 2009

**Management's Discussion and Analysis**

Our discussion and analysis of the Council's financial performance provides an overview of the Council's financial activities for the fiscal year ended June 30, 2009 and identifies changes in the Council's financial position. Use this section in conjunction with the Council's financial statements. GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and GASB Statement No. 35, Basic Financial Statements - as amended for GASB Statement No. 34, establishes new reporting requirements for state and local government.

**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 supplementary 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 governmental wide financial statements and the fund financial statements. These statements also include the notes to financial statements.

This annual report presents the Council's financial activities in two parts: Management's Discussion and Analysis (*this section*) and the Basic Financial Statements required by GASB No. 34. The first group of basic financial statements is the government wide financial statements.

The government-wide financial statements are designed to present an overall picture of the financial position of the Council. These statements consist of:

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

which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all current year's revenues and expenses are included regardless of when cash is received or paid, producing a view of financial position similar to that presented by the most private-sector companies.

The Statement of Net Assets 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 Assets is the difference between the Agency's assets and liabilities, and represents one measure of the Agency's financial health. An increase or decrease in the Council's net assets from one year to the next is an indicator of whether its financial health is improving or deteriorating.

## PUERTO RICO COUNCIL ON HIGHER EDUCATION

Management's Discussion and Analysis (continued)  
June 30, 2009

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 institutions and other general revenues. This statement summarizes the costs 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 a 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 statements. However, these statements now focus on the most significant funds. A fund is a separate accounting entity with a self-balancing set of accounts. The Council uses funds to keep track of sources of funding and spending related to specific activities. Use these statements to find more detailed information about the Council's most significant activities.

#### *Governmental Funds*

A majority of the Council activities are reported in governmental funds. Reporting of these funds focuses on how money flows into and out of those 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 to cash. The governmental funds statements provide a detailed short-term view of the agency's general governmental operations and the 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.

The Council's governmental funds financial statements begin on page 10.

#### **Financial Analysis of the Council as a Whole**

Total assets of the Council as of June 30, 2009, were \$9.4 million, compared with \$8.7 million at June 30, 2008. The total liabilities were approximately \$881 thousand at June 30, 2009, and \$587 thousands as of June 30, 2008. Total Net assets amounted to \$8.5 million at June 30, 2009 versus \$8.1 million in June 2008.

As of June 30, 2009, \$357,549 of the Council's net assets were invested in capital assets.

PUERTO RICO COUNCIL ON HIGHER EDUCATION

Management's Discussion and Analysis (continued)  
June 30, 2009

**Changes in Net Assets**

The Council had total revenues of \$32.5 million. The Council's expenses were approximately \$32.1 million, of which \$27.5 million were incurred in providing student financial aid and manage the postsecondary education component of PR's Federal No Child Left Behind Program. As a result there is an increase of net assets of \$427,487.

	<b>Change in Net Assets</b>	
	<b>Governmental Activities June 30, 2009</b>	<b>Governmental Activities June 30, 2008</b>
<b><u>REVENUES</u></b>		
<b>Program Revenues</b>		
Charges for Licenses	386,000	236,000
Commonwealth Appropriations	4,471,730	4,486,000
Special Revenue Grants	27,534,570	26,897,644
<b>Total Program Revenues</b>	<b>\$ 32,392,300</b>	<b>\$ 31,619,644</b>
<b>General Revenues</b>		
Interest Income	92,373	360,617
Other Income	51,942	24,295
Service Income	3,414	-
<b>Total General Revenues</b>	<b>147,729</b>	<b>384,912</b>
<b>Total Revenues</b>	<b>\$ 32,540,029</b>	<b>\$ 32,004,556</b>
<b><u>EXPENSES</u></b>		
General and Administrative	4,823,008	4,662,089
Student Financial Aid and Other Grants (included increase in long term debt)	27,289,534	26,328,615
<b>Total Expenses</b>	<b>32,112,542</b>	<b>30,990,704</b>
<b>Increase or decrease in Net Assets</b>	<b>\$ 427,487</b>	<b>\$ 1,013,852</b>
<b>Other financing Sources (uses)</b>		
Transfer IN	205,900	201,389
Transfer OUT	(205,900)	(201,389)
<b>Total Other financing Sources (uses)</b>	<b>-</b>	<b>-</b>
<b>Net Changes in Net Assets</b>	<b>\$ 427,487</b>	<b>\$ 1,013,852</b>



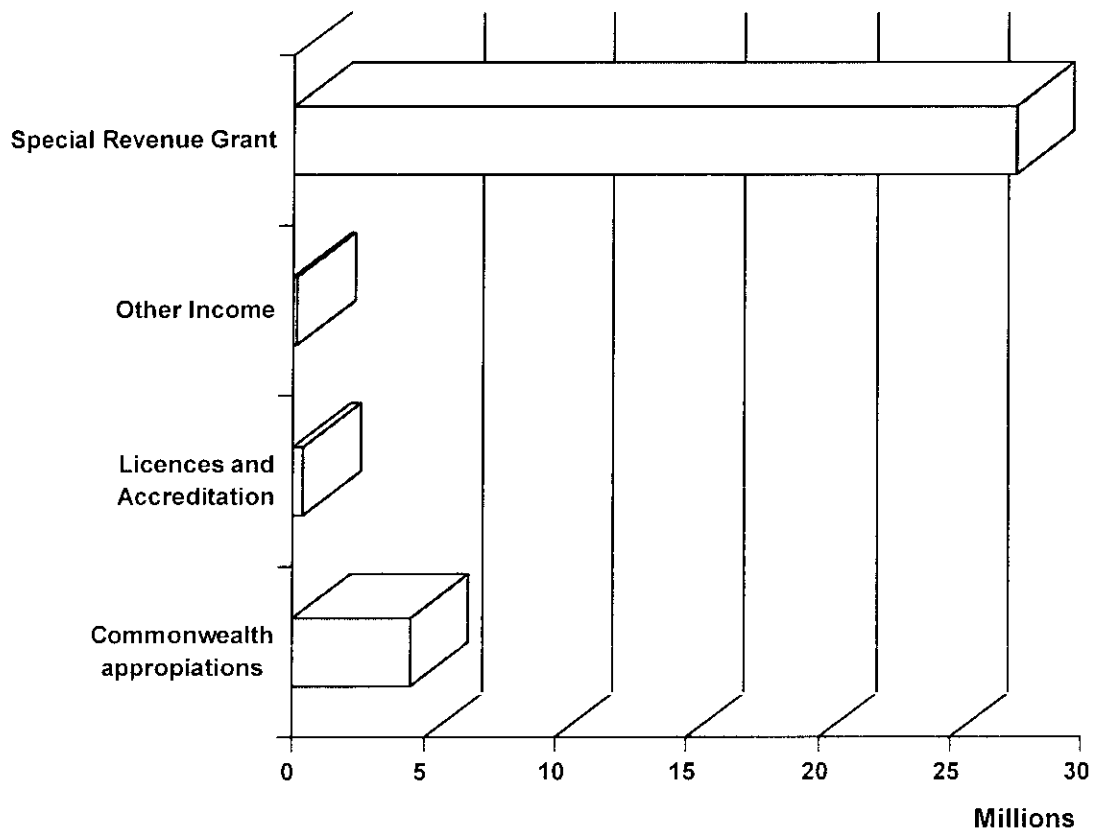
PUERTO RICO COUNCIL ON HIGHER EDUCATION

Management's Discussion and Analysis (continued)  
 June 30, 2009

**Governmental Activities**

The Governmental Activities Program Revenues are \$32.5 million including charges for services of \$386 thousands, Commonwealth appropriations of \$4.5 million and \$27.5 million in Special Revenue Grants (No Child Left Behind and State Financial Aid Programs). Total General Revenues amounted to \$147,729 corresponding to interest and other income. The total 2009 revenues are \$532,058 thousands more than 2008 revenues.

**Revenues by Source  
 Governmental Activities**



	Commonwealth appropriations	Licences and Accreditation	Other Income	Special Revenue Grant
□ Revenues	\$4,471,730	\$386,000	\$147,729	\$27,534,570

## PUERTO RICO COUNCIL ON HIGHER EDUCATION

Management's Discussion and Analysis (continued)  
June 30, 2009Financial Analysis of the Council Funds

The General Fund balance had a positive balance during fiscal year 2009 by approximately \$115,465. The general fund main source of revenue is legislative appropriations, which amounted to approximately \$4.5 million. Also, the general fund received income from interest income, interest income investment, academic transcript fees, photocopies charges, credentials fees and license fees of approximately \$533 thousands. General and administrative expenses allocated to this fund amounted to approximately \$4.7 million.

The Special Financial Aid Fund Balance increased by approximately \$348 thousands. The principal source of revenues for this fund corresponds to government appropriations, which amounted to \$25.0 million. Expenses of this fund are related to educational aid distributed to students, which for the year ended June 30, 2009 amounted to approximately \$24.7 million.

The Other Special Revenues Fund consists of federal grants received under the No Child Left behind Program. The majority of the amounts granted were expended in supporting professional development activities for teachers. Federal grants for the year ended June 30, 2009 and the corresponding expenses amounted approximately to \$2.5 million.

The Agency fund accounts for resources of the Leveraging Educational Assistance Partnership Program. These funds are held in custody. During 2009 the Council received revenues of \$157,112 thousands from this federal program and expenditures amounted to the same amount. This year the Council accrued an account payable to the Federal Government because the state did not accomplish the matching of funds.

General Fund Budgetary Highlights

The Council prepares an annual operating budget for all governmental funds. For fiscal year 2009-10 the Commonwealth of Puerto Rico approved \$4,262,000 for operations and \$365,000 for the promotion of research in matters relative to higher education. On January 8, 2008 the Governor approved Executive Order No. OE-2009-001 that requires all agencies to withheld 10% of the budget assigned to the second semester of the fiscal year. This caused a reduction of \$231,350 to the funds approved in the budget for 2008-09.

At the beginning of the fiscal year, the Council authorized transferring \$35,000 from the fund balance of the Center for the Study and Documentation of Puerto Rico to supplement the budget assigned by the Legislature. This was approved with the intention of being consistent with the budget approved by the Law No. 213 of August 1, 2003.

Over the course of the year, the Council revises its budget to reflect the fact that amounts originally intended to be expended as general and administrative expenditures were expended. The Council transferred \$62,440 from the Licenses and Accreditation fund balance to provide for operating expenses related with mechanization projects. An additional \$49,686 was transferred to the Operational Fund to provide for a None Recurrent Bonus paid to all employees between July and August 2008. The source for these funds comes from the beginning fund balance accumulated in the General Fund from previous year.

PUERTO RICO COUNCIL ON HIGHER EDUCATION

Management's Discussion and Analysis (continued)  
June 30, 2009

Another event that took effect during this fiscal year that affected operations include the approval of Law No. 7 of March 9, 2009 which declared a state of fiscal emergency. Such law implemented a voluntary resignation program and a lay – off plan. The accumulated vacations of these employees were liquidated before June 30, 2009. These payments were reimbursed by the Office of Management and Budget for a total of \$83,032. This law also forbids payment of some fringe benefits including payment of any excess over the maximum of accumulated sick leave. This particular restriction will be in effect for the next fiscal year if such sections of the law are not amended.

On September 25, 2009 the Council received instructions from the Central Government to lay-off 26 employees, according to Phase II of Law No. 7. This material downsizing of the Agency will compromise the capabilities of the Council to adequately meet all responsibilities and functions assign by law. At this moment the Members of the Board requested a reconsideration of the decision of the Central Government of such lay-offs.

### Capital Assets

At the end of fiscal year 2009 the Council had \$357,549 (net of accumulated depreciation) invested in 4 categories of capital assets, including computer and peripheral equipment. (See table below).

<b>Council Capital Assets at Year-end</b>		
	<b>Governmental Activities June 30, 2009</b>	<b>Governmental Activities June 30, 2008</b>
Furniture and Equipment	671,994	664,834
Motor Vehicles	63,636	63,636
Computer and Peripherals	546,918	606,382
Leasehold Improvements	474,891	467,079
<b>Total Capital Assets</b>	<b>1,757,439</b>	<b>1,801,931</b>
Less: Accumulated Depreciation and amortization	1,399,890	1,422,449
<b>Total Capital Assets, Net</b>	<b>\$ 357,549</b>	<b>\$ 379,482</b>

More detailed information about the Council's capital assets is presented in Note 4 to the basic financial statements on page 21.

### *Contacting the Council's Financial Management*

This financial report is designed 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 questions about this report, or need additional financial information, contact the Acting Director of the Finance and Administration Office at Hato Rey Center Building, 15 Floor, Ponce de León Ave. #268, Hato Rey, and P.R. 00918.

PUERTO RICO COUNCIL ON HIGHER EDUCATION  
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Assets  
June 30, 2009

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 8,877,301
Accounts receivable	84,631
Governmental entities	63,411
Other	44,666
Capital assets, net of accumulated depreciation and amortization of \$1,399,890	<u>357,549</u>
Total assets	<u>9,427,558</u>
<b>LIABILITIES AND NET ASSETS</b>	
Liabilities	
Accounts payable and accrued liabilities	509,971
Accrued liabilities	63,411
Accounts payable to Federal Government	1,985
Compensated absences	<u>305,914</u>
Total liabilities	<u>881,281</u>
Contingencies and commitments	
Net assets	
Invested in capital assets	357,549
Restricted	6,786,736
Unrestricted	<u>1,401,992</u>
Total net assets	<u>8,546,277</u>
Total liabilities and net assets	<u>\$ 9,427,558</u>

See notes to financial statements

PUERTO RICO COUNCIL ON HIGHER EDUCATION  
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Activities  
Year Ended June 30, 2009

	Expenses	Licenses and Accreditations	Commonwealth appropriations	Special Revenue Grants	Net Revenue and Changes in Net Assets
Governmental activities					
Operations	\$ 4,823,008	\$ 386,000	\$ 4,471,730	-	\$ 34,722
Student financial aid fund	27,289,534	-	-	27,534,570	245,036
Total governmental activities	<u>32,112,542</u>	<u>386,000</u>	<u>4,471,730</u>	<u>27,534,570</u>	<u>279,758</u>
General revenues:					
Service revenues					3,414
Interest income					92,373
Other income					51,942
Total general revenue					<u>147,729</u>
Changes in net assets					<u>427,487</u>
Other financial sources and (uses)					
Transfer in					205,900
Transfer out					<u>(205,900)</u>
Net other financial sources and (uses)					-
Net change in net assets					<u>427,487</u>
Net assets at beginning of year					<u>8,118,790</u>
Net assets at end of year					<u>\$ 8,546,277</u>

See notes to financial statements

PUERTO RICO COUNCIL ON HIGHER EDUCATION  
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet  
Governmental Funds  
June 30, 2009

	General Fund	Special Financial Aid Fund	Other Special Revenue	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,063,987	\$ 6,811,329	\$ 1,985	\$ 8,877,301
Accounts receivable	84,631	-	-	84,631
Other governmental funds	63,411	-	-	63,411
Other	<u>25,734</u>	<u>17,229</u>	<u>1,703</u>	<u>44,666</u>
Total assets	<u>2,237,763</u>	<u>6,828,558</u>	<u>3,688</u>	<u>9,070,009</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	330,213	178,986	772	509,971
Payable to other governmental funds	62,480	-	931	63,411
Accounts payable to Federal Government	-	-	1,985	1,985
Total liabilities	<u>392,693</u>	<u>178,986</u>	<u>3,688</u>	<u>575,367</u>
<b>FUND BALANCES</b>				
Reserved for encumbrances				
Operations	58,068	-	-	58,068
Research fund	63,780	-	-	63,780
Licenses and accreditation	15,316	-	-	15,316
Special revenue fund	-	6,649,572	-	6,649,572
Unreserved	<u>1,707,906</u>	<u>-</u>	<u>-</u>	<u>1,707,906</u>
Total fund balances	<u>1,845,070</u>	<u>6,649,572</u>	<u>-</u>	<u>8,494,642</u>
 Total liabilities and fund balances	 <u>\$ 2,237,763</u>	 <u>\$ 6,828,558</u>	 <u>\$ 3,688</u>	 <u>\$ 9,070,009</u>

PUERTO RICO COUNCIL ON HIGHER EDUCATION  
(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
June 30, 2009

Total fund balance governmental funds	\$ 8,494,642
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, therefore, are not reported in governmental funds balance sheet	357,549
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in governmental funds balance sheet	<u>(305,914)</u>
Net assets of governmental activities	<u>\$ 8,546,277</u>

See notes to financial statements

PUERTO RICO COUNCIL ON HIGHER 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, 2009

	General Fund	Special Financial Aid Fund	Other Special Revenues	Total
<b>Revenues</b>				
Legislative appropriations	\$ 4,471,730	\$ 25,000,000	\$ -	\$ 29,471,730
Federal grants	-	-	2,534,570	2,534,570
Licenses and accreditations	386,000	-	-	386,000
Interest income	21,498	70,875	-	92,373
Services income	3,414	-	-	3,414
Other income	19,690	32,252	-	51,942
Total revenues	<u>4,902,332</u>	<u>25,103,127</u>	<u>2,534,570</u>	<u>32,540,029</u>
<b>Expenditures</b>				
<b>Current operating</b>				
General and administrative	4,701,128	277,854	108,364	5,087,346
Educational Aid	-	24,477,110	2,426,206	26,903,316
Capital expenditures	85,739	-	-	85,739
Total expenditures	<u>4,786,867</u>	<u>24,754,964</u>	<u>2,534,570</u>	<u>32,076,401</u>
Excess of revenues over expenditures	115,465	348,163	-	463,628
<b>Other financing sources and (uses) including transfers</b>				
Transfers in	62,440	143,460	-	205,900
Transfers out	<u>(62,440)</u>	<u>(143,460)</u>	<u>-</u>	<u>(205,900)</u>
Net change in fund balances	115,465	348,163	-	463,628
Fund balances at beginning of year	<u>1,729,605</u>	<u>6,301,409</u>	<u>-</u>	<u>8,031,014</u>
Fund balances (deficiency) at end of year	<u>\$ 1,845,070</u>	<u>\$ 6,649,572</u>	<u>\$ -</u>	<u>\$ 8,494,642</u>

See notes to financial statements



PUERTO RICO COUNCIL ON HIGHER 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, 2009

Net changes in fund balances - governmental funds	\$ 463,628
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 depreciated expense. This is the amount by which capital outlays exceed depreciation and amortization in the current period	(21,933)
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>(14,208)</u>
Change in net assets of governmental activities	<u>\$ 427,487</u>

PUERTO RICO COUNCIL ON HIGHER EDUCATION  
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Statement of Net Assets in Fiduciary Funds  
June 30, 2009

	<u>LEAP Program Fund</u>
ASSETS	
Cash	<u>\$ 43</u>
LIABILITIES	
Accounts payable	<u>43</u>
NET ASSETS	
Net assets held in trust for LEAP Program	<u>\$ -</u>

See notes to financial statements

PUERTO RICO COUNCIL ON HIGHER EDUCATION  
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Changes in Fiduciary Net Assets  
Year Ended June 30, 2009

	<u>LEAP Program Fund</u>
ADDITIONS	
US Department of Education Grant Contribution	<u>\$ 157,112</u>
DEDUCTIONS	
General and administrative expenses	<u>157,112</u>
CHANGES IN NET ASSETS	
Change in net assets	
Net assets held in trust for LEAP Program:	-
Beginning of year	-
End of year	<u>\$ -</u>

See notes to financial statements

PUERTO RICO COUNCIL ON HIGHER EDUCATION  
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements  
June 30, 2009

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The accounting and reporting framework and the more significant accounting principles and practices of the Puerto Rico Council on Higher Education (the Council) are discussed in subsequent sections of this note. The remainders of the notes are organized to provide explanations, including required disclosures, of the Council's financial activities for the fiscal year ended June 30, 2009.

Financial Reporting Entity

The Council was created through the enactment of Law No. 17 of June 16, 1993 (Council on Higher Education Act), to develop the higher education and to administer student aid funds for those institutions in the Commonwealth of Puerto Rico. Law No. 170 of August 22, 2002 gave the Council direct responsibility of student aid funds and Law No. 213 of August 1, 2003 created the Center for Study and Documentation of Puerto Rico Higher Education, ascribed to the Council. The Council's Board of Trustees is composed of the Secretary of Education, an ex-officio member, and eight additional members appointed by the Governor of Puerto Rico with the consent of the Senate. The Directors are not compensated and the appointment is for six years.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – include the statement of net assets and the statement of activities. These statements report financial information of the Council as a whole excluding the Leveraging Educational Assistance Partnership Program fiduciary activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services and other revenue; (2) appropriations from the Commonwealth of Puerto Rico; and (3) US Department of Education grant contributions.

Fund Financial Statements – are provided for governmental funds. Major individual governmental funds are reported in separate columns with composite column for nonmajor funds.

PUERTO RICO COUNCIL ON HIGHER EDUCATION  
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Financial Statements (continued)  
June 30, 2009

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The financial statements of the Council are prepared in accordance with accounting principles generally accepted in the United States of America. The Council's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Council's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary fund financial statements also report using this same focus and 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.

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 with 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. Expenditures are recorded when the related fund liability is incurred.

Fund Types and Major Funds

Governmental Funds – The Council reports the following major governmental funds:

- General Fund – Reports as the primary fund of the Council. This fund is used to account for all financial resources not reported in other funds.
- Student Financial Aid Fund - This Special Revenue fund is used to account for the Commonwealth appropriations distributed as financial aids to Puerto Rican students.
- Other Governmental Funds – Accounts for federal grants received under the Title II, Part A-3 of the No Child Left Behind Act.

Other Fund Type – The Council also reports an agency fund type which accounts for resources of the Leveraging Educational Assistance Partnership Program (LEAP) which is held under custody and disbursed as instructed. The availability of LEAP funds depends on the matching of contributions by the Commonwealth of Puerto Rico.

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Cash Equivalents

Cash equivalents are high-quality, short term money market instruments with an original maturity of three months or less and consist of certificate of deposits with commercial banks.

Inventories and Prepaids

Inventories consist of expendable supplies held for consumption. They are reported as expenditure/expense at the time individual inventory item is acquired. Prepaid are payments to vendors that benefit future reporting periods and are also reported as expenditure/expense when paid.

Capital Assets, Depreciation and Amortization

All capital assets are recorded at historical cost. The capital assets include furniture, office equipment, computer and peripheral equipment, vehicles, and leasehold improvements.

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.

Fund Equity

The governmental-wide and governmental fund financial statements report restricted net assets/ reserved fund balances for amounts not available for appropriation or legally restricted for specified purposes.

Compensated Absences

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 is paid to the employees during March of the next fiscal year. Any excess over the maximum of accumulated vacations is liquidated to the employees on or before December 31, of the next fiscal year.

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Note 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.

Note 3 - Cash and Cash Equivalents

The Council is authorized to maintain cash deposit only with financial 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. As of June 30, 2009, cash and cash equivalents consists of cash and certificates of deposits with an original or remaining maturity of three months or less.

Note 4 - Capital Assets

The following schedule summarizes capital assets at June 30, 2009:

	Balance June 30, 2008	Additions	Retirements/ Adjustments	Balance June 30, 2009
Furniture and equipment	\$ 664,834	\$ 70,298	\$ (63,138)	\$ 671,994
Vehicles	63,636	-	-	63,636
Computer and peripheral equipment	606,382	-	(59,464)	546,918
Leasehold improvements	467,079	15,440	(7,628)	474,891
	1,801,931	85,738	(130,230)	1,757,439
Less accumulated depreciation and amortization	1,422,449	107,671	(130,230)	1,399,890
	<u>\$ 379,482</u>	<u>\$ (21,933)</u>	<u>\$ (260,460)</u>	<u>\$ 357,549</u>

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Note 5 - Pension Plans

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

1. The Council's employees that were employed by the University of Puerto Rico before the Council's creation participate in the University of Puerto Rico Retirement System.
2. The employees that became part of the Council after the entity's creation participate in the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities.

Additional information on the University of Puerto Rico Retirement System is provided in its financial statements, 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.

Total payroll covered during the year amounted to approximately \$2,058,000.

University of Puerto Rico Retirement System (UPRRS)

The UPRRS provides retirement, disability, and death benefits. Cost-of-living adjustments are provided at the discretion of the 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.

Funding Policy: The University employees are required to contribute 4% to 11% of their annual salary to the UPRRS, depending on certain qualifications. The University was required to contribute 10.9% of applicable payroll in 2007. The contribution made was 13%. 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.

Total employee and employer contributions to the UPRRS for the Council during the year ended June 30, 2009 amounted to approximately \$40,400 and \$95,200, respectively.



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Employees' Retirement System of the Government of PR and its Instrumentalities (ERS)

The ERS is the administrator of a cost-sharing multi-employer defined benefit pension plan established by the Commonwealth. The ERS was created under Act 447 (the Act), approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth and its instrumentalities and certain municipalities and component units not covered by their own retirement systems.

The ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation.

On September 24, 1999, an amendment to Act No. 447 of May 13, 1951, which created the ERS, was enacted with the purpose of establishing a new pension program (System 2000).

System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, would only be allowed to become members of System 2000.

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 ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employees contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS'S investment portfolio (net of management fees). or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under System 2000. The employer's contributions (9.275% of the employee's salary) will be used to fund the current plan.

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System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy:

Contribution requirements are established by law and are as follows:

Commonwealth:	9.275%	of gross salary
Employees:		
Hired on or before March 31, 1990	5.775%	of gross salary up to \$6,600
	8.275%	of gross salary over \$6,600
Hired on or after April 1, 1990	8.275%	of gross salary

Total employees and employer contributions to the ERS for the Council during the year ended June 30, 2009 amounted to approximately \$117,800 and \$131,000, respectively.

Note 7 - 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. Insurance coverage's for fiscal year 2009 remained similar to those of prior years. For the last three years insurance settlements have not exceeded the amount of coverage. 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, 2009, there are no outstanding claims.

Note 9 - Lease Commitments

The Council leased office facilities under an operating noncancelable lease agreement expiring in 2012. Rent expense for leased facilities for the year ended June 30, 2009 amounted to approximately \$420,100. Future minimum lease rental payments required as of June 30, 2009 are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 420,147
2011	420,147
2012	<u>280,098</u>
	<u>\$ 1,120,392</u>

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Note 10 - Subsequent Events

On September 25, 2009 the council received instructions from the Central Government to lay off 26 employees, according to Phase II of Act No. 7 of March 2009. This material downsizing of the Agency will compromise the capabilities of the Council to adequately meet all responsibilities and functions assigned by law. At this moment the Members of the Board decided not to deliver the lay-off letter and appealed the decision of the Central Government of such lay-offs.