
COMMONWEALTH OF PUERTO RICO
INSTITUTE OF PUERTO RICAN CULTURE
**(A component unit of the Commonwealth of
Puerto Rico)**

**BASIC FINANCIAL STATEMENTS WITH
ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT**

FISCAL YEAR ENDED JUNE 30, 2019



**INSTITUTO
de CULTURA
PUERTORRIQUEÑA**

Institute of Puerto Rican Culture
Apartado 9024184 San Juan, Puerto Rico 00902-4184

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
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INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Institute of Puerto Rican Culture (the Institute), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continues)

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion on Governmental Activities, Each major Fund, and the Aggregate Remaining Fund Information

Governmental Activities and General Fund – Inventories

We were engaged in January 2020, therefore, we were unable to physically observe, and test count the Institute's inventory as of June 30, 2019, as required by the auditing standards generally accepted in the United States of America. In addition, after scanning the Institute's inventory detail ledgers, we noted that through the years the Institute has accumulated a significant amount of slow-moving inventory. However, the Institute has not established a process to write-down inventory to lower of cost or market as of June 30, 2019. Accounting principles generally accepted in the United States of America require that obsolete or slow-moving inventory be written down to the lower of cost or market, which would have decreased the asset and the beginning fund balance amounts in the general fund, with a lesser amount possibly affecting the statement of changes in fund balances. The amounts by which this departure would affect the assets, changes in fund balance, and beginning fund balance have not been determined, but we understand that it could be significant to the Institute's basic financial statements.

Governmental Activities, Each Major Fund and Aggregate Remaining Fund Information

After the end of the fiscal year ended June 30, 2018, the Puerto Rico Fiscal Agency Advisory Authority issued a letter to all agencies and public corporations of the Commonwealth of Puerto Rico, instructing that the Financial Oversight and Management Board of Puerto Rico (FOMB) has placed significant limitations and restrictions in the use of unencumbered contributions available as of said year-end, in their process of approving 2018-2019 Certified Budget. The Institute has not provided us a detail of the restricted surplus cash as of June 30, 2019, that may have been available from the current and prior fiscal years and reported in its Statement of Net Position and Balance Sheet. In accordance with the Government Accounting Standards Board Concept Statement No. 4, *Elements of Financial Statements*, an account balance, which is not a resource with present service capacity to the government entity and that it cannot control, is not an asset to the government entity. Therefore, had the Institute determined the amount of restricted cash under the FOMB requirements, the Institute would have been required to account for a liability to the Commonwealth, in an amount equal to the restricted cash, until such time that the FOMB would have instructed otherwise. The amount by which this situation would affect the assets, changes in fund balance and beginning fund balances of the Governmental Activities, Each Major Fund and Aggregate Remaining Fund Information has been not determined, but we understand that it could be material.

Qualified opinions

In our opinion, except for the effects of the matters described in the "*Basis for Qualified Opinion on Governmental Activities Each Major Fund and the Aggregate Remaining Fund Information*" paragraphs, the financial statements referred to in the first paragraph of this report present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate fund information of the Institute, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continues)

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter – Uncertainty About the Ability to Continue as a Going Concern

The accompanying basic financial statements have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in Note 1 to the financial statements, the Institute is financially dependent on legislative appropriations from the Commonwealth. However, the Commonwealth's recurring deficits, negative financial position, continued deterioration of its economic condition, and inability to access the credit markets forced the federal government to enact the Puerto Rico Oversight, Management and Economic Stability Act of 2016, and bring the Commonwealth of Puerto Rico, including its agencies and certain other public corporations, into a formal reorganization process. These matters raise substantial doubt about the Institute's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Change in Accounting Principle

The Institute adopted the provisions of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", and GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", because the Institute has been provided with actuarial information for the implementation of such statements. The Institute's net position at the beginning of year has been adjusted for this change. Our opinion is not modified with respect to this matter.

Other Matters

As discussed in Note 14 to the basic financial statements, the fund balance/net position has been restated as of July 1, 2018, to record the change in accounting principles previously mentioned and to correct prior years' misstatements. Furthermore, matters disclosed under the Basis for Qualified Opinion paragraph include matters related to inventory and restricted cash that involve possible misstatements related to prior periods, which could have had a significant effect on the beginning fund balances as of July 1, 2018, had the amounts of the possible misstatements been determined. Our opinion on the basic financial statements is only modified with respect to those matters related to prior periods that are included in the Basis for Qualified Opinion paragraph.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 5 through 14, and the schedules of the proportionate share of collective total pension liability and total other post-employment benefits on pages 70 through 73, respectively be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Information

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

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

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2021 on our consideration of the Institute of Puerto Rican Culture'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 in considering the Institute of Puerto Rican Culture's internal control over financial reporting and compliance.

Guaynabo, Puerto Rico
October 20, 2021

The stamp number E463575 was
affixed to the original of this report.

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INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

This management discussion and analysis ("MD&A") provides a narrative overview and analysis of the financial activities of the Institute of Puerto Rican Culture (the "Institute") for the fiscal year ended June 30, 2020. The MD&A is intended to serve as an introduction to the Institute basic financial statements, which have the following components: (1) governmental-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters, provide the overview of the Institute financial activities, and highlight individual fund matters. The following presentation is by necessity highly summarized, and to gain thorough understanding of the Institute's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The Institute's net position decreased by \$27.7 million.
- General fund's operations resulted in an excess of revenues under expenditures amounting to \$1.6 million.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Institute as a whole and present a long-term view of the Institute's finances. Fund financial statements start on page **16**. Fund financial statements disclose how the Institute's operations were financed in the short-term as well as the amounts available for future spending. Fund financial statements also report the Institute's operations in more detail than the government-wide statements, by providing information about the Institute's most significant funds. The remaining statements provide financial information about activities for which the Institute acts as an agent for the benefit of those outside and inside of the government.

The Statement of Net Position and the Statement of Activities

The Statement of Net Position includes all assets, liabilities and deferred outflows and inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most companies in the private sector. All current year's revenues and expenses are taken into account regardless of when cash was received or paid in the Statement of Activities.

These two statements report the Institute's net position and its changes. The Institute's net position is the difference between assets and liabilities which is a way to measure the Institute's financial position. Increases or decreases in the Institute's net position may be interpreted as an indicator of whether the Institute's financial position has improved or deteriorated. Other non-financial factors should be considered in performing such assessment.

INSTITUTE OF PUERTO RICAN CULTURE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The Statement of Net Position and the Statement of Activities (Continued)

In the Statement of Net Position and the Statement of Activities, the governmental activities represent the basic services provided by the following departments: administrative services, culture promotion, documental and historic patrimony conservation.

Commonwealth Appropriations and federal grants finance most of the Institute's operations.

Reporting on the Institute's most significant funds:

Fund Financial Statements

The funds financial statements provide information about the Institute's position and activities. Funds are accounting entities with self-balancing set of accounts created for carrying on specific activities or achieving goals. Information presented in the fund financial statements differs from the information presented in the governmental-wide statements because the perspective and basis of accounting used to prepare the governmental-wide statements. Some funds are required to be established by the laws of the Commonwealth of Puerto Rico (the Commonwealth) or by requirement of Federal law. The funds presented in the fund financial statements are categorized as major funds as required by accounting principles generally accepted in the United States of America ("GAAP").

Governmental funds - All of the Institute's basic services and expenditures are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the current financial resources measurement focus and the modified accrual accounting basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Assets and liabilities that do not impact current financial resources, such as capital assets and long-term liabilities, are not recognized in the governmental fund financial statements. The governmental funds statements provide a detailed short-term view of the Institute's general government operations and the basic services it provides. Governmental funds information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Institute's programs.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Reporting on the Institute's most significant funds:

Governmental funds (Continued) - The reconciliations between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are presented following the fund financial statements.

Fiduciary funds – The Institute has the responsibility to transfer funds to other entities or governmental agencies. The Institute's fiduciary activities are reported in the separate Statement of Fiduciary Net Position. Fiduciary activities are excluded from the Institute's financial statements because the Institute cannot use these assets to finance its operations. The Institute is responsible for ensuring that the assets reported in these funds are passed to the designated entity and that such entity uses these funds for the intended purpose established in the granting law.

Notes to the Basic Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information.

Overall Financial Position and Results of Operations

We provide the readers of these basic financial statements with the following summarized discussion and analysis of the relevant facts that affected the governmental-wide financial statements as of June 30, 2019 and 2018, as restated.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Overall Financial Position and Results of Operations (Continued)

Table 1

Statements of Net Position	2019	2018, as restated	Change	%
Current assets	\$ 9,093,444	\$ 6,188,577	\$ 2,904,867	47%
Capital assets	38,486,153	41,591,266	(3,105,113)	-7%
Deferred outflows of resources	4,064,122	7,095,481	(3,031,359)	-43%
Total Assets and Deferred Outflows of Resources	51,643,719	54,875,324	(3,231,605)	-6%
Current liabilities	4,216,684	3,985,321	231,363	
Long-term liabilities	62,887,141	41,661,271	21,225,870	
Deferred inflows of resources	3,706,854	693,575	3,013,279	-6%
Total Liabilities and Deferred Inflow of Resources	70,810,679	46,340,167	24,470,512	53%
Net position:				
Net investment in capital assets	38,486,153	41,591,266	(3,105,113)	-7%
Restricted for capital projects	638,834	635,065	3,769	1%
Restricted for specific purposes	750,361	809,932	(59,571)	-7%
Unrestricted (deficit)	(59,042,308)	(34,501,106)	(24,541,202)	71%
Total Net Position	\$(19,166,960)	\$ 8,535,157	\$ (27,702,117)	-324%

Net Position

Net position may serve over time as a useful indicator of the Institute's financial position. A portion of the Institute's reflects net its investment in capital assets such a land, buildings and equipment, less any related debt used to acquire those assets.

The deficit in the unrestricted net position shows the accumulation of excessive operating expenses in disparity with actual revenues over the years. In addition, during fiscal year 2019, the Institute adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The impact of adopting GASB Statement No. 73 consisted of recognizing the effects of Institute's proportionate share of the total pension liability and deferred outflows of resources for pensions contributions made after the beginning total pension liability measurement date. This adoption resulted in a decrease of the beginning net position of that year of approximately \$956 thousands. With the change in accounting principle during the year, the Institute recognized \$58.8 million and \$2.1 million in total pension liability.

INSTITUTE OF PUERTO RICAN CULTURE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Net Position (Continued)

Also, the Institute adopted the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The impact of adopting GASB Statement No. 75 consisted in recognizing \$2.1 million for the effects of the Institute's proportionate share of the total OPEB liability.

As of the date of the enactment of the GDB Debt Restructuring Act (Act No. 109) of August 24, 2017, the Institute had an outstanding balance on various line of credits in default, and now terminated. The original notes, with a balance of \$3,326,117, as of June 30, 2018 provided for a 7% interest rate, and a maturity of June 30, 2040. Recently, the Institute was notified that the line of credit debt was set-off against deposits in the GDB and is no longer liable. The Institute proceeded to eliminate the debt from its books.

An additional portion of the Institute's net position reflects resources that are subject to external restriction on how they may be used. Internally imposed designations of resources are not considered as restricted net position.

Governmental activities

Revenues for the Institute's governmental activities (including grants for capital improvements) increased by 75% or \$6.3 million. Total expenses increased by 260% or \$33 million, as shown on **Table 2**.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Table 2

Statement of Activities	2019	2018, as restated	Change	%
Revenues				
Functions/Programs				
Governmental activities:				
Administrative services	\$ 9,755,473	\$ 5,356,845	\$ 4,398,628	82%
Culture promotion	928,950	1,033,623	(104,673)	-10%
Documental patrimony conservation	958,526	868,477	90,049	10%
Historic patrimony conservation	3,142,520	1,168,293	1,974,227	169%
Total revenues	14,785,469	8,427,238	6,358,231	75%
Expenses				
Functions/Programs				
Governmental activities:				
Administrative services	11,342,339	7,907,216	3,435,123	43%
Culture promotion	1,425,815	1,536,849	(111,034)	-7%
Documental patrimony conservation	1,541,920	1,356,548	185,372	14%
Historic patrimony conservation	1,591,146	1,686,969	(95,823)	-6%
Interest on line of credit	-	232,828	(232,828)	-100%
Pension and other post-employment benefits expenses, net	29,848,117	-	29,848,117	100%
Total expenses	45,749,337	12,720,410	33,028,927	260%
General revenues:				
Partial cancellation of Act No. 70 due to enactment of Act No. 106-2017	-	1,387,004	(1,387,004)	100%
Elimination of sick leave accrual due to enactment of Act No. 26-2017	-	631,675	(631,675)	100%
Special items:				
Cancellation of line of credit due to GDB	4,218,646	-	4,218,646	100%
Changes in net position	(26,745,222)	(2,274,493)	(24,470,729)	1076%
Beginning net position	8,535,157	10,809,650	(2,274,493)	-21%
Prior period adjustment-GASB 73 & 75	(956,895)	-	(956,895)	100%
Net position – beginning, as restated	7,578,262	10,809,650	(3,231,388)	-30%
Net position – ending	\$ (19,166,960)	\$ 8,535,157	\$ (27,702,117)	-325%

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Governmental activities (Continued)

The increase in revenues was mainly due to Commonwealth Legislature increase appropriations for payment of the Institute's "Pay-Go" pension obligations (\$3.8 million) and increase in funding to match federal funds for reconstruction and conservation of historic patrimony affected by hurricanes.

Increase in Institute's expenses was mainly due to effects of adopting GASB Statements No 73 and 75.

Capital Assets

As of June 30, 2019, the Institute had \$38.4 million invested in capital assets net from accumulated depreciation. This amount represents a net decrease of \$3.1 million when compared to the fiscal year ended June 30, 2018, as restated. Capital assets depreciation recorded during the fiscal year ended June 30, 2019 amounted to \$3.3 million and additions made during the year amount to \$199 thousand.

A detail of the Institute's capital assets at June 30, 2019 and 2018, as restated, follows:

Table 3 Capital Assets	2019	2018, as restated	Change
Land	\$ 55,205	\$ 55,205	\$ -
Building and improvements	105,070,432	105,070,432	-
Furniture, fixtures and equipment	3,923,738	3,884,241	39,497
Computers and software	1,418,893	1,273,446	145,447
Vehicles	692,826	678,295	14,531
	<u>\$ 111,161,094</u>	<u>\$ 110,961,619</u>	<u>\$ 199,475</u>
Less: accumulated depreciation	(72,674,941)	(69,320,077)	(3,354,864)
Capital assets, net of depreciation	<u>\$ 38,486,153</u>	<u>\$ 41,641,542</u>	<u>\$ (3,155,389)</u>

Long term-Debt

As of June 30, 2019, long-term debt of the Institute was \$63.2 million of which \$349 thousand are due within one year and are composed of accrued compensated absences and voluntary termination benefits. Long-term debt includes total pension liability recorded in accordance with GASB Statement No. 73 amounting to \$58.8 million and Total other post-employment benefits liability for a total of \$2.1 million during the year ended June 30, 2019.

Long term debt increased by approximately \$21.2 million during fiscal year 2018-19.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Currently Known Facts

The Institute is financially dependent of the Commonwealth where more than eighty percent of its revenues comes from Commonwealth's appropriation. Management of the Institute has identified the financial condition of the Commonwealth of Puerto Rico, as an external matter that may affect the ability of the Institute to continue as a going concern.

As disclosed in **Note 3**, the Commonwealth currently faces a severe fiscal and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations, among other factors. This led to the closure of the GDB that was the only external source of financing to the Institute.

On September 27, 2019, the Financial Oversight and Management Board filed its proposed Plan of Adjustment to restructure \$35 million of debt and other claims against the Commonwealth to \$12 billion, the Public Building Authority, and the Employee Retirement System, and more than \$50 billion of pension liabilities. Combined with the restructuring of COFINA debt earlier this year, the Plan reduces the Commonwealth's annual debt service to just under 9% of own-source revenues, down from almost 30% of government revenues prior to PROMESA. However, as of the date these financial statements were issued, the Board was in an advance stage of negotiations to further reduce the debt because the Board recognized that the major disasters that have occurred since 2017, and the long-term effect of the pandemic require a much more conservative recovery plan.

The Financial Oversight and Management Board expects to approve a new Fiscal Plan approximately by late April 2021 that includes the effects of the pandemic in the overall economic outlook for the Island.

As more fully explained in **Note 15**, the Institute suffered some damage to its properties in the southwest of Puerto Rico due to earthquakes of December 2019 and January 2020. Also, the effects of lockdowns to prevent and deter the COVID-19 pandemic impacted the operations of the Institute during fiscal years 2019-2020 and 2020-2021. The financial effects of these events cannot be determined at this time.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Currently Known Facts (Continued)

Going Concern

The Institute's financial statements as of and for the year ended June 30, 2019, has been prepared assuming that the Institute will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the Institute's operations and does not includes adjustments that might be required if the Institute is unable to continue as a going concern.

As explained in **Note 3** to the financial statements, the number of uncertainties facing the Commonwealth, the lack of sufficient resources to pay its liabilities as they become due and the proceedings initiated under Chapter III of PROMESA have led management to conclude that there is substantial doubt as to the ability of the Institute to continue as a going concern.

Hurricanes Irma and María

During September 2017, hurricanes Irma and María struck the island of Puerto Rico causing widespread damages throughout the island.

The hurricanes made landfall in the islands as a Category 4 hurricane on the Saffir-Simpson scale, causing catastrophic winds and water damages to the islands' infrastructure, homes and businesses.

Most business establishments, including retailers and wholesalers, financial institutions, manufacturing facilities and hotels, were closed for several days. The damages caused by the hurricanes are substantial and have had a material adverse impact on economic activity in the island, thus, affecting the Institute.

The hurricanes severely damaged property owned by the Institute. Management has initially determined that repairing the property damaged by hurricanes will have a replacement cost of approximately \$25 million. Management continues to evaluate the Institute's property and as a result additional replacement or repair costs may arise. The insurance company filed for bankruptcy due to large claims arising from Hurricane María disaster. The Institute contracted a consultant to speed up claims to FEMA and it is in the process of determining damages of the hurricanes to determine the final amount to be approved to the Institute.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Impact of Earthquake in Puerto Rico

On January 7, 2020, the Puerto Rico South Central Area experienced a magnitude 6.4 earthquake located 6 kilometers south of the Municipality of Guayanilla. It was followed by many aftershocks through December 2020.

The United States President approved a disaster declaration for affected municipalities in the area and federal assistance have been made available to supplement local recovery efforts. The Institute owns buildings in the affected area and is evaluating with FEMA damages to its properties. Total costs due to earthquake damage cannot be calculated at this time. However, the Institute has determined that no impairment of the property is present.

Puerto Rico COVID 19 Pandemic (DR-4493)

On March 13, 2020, FEMA issued a nationwide Emergency Declaration in response to the ongoing Coronavirus COVID-19 pandemic. On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public lockdown necessary to prevent the effects of the coronavirus (COVID-19) and control the risk of contagion within the Island. Following CDC guidance, the Order includes several important quarantine and social distancing measures aimed at protecting the health and welfare of Puerto Rican citizens, including implementation of a curfew and the shutdown of non-essential commercial activity. Several Executives Orders have been issued since, being a February 8, 2021 the latest.

On March 27, 2020, the President of the United States of America declared that a major disaster exists in the Commonwealth of Puerto Rico and ordered Federal assistance to supplement Commonwealth and local recovery efforts in the areas affected by the Coronavirus Disease 2019 (COVID-19) pandemic beginning on January 20, 2020, and continuing. Federal funding is available to Commonwealth and eligible local governments and certain private nonprofit organizations for emergency protective measures, including direct Federal assistance, for all areas in the Commonwealth of Puerto Rico impacted by COVID-19.

Contacting the Institute's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Institute's finances and to show the Institute's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Institute of Puerto Rican Culture, Finance Department, PO Box 9024184, San Juan, Puerto Rico 00902-4184.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
Assets	
Cash in commercial banks	\$ 5,390,451
Receivables, net:	
Trade	438,708
Intergovernmental	567,069
Inventory	2,029,546
Restricted cash in commercial banks	667,670
Capital assets	
Land	55,205
Other capital assets, net of depreciation and amortization	38,430,948
Total assets	<u>47,579,597</u>
Deferred outflows of resources	
Pension related	3,885,958
Other post-employment benefits related	<u>178,164</u>
Total assets and deferred outflows of resources	<u>51,643,719</u>
Liabilities	
Accounts payable and accrued liabilities	3,663,072
Unearned revenue	204,150
Liabilities payable within one year:	
Compensated absences	15,391
Voluntary termination benefits	334,071
Liabilities payable over one year:	
Compensated absences	292,425
Voluntary termination benefits	1,596,006
Total pension liability	58,804,169
Total other post-employment benefits liability	2,194,541
Total liabilities	<u>67,103,825</u>
Deferred inflows of resources	
Pension related	<u>3,706,854</u>
Total liabilities and deferred inflows of resources	<u>70,810,679</u>
Net position	
Net investment in capital assets	38,486,153
Restricted for:	
Capital projects	638,834
Other purposes	750,361
Unrestricted	<u>(59,042,308)</u>
Total net position	<u>\$ (19,166,960)</u>

The notes to the financial statements are an integral part of this statement.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses)</u>
		<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Revenues and Change in Net Position</u>
				<u>Governmental Activities</u>
Governmental Activities:				
Administrative services	\$ 11,342,339	\$ 9,755,473	\$ -	\$ (1,586,866)
Culture promotion	1,425,815	928,950	-	(496,865)
Documental patrimony conservation	1,541,920	958,526	-	(583,394)
Historic patrimony conservation	1,591,146	3,142,520	-	1,551,374
Pension and other postemployment benefit expenses, net	29,848,117	-	-	(29,848,117)
	<u>\$ 45,749,337</u>	<u>\$ 14,785,469</u>	<u>\$ -</u>	<u>(30,963,868)</u>
		Special Item:		
		Cancellation of Line of credit liability, due to GDB		4,218,646
				<u>4,218,646</u>
		Change in net position		(26,745,222)
		Net position - beginning of fiscal year, as restated		7,578,262
		Net position - ending of fiscal year		<u>\$ (19,166,960)</u>

The notes to the financial statements are an integral part of this statement.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>General Fund</u>	<u>Special Appropriation Fund</u>	<u>Federal Grants Fund</u>	<u>Other Non-Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash in commercial banks	\$ 2,383,090	\$ 786,023	\$ 2,066,036	\$ 155,302	\$ 5,390,451
Receivables, net:					
Trade	371,702	18,012	48,994	-	438,708
Intergovernmental	-	-	542,303	24,766	567,069
Inventory	2,029,546	-	-	-	2,029,546
Restricted cash in commercial banks	-	-	-	667,670	667,670
Due from other funds	2,381,524	-	-	-	2,381,524
Total assets	\$ 7,165,862	\$ 804,035	\$ 2,657,333	\$ 847,738	\$ 11,474,968
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued liabilities	\$ 3,328,835	\$ 190,055	\$ 113,476	\$ 30,706	\$ 3,663,072
Due to other funds	-	4,799	2,339,707	37,018	2,381,524
Unearned revenue	-	-	204,150	-	204,150
Total liabilities	3,328,835	194,854	2,657,333	67,724	6,248,746
Fund balances					
Nonspendable	2,029,546	-	-	-	2,029,546
Restricted	-	609,181	-	780,014	1,389,195
Unassigned	1,807,481	-	-	-	1,807,481
Total fund balances	3,837,027	609,181	-	780,014	5,226,222
Total liabilities and fund balances	\$ 7,165,862	\$ 804,035	\$ 2,657,333	\$ 847,738	\$ 11,474,968

The notes to the financial statements are an integral part of this statement.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Total governmental fund balances	\$ 5,226,222
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Balance Sheet - Governmental Funds	38,486,153
Deferred outflows of resources - pension related	3,885,958
Deferred outflows of resources - OPEB related	178,164
Voluntary termination benefits not payable from current resources and, therefore, are not reported in the Balance Sheet- Governmental Funds:	(1,930,077)
OPEB liability are not payable from current resources and, therefore, are not reported in the Balance Sheet - Governmental Funds:	(2,194,541)
Compensated absences not liquidated immediately with current financial resources are not reported in the in the Balance Sheet - Governmental Funds:	(307,816)
Deferred inflows of resources - pension related	(3,706,854)
Net pension liability	(58,804,169)
Net position of governmental activities	<u>\$ (19,166,960)</u>

The notes to the financial statements are an integral part of this statement.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	Special Appropriation Fund	Federal Grants Fund	Other Non-Major Funds	Total Governmental Funds
Revenues					
Contributions from Commonwealth	\$ 12,224,000	\$ 225,000	\$ -	\$ -	\$ 12,449,000
Intergovernmental	-	-	1,228,578	-	1,228,578
Other	868,555	-	455	238,881	1,107,891
Total Revenues	<u>13,092,555</u>	<u>225,000</u>	<u>1,229,033</u>	<u>238,881</u>	<u>14,785,469</u>
					-
Expenditures					
Administratives Services	8,282,668	273,478	1,228,939	22,220	9,807,305
					-
Culture promotion:					
Plastic arts	309,662	18,882	-	499	329,043
Popular arts	39,188	1,934	-	300	41,422
Cultural centers	270,739	-	-	19,684	290,423
Music	72,563	-	-	-	72,563
Theater	122,037	-	-	-	122,037
	<u>814,189</u>	<u>20,816</u>	<u>-</u>	<u>20,483</u>	<u>855,488</u>
					-
Documental patrimony conservation:					
General archives of PR	669,027	-	-	25,094	694,121
Publications	313,035	-	-	89,225	402,260
General library	177,150	-	-	-	177,150
	<u>1,159,212</u>	<u>-</u>	<u>-</u>	<u>114,319</u>	<u>1,273,531</u>
					-
Historic patrimony conservation:					
Historic patrimony	486,044	-	-	-	486,044
Archeology	108,740	-	-	-	108,740
Museums and parks	559,018	-	-	1,212	560,230
	<u>1,153,802</u>	<u>-</u>	<u>-</u>	<u>1,212</u>	<u>1,155,014</u>
					-
Total Expenditures	<u>11,409,871</u>	<u>294,294</u>	<u>1,228,939</u>	<u>158,234</u>	<u>13,091,338</u>
					-
Net change in fund balance	1,682,684	(69,294)	94	80,647	1,694,131
Fund balance, beginning, as restated	2,154,343	678,475	(94)	699,367	3,532,091
Fund balance, ending	<u>\$ 3,837,027</u>	<u>\$ 609,181</u>	<u>\$ -</u>	<u>\$ 780,014</u>	<u>\$ 5,226,222</u>

The notes to the financial statements are an integral part of this statement.

INSTITUTE OF PUERTO RICAN CULTURE
(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
JUNE 30, 2019

Net change in fund balances - total governmental funds **\$ 1,694,131**

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

Governmental funds report capital assets 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 and amortization expense. In the current period these amounts are:

Capital outlays	\$ 199,475	
Less: current-year depreciation	<u>(3,354,864)</u>	(3,155,389)

During the year, due to the closing of the Government Development Bank (GDB), a line of credit liability was cancelled, including accrued liabilities as of November 2018.

This change do not require the use of current financial resources and, therefore, are not reported in the governmental funds:

4,218,646

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences (net change)	33,563	
Voluntary termination benefits	311,944	
Pension and other postemployment benefits expenses, net	<u>(29,848,117)</u>	<u>(29,502,610)</u>

Change in net position of governmental activities **\$ (26,745,222)**

The notes to the financial statements are an integral part of this statement.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

Assets

Cash in commercial bank

\$ 91,639

Liabilities

Accounts payable

\$ 91,639

The notes to the financial statements are an integral part of this statement.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

1. NATURE OF THE INSTITUTE

Organization - The Institute of Puerto Rican Culture (the "Institute") is a component unit of the Commonwealth of Puerto Rico, created by Law No. 89 of June 21, 1955. The Institute is the organization engaged in the attainment, promotion, enrichment and divulging of the Puerto Rican cultural values. It is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities and culture.

The Institute is responsible for its debts and has the right to its surplus. Institute's revenues are mainly composed of Commonwealth appropriations. However, the Institute's funds are under the custody of the Secretary of the Treasury of the Commonwealth of Puerto Rico until transferred to the Institute. The Institute meets the criteria to be included as discretely presented component unit since it is: a legally separate entity of the Commonwealth, the Commonwealth's government appoints a voting majority of the Institute's governing body, and there is a financial benefit/burden relationship between the Commonwealth and the Institute.

Board of Directors – The nine-member Board of Directors is appointed by the Governor of the Commonwealth of Puerto Rico, with the counsel and approval of the Senate of Puerto Rico. The Board has the power to make decisions and is responsible for them.

Component Unit

A component unit is a legally separate entity for which the Institute is financially accountable, or the nature or significance of their relationship with the Institute is such, that their exclusion would cause the Institute's basic financial statements to be misleading or incomplete. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity, or the potential exists for the other entity to (1) provide specific financial benefit to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. US GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Institute's balances and transactions or discrete presentation of the component of the component unit's financial data in columns separate from the Institute's balance and transactions.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Institute conform to generally accepted accounting principles in the United States of America ("U.S. GAAP"), as applicable to governmental entities.

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and liabilities, the disclosure of contingent assets and liabilities as the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates.

Government-Wide Financial Statements – These include the Statement of Net Position and the Statement of Activities of the Institute. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 have been met.

The Statement of Net Position presents the Institute's assets, liabilities, and deferred inflows of resources using the accrual basis of accounting with the difference reported as net position. The net position is segregated in three categories:

- *Net Investment in Capital Assets* - consists of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted Net Position* - consists of net position with constraints placed on the use either by 1) external groups such as grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation less related liabilities.
- *Unrestricted Net Position* - net position whose use by the Institute is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may be limited by contractual agreements with outside parties. When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Institute's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Institute considers consumption sales if collected within 30 days after the end of the current fiscal year. For the federal grants, monies must be expended by the Institute on the specific purpose or project before any amounts will be reimbursed.

Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, monies are virtually unrestricted and are revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims, and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when used.
- The amount of accumulated annual vacation unpaid at June 30, 2019 has been reported only in the government-wide financial statements.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Interest and principal on general long-term obligations are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for its payment as of June 30, 2019.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.
- Total pension liability at June 30, 2019 has been reported only in the government-wide financial statements.
- Debt service expenditures, federal funds cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded only when payment is due.

The Institute is organized on the basis of funds, each of which is considered to be a separate accounting entity. The transactions of each fund are summarized by providing a separate set of self-balancing accounts which include their revenues and expenditures. An emphasis is placed on major funds. A fund is considered major if it meets both of the following criteria:

Ten Percent Criterion – an individual governmental fund reports at least 10% of any of the following: (a) total governmental fund assets and deferred outflows of resources, (b) total governmental fund liabilities and deferred inflows of resources, (c) total governmental fund revenues, or (d) total governmental fund expenditures.

Five Percent Criterion – an individual governmental fund reports at least 5% of the total for both governmental and enterprise funds of any one of the items for which the 10% criterion is met.

Governmental funds are those through which the general functions of the Institute are financed. The acquisition, use, and balance of the Institute expendable financial resources (except those accounted for in the fiduciary funds) are accounted for through the governmental funds.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following are the Institute's major governmental funds:

General fund - The general fund is the Institute's primary operating fund. It is used to account for all activities except those required legally or administratively to be accounted for in other funds. This fund is primarily financed through appropriations from the Legislature of the Commonwealth of Puerto Rico.

Special Appropriations Fund – This fund accounts for the proceeds of special resolutions of the Commonwealth of Puerto Rico and private entities (other than assessments or capital projects) that are legally restricted to expenditures for specified purposes.

Federal Grants Fund - This fund accounts for federal block grants awarded by the National Endowment of the Arts and advances made from FEMA for Hurricane Maria disaster grants.

The non-major funds are presented in one column in the financial statements and include the following:

Cultural Affairs Financing Fund – This fund accounts for the proceeds of special resolutions of the Commonwealth of Puerto Rico which are donated to qualified individuals and entities that are engaged in the promotion of theatrical, musical, and general arts in Puerto Rico.

Capital Improvements Fund - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities. It includes the capital improvements fund used to account for the restoration and improvements to historic monuments and buildings. They are financed from resolutions of the Government of the Commonwealth of Puerto Rico and interest earned from the corresponding bank accounts.

Donations and Contributions Fund – This fund accounts for donations and contributions received from private entities.

Total Governmental Funds column - The total columns on the statements are provided only to facilitate additional analysis. Inter-fund transactions have not been eliminated; therefore, total columns are not comparable to a consolidation.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund type - Fiduciary fund type is used to report assets held by the Institute as an agent for individuals, private organizations, other governmental entities and/or other funds. The Institute's Fiduciary fund is also named as the agency fund. The Agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Fund Balance - In accordance with Government Accounting Standards Board (the "GASB") No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent, as follows:

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
 - **Inventory** – the portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which is a non-spendable resource.
- **Restricted Fund Balance** – amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. The Institute's restricted fund balance consists of the Special Appropriation Fund, Capital Improvement Fund and Cultural Affairs Financing Fund. These fund balance amounts arise from special resolutions of the Government of the Commonwealth of Puerto Rico and private entities that can only be spent in specified purposes.
- **Committed Fund Balance** – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Directors (the "Board"). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Assigned Fund Balance** – amounts in the assigned fund balance classification are intended to be used by the Institute for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or an officer of the Institute authorized by a resolution of the Board.
- **Unassigned Fund Balance** – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The Institute’s unassigned fund balance consists of the fund balance amount in the General Fund minus the inventory. These fund balances are available for any purpose and management will determine how to spend it.

The Institute applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The Institute does not have a formal minimum fund balance policy.

Use of Estimates and Assumptions in the Preparation of Financial Statements - 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 related disclosures at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement applied.

Measurement Focus

On the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- Agency Funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, are presented using the accrual method of accounting. Under this method, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this method, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures, (including capital outlays) are recorded when the related fund is incurred.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents - The Institute considers as cash and cash equivalents with original maturities within three months or less from the date of purchase.

Deposits and Budgetary Constraints- The Institute maintains cash on deposit with commercial financial institutions. The laws of the Commonwealth of Puerto Rico require public funds deposited in commercial banks to be collateralized by the bank when funds exceed the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth of Puerto Rico.

The Institute also maintains cash balances with the Fiscal Agent (Treasury). However, as provided by the General Fund Budget Resolution and the State Special Funds Resolution, any unencumbered previous-year balance of non-current allocations cannot longer be obligated. Any proposal to use said funds from previous years must be submitted through budget requests for the evaluation of the Oversight Board. In addition, as a general rule, previous year balances in General Fund accounts should be closed and forwarded to the Treasury. Therefore, as of June 30, 2018, the Institute lost the control of said balances and have been presented net of a provision for the same amount. In the event, the Institute is able to gain access to these funds, through the approval of the Oversight Board, the amount recovered will be presented as a change in estimate in the Statement of Activities.

Deposits originally maintained in the GDB were recognized as impaired in 2016 and are no longer considered deposits.

Restricted assets - Restricted assets are liquid assets which have third-party limitations on their use. Cash in commercial banks related to Commonwealth Legislature Resolutions are restricted since their use is limited by applicable agreements or required by law, in this case for capital improvements.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable - Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. The accounts receivable from nongovernmental customers of the Institute are net of estimated uncollectible amounts. These receivables arise primarily from sales of publications and forfeited donations. Accounts receivable from the primary government and other component units that arise from service charges do not have allowances for uncollectible accounts, as these are deemed fully collectible.

Allowance for Doubtful Accounts – The allowance for uncollectible accounts and other receivables is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collections of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

Intergovernmental Receivable – Amounts due from federal government represents amount owed to the Institute for the reimbursement of the expenditures incurred pursuant to federally funded programs.

Interfund Receivables and Payables – Activities among funds are representative of lending/borrowing arrangements outstanding at year end are referred to due from/to other funds.

Legislative Appropriations – The Institute annually receives legislative appropriations from the Commonwealth of Puerto Rico. These appropriations are for the operations of the Institute and are recognized when available.

Special Items – Significant forgiveness of debt has been presented in the Statement of Activities under special items, as provided by the Implementation Guide No. 2015-1 that was applied simultaneously with the requirements in **Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments**.

Inventory - Inventory is stated at cost based on the first-in, first-out method and reported at cost when individual inventory items are sold. The inventory consists primarily of publications available for sale.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets - Capital assets are stated at historical cost when purchased. Donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement are measured at acquisition value (an entry price). Costs of repairs and maintenance, which do not increase or extend the life of the respective assets are expensed as incurred. Assets whose cost is stated over \$500, are capitalized when purchased or received as a donation. The historic buildings are stated at the value established when acquired and building improvements are capitalized as buildings are constructed or repaired.

Capital outlays in the General Fund, Special Appropriation, Capital Improvements and Other Governmental funds are recorded as expenditures of those funds at the time of purchase.

However, to provide the details of capital assets for the primary government, the Institute segregates land, historic buildings, improvements, works of art and equipment stated at cost in a note to financial statements. Other donated assets are stated at their market value at the date those assets were donated. Cost of maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred. Cost of restorations and improvements are capitalized for this purpose.

Major outlays for capital assets, renewals, and betterments are capitalized as incurred. In accordance with the presentation of a component unit, capital assets (depreciated for the purpose of presentation by the primary government) are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Buildings	50
Building improvements	20
Furniture and fixtures and equipment	10
Vehicles	5
Computer equipment	3

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Capital Assets – The Institute follows the provisions of GASB No. 42, *Accounting for Impairments of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Institute evaluates events or changes in circumstances that may have affected the Institute’s assets and did not determined that impairment of a capital asset. The Institute periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Inexhaustible Works of Arts and Collections - The Institute has adopted guidelines promoted under GASB No. 34 which establishes that works of arts and collections are exempt from capitalization if these are: (a) held for public exhibition, education or research in furtherance of public service rather than financial gain; (b) protected, kept unencumbered, cared for, and preserved; and (c) subject to an organizational policy that requires the proceeds from sales of collections items to be used to acquire other items for collection.

Unearned revenues - Unearned revenue arises when resources are received before the Institute has a legal claim to them, as well as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria are met, or when the Institute has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue are recognized.

Compensated Absences - On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. Effective on that date, this Law established and recognized that the government is a Single Employer. Under the provisions of this Law, annual vacation days were reduced from thirty to fifteen days.

The vacation days may be accumulated to a maximum of sixty days. Also, the employees hired before the effectiveness of this Law will be granted annually eighteen days of sick leave. However, the employees hired after the effectiveness of this Law, will be granted annually twelve days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety days and the days in excess will not be paid, and will be lost if not used by employees. A liability is reported for accrued but unused vacation leave days in the Government-Wide Financial Statements.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (Continued) - On April 29, 2017, the Governor of the Commonwealth signed into law Act No. 26 of 2017, Compliance with the Fiscal Plan Act (Act No. 26-2017), which among other things, changed the vacation and sick leave accrual formula for all government employees. Under the new law, all employees accrued 1.25 days per month of service up to 60 days for vacation leave. Employees generally accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and an accumulated maximum of 90 days. The Institute's employees are entitled to 2.5 days per month up to maximum of 60 days for vacations, and 1.5 days per month up to a maximum of 90 days for sick leave. Vacation and sick leave are recorded as benefits when earned. The estimated values of leave earned by employees that may be used in subsequent years or paid upon termination or retirement are accounted for in the proprietary fund financial statements and the government-wide financial statements as a liability. In the governmental funds, such liability is recorded only for the current portion.

Act No. 26-2017 was enacted to modify the existent legal and judiciary framework to be able to comply with the Fiscal Plan approved by the Oversight Board. In addition to accrual modifications, Act No. 26-2017 also altered the liquidation terms. After the enactment of Act No. 26-2017, only compensation of accrued vacation leave, up to 60 days, is paid upon employment termination. To be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are no longer liquidated upon employment termination.

Voluntary Termination Benefits – The Institute accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits*, which indicates that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination 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.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred outflows / inflows of resources - Arises when resources are received before the Institute has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Institute has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Deferred revenue at the government wide level arises only when the Institute receives resources before it has a legal claim to them. Deferred inflows and outflows of resources accounts by the Institute are related to pensions from the following sources: net difference between projected and actual earnings on pension plan investments, changes in assumptions, difference between expected and actual experience, change in proportion and difference between the employer's contributions and proportionate share of contributions and Institution contributions subsequent to measurement date.

Encumbrances – Accounting, under which purchase orders, contracts and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by governmental funds during the fiscal year to control expenditures. The cost of those goods received, and services rendered on or before June 30 are recognized as expenditures. For GAAP reporting purposes, encumbrances outstanding at year-end are reported within the restricted, committed, and assigned GAAP fund balance classifications and do not constitute expenditures or liabilities on GAAP basis because the commitments will be honored during the subsequent year.

Accounting for Pension Costs – The Institute adopted the Provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB 68, and amendments to Certain Provisions of GASB Statement No. 67 and 68*. With the enactment of Act No. 106 of 2017, and as a result of the insolvency and bankruptcy filing of the Puerto Rico Employee Retirement System (ERS), the pension liability is being settled under a PayGo system more fully disclosed in **Note 9**. Under the PayGo system, the Institute and other component units of the Commonwealth that participated in the ERS, assume their proportional share of the total pension liability and of benefits paid monthly.

Deferred outflows and inflows of resources are recorded for the effect of changes in assumptions and contributions made subsequent to the measurement date, among other.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for other postemployment benefits (“OPEB”) - - The Institute adopted the Provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As required OPEB transactions should be accounted based on its proportional share of the total OPEB liability, and OPEB expense. Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share which are recognized immediately during the measurement year. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The Institute’s contribution for OPEB is included as part of the “Paygo” charges billed on a monthly basis by the Puerto Rico Department of Treasury (“PRDT”). “Paygo” payments are recorded as expenditures\expenses in the financial statements.

Risk Financing – The Institute is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees’ health, and natural disasters. Commercial insurance policies covering such risks are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities and Commonwealth of Puerto Rico instrumentalities. Also, principal officials of the Institute are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses for the Institute.

The Institute obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. The insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered because of their employment.

The Institute obtains unemployment compensation, non-occupational disability, and drivers’ insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR).

These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers’ insurance premiums are paid to DOLHR on a cost reimbursement basis.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effects of New Accounting Standards - During the fiscal year ended June 30, 2018, the Institute was required to implement GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other Than Pension*, however, the Institute implement it during fiscal year 2018-19.

Future Adoption of Accounting Pronouncements – The GASB has issued the following accounting standards that have effective dates after June 30, 2019:

- (a) GASB No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019.
- (b) GASB No. 84 *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting period beginning after December 15, 2019.
- (c) GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

- (d) GASB Statement No. 88, *Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement were effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.

- (e) GASB Statement No. 89, *Accounting for Interest Costs Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement.

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**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

- (f) GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (g) GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.
- (h) GASB Statement No. 92, *Omnibus 2020*. Effective Date: The requirements of this Statement are effective as follows:
- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
 - The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
 - The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
 - The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021. Earlier application is encouraged and is permitted by topic.

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**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

- (i) GASB Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (LIBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:
- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
 - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
 - Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
 - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
 - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
 - Clarifying the definition of reference rate, as it is used in Statement 53, as amended.
 - Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (j) GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- (k) GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (k) GASB Statement No. 95 (Continued) - The effective dates of certain provisions contained in the following pronouncements were postponed by one year:
- GASB Statement No. 83, Certain Asset Retirement Obligations.
 - GASB Statement No. 84, Fiduciary Activities.
 - GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.
 - GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.
 - Statement No. 90, *Majority Equity Interests*.
 - Statement No. 91, *Conduit Debt Obligations*.
 - Statement No. 92, *Omnibus 2020*.
 - Statement No. 93, *Replacement of Interbank Offered Rates*.
 - Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.
 - GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*
 - Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*.
 - Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*.
 - Implementation Guide No. 2019-2, *Fiduciary Activities*.

The effective dates of the following pronouncements were postponed by 18 months:

Statement No. 87, *Leases*.
Implementation Guide No. 2019-3, *Leases*.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset— an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

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(CONTINUED)**

Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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(CONTINUED)**

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement supersedes the remaining provisions of Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

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

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3. GOING CONCERN AND UNCERTAINTIES

The discussion in the following paragraphs provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Institute's ability to continue as a going concern.

As discussed in **Note 1** to the basic financial statements, the Institute's principal source of revenue is from legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth). More than eighty percent of the Institute's total revenues are derived from legislative appropriations of the Commonwealth which amounted to \$12,224,000 for the year ended June 30, 2019. Moreover, the Institute has limited ability to raise operating revenues. Also, as disclosed in **Note 4**, with the closing of the GDB operation, the Institutes' ability to borrow money for short-term operating needs on long-term capital needs is limited.

The evaluation of the financial difficulties being experienced by the Commonwealth and considering that the Institute is financially dependent of the Commonwealth creates substantial doubt about the Institute's ability to continue as a going concern.

Commonwealth File for Bankruptcy under PROMESA - The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA"), was enacted into federal law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations, including the establishment of an oversight board, the requirements of fiscal plans and budgets to the Commonwealth, the establishment of an automatic stay, and debt adjustments, among others.

The Oversight Board is an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under PROMESA, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality.

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3. GOING CONCERN AND UNCERTAINTIES (CONTINUED)

The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel. A critical component of PROMESA is the requirement of Puerto Rico and covered instrumentalities to develop and maintain a fiscal plan. A fiscal plan for the territory, or any instrumentality designated by the Oversight Board generally must contain numerous provisions governing the operation of the territory or instrumentality, as the case may be, including plans to pay debts, eliminate deficits, maintain essential public services and impose internal controls for fiscal governance and accountability.

Each fiscal plan is also required to set forth methods for the territory or instrumentality to access the capital markets. The fiscal plan must be developed by the PR Governor, with oversight by the Oversight Board, and submitted to the Oversight Board for approval (the Oversight Board can submit its own fiscal plan if the Governor's fiscal plan is not acceptable in the sole discretion of the Oversight Board).

A fiscal plan is also required to comply with Puerto Rico law and to maintain valid liens. PROMESA further specifies that no budget can be submitted by the territory's Governor to its Legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the Governor's budget is not acceptable in the sole discretion of the Oversight Board).

On May 3, 2017, the Commonwealth of Puerto Rico and the Oversight Board established by Congress filed for bankruptcy under Title III of PROMESA in what is poised to become one of the largest bankruptcies in the United States history. The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services.

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3. GOING CONCERN AND UNCERTAINTIES (CONTINUED)

On March 8, 2021, the Oversight Board filed, with the United States District Court of Puerto Rico, a second amended Title III Joint Plan of adjustment of the Commonwealth (the Joint Plan). The Joint Plan proposes a broad adjustment to the obligations of the Commonwealth, taking into consideration the projected long-term impact the recent natural disasters and the COVID-19 will have in the Puerto Rico economy. The Plan involves significant adjustments to the obligations of the Commonwealth but with limited impact to pension obligations. The Joint Plan needs the ratification by the Commonwealth and the Court, which decisions need to occur before the end of 2021. Upon the final approval of the Joint Plan, the Commonwealth is expected to again gain access to the capital markets. However, the Commonwealth will remain under the supervision of the Oversight Board for a minimum of four years, assuming a balanced budget is maintained during said period.

These factors create an uncertainty about the Commonwealth's ability to continue as a going concern. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. However, the Institute is actively involved in a remediation plan to mitigate these factors, to the extent of its financial capabilities.

As part of a remediation plan the Institute is in the process to develop and implement strategies to offset the effects of decreasing funding by the Commonwealth government. Those strategies include: 1) activities and programs consolidations, 2) employee's voluntary early retirement, 3) maximize federal funds, 4) Increase in donations and private funding, 5) lease of properties for events, 6) increase the Institute's visibility in the community, and 7) volunteering. The short-term results of this strategies have been increased in federal funding, increase in festivals and other cultural activities and broader presence in Puerto Rico and mainland United States.

In addition, as presented in **Note 15**, the southwest of Puerto Rico experienced a magnitude of 6.4 earthquakes in January 2020. This event caused some damages to several properties of the Institute. Also, the effects of lockdowns to prevent and deter the COVID-19 pandemic impacted the operations of the Institute during fiscal years 2019-2020 and 2020-2021. The financial effects of these events cannot be determined at this time.

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4. CASH AND CASH EQUIVALENTS

The table presented below discloses the level of custodial risk assumed by the Institute at June 30, 2019. Custodial credit risk is the risk that, in an event of a bank failure, the Institute's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico. In addition, the Institute has deposits that are held by the Commonwealth of Puerto Rico Treasury Department.

The Institute follows Department of Treasury's policies for deposits placed with commercial banks, which establish a maximum exposure limits for each institution based on the institution's capital, financial condition, and credit ratings assigned by nationally recognized rating agencies.

As of June 30, 2019, approximately \$5.5 million of the depository bank balance was insured as follows:

Governmental activities

	<u>Carrying Amount</u>			<u>Depository</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Bank Balance</u>
Commercial bank	<u>\$ 5,390,451</u>	<u>\$ 667,670</u>	<u>\$ 6,058,121</u>	<u>\$ 5,512,405</u>

Fiduciary activities

	<u>Carrying Amount</u>			<u>Depository</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Bank Balance</u>
Commercial bank	<u>\$ -</u>	<u>\$ 91,639</u>	<u>\$ 91,639</u>	<u>\$ 91,639</u>

As of June 30, 2019, the Institute's restricted cash in governmental activities consists of cash to be used for improvements to be made to historic buildings and promotion of theatrical, musical and general arts.

The Institute's restricted cash in fiduciary activities as of June 30, 2019 consists of cash to be transferred to other entities or governmental agencies. The Institute is responsible for ensuring that these funds are passed to the designated entity and that such entity uses these funds for the intended purpose established in the granting law. Funds originally deposited in the GDB are no longer presented because their recoverability is remote and were written off in prior years.

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5. INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2019 are summarized as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
General fund	\$ 2,339,707	Federal grants fund	\$ 2,339,707
General fund	4,799	Special appropriation fund	4,799
General fund	<u>37,018</u>	Other governmental funds	<u>37,018</u>
Total	<u>\$ 2,381,524</u>		<u>\$ 2,381,524</u>

Interfund receivables and payables represent the pending settlement of transactions related to payroll and other operating payments made during the year.

Thereafter, the federal grants fund plans to substantially settle the remaining obligations to the general fund upon collection of the balance due from the federal government.

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6. CAPITAL ASSETS

The Institute's capital assets at June 30, 2019 were as follows:

Capital Assets	Beginning Balance, as restated	Increase	Decrease	Ending Balance
Non-depreciable assets:				
Land	\$ 55,205	\$ -	\$ -	\$ 55,205
Construction in progress	-	-	-	-
	<u>55,205</u>	<u>-</u>	<u>-</u>	<u>55,205</u>
Depreciable assets:				
Buildings and improvements	105,070,432	-	-	105,070,432
Furniture, fixtures and equipment	3,884,241	39,497	-	3,923,738
Computers and software	1,273,446	145,447	-	1,418,893
Vehicles	678,295	14,531	-	692,826
	<u>110,906,414</u>	<u>199,475</u>	<u>-</u>	<u>111,105,889</u>
Less accumulated depreciation:				
Buildings and improvements	(64,705,958)	(3,238,427)	-	(67,944,385)
Furniture, fixtures and equipment	(2,957,088)	(108,266)	-	(3,065,354)
Computers and software	(1,076,353)	(8,171)	-	(1,084,524)
Vehicles	(580,678)	-	-	(580,678)
	<u>(69,320,077)</u>	<u>(3,354,864)</u>	<u>-</u>	<u>(72,674,941)</u>
Net depreciable assets	<u>41,586,337</u>	<u>(3,155,389)</u>	<u>-</u>	<u>38,430,948</u>
Capital assets, net	<u>\$ 41,641,542</u>	<u>\$ (3,155,389)</u>	<u>\$ -</u>	<u>\$ 38,486,153</u>

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6. CAPITAL ASSETS (CONTINUED)

On September 6, 2017 and September 20, 2017, Hurricanes Irma and María devastated Puerto Rico. The Hurricanes caused unprecedented economic and infrastructure damages disrupting the daily lives of 3.4 million of residents, including housing, infrastructure, environment, safety, health and social services, and government operations.

María was the most devastating hurricane to hit Puerto Rico in nearly a century. Many lives were lost, homes and businesses suffered enormous damage, most crops and other agricultural assets were wiped out, and a significant part of the island's infrastructure was severely damaged: knocked out electric power across the entire island and triggered heavy flooding after estimated 30 inches of rain, severe destruction of the housing infrastructure, commercial and public buildings damaged and devastated agriculture and tourism. After María, only 5% of cell service, 44% of potable water since there are no electric power, and gas stations are destroyed in 60%. Puerto Rico authorities have estimated in \$94 billion to cover damages from insurances and assignments required from the Congress, part of which was approved by them.

The Institute is currently evaluating with FEMA the damages suffered by buildings and other property. As of June 30, 2019, FEMA obligated and disbursed \$374,614 for debris removal and emergency protective actions. The Institute estimates total funding for reconstruction of buildings and facilities in approximately for \$25 million. In January 7, 2020 the Puerto Rico South Central Area experienced a magnitude 6.4 earthquake located 6 kilometers south of the Municipality of Guayanilla. It was followed by many aftershocks through December 2020.

The United States President approved a disaster declaration for affected municipalities in the area and federal assistance have been made available to supplement local recovery efforts. The Institute owns buildings in the affected area and is currently evaluating with FEMA damages to its properties. Total costs due to earthquake damage cannot be calculated at this time.

Given the effects of these natural disasters, GASB No. 42 requires the recognition of capital asset impairments as soon as they occur. However, the current year analysis identified no significant impairments, and subsequently after the storms and the earthquake, all historic properties remained in operations, with certain limitations.

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6. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

<u>Program</u>	<u>Amount</u>
Administrative Services	\$ 2,080,016
Plastic Arts	100,646
Popular Arts	67,097
Cultural Centers	134,194
Music	134,195
Theater	134,195
General Archives	134,195
Publications	67,097
General Library	67,097
Historic Patrimony	100,646
Archeology	67,097
Museums and Parks	268,389
Total depreciation expense	<u>\$ 3,354,864</u>

7. COMPENSATED ABSENCES

Compensated absences as of June 30, 2019 were as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Vacation and licenses	\$ 341,379	\$ (33,563)	\$ 307,816	\$ 15,391
Total	<u>\$ 341,379</u>	<u>\$ (33,563)</u>	<u>\$ 307,816</u>	<u>\$ 15,391</u>

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8. FUND BALANCES-GOVERNMENTAL FUNDS

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Institute is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are as follows:

	<u>General Fund</u>	<u>Special Appropriations Fund</u>	<u>Federal Grants Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES:					
Nonspendable - Inventory	\$ 2,029,546	\$ -	\$ -	\$ -	\$ 2,029,546
Restricted:					
Capital projects	-	-	-	638,834	638,834
Other purposes	-	609,181	-	141,180	750,361
Unassigned	<u>1,807,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,807,481</u>
Total fund balances	<u>\$ 3,837,027</u>	<u>\$ 609,181</u>	<u>\$ -</u>	<u>\$ 780,014</u>	<u>\$ 5,226,222</u>

9. PENSION PLAN

On August 23, 2017, Act No. 106 was enacted, which is known as the "Law to Guarantee Payment to our Pensioners". Under this Act, starting July 1, 2017, the General Fund, through the system of "pay-as-you-go" (PayGo), assumes the payments of the three Retirement Systems (Employees Retirement System [ERS] of the Government of the Commonwealth, the Teachers' Retirement System and Judiciary Retirement System), because the retirement plan have depleted the assets set aside to pay benefits.

The Institute will assume the proportional share of the pension benefits of the Institute's retirees. Under Act No. 106, active employees will be required to contribute a minimum of 8.5% of their compensation, into a defined contribution plan, with no employer matching. Contributions will be deposited in a separate account for each employee and invested in accordance with certain guidelines. Upon retirement, employees will receive retirement benefits accumulated after the enactment of Act No. 106, with certain limitations, plus benefits accumulated until the enactment of Act No. 106, with certain limitations, including benefits accumulated under previous defined benefit, defined contribution and hybrid plans, as discussed below.

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9. PENSION PLAN (CONTINUED)

Benefits accumulated after the enactment of Act No. 106 include only those amounts contributed by the participant during that period and the yield from those deposits. Based on the investment instruments acquire by the participant there are investment risks that may impair the value of the participant account.

Before Act No. 106, the Institute's employees participated in a cost-sharing, multi-employer defined-benefit pension plan administered by the Puerto Rico Government Employees (the ERS Administrator). The ERS, is a trust created by Act No. 447 of May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities of Puerto Rico. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth, non-substantially depleted.

The ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer defined-benefit program, a defined-contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions were different depending on member's date of hire. Substantially, all full-time employees of the Institute were covered by the ERS. Membership was mandatory for all regular, appointed, and temporary employees of the Institute at the date of employment.

The ERS also provided basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administered benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits included, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer Christmas bonuses. Act No. 3-2013 and Act No. 160-2013 amended the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

On June 30, 2016, the federal Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") was enacted. This US federal law established a Financial Oversight and Management Board (the Oversight Board), a process for restructuring debt, and expedited procedures for approving critical infrastructure projects in order to combat the debt crisis in the Commonwealth.

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9. PENSION PLAN (CONTINUED)

On September 30, 2016, the ERS was designated by the Oversight Board as a Covered Territorial Instrumentality pursuant to PROMESA. On May 21, 2017, the Oversight Board filed in the United States District Court for the District of Puerto Rico voluntary petition under Title III of PROMESA for the Puerto Rico Highway and Transportation Authority and the ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases.

As of June 30, 2019, the Institute disclosed a liability of \$58,804,169 for its proportionate share of the total pension liability. This liability was determined as of June 30, 2018, based on the requirements of the GASB Statements No. 73. Accordingly, this total pension liability is recorded in the Institute's accounting records as of June 30, 2019. The amount was measured as of June 30, 2018 and the total pension liability used to calculate the liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to the measurement date of June 30, 2018. The Institute's share of the total pension liability was based on a projection of the Institute's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. On June 30, 2018, the Institute's proportionate share was 0.24% which was an increase of 0.14% from its proportionate share measured on June 30, 2017.

Also, as of June 30, 2019, the reported deferred outflows of resources and deferred inflows of resources related to pensions are from the following sources:

	<u>June 30, 2019</u>	
	<u>Deferred</u>	
	<u>Outflows of</u>	<u>Deferred Inflows</u>
	<u>Resources</u>	<u>of Resources</u>
Difference between expected and actual experience	\$ -	\$ 1,778,541
Change of assumptions	866,397	1,928,313
Change in proportions and difference between the employer's contributions and proportionate share of contributions	-	-
Institute contributions subsequent to measurement date	3,019,561	-
Total	<u>3,885,958</u>	<u>\$ 3,706,854</u>

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9. PENSION PLAN (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2019 will be recognized in pension expense (benefit) in future years as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 568,090
2021	568,090
2022	568,090
2023	568,090
Total	<u><u>\$2,272,360.00</u></u>

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3% per year. No compensation increases are assumed until July 1, 2021, as a result of Act No. 3-20117, four-year extension of Act No. 66-2014 and the current general economy.

The mortality tables used in the June 30, 2018 valuation were as follows:

Pre-Retirement Mortality: For general employees not covered by Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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9. PENSION PLAN (CONTINUED)

100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

Post-Retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement.

The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 01, 2015 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, 2005 and 2007.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Therefore, actuarial determined amounts are subject to change in the near term.

Discount Rate

The discount rate was 3.87% on June 30, 2018. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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9. PENSION PLAN (CONTINUED)

Sensitivity of the Institute's total pension liability to changes in the discount rate

The following table presents the Institute's total pension liability calculated using the discount rate of 3.87%, as well as what it would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>At Current Discount Rate</u>	<u>1% Increase</u>
	2.87%	3.87%	4.87%
Total pension liability	\$ 66,914,666	\$ 58,804,169	\$ 52,222,569

Pension expense

The components of allocable pension expense for year ending June 30, 2019 are as follows:

	<u>Amount</u>	<u>Proportionate Share</u>
Service cost	\$ 72,731,967	\$ 174,644
Interest on total pension liability	931,059,441	2,235,660
Effect of plan changes	(1,532,941,654)	(3,680,899)
Recognition (amortization) of deferred inflows/outflows of resources:		173,279
Difference between expected and actual experience	(148,137,840)	(355,709)
Changes in assumptions	(160,612,593)	(385,663)
Pension expense (benefit)	<u>\$ (837,900,679)</u>	<u>\$ (1,838,688)</u>

Effective July 1, 2017, the Commonwealth of Puerto Rico, its component units and municipalities were required to implement a "pay-as-you-go" (PayGo) system for the payment of pensions pursuant to Circular Letter No. 1300-46-17 issued by the Department of Treasury of the Commonwealth of Puerto Rico (CL-1300-46-17). Act No. 106 of August 23, 2017 (Act No. 106-2017) provided the legal framework for the Commonwealth of Puerto Rico to implement the PayGo system. Pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. Also, the employers' contributions and the Additional Uniform Contribution were eliminated.

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10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

The Institute is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits provided

ERS MIPC covers a payment of up to \$100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The Institute's contribution is financed through the monthly "PayGo" charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

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10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Allocation Methodology

GASB Statement No. 75 requires that the primary government and its component units that provide OPEB benefits through the same defined benefit OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ratio of the Institute's actual benefit payments to the total actual benefit payments paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

Total OPEB Liability and Actuarial Information

The Institute's total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Actuarial assumptions

Discount rate

The discount rate for June 30, 2019 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees-based experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Institute at June 30, 2018, calculated using the discount rate of 3.87%, as well as the Plan total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (2.87%) or 1-percentage point higher (4.87%) than the current rate:

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

	<u>1% Decrease</u>	<u>At Current Discount Rate</u>	<u>1% Increase</u>
	2.87%	3.87%	4.87%
Total OPEB liability	<u>\$ 2,406,985</u>	<u>\$ 2,194,541</u>	<u>\$ 2,014,200</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, the Institute recognized Deferred Outflows of Resources of \$178,164 as of June 30, 2019 due to OPEB benefits paid subsequent to the measurement date.

OPEB Expense (benefit)

The components of OPEB expense (benefit for the year ending June 30, 2019) are as follows:

	<u>Amount</u>	<u>Proportionate Share</u>
Interest on total OPEB liability	\$ 31,713,470	\$ 82,642
Effect on economic/demographics gains and losses	(15,457,521)	(40,280)
Net amortization from changes in proportion	-	72,598
Effect of assumptions changes or inputs	(24,672,829)	(64,295)
OPEB expense (benefit)	<u>\$ (8,416,880)</u>	<u>\$ 50,665</u>

11. VOLUNTARY TERMINATION BENEFITS

During the 2010-11 fiscal year, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations whose budget is fully or partially funded by the General Fund, known as Law #70 of July 2, 2010. The program included early retirement incentives for employees not eligible for retirement and retirement incentives for employees eligible for retirement. Under the plan, employees could select one of three options as follows:

INSTITUTE OF PUERTO RICAN CULTURE
 (A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

11. VOLUNTARY TERMINATION BENEFITS (CONTINUED)

Article 4(a) provides economic incentive based on the following parameters:

<u>Years of Services in Public Sector</u>	<u>Incentive Gross Amount</u>
Up to 1 year	1 month of salary
From 1 year and 1 day up to 3 years	3 months of salary
From 3 years and 1 day up to 3 years	6 months of salary

Article 4(b) provides, employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, will receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements.

Annuity pension payment is based on the following parameters:

<u>Credited Years of Service</u>	<u>Pension Payment (As a % of salary)</u>
15	37.50%
16	40.00%
17	42.50%
18	45.00%
19	47.50%
20 to 29	50.00%

INSTITUTE OF PUERTO RICAN CULTURE
 (A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

11. VOLUNTARY TERMINATION BENEFITS (CONTINUED)

The Institute will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited. At June 30, 2019 unpaid long-term benefits granted on Act 70 were discounted at 2.20%.

Voluntary termination benefits movement as of June 30, 2019 was as follows:

	Beginning Balance	Net Change	Ending Balance	Due within One Year
Voluntary Termination Benefits	<u>\$ 2,242,021</u>	<u>\$ (311,944)</u>	<u>\$ 1,930,077</u>	<u>\$ 334,071</u>

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

12. CONTINGENCIES

The Institute is a defendant to various legal claims resulting from its operations. As a component unit of the Commonwealth of Puerto Rico, all legal claims are handled by the Department of Justice and any liability resulting from these claims is covered by a separate fund established by the Commonwealth of Puerto Rico, if funds are not specifically available at the Institute for this purpose.

As result of consultations with its in-house and external legal counsels, management believes that the ultimate outcome of any pending litigation will not have a significant impact to the accompanying financial statements.

Federal Awards

The Institute participates in various federal financial assistance's programs. These programs are subject to audits in accordance with the provisions of Title 2 CFR part 200, subpart F. If expenditures are disallowed due to noncompliance with grant program requirements, the Institute may be required to reimburse the grantor or agency. Nevertheless, the Institute's management believes that disallowed expenditures, if any, will not have a material effect on the results of its operations.

13. CULTURAL AFFAIRS FINANCING FUND

The Act 115 of July 20, 1988, amended by Act 200 of December 4, 2015, created the Cultural Affairs Financing Fund (the "Fund"). The purposes of the Fund are to finance, encourage, develop and stimulate cultural and artistic activities that natural persons, non-profit institutions, corporations, societies, associations and diverse groups carry out through repayable and non-refundable financial mechanisms, as indicated by regulation of the Administrative Council established by Act 115. For the year ended June 30, 2019, the Cultural Affairs Financing Fund had no operations and was included in the Non-Major Funds column in the fund financial statements.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

14. RESTATEMENT OF FUND BALANCE AND NET POSITION

The following table disclosed the net change in fund balances and net position at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

Description	Fund Financial Statements					Government- Wide Financial Statements-Net Position
	General Fund	Special Appropriation Fund	Cultural Affairs Financing Fund	Federal Grants Fund	Other Governmental Funds	Governmental Activities
Total fund balances / net position, at beginning of year, as previously reported	\$ 2,250,341	\$ 713,279	\$ 13,600	\$ -	\$ 718,118	\$ 8,687,385
Recognition of allowance for uncollectible accounts from prior years	(92,410)	(34,804)	(13,600)	(94)	(18,751)	(159,659)
To correct difference with cash subsidiary	(3,588)	-	-	-	-	(3,588)
To correct difference with property subsidiary	-	-	-	-	-	(39,258)
To correct accrued interest on line of credit on prior years	-	-	-	-	-	50,277
Restatements to recognize changes in accounting principles, pension related :						
OPEB Liability	-	-	-	-	-	(2,326,150)
OPEB Deferred outflows of resources	-	-	-	-	-	182,274
Net Pension Liability	-	-	-	-	-	4,617,968
Net deferred outflows/inflows of resources	-	-	-	-	-	(3,430,987)
Fund balance/net position, beginning, as restated	<u>\$ 2,154,343</u>	<u>\$ 678,475</u>	<u>\$ -</u>	<u>\$ (94)</u>	<u>\$ 699,367</u>	<u>\$ 7,578,262</u>

15. SUBSEQUENT EVENTS

The Institute evaluated subsequent events through October 20, 2021, the date on which the financial statements were available to be issued.

Accounts payable to PREPA

As of June 30, 2019, the Institute's debt with the Puerto Rico Electric Power Authority (PREPA) totaled \$1.7 million, as recognized in its accounts payable balance. The total amount was paid during the year 2020.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

15. SUBSEQUENT EVENTS (CONTINUED)

Federal funds claimed to GDB

The Institute claimed federal funds that were maintained in GDB prior the bank closing. Funds claimed total was \$1,958,230 from NEA grants 09-6100-2051, 10,6100-2054, 11-6100-2056, 13-6100-2059, and 14-6100-2059. On June 30, 2020, the Puerto Rico Treasury Department deposited the total amount in the Institute's commercial bank account.

Impact of Earthquake in Puerto Rico

On January 7, 2020 the Puerto Rico South Central Area experienced a magnitude 6.4 earthquake located 6 kilometers south of the Municipality of Guayanilla. It was followed by many aftershocks through December 2020.

The United States President approved a disaster declaration for affected municipalities in the area and federal assistance have been made available to supplement local recovery efforts. The Institute owns buildings in the affected area and is evaluating with FEMA damages to its properties. Total costs due to earthquake damage cannot be calculated at this time.

Puerto Rico Covid-19 Pandemic (DR-4493)

On March 13, 2020, FEMA issued a nationwide Emergency Declaration in response to the ongoing Coronavirus COVID-19 pandemic. On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public lockdown necessary to prevent the effects of the coronavirus (COVID-19) and control the risk of contagion within the Island.

Following CDC guidance, the Order includes several important quarantine and social distancing measures aimed at protecting the health and welfare of Puerto Rican citizens, including implementation of a curfew and the shutdown of non-essential commercial activity. Several Executives Orders have been issued since, being August 19, 2021 the latest.

On March 27, 2020, the President of the United States of America declared that a major disaster exists in the Commonwealth of Puerto Rico and ordered Federal assistance to supplement Commonwealth and local recovery efforts in the areas affected by the Coronavirus Disease 2019 (COVID-19) pandemic beginning on January 20, 2020 and continuing. Federal funding is available to Commonwealth and eligible local governments and certain private nonprofit organizations for emergency protective measures, including direct Federal assistance, for all areas in the Commonwealth of Puerto Rico impacted by COVID-19.

CARES Act – Stimulus Package

The CARES Act has assigned funds to the Puerto Rico Government where part of such funds was allocated as transfers grant to the local governments and agencies, including the Institute, and other as participating funds transferred through approved proposals. This should help the Institute to cover costs arising from the said emergency. Accordingly, the Institute received a grant agreement with National Endowment for the Arts for a total amount of \$443,000.

End of notes.

SUPPLEMENTARY INFORMATION

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

As of June 30,	GASB 73	GASB 68			
	2019	2018	2017	2016	2015
Institute's proportionate share of the total pension liability	0.24012%	0.09241%	0.09613%	0.09137%	0.08785%
Institute's proportionate share of the total pension liability	\$ 58,804,169	\$ 31,620,368	\$ 36,238,336	\$ 30,460,270	\$ 24,476,427
Total covered payroll per valuation report (All employers)	N/A	\$ 690,933,522	\$ 3,344,382,000	\$ 3,319,280,000	\$ 3,489,096,000
Institute's proportion of covered payroll calculation	N/A	\$ 638,479	\$ 3,214,954	\$ 3,032,826	\$ 3,065,171
Institute's proportionate share of the total pension liability as a percentage of its covered-employee payroll	N/A	4952.46%	1127.18%	1004.35%	798.53%
Plan fiduciary net position as percentage of the total pension liability (All employers)	N/A	6.20%	3.47%	2.05%	0.27%

Notes to required supplementary information

As a result of the implementation of the PayGo system, as provided by Act. No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be consider a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance of GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.

The Institute's proportion of the total pension liability was actuarially determined based on the ratio of the Institute's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.

The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

The amounts presented were determined by an actuarial valuation as of July 1, 2017 that was rolled forward to June 30, 2018, the measurement date.

There are no assets accumulated in a trust to pay related benefits.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Valuation Date: July 1, 2017
Measurement Date: June 30, 2018

Actuarially determined contribution rates are calculated as of June 30, 2017, one year prior to the end of the fiscal year in which contributions are reported and applied to all periods included in the measurement.

Actuarial cost method	Entry Age Normal Cost Method
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

Pre-Retirement Mortality	For general employees not covered by Act No. 127, RP2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP2018 from 2006 base year and projected forward using MP2018 on generational basis. For members covered under Act No. 127, RP2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP2018 from 2006 base year and projected forward using MP2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.
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100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Post-Retirement Healthy Mortality	Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP1994 Mortality Table for Males and 95% of the rates from the UP1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
Post-Retirement Disabled Mortality	Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP1994 Mortality Table for Males and 115% of the rates from the UP1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

As of June 30,	<u>2019</u>	<u>2018</u>	<u>2017</u>
Institute's proportionate share of the total OPEB liability	<u>0.26059%</u>	<u>0.25270%</u>	<u>0.25007%</u>
Institute's proportionate share of the total OPEB liability	\$ 2,194,541	\$ 2,326,150	\$ 2,963,617

Notes to required supplementary information

The Institute's proportion of the total OPEB liability was actuarially determined based on the ration of the Institute's benefit payments to the total benefit payments made by all participating employers under the OPEB Plan for the year ending on the measurement date.

The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

The amounts determined by an actuarial valuation as of July 1, 2017 that was rolled forward to June 30, 2018, the measurement date.

There are no assets accumulated in a trust to pay related benefits.

**INSTITUTE OF PUERTO RICAN CULTURE
 (A Component Unit of the Commonwealth of Puerto Rico)
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>TOTAL EXPENDITURES</u>
Direct Programs:			
National Endowment for the Arts Promotion of the Arts- State:			
Partnership Agreements	45.025	1845512-61-18	\$ <u>1,199,051</u>
Total National Endowment for the Arts			<u>1,199,051</u>
National Endowment for the Humanities Division of Preservation and Access:			
Cooperative Agreements and Special Projects (P&A)	45.149	PB-261002-18	<u>29,888</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,228,939</u>

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Institute of Puerto Rican Culture (the Institute) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Institute of Puerto Rican Culture, it is not intended to and does not present the financial position or changes in net position of the Institute of Puerto Rican Culture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The financial transactions are recorded by the Institute in accordance with the terms and conditions of the grant, which may not be consistent with accounting principles generally accepted in the United States of America. Expenditures are recognized in the accounting period in which the liability is incurred, is measurable or when actually paid, whichever occurs first.

3. CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

4. ADMINISTRATIVE COSTS

The Institute of Puerto Rican Culture does not have a federally negotiated indirect cost rate applicable to the programs. No election has made to the 10 percent de minimis cost rate.



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To the Board of Directors of
Institute of Puerto Rico Culture

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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 aggregated remaining fund information of the Institute of Puerto Rican Culture (the Institute) as of June 30, 2019 and for the year then ended and the related notes to the financial statements, which collectively comprise the Institute's financial statements, and have issued our report thereon dated October 20, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item number 2019-001 that we considered to be material weaknesses.

(Continues)

To the Board of Directors of
Institute of Puerto Rican Culture

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

The Institute's Response to the Finding

The Institute's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Institute's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Guaynabo, Puerto Rico
October 20, 2021

The stamp number E479497 was
affixed to the original of this report.

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

License No. 218
Expires December 1, 2023.

To the Board of Director of
Institute of Puerto Rican Culture

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Report on Compliance for Each Major Federal Program

We have audited the Institute of Puerto Rican Culture's (the Institute) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Institute's major federal programs for the year ended June 30, 2019. The Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Basis for Qualified Opinion on Promotion of the Arts Partnerships Agreements

As described in the accompanying schedule of findings and questioned costs, the Institute did not comply with a requirement regarding CFDA 45.025 Promotion of the Arts Partnerships Agreements as described in finding number 2019-002 for Reporting. Compliance with this requirement is necessary, in our opinion, for the Institute to comply with the requirement applicable to that program.

Qualified Opinion on Promotion of the Arts Partnerships Agreements

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Promotion of the Arts Partnership Agreements for the year ended June 30, 2019.

The Institute's Response to the Finding

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

(Continues)

To the Board of Directors of
Institute of Puerto Rican Culture

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control over compliance, as described in the accompanying schedule of findings, and questioned costs as item 2019-02 that we consider to be a material weakness.

The Institute's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Institute's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Guaynabo, Puerto Rico
October 20, 2021

The stamp number E479498 was
affixed to the original of this report.

Baker Tilly Puerto Rico, CPAs, PSC

BAKER TILLY PUERTO RICO, CPAs, PSC

License No. 218
Expires December 1, 2023.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified Opinion
Modified: Qualified Opinion
 Adverse Opinion
 Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Type of auditors’ report issued on compliance for Major Programs: Unmodified Opinion
Modified: Qualified Opinion
 Adverse Opinion
 Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
45.025	Promotion of the Arts Partnership Agreements

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

Auditee qualified as low-risk auditee? Yes No

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION II – FINANCIAL STATEMENTS FINDING

FINDING NO. 2019-001

Federal Program Promotion of the Arts Partnership Agreement
CFDA 45.025
Federal Agency National Endowment for the Arts
Category Internal control -Material Weakness

Criteria

2 CFR §200.303 Internal Control.

The non-Federal entity must perform the following:

- (a) Establish and maintain effective controls that provide reasonable assurance that the non-Federal entity is managing Federal awards in compliance with Federal statutes, regulations, and the related terms and conditions. These internal control should be in compliance with the guidance in “Standards for Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b)
- (c) Evaluate and monitor the non-Federal entity’s compliance with statutes, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instance of noncompliance are identified including noncompliance identified in audit findings.

Condition

- (a) The Institute’s inventory could not be observed, and count tested as of June 30, 2019, as required by auditing standards generally accepted in the United States of America.
- (b) State General and Special Funds Budget Resolutions – The Institute maintained unencumbered general and special appropriation funds related to previous years with the Treasury and no detail was provided of the funds as of June 30, 2019, that may indicate its availability from the current and prior fiscal years.

Cause

There was a reduction in accounting personnel. In addition, there has been a delay during the last two years in the contract process for the annual audit of the Institute.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION II – FINANCIAL STATEMENTS FINDING (CONTINUED)

FINDING NO. 2019-001 (CONTINUED)

Effects

Missing or incomplete information in the reporting process can represent a material misstatement in the financial statements.

The absence of adequate detail of accounts could lead to the use of non-available funds and the later reimbursement or reduction in budgetary amounts as a result of Act No. 26-2017 limitations and restrictions.

Questioned Costs

None

Recommendation

The Institute should ascertain that there are controls and procedures established with respect to the inventory counting process and significant estimates for inventory. The Institute should assign knowledgeable staff to assist the Finance Director to review significant judgments and estimates with respect to the inventory balance included in the financial records at the end of every accounting period, including the identification of any obsolete or slow-moving inventory as well as for the monitoring of any unencumbered funds to ensure that they are obligated and paid before the due dates established by regulation.

Views of Responsible Official (Unaudited)

Refer to Corrective Action Plan.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NO. 2019-002

Federal Program Promotion of the Arts Partnership Agreement
CFDA 45.025
Federal Agency National Endowment for the Arts
Category Compliance- Internal control over compliance

Criteria

2 CFR §200.501 Audit requirements.

- (e) Audit required. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

- (f) Subrecipients and contractors. An auditee may simultaneously be a recipient, a subrecipient, and a contractor. Federal awards expended as a recipient or a subrecipient are subject to audit under this part. The payments received for goods or services provided as a contractor are not Federal awards. Section §200.331 sets forth the considerations in determining whether payments constitute a Federal award or a payment for goods or services provided as a contractor. (Refer also to 10 CFR §600.226, Non-Federal audit, 10 CFR §600.126, Non-Federal audits, and 45 CFR §75.501, Audit requirement).

Condition

The Institute has not submitted the Single Audit Reporting Packages for the fiscal years ended June 30, 2019 and 2020.

Cause

Decrease in the personnel availability due to the extensive effects of the COVID 19- pandemic.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

FINDING NO. 2019-002 (CONTINUED)

Effect

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions, the Federal awarding agency may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correcting of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available

Questioned Costs

None

Recommendation

Monitoring reporting procedures should be implemented to ensure that the Institute complies with the established Federal Regulation, as prescribed by OMB Super Circular Uniform Guidance, and avoid a similar situation in the future.

Views of Responsible Official (Unaudited)

Refer to Corrective Action Plan.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION IV – PRIOR AUDITS FINDINGS AND QUESTIONED COSTS

Finding Number 2018-001

Condition

- Several situations related to deviations of the accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB) are as follow:
- The Institute's inventory could not be observed and count tested as of June 30, 2018, has a significant amount of inventory that has become obsolete or slow-moving, and some historic collections that have been inadvertently classified as inventory. The Institute has not established a process to write-down inventory to the lower of cost or market.
- The institute has not performed an evaluation of the allowance for doubtful accounts for all accounts receivable outstanding in the general fund.
- The Institute did not:
 - Record in the government-wide financial statements pension transactions, as required by *GASB Statement No.68, Accounting and Financial Reporting for Pensions*, including among others, payments made by the Commonwealth of PR to cover the Institute's proportional share of the cost of the Pay-as-You-Go obligation.
 - Implement *GASB Statement No 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*
- The Institute maintained unencumbered appropriations from prior years with the Treasury and no detail was provided of the funds as of June 30, 2018, that may indicate its availability from the current and prior fiscal years.

Status

Partially corrected. The conditions related to the physical count of the inventory and the state general and special funds budget resolutions were still present during the 2018-2019 audit.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION IV – PRIOR AUDITS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding Number 2018-002

Condition

In one instance out of five sponsored projects related to the Promotion and Arts Partnership Agreement, the Institute took more than thirty days to approve the final report and disburse the federal funds

Status

This situation was not presented in the tests performed for the 2018-2019 audit. The Institute's management improves the timeliness of approving and disbursing the funds.

Finding Number 2018-003

Procurement, suspension, and debarment compliance requirement- In a sample of five disbursements the following documents were not available for examination:

<u>Document</u>	<u>Instances</u>
Employers' registry in the PR Department of Labor	3
Driver Insurance debt certification	3
Evidence of a bank account	1
Certification of the work performed	1

Status

This situation was not presented during the 2018-2019 audit. There was an improvement in the process of reviewing the contracts.

Finding Number 2018-004

The Institute did not timely submit the Single Audit Reporting Packages for the fiscal year ended June 30, 2018.

Repeated finding- This situation was also presented in the single audit for the year ended June 30, 2017

Status

Uncorrected. Refer to finding 2019-002.

CORRECTIVE ACTION PLAN



INSTITUTO
de CULTURA
PUERTORRIQUEÑA

**Corrective Action Plan
For the Year Ended June 30, 2019**

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2018 – June 30, 2019

Fiscal Year: 2018-2019

Principal Executive: Mr. Carlos Ruiz Cortés

Contact Person: Mrs. Wanda Barbosa Accounting and Finance Director

Phone: (787) 724-0700

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-001	We partially concur with the finding.	<p>a. Inventory- The inventory was observed by subsequent auditors, in September 2021. We expect that subsequently auditors observe inventory as required by regulation.</p> <p>b. State General and Special Funds Budget Resolutions- The Institute, as a component unit of the Commonwealth of Puerto Rico, are under budgetary restrictions as per the Financial Oversight and Management Board for Puerto Rico. The Board restricts the use of unencumbered amounts in the Institute's bank accounts but as of this date petitions to use the funds for the Institute's operations have been approved.</p> <p>Responsible person: Mrs. Wanda Barbosa – Accounting and Finance Director Implementation date: June 30, 2022</p>



INSTITUTO
de CULTURA
PUERTORRIQUEÑA

**Corrective Action Plan
For the Year Ended June 30, 2019**

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2018 – June 30, 2019

Fiscal Year: 2018-2019

Principal Executive: Mr. Carlos Ruiz Cortés

Contact Person: Mrs. Wanda Barbosa Accounting and Finance Director

Phone: (787) 724-0700

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-002	We concur with the finding.	<p>The situation aised from the effects of hurricanes, the COVID-19 pandemic and the subsequent periods of emergency, in which the administrative and operational efforts of the Institute have been restoring and protecting the Island's cultural heritage. Notwithstanding the budgetary restrictions imposed on the Institute by the Financial Oversight and Management Board for Puerto Rico, the Institute expects to comply with the Single Audit Report deadline in the following year.</p> <p>Responsible person: Mrs. Wanda Barbosa – Accounting and Finance Director Implementation date: March 31, 2022.</p>