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COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF PUERTO RICAN CULTURE  
(A COMPONENT UNIT OF THE  
COMMONWEALTH OF PUERTO RICO)

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BASIC FINANCIAL STATEMENTS, REQUIRED  
SUPPLEMENTARY INFORMATION AND  
INDEPENDENT AUDITORS' REPORT  
(WITH THE ADDITIONAL REPORTS REQUIRED BY  
THE GOVERNMENT AUDITING STANDARDS  
AND THE UNIFORM GUIDANCE)

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FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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INSTITUTO de CULTURA  
PUERTORRIQUEÑA

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

COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF PUERTO RICAN CULTURE  
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements  
For the fiscal year ended June 30, 2023

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Basic Financial Statements  
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Rodríguez & Santiago, CPA's, PSC  
Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

**Board of Directors of  
Institute of Puerto Rican Culture  
(A Component unit of the  
Commonwealth of Puerto Rico)  
San Juan, Puerto Rico**

### **Report on the Audit of the Financial Statements**

#### **Opinions**

We have audited the accompanying basic financial statements of the Governmental Activities and Each Major Fund and Other Non-major Funds of the **Institute of Puerto Rican Culture (A Component Unit of the Commonwealth of Puerto Rico) ("the Institute")** as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the **Institute's** basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities and each Major Fund of the **Institute**, as of June 30, 2023, 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.

#### **Emphasis of a Matter**

As of June 30, 2023, the **Institute** maintains deposited on its commercial bank account certain surpluses funds from prior years that might be subject to the provisions of Law No. 26. As of the date of the financial statements, no final determination have been made by the designed committee in relation to any amount of those surpluses funds that shall be transferred by the **Institute**, if any.

#### **Responsibilities of Management for the Financial Statements**

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

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

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***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Institute's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Institute's** ability to continue as a going concern for a reasonable period of time.

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

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***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 proportionate share of collective total pension liability and total other post-employment benefits on pages 71 through 73, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the 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 of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the **Institute's** 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 Management, Cost Principles and Audit Requirement for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, presented in page 74, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2024, on our consideration of the **Institute's** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Institute's** internal control over financial reporting and compliance.

*R & S, CPA'S PSC*

**RODRIGUEZ & SANTIAGO, CPA'S PSC**

San Juan, Puerto Rico  
March 25, 2024

Stamp No. **E556629** of the  
Puerto Rico Society of Certified  
Public Accountants was affixed in  
the original of this report.

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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, 2023. The MD&A is intended to serve as an introduction to the **Institute’s** 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’s** 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**

- As of June 30, 2023, the **Institute’s** total liabilities and deferred inflows of resources exceeded its total assets and deferred outflows of resources by **\$(13) million** resulting in a net position (deficit). The net position (deficit) decreased by **\$7 million** when compared with the net position balance for the fiscal year ended June 30, 2022.
- General fund’s operations resulted in an excess of revenues and other financing sources over expenditures and other financing uses amounting to **\$2.2 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 17. 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 governmental-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**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**For the fiscal year ended June 30, 2023**

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*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, and 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 fund 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.

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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**For the fiscal year ended June 30, 2023**

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**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, 2023 and 2022, as restated.

<b>Table 1</b>	<b>2022</b>			
<b>Statements of Net Position</b>	<b>2023</b>	<b>as restated</b>	<b>Change</b>	<b>%</b>
Current assets	\$ 32,228,250	\$ 39,518,961	\$ (7,290,711)	-18%
Capital assets	30,135,053	31,642,902	(1,507,849)	-5%
Deferred outflows of resources	10,142,204	10,054,531	87,673	1%
<b>Total Assets and Deferred Outflows of Resources</b>	<b>72,505,507</b>	<b>81,216,394</b>	<b>(8,710,887)</b>	<b>-11%</b>
Current liabilities	25,960,251	34,939,234	(8,978,983)	-26%
Long-term liabilities	52,706,868	61,295,689	(8,588,821)	-14%
Deferred inflows of resources	6,870,000	5,044,044	1,825,956	36%
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>85,537,119</b>	<b>101,278,967</b>	<b>(15,741,848)</b>	<b>-16%</b>
<b>Net position:</b>				
Net investment in capital assets	30,135,053	31,642,902	(1,507,849)	-5%
Restricted for capital projects	680,115	637,916	42,199	7%
Unrestricted (deficit)	(43,846,780)	(52,343,391)	8,496,611	16%
<b>Total Net Position</b>	<b>\$ (13,031,612)</b>	<b>\$ (20,062,573)</b>	<b>\$ 7,030,961</b>	<b>35%</b>

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**Net Position**

Net position may serve over time as a useful indicator of the **Institute's** financial position. A portion of the **Institute's** net position reflects its investment in capital assets such as 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. Mostly, the adoption of 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* impacted the **Institute** long term liabilities by **\$52.8** million in total pension liability.

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 **\$1.9** million for the effects of the **Institute's** proportionate share of the total OPEB liability.

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.

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**INSTITUTE OF PUERTO RICAN CULTURE**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**For the fiscal year ended June 30, 2023**

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**Governmental activities**

Revenues for the **Institute's** governmental activities (including grants for capital improvements) increased by **42%** or **\$6.8** million. Total expenses decreased by **4%** or **\$600** thousand as shown on **Table 2**.

<b>Table 2</b> <b>Statement of Activities</b>	<b>2023</b>	<b>2022</b> <b>as restated</b>	<b>Change</b>	<b>%</b>
<b>Revenues</b>				
<b>Functions/Programs</b>				
<b>Governmental activities:</b>				
Administrative services	\$ 21,437,018	\$ 13,030,176	\$ 8,406,842	65%
Culture promotion	227,185	961,000	(733,815)	-76%
Documental patrimony conservation	229,174	1,316,000	(1,086,826)	-83%
Historic patrimony conservation	1,120,000	852,000	268,000	31%
Total revenues	<u>23,013,377</u>	<u>16,159,176</u>	<u>6,854,201</u>	<u>42%</u>
<b>Expenses</b>				
<b>Functions/Programs</b>				
<b>Governmental activities:</b>				
Administrative services	11,182,725	12,265,009	(1,082,284)	-9%
Culture promotion	1,485,409	1,311,535	173,874	13%
Documental patrimony conservation	1,768,346	1,457,678	310,668	21%
Historic patrimony conservation	1,545,936	1,547,072	(1,136)	0%
Total expenses	<u>15,982,416</u>	<u>16,581,294</u>	<u>(598,878)</u>	<u>-4%</u>
Changes in net position	7,030,961	(422,118)	7,453,079	1766%
Net position – beginning, as restated	(20,062,573)	(19,862,088)	(200,485)	-1%
<b>Net position – ending</b>	<u>\$ (13,031,612)</u>	<u>\$ (20,284,206)</u>	<u>\$ 7,252,594</u>	<u>36%</u>

The increase in revenues was mainly due to additional ARPA funds recognized for fiscal year 2022-23.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**  
**For the fiscal year ended June 30, 2023**

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Decrease in **Institute's** expenses was mainly due to current year change in pension expenses and deferred outflows and inflows of resources.

**Capital Assets**

As of June 30, 2023, the **Institute** had **\$30.1** million invested in capital assets net from accumulated depreciation. This amount represents a net decrease of **\$1.5** million when compared to the fiscal year ended June 30, 2022. Capital assets depreciation recorded during the fiscal year ended June 30, 2023 amounted to **\$2.97** million and additions made during the year amount to **\$1.5** million.

A detail of the **Institute's** capital assets at June 30, 2023 and 2022 follows:

<b>Table 3 Capital Assets</b>	<b>2023</b>	<b>2022</b>	<b>Change</b>
Land	\$ 55,205	\$ 55,205	\$ -
Construction in progress	1,159,423	-	1,159,423
Equipment in transit	192,226	-	192,226
Building and improvements	105,382,192	105,382,192	-
Furniture, fixtures and equipment	3,875,187	3,965,764	(90,577)
Computers and software	2,939,212	2,878,686	60,526
Vehicles	397,348	692,826	(295,478)
Total capital assets	\$ 114,000,793	\$ 112,974,673	1,026,120
Less: accumulated depreciation	(83,865,740)	(81,331,502)	(2,534,238)
Capital assets, net of depreciation	\$ 30,135,053	\$ 31,643,171	\$ (1,508,118)

**Long-term Debt**

As of June 30, 2023, long-term debt of the **Institute** amounted to **\$56.2** million of which **\$3.5** million are due within one year. Long-term debt includes total pension liability recorded in accordance with GASB Statement No. 73 amounting to **\$52.8** million and total other post-employment benefits liability for a total of **\$1.9** million during the year ended June 30, 2023.

Long term debt decreased by approximately **13%** during fiscal year 2022-23.

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### **Hurricanes Irma and María**

During September 2017, hurricanes Irma and María struck the island of Puerto Rico causing widespread damages throughout the island. These hurricanes made landfall in the island 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 were substantial and have had a material adverse impact on economic activity in the island, thus, affecting the **Institute**.

The impact of these hurricanes caused certain damages to the property owned by the **Institute**. Management has initially determined that repairing the property damages resulting from the impact of the hurricanes, will have an estimated cost of approximately **\$25** million (including the cost of removing hazardous and poisonous materials). Management continues to evaluate the **Institute's** property and as a result additional costs may arise. However, the Institute determined that no impairment of the property was caused by this situation.

The **Institute's** insurance company filed for bankruptcy due to large claims arising from Hurricane María disaster. During the fiscal year ended June 30, 2021, the **Institute's** received **\$300,000** related to its insurance claim. Negotiations with FEMA and other State Agencies to cover the reconstruction costs are ongoing.

In addition, the **Institute** contracted a consultant to speed up the process of presenting claims to FEMA and it is in the process of determining the total damages caused by the hurricanes to determine the final amount to be claimed and approved to the **Institute**. Negotiations with FEMA and other State Agencies to cover the reconstruction costs are ongoing.

### **American Rescue Plan Act (ARPA)- Stimulus Package**

On March 11, 2021, was signed into law the American Rescue Plan Act (ARPA) of 2021, the latest COVID-19 stimulus package. Within ARPA, the Coronavirus State and Local Fiscal Recovery Fund provides **\$350** billion for states, municipalities, counties, tribes, and territories, including **\$130.2** billion for local governments split evenly between municipalities and counties. The **Institute** was assigned **\$28.5** million in ARPA funds during 2021-2022 fiscal year.

### **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 was caused by this situation.

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**Impact of Earthquake in Puerto Rico (continued)**

During the fiscal year ended June 30, 2021, the **Institute** received **\$539,985** for insurance recovery related to certain damages caused by the earthquakes that affected **Institute's** properties located in the southwest of the island during January 2020. As of June 30, 2023 FEMA has obligated **\$504** thousand for this disaster.

**Commonwealth Plan of Adjustment**

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law (the Findings of Fact) in connection with the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19812] (the Commonwealth Plan of Adjustment), and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022, and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals.

On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities, including laws providing appropriations to GDB, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of the Puerto Rico Public Finance Corporation Bonds and certain loans held by the Public Entity Trust. For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

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**Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico**

On February 21, 2023, the Office of the Administration and Transformation of Human Resources of the Government of Puerto Rico issued the Normative Letter No. 1-2023 in order to comply with the provisions and requirement of Law 8-2017 enacted on February 4, 2017.

Law No. 8-2017, as amended, known as the "Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico," establishes the Government of Puerto Rico as the Sole Employer, which means that public employees will be employees of the Central Government and not of the agencies. In addition, it centralizes the human resources administration system, eliminating from the category of individual administrators all those agencies and public instrumentalities of the Government of Puerto Rico, to guarantee the best use of the services offered by public servants.

Also, Law No. 8-2017, in its Article 4, creates the System of Administration and Transformation of Human Resources of the Government of Puerto Rico (hereinafter, Human Resources System) which will be administered by the Office of Administration and Transformation of Human Resources of the Government of Puerto Rico (hereinafter, OATRH by its spanish acronym) with the main purpose of achieving a job classification system aimed at applying, strengthening, evaluating and protecting the Merit Principle in public service. In addition, Law No. 8-2017 gave the OATRH the responsibility of centralizing and unifying the job classification plans of the agencies and public instrumentalities attached to the Central Government.

The classification of positions is based on criteria of uniformity, which is the basis of the equal and fair treatment that the Merit Principle would enter into public service. A job classification plan is a system by which the duties, responsibilities and authorities of positions are studied, analyzed and ordered and grouped into classes or series of classes. Accordingly, uniform treatment of posts and the employees occupying them is ensured in all matters relating to human resources administration. Among the advantages offered by a job classification plan are the following:

- Facilitates the job classification process
- Establishes the basis for the recruitment and selection of job candidates, as the class specifications contain the minimum requirements required for classes
- Provides for the determination of training needs to employees
- Facilitates the preparation of the budget
- Facilitates the processes of promotions, transfers and descents
- Establishes uniform occupational terminology
- Serves as an instrument for solving problems that may arise in the organization

The OATRH shall establish and maintain a rational structure of functions that tends to the greatest possible uniformity and that serves as a basis for the different human resources actions in the Central Government, as a Single Employer. The functions for carrying out government programs will be organized in such a way that logical units of work can be identified. These, in turn, will be integrated by groups of duties and responsibilities that will constitute the basic unit of work, that is, the position.



**Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico  
(continued)**

In accordance with the above, the OATRH developed the Job Classification Plans for the Career Service and the Trust Service (hereinafter, Classification Plans) of the Central Government, by virtue of the legal authority conferred on this Office by Article 4, Section 4.3, subsection (2) (o) and (p) of Law No. 8-20173. The implementation of the Classification Plans was effective as of July 1, 2019. In these Rules to Complete the Implementation Process of the Job Classification Plan of the Central Government Career Service, effective July 1, 2019 and the New Salary Structure that will govern the Career Service of the Central Government, effective January 1, 2023 (hereinafter, the Rules), explains the process of implementing job classification and the new salary structure of the Central Government Career Service.

**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, 2023**

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	<b>Governmental Activities</b>
<b>Assets</b>	
Cash in commercial banks	\$ 28,503,011
Receivables, net:	
Trade	1,521,454
Inventory	1,523,670
Restricted cash in commercial banks	680,115
Capital assets	
Land, construction in progress and equipment in transit	1,406,854
Other capital assets, net of depreciation and amortization	<u>28,728,199</u>
<b>Total assets</b>	<b><u>62,363,303</u></b>
<b>Deferred outflows of resources</b>	
Pension related	9,979,604
Other post-employment benefits related	<u>162,600</u>
<b>Total assets and deferred outflows of resources</b>	<b><u>72,505,507</u></b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	4,558,578
Unearned revenue	17,858,821
Liabilities payable within one year:	
Compensated absences	25,166
Voluntary termination benefits	221,672
Pension liability	3,133,414
Other post-employment benefits liability	162,600
Liabilities payable over one year:	
Compensated absences	478,149
Voluntary termination benefits	703,569
Pension liability	49,693,069
Other post-employment benefits liability	<u>1,832,081</u>
<b>Total liabilities</b>	<b><u>78,667,119</u></b>
<b>Deferred inflows of resources</b>	
Pension related	<u>6,870,000</u>
<b>Total liabilities and deferred inflows of resources</b>	<b><u>85,537,119</u></b>
<b>Net position</b>	
Investment in capital assets	30,135,053
Restricted for:	
Capital projects	680,115
Unrestricted	<u>(43,846,780)</u>
<b>Total net position (deficit)</b>	<b><u>\$ (13,031,612)</u></b>

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, 2023**

<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>
<b>Governmental Activities:</b>				
Administrative services	\$ 11,182,725	\$ 21,437,018	\$ -	\$ 10,254,293
Culture promotion	1,485,409	227,185	-	(1,258,224)
Documental patrimony conservation	1,768,346	229,174	-	(1,539,172)
Historic patrimony conservation	1,545,936	1,120,000	-	(425,936)
	<u>\$ 15,982,416</u>	<u>\$ 23,013,377</u>	<u>\$ -</u>	<u>7,030,961</u>
		<b>Change in net position</b>		7,030,961
		<b>Net position - beginning of fiscal year, as restated</b>		(20,062,573)
		<b>Net position - ending of fiscal year</b>		<u>\$ (13,031,612)</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, 2023**

	<u>General Fund</u>	<u>Federal Grants Fund</u>	<u>Other Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash in commercial banks	\$ 6,002,862	\$ 22,002,236	\$ 497,913	\$ 28,503,011
Receivables, net:				
Trade	1,504,022	17,149	283	1,521,454
Inventory	1,523,670	-	-	1,523,670
Restricted cash in commercial banks	-	-	680,115	680,115
Due from other funds	2,925,096	-	-	2,925,096
<b>Total assets</b>	<b><u>\$ 11,955,650</u></b>	<b><u>\$ 22,019,385</u></b>	<b><u>\$ 1,178,311</u></b>	<b><u>\$ 35,153,346</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 2,533,111	\$ 1,277,286	\$ 748,181	\$ 4,558,578
Due to other funds	-	2,883,278	41,818	2,925,096
Unearned revenue	-	17,858,821	-	17,858,821
<b>Total liabilities</b>	<b><u>2,533,111</u></b>	<b><u>22,019,385</u></b>	<b><u>789,999</u></b>	<b><u>25,342,495</u></b>
<b>Fund balances</b>				
Nonspendable	1,523,670	-	-	1,523,670
Restricted	-	-	680,115	680,115
Unassigned	7,898,869	-	(291,803)	7,607,066
<b>Total fund balances</b>	<b><u>9,422,539</u></b>	<b><u>-</u></b>	<b><u>388,312</u></b>	<b><u>9,810,851</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 11,955,650</u></b>	<b><u>\$ 22,019,385</u></b>	<b><u>\$ 1,178,311</u></b>	<b><u>\$ 35,153,346</u></b>

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 BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2023**

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<b>Total governmental fund balances</b>	<b>\$ 9,810,851</b>
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	30,135,053
Deferred outflows of resources - pension related	9,979,604
Deferred outflows of resources - OPEB related	162,600
Voluntary termination benefits not payable from current resources and, therefore, are not reported in the Balance Sheet- Governmental Funds:	(925,241)
OPEB liability are not payable from current resources and, therefore, are not reported in the Balance Sheet - Governmental Funds:	(1,994,681)
Compensated absences not liquidated immediately with current financial resources are not reported in the in the Balance Sheet - Governmental Funds:	(503,315)
Deferred inflows of resources - pension related	(6,870,000)
Pension liability	(52,826,483)
<b>Net position of governmental activities</b>	<b><u>\$ (13,031,612)</u></b>

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 BALANCE - GOVERNMENTAL FUNDS**  
**For the fiscal year ended June 30, 2023**

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	General Fund	Federal Grants Fund	Other Non-Major Funds	Total Governmental Funds
<b>Revenues</b>				
Contributions from Commonwealth	\$ 11,490,639	\$ -	\$ -	\$ 11,490,639
Intergovernmental	-	9,537,737	-	9,537,737
Other	1,502,183	-	482,818	1,985,001
<b>Total revenues</b>	<u>12,992,822</u>	<u>9,537,737</u>	<u>482,818</u>	<u>23,013,377</u>
<b>Expenditures</b>				
Administrative services	\$ 6,434,184	\$ 9,051,487	\$ 455,961	15,941,632
Culture promotion:				
Plastic arts	337,333	-	-	337,333
Popular arts	134,082	-	-	134,082
Cultural centers	134,922	-	-	134,922
Music	109,114	-	-	109,114
Theater	263,942	-	-	263,942
	<u>979,393</u>	<u>-</u>	<u>-</u>	<u>979,393</u>
Documental patrimony conservation:				
General archives of PR	494,987	10,575	420,401	925,963
Publications	380,729	-	-	380,729
General library	218,119	5,410	-	223,529
	<u>1,093,835</u>	<u>15,985</u>	<u>420,401</u>	<u>1,530,221</u>
Historic patrimony conservation:				
Historic patrimony	327,757	-	-	327,757
Archeology	257,199	-	-	257,199
Museums and parks	574,027	-	-	574,027
	<u>1,158,983</u>	<u>-</u>	<u>-</u>	<u>1,158,983</u>
Capital Outlays	1,213,296	319,156	12,937	1,545,389
<b>Total expenditures</b>	<u>10,879,691</u>	<u>9,386,628</u>	<u>889,299</u>	<u>21,155,618</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,113,131</u>	<u>151,109</u>	<u>(406,481)</u>	<u>1,857,759</u>
<b>Other financing sources (uses):</b>				
Transfer in	151,109	-	-	151,109
Transfers out	-	(151,109)	-	(151,109)
<b>Total other financing sources (uses)</b>	<u>151,109</u>	<u>(151,109)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>2,264,240</u>	<u>-</u>	<u>(406,481)</u>	<u>1,857,759</u>
Fund balance, beginning, as restated	7,158,299	-	794,793	7,953,092
<b>Fund balance, ending</b>	<u>\$ 9,422,539</u>	<u>\$ -</u>	<u>\$ 388,312</u>	<u>\$ 9,810,851</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**  
**For the fiscal year ended June 30, 2023**

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<b>Net change in fund balances - total governmental funds</b>	<b>\$ 1,857,759</b>
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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	\$ 1,468,444	
Less: current-year depreciation	<u>(2,976,563)</u>	(1,508,119)

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)	(134,655)	
Voluntary termination benefits	211,769	
Pension and other post-employment benefit expense	<u>6,604,207</u>	<u>6,681,321</u>

<b>Change in net position of governmental activities</b>	<b>\$ <u>7,030,961</u></b>
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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, 2023**

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**Assets**

Cash in commercial bank

\$ 204,047

**Liabilities**

Accounts payable

\$ 204,047

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 CHANGES IN FIDUCIARY NET POSITION**  
**June 30, 2023**

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<b><u>Additions</u></b>	
Contributions by Central Government	\$ 3,577,000
<b><u>Deductions</u></b>	
Distributions to participants	<u>3,577,000</u>
Change in Net Position	-
Net position, beginning	<u>-</u>
Net position, ending	<u>\$ -</u>

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

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**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 contributions. Also, contributions from Commonwealth not received by the **Institute** at June 30, 2023 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 described below 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 **Institute’s** 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 other potential component units which should be included as part of the **Institute’s** basic financial statements.

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**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 basic 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.

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

Net position flow assumption - Sometimes, the **Institute** will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the **Institute's** policy to consider restricted – net position to have been depleted before unrestricted – net position applied.

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.

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

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, 2023 has been reported only in the government-wide financial statements.
- 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, 2023.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.
- Total pension liability at June 30, 2023 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.

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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.

**Federal Grants Fund** - This fund accounts for federal block grants awarded by the National Endowment of the Arts advances made from FEMA for Hurricane Maria disaster grants and funds assigned by the Puerto Rico Office of Management and Budget relating to Coronavirus State and Local Fiscal Recovery Funds.

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

**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.

**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.

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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 fiduciary fund.

***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. This fund includes 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.

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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.

Fund balance flow assumptions - Sometimes, the Institute will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Institute's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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 basic 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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.



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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 Position (Deficit) 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 Position 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.

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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. As explained in **Note 12**, the **Institute** maintains certain surpluses funds from prior years that might be subject to the provisions of Law No. 26. As of the date of the financial statements, no final determination have been made by the designed committee in relation to any amount of those surpluses funds that shall be transferred by the Institute, if any.

**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.

**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.

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

**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.

**Contributions from Commonwealth** – The **Institute** annually receives contributions from the Commonwealth of Puerto Rico. These contributions are for the operations of the **Institute** and are recognized when available and all eligibility requirements, including time restrictions, have been met.

**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.

**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.

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

**Capital Assets** (Continued) - 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

**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** has evaluated events or changes in circumstances that may have affected the **Institute's** assets and has determined that impairment of a capital asset did not occurred. 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. Management evaluated its capital assets and determined no impairment exists as of fiscal year end.

**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.

**Accounts payable and accrued liabilities** - Accounts payable and accrued liabilities include general accounts payable to vendors and contractors, retainage payable, deposits payable, payroll taxes payable, bank overdraft and other accrued contingent liabilities not included in short-term or long-term liabilities.

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

**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.

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.

Also, 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 **Institute's** contributions subsequent to measurement date.

**Exchange and non-exchange transactions** - Operating revenues include activities that have the characteristics of an exchange transaction, such as services rendered by the **Institute**. Operating expenses include activities that have the characteristics of an exchange transaction, such as employee salaries, benefits, and related expense, utilities, supplies, and other services. Other revenues include charges for customer related to administrative fines or penalties for irregularities in constructions on cultural sites. Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as federal grants. For the fiscal year ended June 30, 2023, the **Institute** received federal grants from the National Endowment for the Arts and the US Department of Treasury. The **Institute** applied the provisions of GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions", which allows revenues to be recognized when eligibility requirements are met and the resources are available, whichever occurs first.

**Revenue recognition**- In the government-wide Statement of Net Position and Statement of Activities, governmental 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 a period of sixty (60) days or soon enough thereafter to pay current liabilities.

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

**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.

**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.

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

**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.

**Leases** - The **Institute** evaluates its leases agreements to determine whether they meet the requirements of Government Accounting Standards Board No. 87 (GASB 87), which requires recognition of certain assets and liabilities for leases that meet any of the criteria set forth in the GASB 87. The lease accounting model established by GASB 87 is based on the fundamental principle that leases are financings of the right to use an underlying asset, and therefore requires the lessee to recognize a lease liability and an intangible right to use the leased asset.

The criteria to be used to determine whether a lease should be recognized in the financial statements is as follows:

- The lease provides that the asset will be transferred to the lessee at the end of the lease.
- The lease gives the lessee an option to purchase the asset that the lessee intends to exercise.
- The lease period is for most of the remaining economic life of the asset.
- The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments is equal to or substantially exceeds the entire fair value of the underlying asset.
- The asset is of such a specialized nature that it is expected to have no alternative use for the lessor at the end of the lease term.



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

**Subscription-based Information Technology Arrangements (GASB No. 96)** – In May 2020, the Government Accounting Standards Board (GASB) issued Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs). GASB Statement No. 96 (GASB 96) establishes uniform accounting and financial reporting requirements for SBITAs; improves the comparability of government's financial statements; and enhances the understandability, reliability, relevance, and consistency of information about SBITAs.

GASB 96 applies to government agencies who are currently using information technology (IT) software as specified in their contracts. GASB 96 applies to all contracts meeting the definition of a SBITA, unless specifically excluded. As defined in GASB Statement No. 96, paragraph 6, a SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (with underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

**Adoption of new accounting pronouncements** – Effective July 1, 2022, the Institute adopted the provisions of the following GASB Statements:

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.

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

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.

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.

The **Institute** performed an identification and verification process of subscription-based information technology arrangements (SBITA) contracts. The results of this process disclosed that with regard to the **Institute** as a lessee, some contracts have non-cancellable terms of 12 months from the beginning of the fiscal year. Therefore, right-to-use subscription assets and subscription liabilities are not recorded in the 2023 financial statements

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

GASB Statement No. 99, "OMNIBUS 2022" - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.
- Terminology used in Statement 53 to refer to resource flows statements

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

***Future Adoption of Accounting Pronouncements*** – The GASB has issued the following accounting standards that have effective dates after June 30, 2023:

GASB Statement No. 99, “OMNIBUS 2022” - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.

GASB Statement No. 100, “Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62” - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.”

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

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

GASB Statement No. 100, "Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62" (Continued)

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 (FY 2023-2024), and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, "Compensated Absences" The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

GASB Statement No. 102, "Certain Risk Disclosures" The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

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

GASB Statement No. 102, "Certain Risk Disclosures" (Continued)

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

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

**3. CASH AND CASH EQUIVALENTS**

The table presented below discloses the level of custodial risk assumed by the **Institute** at June 30, 2023. 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 limit for each institution based on the institution's capital, financial condition, and credit ratings assigned by nationally recognized rating agencies.

As of June 30, 2023, approximately **\$32.5** million of the depository bank balance was insured as follows:

**Governmental activities**

	<u>Carrying Amount</u>			<u>Depository Bank Balance</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	
Commercial bank	\$ 28,503,011	\$ 680,115	\$ 29,183,126	\$ 32,260,485

**Fiduciary activities**

	<u>Carrying Amount</u>			<u>Depository Bank Balance</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	
Commercial bank	\$ -	\$ 204,047	\$ 204,047	\$ 204,047

As of June 30, 2023, 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, 2023, 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.

**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the fiscal year ended June 30, 2023**

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2023 are summarized as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
General fund	\$ 2,883,278	Federal grants fund	\$ 2,883,278
General fund	<u>41,818</u>	Other non-major funds	<u>41,818</u>
<b>Total</b>	<b><u>\$ 2,925,096</u></b>		<b><u>\$ 2,925,096</u></b>

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.

**5. CAPITAL ASSETS**

The Institute's capital assets at June 30, 2023, were as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2023</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 55,205	\$ -	\$ -	\$ 55,205
Construction in progress	-	1,159,423	-	1,159,423
Equipment in transit	-	192,226	-	192,226
<b>Total capital assets, not being depreciated</b>	<u>55,205</u>	<u>1,351,649</u>	<u>-</u>	<u>1,406,854</u>
<b>Capital assets, being depreciated:</b>				
Buildings and buildings improvements	105,382,192	-	-	105,382,192
Furniture, fixtures and equipment	3,965,764	74,334	(164,911)	3,875,187
Computers and software	2,878,686	101,906	(41,380)	2,939,212
Vehicles	692,826	17,500	(312,978)	397,348
<b>Total capital assets, being depreciated</b>	<u>112,919,468</u>	<u>193,740</u>	<u>(519,269)</u>	<u>112,593,939</u>
<b>Less accumulated depreciation for:</b>				
Buildings and buildings improvements	(76,707,548)	(2,617,194)	-	(79,324,742)
Furniture, fixtures and equipment	(2,972,898)	(96,011)	140,868	(2,928,041)
Computers and software	(1,062,020)	(259,113)	35,426	(1,285,707)
Vehicles	(589,036)	(4,245)	266,031	(327,250)
<b>Total accumulated depreciation</b>	<u>(81,331,502)</u>	<u>(2,976,563)</u>	<u>442,325</u>	<u>(83,865,740)</u>
<b>Total capital assets being depreciated, net</b>	<u>31,587,966</u>	<u>(2,782,823)</u>	<u>(76,944)</u>	<u>28,728,199</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$31,643,171</u></b>	<b><u>\$ (1,431,174)</u></b>	<b><u>\$ (76,944)</u></b>	<b><u>\$ 30,135,053</u></b>



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**5. CAPITAL ASSETS (CONTINUED)**

The **Institute** annually performs an impairment analysis of its capital assets in accordance with the provisions of GASB Statement No. 42. 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 **Institute's** operations. The **Institute** is currently evaluating with FEMA the damages suffered by buildings and other property. As of June 30, 2023, FEMA obligated **\$36.2 million** (and disbursed **\$1.2 million**) for debris removal, emergency protective actions, buildings and equipment and direct administrative costs. The **Institute** estimates total funding for repair of buildings and facilities in approximately for **\$40 million** (including the cost of removing hazardous and poisonous materials).

The **Institute's** insurance company filed for bankruptcy due to large claims arising from Hurricane María disaster. During the fiscal year ended June 30, 2021, the **Institute's** received **\$300,000** related to its insurance claim. Negotiations with FEMA and other State Agencies to cover the reconstruction costs are ongoing.

Also, 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 currently evaluating with FEMA damages to its properties. Total costs due to earthquake damage cannot be calculated at this time. During the fiscal year ended June 30, 2021, the Institute received **\$539,985** for insurance recovery related to certain damages caused by the earthquakes that affected Institute's properties located in the southwest of the island during January 2020. As of June 30, 2023 FEMA has obligated **\$504 thousand** for this disaster.

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 hurricanes and the earthquake, all historic properties remained in operation.

**5. CAPITAL ASSETS (CONTINUED)**

During the fiscal year ended June 30, 2023 depreciation expense was charged to functions/programs as follows:

<u>Program</u>	<u>Amount</u>
<b>Administrative Services</b>	<b>\$ 1,845,469</b>
<b>Culture promotion:</b>	
Plastic Arts	89,297
Popular Arts	59,531
Cultural Centers	119,062
Music	119,062
Theater	<u>119,062</u>
	<b>506,014</b>
<b>Documentary Patrimony Conservation:</b>	
General Archives	119,063
Publications	59,531
General Library	<u>59,531</u>
	<b>238,125</b>
<b>Historic Patrimony Conservation:</b>	
Historic Patrimony	89,298
Archeology	59,532
Museums and Parks	<u>238,125</u>
	<b>386,955</b>
<b>Total depreciation expense</b>	<b>\$ <u>2,976,563</u></b>

**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the fiscal year ended June 30, 2023

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**6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses as of June 30, 2023 was as follows:

	<u>General Fund</u>	<u>Federal Funds</u>	<u>Other Non-Major Funds</u>	<u>Total</u>
Accounts payable - vendors	\$ 2,433,698	\$ 1,166,825	\$ 98,128	\$ 3,698,651
Accrued liabilities	99,413	110,461	54,127	264,001
Bank overdraft	-	-	595,926	595,926
<b>Total</b>	<b><u>\$ 2,533,111</u></b>	<b><u>\$ 1,277,286</u></b>	<b><u>\$ 748,181</u></b>	<b><u>\$ 4,558,578</u></b>

**7. COMPENSATED ABSENCES**

The balance of compensated absences as of June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Vacation licenses	<u>\$ 368,660</u>	<u>\$ 134,655</u>	<u>\$ 503,315</u>	<u>\$ 25,166</u>
<b>Total</b>	<b><u>\$ 368,660</u></b>	<b><u>\$ 134,655</u></b>	<b><u>\$ 503,315</u></b>	<b><u>\$ 25,166</u></b>

**8. UNEARNED REVENUE**

On August 9, 2021, The Government of the Commonwealth of Puerto Rico announced the Cultural Rescue Program to support the financial liquidity of cultural institutions, repair historically significant buildings and conserve and digitalize historical documents. The funds have been provided under the American Rescue Plan Act, Public Law 117-2 ("ARP") signed into law on March 11, 2021. The **Institute** was assigned and received **\$28,575,666** of these funds during the year ended June 30, 2022.

Unearned revenue amounting to **\$17,858,821** includes unspent amount from these funds, and other unspent federal funds received as of June 30, 2023.

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**9. PENSION PLAN**

After the approval of Act No. 106-2017, with the elimination of the Board of Trustees and the liquidation of plan assets, the GASB 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 Statement 67 and 68, was implemented instead of GASB No. 68 effective on July 1, 2018. Accordingly, Total Pension Liability, Deferred Outflows / Inflows of Resources is presented. The information related to the Total Pension Liability presented is as of June 30, 2023.

**1) Description of the Plan**

The Defined Benefit Pension Plan for Participants of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) was created by Act No. 447, approved on May 15, 1951, as amended (Act No. 447-1951) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the ERS was administered by the Board of Trustees of the ERS. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "Pay-AsYou-Go" ("Pay-Go") system for the payment of pensions. Also pursuant to Act No. 106-2017, the ERS was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in 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*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Therefore, the accompanying schedule of employer allocations and the schedule of pension amounts by employer (collectively, the Schedules) present the pension amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

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**9. PENSION PLAN (CONTINUED)**

**2) Pension Benefits**

The benefits provided to the ERS participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision.

The Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al, ("2022 Plan of Adjustment") confirmed by the U.S District Court for the District of Puerto Rico on January 18, 2022, eliminated several benefits to certain Plan participants. In summary, participants within benefits for System 2000 and Act 3 members, as previously defined, who were not in payment status as of March 15, 2022 were transferred out from Plan benefits. Also, eliminated future cost of living adjustments, and benefits to active members under the Act 127-1958 (members in high risk positions).

Plan participants within the System 2000, includes members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

Therefore, plan provision are different for the other two groups of members who entered the Plan prior to July 1, 2013 as described below:

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Contributory, Defined Benefit Program)

**9. PENSION PLAN (CONTINUED)**

**a) Service Retirement Eligibility Requirements**

1. Eligibility for Act No. 447-1951 Members: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of Credited Service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of Credited Service as a Mayor. In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013 are eligible to retire at any time.

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements of the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

2. Eligibility for Act No. 1-1990 Members: Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1- 1990 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 65 with 10 years of Credited Service, (3) for Public Officers in High Risk Positions, any age with 30 years of Credited Service, and (4) for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of Credited Service. In addition, Act No. 1-1990 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

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**9. PENSION PLAN (CONTINUED)**

**b) Compulsory Retirement**

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of Credited Service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

**c) Service Retirement Annuity Benefits**

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity.

1. Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447-1951 member had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of Credited Service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013.

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**9. PENSION PLAN (CONTINUED)**

For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of Credited Service.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of Credited Service up to 20 years, plus 2% of average compensation multiplied by years of Credited Service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of Credited Service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of Credited Service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayor Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayor Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

2. Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members: The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.



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**9. PENSION PLAN (CONTINUED)**

If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

**d) Special Benefits**

**1. Minimum Benefits**

- Past Ad hoc Increases: The Legislature, from time to time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.
- Minimum Benefit for Members who Retired before July 1, 2013: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007). (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013)
- Coordination Plan Minimum Benefit: A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

**2. Special "Bonus" Benefits**

- Christmas Bonus: An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. (Act No. 144-2005, as Amended by Act No. 3-2013)
- Medication Bonus: An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. (Act No. 155-2003, as Amended by Act No. 3-2013). Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

9. PENSION PLAN (CONTINUED)

3) *Allocation Methodology*

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefits pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). Effective with the June 30, 2022 measurement date, the proportionate share as of each measurement date is based on the ratio of the total pension liability determined directly for each agency based on each agency's members to the total pension liability for all Central Government members as of the measurement date. Previously, the proportionate share as of each measurement date was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date. Agency allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by agency may result in immaterial differences.

4) *Total Pension Liability and Actuarial Information*

As of June 30, 2023, the **Institute** reported a liability of **\$52.8** million for its proportionate share of the total pension liability. This liability was determined as of June 30, 2022 (measurement date), based on the requirements of the GASB Statements No. 73. The amount was measured as of June 30, 2022 and the total pension liability used to calculate the liability was determined by an actuarial valuation as of July 1, 2021, rolled forward to the measurement date of June 30, 2022.

The **Institute's** share of the total pension liability was based on a projection of the **Institute's** long-term share of benefit payments to the pension plan relative to the projected payments of all participating employers, actuarially determined. On June 30, 2022, the **Institute's** proportion was **.23847%** which was an increase of **.014%** from its proportion measured on June 30, 2021.

Total pension liability balance activity during the fiscal year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Pension liability	<u>\$ 61,105,170</u>	<u>\$ (8,278,687)</u>	<u>\$ 52,826,483</u>	<u>\$ 3,133,414</u>

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9. PENSION PLAN (CONTINUED)

(a) *Actuarial Methods and Assumptions*

*Discount Rate*

The discount rate was **3.54%** on June 30, 2022. 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.

The mortality tables used in the June 30, 2022 valuation were as follows:

*Pre-Retirement Mortality:* For general employees not covered by Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2021 on 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 occupied only for members covered under Act No. 127.

*Post-Retirement Mortality:* Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by **100%** for males and **110%** for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurements. This assumption is also used for beneficiaries prior the member's death.

*Post-Retirement Disabled Mortality:* Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by **80%** for males and **100%** for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

*Post-Retirement Beneficiary Mortality:* Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivors' rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

**9. PENSION PLAN (CONTINUED)**

*Other Assumptions as of June 30, 2022*

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
Compensation increases	3% per year. No compensation increases are assumed until July 1, 2022, as a result of Act No. 3-2017, four-year extension of Act No. 66-2014 and the current general economy.

**(b) 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 **3.54%**, 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>
	2.54%	3.54%	4.54%
Total pension liability	\$ 5,911,481	\$ 52,826,483	\$ 47,599,497

**5) Also, as of June 30, 2023, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:**

	<u>June 30, 2023</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 662,713	\$ 1,120,108
Changes of assumptions	4,263,692	4,155,813
Changes in proportion	1,919,785	1,594,079
Institute contributions subsequent to measurement date	3,133,414	-
<b>Total</b>	<u>\$ 9,979,604</u>	<u>\$ 6,870,000</u>

**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, 2022 will be recognized in pension expense (benefit) in future years as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ (954,094)
2024	930,284
<b>Total</b>	<b><u>\$ (23,810)</u></b>

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 6 years for 2018, 5 years for 2019 and 2020, 4 years for 2021, and 2 years for 2022.

**6) Pension Expense (Benefit)**

The components of allocable pension expense (benefit) for the year ended June 30, 2022, are as follows:

	<u>Amount</u>	<u>Proportional share</u>
Service cost	\$ 89,454,689	\$ 213,323
Interest on total pension liability	574,777,692	1,370,672
Effect of plan changes	(1,695,271,069)	(4,042,671)
Net amortization from changes in proportion	-	1,012,324
Difference between expected and actual experience	(76,737,850)	(182,997)
Changes in assumptions	(747,868,878)	(1,783,443)
Pension expense (benefit)	<b><u>\$ (1,855,645,416)</u></b>	<b><u>\$ (3,412,792)</u></b>

**7) "Pay-As-You-Go" Funding**

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "Pay-As-You-Go" ("Pay-Go") mechanism for the ERS.

Subsequently, on August 23, 2017, the Governor signed into law the "Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants" (Act No. 106-2017), which reformed the Commonwealth Retirement Systems. Act No. 106-2017 terminated the previously existing pension programs for the ERS's participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106-2017 also established by law the "Pay-Go" mechanism for the payment of accumulated pension benefits and eliminated employers' contributions and other analogous contributions.

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**9. PENSION PLAN (CONTINUED)**

Approximately \$2 billion was allocated for the payment of “Pay-Go” benefits in each of the budgets for fiscal years 2018 through 2021.

Furthermore, Act No. 106-2017 modified the ERS’s governance. Under Act No. 106-2017, the ERS’ Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth’s Retirement Systems.

Act No. 106-2017 also ordered a suspension of the ERS’s loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board’s discretion, the servicing of the ERS’s existing loan portfolio may be externalized. Pursuant to Act No. 106-2017, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8-2017.

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The “Pay-Go” funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to ERS are primarily based on statutory percentage of payroll.
- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by ERS and the Commonwealth is determining what the process of ERS budgeting for “Pay-Go” funding will be. While the ERS can set an expected “Pay-Go” amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year:

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.
- If the ERS be permitted to develop a budget request of a “Pay-Go” amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes
- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. “Pay-go” operation is a complex issue that requires careful thought and planning, constant monitoring, and the ability to respond to emerging events quickly. The Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico issue publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth.

That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

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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).

***Benefits Payments***

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** benefits payments are 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 benefits payments.

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.

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***

As of June 30, 2023, the Institute reported a liability of approximately **\$1.9** million for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2023, was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022 (measurement date). As of June 30, 2022, the Institute's proportion was **0.28676%**. Also, for the year ended June 30, 2023, the Institute recognized an OPEB expense (benefit) of **\$104,597**.

Total OPEB liability balance activity during the fiscal year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
OPEB liability	<u>\$ 2,058,483</u>	<u>\$ (63,802)</u>	<u>\$ 1,994,681</u>	<u>\$ 162,600</u>

The **Institute's** total OPEB liability as of June 30, 2023 was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022. 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, 2022 was **3.54%**. 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.



**10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

***Mortality***

*Post-retirement Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubS-2010 healthy retiree rates, adjusted by **100%** for males and **110%** for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

*Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by **80%** for males and **100%** for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

***Sensitivity of Total OPEB Liability to Changes in the Discount Rate***

The following presents the total OPEB liability of the **Institute** at June 30, 2022, (measurement date), calculated using the discount rate of **3.54%**, as well as the Plan total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (**2.54%**) or 1-percentage point higher (**4.54%**) than the current rate:

	<b>1% Decrease</b>	<b>At Current Discount Rate</b>	<b>1% Increase</b>
	2.54%	3.54%	4.54%
Total OPEB liability	\$ 2,171,153	\$ 1,994,681	\$ 1,842,999

***Deferred Outflows of Resources and Deferred Inflows of Resources***

GASB No. 75 requires to determine deferred outflows of resources and deferred inflows of resources in order to be amortized and recognized in the annual OPEB expense. 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 date. However, as of June 30, 2023, **\$162** thousand reported as deferred outflows of resources related to OPEB, resulting from the benefits paid subsequent to the measurement date, will be recognized as a reduction of total OPEB liability in the year ended June 30, 2023.

**10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

***OPEB Expense (Benefit)***

The components of OPEB expense (benefit) for the year ending June 30, 2022 are as follows:

	<u>Amount</u>	<u>Proportionate share</u>
Interest on total OPEB liability	\$ 16,537,228	\$ 47,422
Effect on economic/demographics gains and losses	33,882,688	97,163
Net amortization from changes in proportion	-	211,141
Effect of assumptions changes or inputs	(87,574,501)	(251,129)
OPEB expense (benefit)	<u>\$ (37,154,585)</u>	<u>\$ 104,597</u>

**11. VOLUNTARY TERMINATION BENEFITS**

During the fiscal year 2010-2011, 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 No. 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:

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

**11. VOLUNTARY TERMINATION BENEFITS (CONTINUED)**

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%

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, 2023 unpaid long-term benefits granted on Act 70 were discounted at 3.00%.

**11. VOLUNTARY TERMINATION BENEFITS (CONTINUED)**

Voluntary termination benefits balance activity during the fiscal year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Voluntary Termination Benefits	\$ 1,137,010	\$ (211,769)	\$ 925,241	\$ 221,672

**12. CONTINGENCIES**

**Legal Claims**

As a component unit of the Commonwealth of Puerto Rico, all legal claims, if any, are handled by the Department of Justice. 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.

**Transfer of Surpluses Funds (Law No. 26)**

On April 29, 2017 the Government of Puerto Rico enacted Law No. 26 known as "Law of Compliance with the Fiscal Plan". Under the provisions of Law No. 26 Public corporations, agencies and instrumentalities of the Government of Puerto Rico are hereby ordered to transfer to the Department of the Treasury the surplus of the income generated. Those funds will be considered as available resources of the Government of Puerto Rico and shall be deposited by the Department of the Treasury in the General Fund of the Government of Puerto Rico to meet the liquidity requirements contemplated in the Fiscal Plan adopted under the provisions of Puerto Rico Oversight, Management and Economic Stability Act of 2016, Public Law 114-187, also known as PROMESA.

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**12. CONTINGENCIES (CONTINUED)**

**Transfer of Surpluses Funds (Law No. 26) (continued)**

The amount of funds to be contributed by each of the corporations and instrumentalities will be determined by a committee composed of the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority, the Secretary of the Department of the Treasury and the Executive Director of the Office of Management and Budget that may establish the necessary rates to comply with the provisions of the Fiscal Plan approved for the Government of Puerto Rico and the one that governs its corporations.

This committee will ensure that the transfer of funds as provided in Article 4.01 of Law 26 do not affect the services offered by public corporations and instrumentalities and that the surpluses are available after the operational expenses and obligations of said entities have been covered, in accordance with the expense budget recommended by the Office of Management and Budget for each fiscal year. In addition, this Committee is empowered to review the sources of income of public corporations, agencies, and instrumentalities and adjust, increase, or decrease any charge, right, fee, premium, or any income of a similar nature, in order to comply with the metrics set forth in the Fiscal Plan of the Government of Puerto Rico. In addition, the Committee may impose an additional administrative charge on those contributions that it deems necessary, which may be from five percent (5%) to ten percent (10%), to comply with the metrics of the Fiscal Plan certified by the Board of Directors of the Fiscal Oversight and Management Board for Puerto Rico.

As of June 30, 2023, the **Institute** maintains deposited on its commercial bank account certain surpluses funds from prior years that might be subject to the provisions of Law No. 26. As of the date of the financial statements, no final determination have been made by the designed committee in relation to any amount of those surpluses funds that shall be transferred by the **Institute**, if any.

**13. COMMITMENTS**

**Lease agreements**

As of July 1, 2021, the **Institute** evaluated all of its lease agreements to determine whether any of them met the requirements of GASB 87 of the Government Accounting Standards Board, which requires recognition in the financial statements of certain assets and liabilities for those leases that meet any of the criteria established by said Statement.

Based on the foregoing, the **Institute** determined that none of its lease agreements meets any of the criteria established by the GASB 87. Accordingly, no lease assets or liabilities were recognized in the financial statements as of June 30, 2023.

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**13. COMMITMENTS (CONTINUED)**

**Lease agreements (continued)**

The following is a summary of the **Institute's** lease agreements:

a. Lease agreements with the **Institute** as Lessor:

- The **Institute** leases spaces within the structures it owns under lease agreements with terms ranging from five to ten years.
- Total income from leases during the year ended June 30, 2023 was approximately **\$204,325**.
- The **Institute** retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

b. Leasing agreements with the **Institute** as lessee:

The **Institute** leases office equipment under lease agreements, which generally have terms of five years or less and are automatically renewed for the same terms. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

**14. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENT (GASB NO. 96)**

Effective on July 1 2022, the **Commission** adopted the provisions of GASB Statement No. 96. 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.

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**14. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENT (GASB NO. 96) (CONTINUED)**

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The subscription term includes the period during which a government has a non-cancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

GASB 96 specifically excludes the following arrangements:

- Contracts that convey control of the right to use another entity's combination of IT software and tangible capital assets that meet the definition of a lease<sup>1</sup> in GASB Statement No. 87 (GASB 87), in which the software component is insignificant when compared to the cost of the underlying asset.
- Governments that provide the right to use their IT software to other entities through SBITAs (as a pass-through and therefore not the end user.)
- Contracts that meet the definition of Public-Private and Public-Public Partnerships<sup>2</sup> in GASB Statement No. 94.
- Licensing arrangements that provide a perpetual license (subject to GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets.)
- SBITAs also exclude contracts that only provide IT support services.

GASB 96 also states that a short-term SBITA is a SBITA that, at the commencement of the subscription term, has a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. For a SBITA that is cancelable by either the government or the SBITA vendor, the maximum possible term is the amount of time either party is required to notify the other party of the cancellation (notice period). The government should recognize short-term subscription payments as outflows of resources (i.e., expenditures) based on the payment provisions of the SBITA contract.

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.

**14. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENT (GASB NO. 96) (CONTINUED)**

The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. 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.

The implementation of the GASB No. 96 did not have a significant impact on the **Institute's** financial statements for the fiscal year ended June 30, 2023. Accordingly, at that date, the **Institute** did not recognize an asset or liability related to any existing information technology arrangements.

**15. 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	Other Governmental Funds	Governmental Activities
<b>Total fund balances / net position, at beginning of year, as previously reported</b>	<b>\$ 7,889,308</b>	<b>\$ 945,488</b>	<b>\$ (19,402,502)</b>
To recognize prior years due to agency	(198,749)	-	(198,749)
To adjust prior years accounts receivable	(40,829)	-	(40,829)
To recognize publications inventory reserve	(491,431)	-	(491,431)
To adjust prior years uncollectible amounts	-	(150,695)	(150,695)
To correct GASB 73 Deferred Outflows of Resources balance	-	-	221,633
<b>Fund balance/net position, beginning, as restated</b>	<b>\$ 7,158,299</b>	<b>\$ 794,793</b>	<b>\$ (20,062,573)</b>



**16. SUBSEQUENT EVENTS**

The **Institute** evaluated subsequent events through March 25, 2024 the date on which the financial statements were available to be issued. Management is not aware of any additional subsequent events that requires adjustment or disclosure in the basic financial statements or its related notes, except for the matter discussed in the next paragraphs.

*End of notes*

**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF PROPORTIONATE SHARE OF TOTAL PENSION LIABILITY**  
**For the fiscal year ended June 30, 2023**

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<b>As of June 30,</b>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Institute's proportionate share of the total pension liability	0.23847%	0.22478%	0.23405%	0.23588%	0.24012%
Institute's proportion of the total pension liability	\$ 52,826,483	\$ 61,105,170	\$ 65,697,676	\$ 58,616,777	\$ 58,804,169

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, 2021 that was rolled forward to June 30, 2022, 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 TOTAL PENSION LIABILITY**  
**(CONTINUED)**  
**For the fiscal year ended June 30, 2023**

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Valuation Date:	July 1, 2021
Measurement Date:	June 30, 2022
Actuarially determined contribution rates are calculated as of June 30, 2021, 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	<b>3.00%</b> 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, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. <b>100%</b> of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.
<i>Post-Retirement Mortality:</i>	Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by <b>100%</b> for males and <b>110%</b> for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurements.
<i>Post-Retirement Disabled Mortality:</i>	Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by <b>80%</b> for males and <b>100%</b> for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
<i>Post-Retirement Beneficiary Mortality:</i>	Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivors' rates, adjusted by 110% for males and 120% for females, projected using MP-2021 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 TOTAL OPEB**  
**For the fiscal year ended June 30, 2023**

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As of June 30,	2023	2022	2021	2020	2019	2018	2017
Institute's proportionate share of the total OPEB liability	0.28676%	0.25792%	0.26031%	0.25820%	0.26059%	0.25270%	0.25007%
Institute's proportion of the total OPEB liability	\$ 1,994,681	\$ 2,058,483	\$ 2,276,775	\$ 2,148,819	\$ 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, 2021 that was rolled forward to June 30, 2022, 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, 2023**

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Federal Grantor or Cluster/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Pass-through to subrecipients	Federal Expenditures
Direct Programs:				
<b>National Endowment for the Arts</b>				
<b>Promotion of the Arts- State:</b>				
Partnership Agreements	45.025	1855972-61-19 1863425-61-20	\$ 19,020	\$ 859,077
Partnership Agreements (ARPA)	45.025	1863425-61-20	-	354,676
Total National Endowment for the Arts			<b>19,020</b>	<b>1,213,753</b>
<b>National Endowment for the Humanities</b>				
<b>Division of Preservation and Access:</b>				
Promotion of the Humanities	45.149	PF-272015-20	-	15,985
Total National Endowment for the Humanities			-	<b>15,985</b>
<b>U.S. Department of Treasury:</b>				
Pass-through the Government of Puerto Rico				
Office of Budget and Management				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/AV	-	7,738,003
Total U.S. Department of Treasury			-	<b>7,738,003</b>
<b>U.S. Department of Homeland Security:</b>				
Pass-through the Government of Puerto Rico				
Central Recovery and Reconstruction Office:				
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	4339-DR-PR	-	418,887
Total U.S. Department of Homeland Security			-	<b>418,887</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 19,020</b>	<b>\$ 9,386,628</b>

The accompanying notes are an integral part of this schedule.

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the **Institute of Puerto Rican Culture (the Institute)** and is presented on the modified accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR Part 200), Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance"). Therefore, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures presented on the Schedule are reported on the modified basis of accounting. Expenditures are recognized when the related liability is incurred following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Federal Assistance Listing Number (FALN), formerly known as Catalog of Federal Domestic Assistance Number (CFDA), is a program identification number. The first two digits identify the federal department of agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Institute, known as "pass-through awards" should be treated by the Institute as though they were received directly from the federal government. The Uniform Guidance requires the Schedule to include the name of the "pass-through entity" and the identifying number assigned by the "pass-through entity" for the federal awards received as a sub-recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

**3. INDIRECT COST RATE**

The Institute has elected not to use the ten percent "of the minimis" indirect cost rate allowed under the Uniform Guidance.

**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the fiscal year ended June 30, 2023**

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**4. MAJOR FEDERAL PROGRAMS**

Major programs are identified in the Summary of Auditors' Results Section of the Schedule of Findings and Questioned Costs.

**5. RECONCILIATION TO THE FUND FINANCIAL STATEMENTS**

Expenditures of federal awards are reported in the **Institute's** Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds. A reconciliation of the total expenditures from the accompanying Schedule to the Fund Financial Statements is as follows:

Expenditures reported in the Statement of Revenues, Expenditures and changes in Fund Balances: Governmental Funds-Federal Grants Fund	<b>\$ 9,386,628</b>
Less: Expenditures of other funds not related to federal grants	<u>-</u>
Federal expenditures per Statement of Expenditures of Federal Awards	<u><b>\$ 9,386,628</b></u>



Rodríguez & Santiago, CPA's, PSC  
Certified Public Accountants and Consultants

**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**

**The Board of Directors of  
Institute of Puerto Rican Culture  
San Juan, Puerto Rico**

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, the business-type activities, each major fund and the aggregate remaining fund information of the **Institute of Puerto Rican Culture** (the **Institute**) as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements which collectively comprise the Institute's basic financial statements and have issued our report thereon dated March 25, 2024.

**Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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**Internal Control Over Financial Reporting (Continued)**

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

**Report on Compliance and Other Matters**

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

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

  
RODRIGUEZ & SANTIAGO, CPA's, PSC

San Juan, Puerto Rico  
March 25, 2024

The Stamp #E556630 of the Puerto Rico  
Society of Certified Public Accountants was  
affixed to the original of this report



Rodríguez & Santiago, CPA's, PSC  
Certified Public Accountants and Consultants

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

**The Board of Directors of  
Institute of Puerto Rican Culture  
San Juan, Puerto Rico**

**Report on Compliance for Each Major Federal Program**

We have audited the **Institute of Puerto Rican Culture's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the **Institute's** major federal programs for the year ended June 30, 2023. The **Institute's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, 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 each of its major federal programs for the year ended June 30, 2023.

**Basis for Opinion on Each Major Federal Program**

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

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

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### **Responsibilities of Management for Compliance**

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

### **Auditors' Responsibilities for the Audit of Compliance**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding **Institute's** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of **Institute's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of **Institute's** internal control over compliance. Accordingly, no such opinion is expressed.

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

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**Report on Internal Control over Compliance**

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

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

**Purpose of this Report**

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.

  
RODRIGUEZ & SANTIAGO, CPA's, PSC

San Juan, Puerto Rico  
March 25, 2024

The Stamp #E556631 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the original of this Report

**Rodríguez & Santiago, CPA's, PSC**  
Certified Public Accountants and Consultants

**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year ended June 30, 2023**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements:**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness (es) identified?  Yes  No

Significant deficiency (ies)?  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)?  Yes  No

Type of auditor's report issued on compliance for Major Federal Programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516(a) of the Uniform Guidance?  Yes  No

**Identification of Major Federal Programs:**

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
45.025	Promotion of the Arts Partnership Agreements
21.027	Coronavirus State and Local Fiscal Recovery Funds

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

Auditee qualified as low-risk auditee?  Yes  No

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

During our audit, we did not detect significant deficiencies, material weaknesses and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards*.

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to the federal awards that are required to be reported in accordance with OMB Uniform Guidance.

**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF PRIOR YEARS AUDIT FINDINGS**  
Year ended June 30, 2023

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**Findings No. 2022-01, 2021-001 and 2020-001**

**Statement of Condition**

The **Institute** has accumulated through the years, a significant amount of inventory that has become obsolete or slow moving. Procedures to write down inventory to lower of cost or market have not been established as of June 30, 2022, 2021 and 2020. Accordingly, a reserve for any possible loss have not been determined.

**Status**

Corrected.