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

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

FISCAL YEAR ENDED JUNE 30, 2020

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 year ended June 30, 2020

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

Basic Financial Statements
For the year ended June 30, 2020

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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 Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information 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, 2020, and the related notes to the financial statements, which collectively comprise the **Institute's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Basis for Qualified Opinion on the Governmental Activities, and General Fund

Governmental Activities and General Fund – Inventories:

We were engaged in April 2021, therefore, we were unable to physically observe, and test count the **Institute's** inventory as of June 30, 2020, as required by the auditing standards general accepted in the United States of America. In addition, after scanning the **Institute's** inventory detail ledgers, we noted that through the years the **Institute** has accumulated a significant amount of slow-moving inventory. However, the **Institute** has not established a process to write-down inventory to lower of cost or market as of June 30, 2020. Accounting principles generally accepted in the United States of America require that obsolete or slow-moving inventory be written down to the lower of cost or market, which would have decrease the asset and the beginning fund balance amounts in the general fund, with a lesser amount possibility affecting the statement of changes in fund balances. The amounts by which this departure would affect the assets, changes in fund balance, and beginning fund balance have not been determined, we understand that it could be significant to the **Institute's** basic financial statements.

Governmental Activities, Each Major Fund and Aggregate Remaining Fund Information

After the end of the fiscal year ended June 30, 2018, the Puerto Rico Fiscal Agency Advisory Authority issued a letter to all agencies and public corporations of the Commonwealth of Puerto Rico, instructing that the Financial Oversight and Management Board of Puerto Rico (FOMB) has placed significant limitations and restrictions in the use of unencumbered contributions available as of said year-end, in their process of approving 2019-2020 Certified Budget. The Institute has not provided us a detail of the restricted surplus cash as of June 30, 2020, that may have been available from the current and prior fiscal years and reported in its Statement of Net Position and Balance Sheet. In accordance with the Government Accounting Standards Board Concept Statement No. 4, Elements of Financial Statements, an account balance, which is not a resource with present service capacity to the government entity and that it cannot control, is not an asset to the government entity. Therefore, had the Institute determined the amount of restricted cash under the FOMB requirements, the Institute would have been required to account for a liability to the Commonwealth, in an amount equal to the restricted cash, until such time that the FOMB would have instructed otherwise. The amount by which this situation would affect the assets, changes in fund balance and beginning fund balances of the Governmental Activities, Each Major Fund and Aggregate Remaining Fund Information has been not determined, but we understand that it could be material.

Qualified Opinion

In our opinion, except for the effect of the matter discussed in the "Basis for Qualified Opinion on the Government Activities and General Fund and the Aggregated Information" paragraph, if any, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate fund information of the **Institute**, as of June 30, 2020, 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

The accompanying basic financial statements have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in **Notes 1 and 3** to the financial statements, the **Institute** is financially dependent on legislative appropriations from the Commonwealth. However, the Commonwealth's recurring deficits, negative financial position, continued deterioration of its economic condition, and inability to access the credit market forced the federal government to enact the Puerto Rico Oversight, Management and economic Stability Act of 2016, and bring the Commonwealth of Puerto Rico, including its agencies and certain other public corporation, Economic Stability Act of 2016, and bring the Commonwealth of Puerto Rico, including its agencies and certain other public corporations into a formal reorganization process. These matters raise substantial doubt about the **Institute's** ability to continue as a going concern.

Management's plans regarding these matters are also described in **Note 3**. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

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 **67** through **70**, 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.

Other 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.

Other Information (Continued)

The Schedule of Expenditures of Federal Awards, presented in page **71,** 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2022, 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 23, 2022

Stamp No. **E484192** of the
Puerto Rico Society of Certified
Public Accountants was affixed in
the original of this report.

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

Financial Highlights

- The **Institute's** net position (deficit) decreased by **$1.9** million.

- General fund's operations resulted in an excess of revenues over expenditures 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 government-wide statements, by providing information about the **Institute's** most significant funds. The remaining statements provide financial information about activities for which the **Institute** acts as an agent for the benefit of those outside and inside of the government.

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Overall Financial Position and Results of Operations

We provide the readers of these basic financial statements with the following summarized discussion and analysis of the relevant facts that affected the governmental-wide financial statements as of June 30, 2020 and 2019, as restated.

Table 1

Statements of Net Position	**2020**	**2019, as restated**	**Change**	**%**
Current assets	$ 15,091,693	$ 9,002,319	$ 6,089,374	68%
Capital assets	35,349,471	38,486,153	(3,136,682)	-8%
Deferred outflows of resources	5,860,501	4,171,456	1,689,045	40%
Total Assets and Deferred Outflows of Resources	56,301,665	51,659,928	4,641,737	9%
Current liabilities	9,779,155	7,414,409	2,364,746	32%
Long-term liabilities	59,355,096	59,689,416	(334,320)	-1%
Deferred inflows of resources	4,386,040	3,706,854	679,186	18%
Total Liabilities and Deferred Inflows of Resources	73,520,291	70,810,679	2,709,612	4%
Net position:				
Net investment in capital assets	35,349,471	38,486,153	(3,136,682)	-8%
Restricted for capital projects	666,916	638,834	28,082	4%
Unrestricted (deficit)	(53,235,013)	(58,275,738)	5,040,725	4%
Total Net Position	$ (17,218,626)	$ (19,150,751)	$ 1,932,125	4%

Net Position

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

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

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

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

Governmental activities

Revenues for the **Institute's** governmental activities (including grants for capital improvements) increased by **18%** or **$2.6** million. Total expenses decreased by **66%** or **$30** million, as shown on **Table 2**.

Table 2 **Statement of Activities**	**2020**	**2019, as restated**	**Change**	**%**
Revenues				
Functions/Programs				
Governmental activities:				
Administrative services	$ 14,733,828	$ 9,664,348	$ 5,069,480	52%
Culture promotion	660,919	928,950	(268,031)	-29%
Documental patrimony conservation	829,783	958,526	(128,743)	-13%
Historic patrimony conservation	1,103,160	3,142,520	(2,039,360)	-65%
Total revenues	17,327,690	14,694,344	2,633,346	18%
Expenses				
Functions/Programs				
Governmental activities:				
Administrative services	12,773,232	11,342,339	1,430,893	13%
Culture promotion	1,240,606	1,425,815	(185,209)	-13%
Documental patrimony conservation	1,121,995	1,541,920	(419,925)	-27%
Historic patrimony conservation	1,502,705	1,591,146	(88,441)	-6%
Pension expenses	(1,202,552)	29,868,283	(31,070,835)	-104%
Other post-employment benefits expenses	(40,421)	(127,500)	87,079	100%
Total expenses	15,395,565	45,642,003	(30,246,438)	-66%
Special items:				
Cancellation of line of credit due to GDB	-	4,218,646	(4,218,646)	-100%
Changes in net position	1,932,125	(26,729,013)	28,661,138	103%
Net position – beginning, as restated	(19,150,751)	7,578,262	(26,729,013)	-353%
Net position – ending	$ (17,218,626)	$ (19,150,751)	$ 1,932,125	4%

The increase in revenues was mainly due to Commonwealth Legislature increased appropriations for payment of the **Institute's** "Pay-Go" pension obligations **($3.6** million) and increase in funding to match federal funds for reconstruction and conservation of historic patrimony affected by hurricanes.

Decrease in **Institute's** expenses was mainly due to effects of updating GASB Statements No 73 and 75 expenditures in the prior year and subsequent adjustments for current year movement of expenses and deferred outflows and inflows of resources.

Capital Assets

As of June 30, 2020, the **Institute** had **$35.3** million invested in capital assets net from accumulated depreciation. This amount represents a net decrease of **$3.1** million when compared to the fiscal year ended June 30, 2019. Capital assets depreciation recorded during the fiscal year ended June 30, 2020 amounted to **$3.2** million and additions made during the year amount to **$128** thousand.

A detail of the **Institute's** capital assets at June 30, 2020 and 2019, follows:

Table 3 Capital Assets	2020	2019	Change
Land	$ 55,205	$ 55,205	$ -
Building and improvements	105,070,432	105,070,432	-
Furniture, fixtures and equipment	3,979,977	3,923,738	56,239
Computers and software	1,491,070	1,418,893	72,177
Vehicles	692,826	692,826	-
Total capital assets	$ 111,289,510	$ 111,161,094	128,416
Less: accumulated depreciation	(75,940,039)	(72,674,941)	(3,265,098)
Capital assets, net of depreciation	$ 35,349,471	$ 38,486,153	(3,136,682)

Long term-Debt

As of June 30, 2020, long-term debt of the **Institute** amounted to **$62.9** million of which **$307** thousand are due within one year and are composed of accrued compensated absences and voluntary termination benefits. Long-term debt includes total pension liability recorded in accordance with GASB Statement No. 73 amounting to **$58.7** million and total other post-employment benefits liability for a total of **$2.1** million during the year ended June 30, 2020.

Long term debt decreased by approximately **$1.8** million during fiscal year 2019-20.

Going Concern

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

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

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

The **Institute's** financial statements as of and for the year ended June 30, 2020, has been prepared assuming that the **Institute** will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the **Institute's** operations and does not include adjustments that might be required if the **Institute** is unable to continue as a going concern.

On September 27, 2020, the Financial Oversight and Management Board filed its proposed Plan of Adjustment to restructure **$35** million of debt and other claims against the Commonwealth to **$12** billion, the Public Building Authority, and the Employee Retirement System, and more than **$50** billion of pension liabilities. Combined with the restructuring of COFINA debt earlier this year, the Plan reduces the Commonwealth's annual debt service to just under **9%** of own-source revenues, down from almost **30%** of government revenues prior to PROMESA. As described in **Note 15**, an amended Plan of Adjustment was submitted for approval during November 2021. The amended plan was approved during January 2022.

Federal funds claimed to GDB

The **Institute** claimed federal funds that were maintained in GDB prior the bank closing. Total funds claimed from NEA grants 09-6100-2051, 10,6100-2054, 11-6100-2056, 13-6100-2059, and 14-6100-2059 amounted to **$1.958** million approximately. On June 30, 2020, the Puerto Rico Treasury Department deposited the total amount in the **Institute's** commercial bank account.

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**.

Also, the impact of these hurricanes severely damaged 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.

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.**

Puerto Rico Covid-19 Pandemic (DR-4493)

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

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

Puerto Rico Covid-19 Pandemic (DR-4493) (Continued)

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

CARES Act – Stimulus Package

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

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.

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.

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, 2020

	Governmental Activities
Assets	
Cash in commercial banks	$ 11,787,474
Receivables, net:	
Trade	289,116
Intergovernmental	238,626
Inventory	2,109,561
Restricted cash in commercial banks	666,916
Capital assets	
Land	55,205
Other capital assets, net of depreciation and amortization	35,294,266
Total assets	**50,441,164**
Deferred outflows of resources	
Pension related	5,687,638
Other post-employment benefits related	172,863
Total assets and deferred outflows of resources	**56,301,665**
Liabilities	
Accounts payable and accrued liabilities	4,282,564
Unearned revenue	1,925,012
Liabilities payable within one year:	
Compensated absences	21,677
Voluntary termination benefits	285,949
Pension liability	3,091,090
Other post-employment benefits liability	172,863
Liabilities payable over one year:	
Compensated absences	411,860
Voluntary termination benefits	1,441,593
Pension liability	55,525,687
Other post-employment benefits liability	1,975,956
Total liabilities	**69,134,251**
Deferred inflows of resources	
Pension related	4,386,040
Total liabilities and deferred inflows of resources	**73,520,291**
Net position	
Net investment in capital assets	35,349,471
Restricted for:	
Capital projects	666,916
Unrestricted	(53,235,013)
Total net position	**$ (17,218,626)**

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

Functions/Programs	Expenses	Program Revenues: Operating Grants	Program Revenues: Capital Grants	Net (Expenses) Revenues and Change in Net Position: Governmental Activities
Governmental Activities:				
Administrative services	$ 11,530,259	$ 14,733,828	$ -	$ 3,203,569
Culture promotion	1,240,606	660,919	-	(579,687)
Documental patrimony conservation	1,121,995	829,783	-	(292,212)
Historic patrimony conservation	1,502,705	1,103,160	-	(399,545)
	$ 15,395,565	$ 17,327,690	$ -	$ 1,932,125

Change in net position	1,932,125
Net position - beginning of fiscal year, as restated	(19,150,751)
Net position - ending of fiscal year	$ (17,218,626)

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

	General Fund	Federal Grants Fund	Other Non-Major Funds	Total Governmental Funds
ASSETS				
Cash in commercial banks	$ 5,142,643	$ 4,386,011	$ 2,258,820	$ 11,787,474
Receivables, net:				
Trade	267,261	21,855	-	289,116
Intergovernmental	-	238,626	-	238,626
Inventory	2,109,561	-	-	2,109,561
Restricted cash in commercial banks	-	-	666,916	666,916
Due from other funds	2,529,204	-	-	2,529,204
Total assets	**$ 10,048,669**	**$ 4,646,492**	**$ 2,925,736**	**$ 17,620,897**
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	$ 4,008,066	$ 234,093	$ 40,405	$ 4,282,564
Due to other funds	-	2,487,387	41,817	2,529,204
Unearned revenue	-	1,925,012	-	1,925,012
Total liabilities	4,008,066	4,646,492	82,222	8,736,780
Fund balances				
Nonspendable	2,109,561	-	-	2,109,561
Restricted	-	-	2,843,514	2,843,514
Unassigned	3,931,042	-	-	3,931,042
Total fund balances	6,040,603	-	2,843,514	8,884,117
Total liabilities and fund balances	**$ 10,048,669**	**$ 4,646,492**	**$ 2,925,736**	**$ 17,620,897**

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

Total governmental fund balances	**$ 8,884,117**
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	35,349,471
Deferred outflows of resources - pension related	5,687,638
Deferred outflows of resources - OPEB related	172,863
Voluntary termination benefits not payable from current resources and, therefore, are not reported in the Balance Sheet- Governmental Funds:	(1,727,542)
OPEB liability are not payable from current resources and, therefore, are not reported in the Balance Sheet - Governmental Funds:	(2,148,819)
Compensated absences not liquidated immediately with current financial resources are not reported in the in the Balance Sheet - Governmental Funds:	(433,537)
Deferred inflows of resources - pension related	(4,386,040)
Net pension liability	(58,616,777)
Net position of governmental activities	**$ (17,218,626)**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the fiscal year ended June 30, 2020

	General Fund	Federal Grants Fund	Other Non-Major Funds	Total Governmental Funds
Revenues				
Contributions from Commonwealth	$ 14,612,163	$ -	$ -	$ 14,612,163
Intergovernmental	-	586,929	-	586,929
Other	373,789	210,229	1,544,580	2,128,598
Total revenues	14,985,952	797,158	1,544,580	17,327,690
Expenditures				
Administrative services	$ 10,032,867	$ 790,456	$ 2,363	10,825,686
Culture promotion:				
Plastic arts	228,140	-	-	228,140
Popular arts	94,544	-	-	94,544
Cultural centers	149,280	-	-	149,280
Music	73,038	-	-	73,038
Theater	140,537	-	-	140,537
	685,539	-	-	685,539
Documental patrimony conservation:				
General archives of PR	512,094	-	60,513	572,607
Publications	153,826	-	-	153,826
General library	134,354	-	-	134,354
	800,274	-	60,513	860,787
Historic patrimony conservation:				
Historic patrimony	372,933	-	93	373,026
Archeology	140,879	-	-	140,879
Museums and parks	564,337	-	-	564,337
	1,078,149	-	93	1,078,242
Ciapital outlays	121,714	6,702	-	128,416
Total expenditures	12,718,543	797,158	62,969	13,578,670
Excess (deficiency) of revenues over (under) expenditures	2,267,409	-	1,481,611	3,749,020
Fund balance, beginning, as restated	3,773,194	-	1,361,903	5,135,097
Fund balance, ending	$ 6,040,603	$ -	$ 2,843,514	$ 8,884,117

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

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, 2020

Net change in fund balances - total governmental funds		**$ 3,749,020**
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	$ 128,416	
Less: current-year depreciation	(3,265,098)	(3,136,682)
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	(125,721)	
Voluntary termination benefits	202,535	
Pension and other post-employment benefit expense	1,242,973	1,319,787
Change in net position of governmental activities		**$ 1,932,125**

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

Assets		
Cash in commercial bank	$	199,615
Liabilities		
Accounts payable	$	199,615

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

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 I**nstitute** 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, 2020 are under the custody of the Secretary of the Treasury of the Commonwealth of Puerto Rico until transferred to the **Institute**. The **Institute** meets the criteria to be included as discretely presented component unit since it is: a legally separate entity of the Commonwealth, the Commonwealth's government appoints a voting majority of the **Institute's** governing body, and there is a financial benefit/burden relationship between the Commonwealth and the **Institute**.

Board of Directors **–** The **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.

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.

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 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.

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, 2020 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, 2020.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.
- Total pension liability at June 30, 2020 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.

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 and advances made from FEMA for Hurricane Maria disaster grants.

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

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.

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

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

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

- ***Nonspendable fund balance*** **–** amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- ***Inventory*** **–** the portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which is a non-spendable resource.

- ***Restricted Fund Balance*** **–** amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. The **Institute's** restricted fund balance consists of the Special Appropriation Fund, Capital Improvement Fund and Cultural Affairs Financing Fund. These fund balance amounts arise from special resolutions of the Government of the Commonwealth of Puerto Rico and private entities that can only be spent in specified purposes.

- ***Committed Fund Balance*** – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Directors (the "Board"). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process.

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.

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 Assets and Statement of Activities, are presented using the accrual method of accounting. Under this method, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this method, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures, (including capital outlays) are recorded when the related fund is incurred.

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

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

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

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

***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.

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 treasurers, 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:

Asset Category	Years
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.

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.

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

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.

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, 2020, the **Institute** received federal grants from the National Endowment for the Arts. The Authority 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.

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

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.

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.

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

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

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

The **Institute** obtains workers compensation insurance though 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.

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, 2020**:**

(a) GASB No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement were effective for reporting periods beginning after June 15, 2018.

(b) GASB No. 84, *Fiduciary Activities.* This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for reporting period beginning after December 15, 2019.

(c) GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

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

(d) GASB Statement No. 88, *Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement were effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

(f) GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method.

This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit.

Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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

(g) GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

(h) GASB Statement No. 92, *Omnibus 2020*. Effective Date: The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.

- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021. Earlier application is encouraged and is permitted by topic.

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

(i) GASB Statement No. 93, *Replacement of Interbank Offered Rates.* Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (LIBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020.

Earlier application is encouraged.

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

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

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

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

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

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

- GASB Statement No. 83, Certain Asset Retirement Obligations.
- GASB Statement No. 84, Fiduciary Activities.

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

(k) GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (Continued)

- GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.
- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.
- Statement No. 90, Majority Equity Interests.
- Statement No. 91, Conduit Debt Obligations.
- Statement No. 92, Omnibus 2020.
- Statement No. 93, Replacement of Interbank Offered Rates.
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).
- GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018.
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019.
- Implementation Guide No. 2019-2, Fiduciary Activities.

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

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

The requirements of this Statement are effective immediately. Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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

(l) 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.

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

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

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

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

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

(m) GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 (Continued)*

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

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

(n) GASB Statement No. 98 "The Annual Comprehensive Financial Report" - This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness.

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. Little direct cost will be incurred as a result of instituting the new term. Moreover, there will be no direct benefits in the form of new or improved information for making decisions or assessing accountability. However, establishing a new name for the financial report in response to the concerns of stakeholders benefits all stakeholders. The Board believes that those benefits are qualitative and justify the costs that will result from implementing the new term.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities.

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

(n) GASB Statement No. 98 "The Annual Comprehensive Financial Report" (Continued)

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. 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. GOING CONCERN AND UNCERTAINTIES

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

As discussed in **Note 1** to the basic financial statements, the **Institute's** principal source of revenue is from appropriations from the Commonwealth of Puerto Rico (the Commonwealth). More than eighty percent of the **Institute's** total revenues are derived from appropriations of the Commonwealth which amounted to **$14,612,000** for the year ended June 30, 2020. Moreover, the **Institute** has limited ability to raise operating revenues. Also, as disclosed in **Note 4**, with the demise of the GDB, the **Institutes'** ability to borrow money for short-term operating needs on long-term capital needs is limited.

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

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

3. GOING CONCERN AND UNCERTAINTIES (CONTINUED)

PROMESA establishes a seven-member Oversight Board, the members of which have been designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as “covered” instrumentalities.

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

The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.

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

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

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

3. GOING CONCERN AND UNCERTAINTIES (CONTINUED)

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

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

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

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

As described pm **Note 15**, during January 2022 the Federal Court approved the Commonwealth of Puerto Rico Plan of Adjustment (the Plan). Under the provisions of this Plan the Commonwealth's outstanding debt balance will be significantly reduced. Also, after the implementation of this Plan, the Commonwealth expects to gain access to the capital markets.

4. CASH AND CASH EQUIVALENTS

The table presented below discloses the level of custodial risk assumed by the **Institute** at June 30, 2020. 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, 2020, approximately **$13** million of the depository bank balance was insured as follows:

Governmental activities

	Carrying Amount			Depository
	Unrestricted	Restricted	Total	Bank Balance
Commercial bank	$ 11,787,474	$ 666,916	$ 12,454,390	$ 12,948,232

Fiduciary activities

	Carrying Amount			Depository
	Unrestricted	Restricted	Total	Bank Balance
Commercial bank	$ -	$ 199,615	$ 199,615	$ 199,615

As of June 30, 2020, 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, 2020 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.

5. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2020 are summarized as follows:

Receivable Fund			Payable Fund		
General fund	$	2,487,387	Federal grants fund	$	2,487,387
General fund		4,799	Special appropriation fund		4,799
General fund		37,018	Other governmental funds		37,018
Total	$	2,529,204		$	2,529,204

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.

6. CAPITAL ASSETS

The **Institute's** capital assets at June 30, 2020 were as follows:

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Non-depreciable assets:				
Land	$ 55,205	$ -	$ -	$ 55,205
	55,205	-	-	55,205
Depreciable assets:				
Buildings and improvements	105,070,432	-	-	105,070,432
Furniture, fixtures and equipment	3,923,738	56,239	-	3,979,977
Computers and software	1,418,893	72,177	-	1,491,070
Vehicles	692,826	-	-	692,826
	111,105,889	128,416	-	111,234,305

6. CAPITAL ASSETS (CONTINUED)

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Less accumulated depreciation:				
Buildings and improvements	(67,944,385)	(3,114,675)	-	(71,059,060)
Furniture, fixtures and equipment	(3,065,354)	(103,036)	-	(3,168,390)
Computers and software	(1,084,524)	(44,601)	-	(1,129,125)
Vehicles	(580,678)	(2,786)	-	(583,464)
	(72,674,941)	(3,265,098)	-	(75,940,039)
Net depreciable assets	38,430,948	(3,136,682)	-	35,294,266
Capital assets, net	$ 38,486,153	$ (3,136,682)	$ -	$ 35,349,471

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 daily lives of **3.4** million of residents, including housing, infrastructure, environment, safety, health and social services, and government operations.

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

The **Institute** is currently evaluating with FEMA the damages suffered by buildings and other property. As of June 30, 2020, FEMA obligated **$1,320,808** (and disbursed **$693,029**) for debris removal and emergency protective actions. The **Institute** estimates total funding for repair of buildings and facilities in approximately for **$25** million (including the cost of removing hazardous and poisonous materials).

6. CAPITAL ASSETS (CONTINUED)

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.

Given the effects of this natural disaster, 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.

Depreciation expense was charged to functions/programs as follows:

Program	Amount
Administrative Services	**$ 2,024,361**
Culture promotion:	
Plastic Arts	**97,953**
Popular Arts	**65,302**
Cultural Centers	**130,604**
Music	**130,604**
Theater	**130,604**
	555,067
Documentary Patrimony Conservation:	
General Archives	**130,604**
Publications	**65,302**
General Library	**65,302**
	261,208
Historic Patrimony Conservation:	
Historic Patrimony	**97,952**
Archeology	**65,302**
Museums and Parks	**261,208**
	424,462
Total depreciation expense	**$ 3,265,098**

7. COMPENSATED ABSENCES

The balance of compensated absences as of June 30, 2020 was as follows:

	Beginning Balance	Net Change	Ending Balance	Due within one year
Vacation licenses	$ 307,816	$ 125,721	$ 433,537	$ 21,677
Total	$ 307,816	$ 125,721	$ 433,537	$ 21,677

8. FUND BALANCES-GOVERNMENTAL FUNDS

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

	General Fund	Special Appropriations Fund	Federal Grants Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:					
Nonspendable – Inventory	$ 2,109,561	$ -	$ -	$ -	$ 2,109,561
Restricted:					
Capital projects	-	-	-	642,815	642,815
Other purposes	-	528,849	-	1,671,850	2,200,699
Unassigned	3,931,042	-	-	-	3,931,042
Total fund balances	$ 6,040,603	$ 528,849	$ -	$ 2,314,665	$ 8,884,117

9. PENSION PLAN

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

9. PENSION PLAN (CONTINUED)

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

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

As of June 30, 2019, the **Institute** disclosed a liability of **$58,616,777** for its proportionate share of the total pension liability. This liability was determined as of June 30, 2019 (measurement date), based on the requirements of the GASB Statements No. 73. Accordingly, this total pension liability is recorded in the **Institute's** accounting records as of June 30, 2020. The amount was measured as of June 30, 2019 and the total pension liability used to calculate the liability was determined by an actuarial valuation as of July 1, 2018, rolled forward to the measurement date of June 30, 2019.

The **Institute's** share of the total pension liability was based on a projection of the **Institute's** long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. On June 30, 2019, the **Institute's** proportionate share was **.23588%** which was a decrease of **.42%** from its proportionate share measured on June 30, 2018.

The pension expense incurred during fiscal year ended June 30, 2020 amounted to **$1,888,536**.

9. PENSION PLAN (CONTINUED)

Also, as of June 30, 2020, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,987,280
Change in assumptions	1,903,430	1,515,401
Change in proportions and difference between the employer's contributions and proportionate share of contributions	693,118	883,359
Institute's benefits payments subsequent to measurement date	3,091,090	-
Total	**$ 5,687,638**	**$ 4,386,040**

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

Year ending June 30,	Amount
2021	$ (447,373)
2022	(447,373)
2023	(447,373)
2024	(447,373)
Total	$ (1,789,492)

9. PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions

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

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

The mortality tables used in the June 30, 2019 valuation were as follows:

Pre-Retirement Mortality: For general employees not covered by Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from 2006 base year and projected forward using MP-2019 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from 2006 base year and projected forward using MP-2019 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 Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to **92%** of the rated from the UP-1994 Mortality Table for Males and **95%** of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

9. PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The 2010 base rates are **105%** of the rates from the UP-1994 Mortality Table for Males and **115%** of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

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

Discount Rate

The discount rate was **3.50%** on June 30, 2019. 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.

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 **3.50%,** 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:

	1% Decrease	At Current Discount Rate	1% Increase
	2.50%	3.50%	4.50%
Total pension liability	$ 66,657,069	$ 58,616,777	$ 52,085,528

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, 2020, the Institute reported a liability of approximately **$2.1** million for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2020, was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date). As of June 30, 2020, the Institute's proportionate share was **0.26059%.** Also, for the year ended June 30, 2020, the Authority recognized an OPEB benefit of **$40,420**.

The **Institute's** total OPEB liability as of June 30, 2020 was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019. 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, 2020 was **3.50%**. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Mortality (Continued)

Pre-retirement Mortality (Continued)

For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of improvement. The 2010 base rates are equal to **92%** of the rates from the UP-1994 Mortality Table for Males and **95%** of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees-based experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to **105%** of the rates from the UP-1994 Mortality Table for Males and **115%** of the rates from the UP1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the **Institute** at June 30, 2019, (measurement date), calculated using the discount rate of **3.50%**, as well as the Plan total OPEB liability if it were calculated using the discount rate of 1-percentage point lower **(2.50%)** or 1-percentage point higher **(4.50%)** than the current rate:

	1% Decrease	At Current Discount Rate	1% Increase
	2.50%	3.50%	4.50%
Total OPEB liability	$ 2,356,843	$ 2,148,819	$ 1,972,136

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, 2020, **$173** 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, 2020.

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:

11. VOLUNTARY TERMINATION BENEFITS (CONTINUED)

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

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

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

Annuity pension payment is based on the following parameters:

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

11. VOLUNTARY TERMINATION BENEFITS (CONTINUED)

The **Institute** will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments. Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first. Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited. At June 30, 2020 unpaid long-term benefits granted on Act 70 were discounted at **2.20%.**

Voluntary termination benefits balance activity during the fiscal year ended June 30, 2020 was as follows:

	Beginning Balance	Net Change	Ending Balance	Due within One Year
Voluntary Termination Benefits	$ 1,930,077	$ (202,535)	$ 1,727,542	$ 285,949

12. CONTINGENCIES

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

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

Federal Awards

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

13. CULTURAL AFFAIRS FINANCING FUND

The Act No. 115 of July 20, 1988, amended by Act No. 200 of December 4, 2015, created the Cultural Affairs Financing Fund (the "Fund"). The purposes of the Fund are to finance, encourage, develop and stimulate cultural and artistic activities that natural persons, non-profit institutions, corporations, societies, associations and diverse groups carry out through repayable and non-refundable financial mechanisms, as indicated by regulation of the Administrative Council established by Act No. 115, as amended. For the year ended June 30, 2020, the Cultural Affairs Financing Fund had no operations and is presented in the Non-Major Funds column in the fund financial statements.

14. RESTATEMENT OF FUND BALANCE AND NET POSITION

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

	Fund Financial Statements					Government-Wide Financial Statements-Net Position
Description	General Fund	Special Appropriation Fund	Cultural Affairs Financing Fund	Federal Grants Fund	Other Governmental Funds	Governmental Activities
Total fund balances / net position, at beginning of year, as previously reported	**$ 3,837,027**	**$ 609,181**	**$ -**	**$ -**	**$ 780,014**	**$ (19,166,960)**
Recognition of allowance for uncollectible accounts from prior years	(63,833)	(18,012)	-	-	(8,735)	(90,580)
To correct GASB 73 Deferred Outflows of Resources balance	-	-	-	-	-	107,334
To correct difference prior year costs	-	-	-	-	(545)	(545)
Fund balance/net position, beginning, as restated	**$ 3,773,194**	**$ 591,169**	**$ -**	**$ -**	**$ 770,734**	**$ (19,150,751)**

15. SUBSEQUENT EVENTS

The **Institute** evaluated subsequent events through March 23, 2022, the date on which the financial statements were available to be issued.

Fiscal years 2020-21 and 2021-22 Budgets and Fiscal Plan

The Financial Oversight and Management Board for Puerto Rico (FOMB) in agreement with the Fiscal Plan established by PROMESA Act assigned a budget of **$13.1** million to the **Institute** for the fiscal year 2020-2021. Currently, the Commonwealth of Puerto Rico and the FOMB are discussing the budget for fiscal year 2021-2022. The FOMB is presenting a baseline target of **$10.2** million but the **Institute** is in the process of identifying needs and justify an increase in a final budget.

Approval of Commonwealth's Plan of Adjustment

On January 18, 2022, a Federal Judge approved the Commonwealth's of Puerto Rico Plan of Adjustment, a key component to comply with PROMESA Act.

Under this Plan of Adjustment, the Commonwealth:

- Reduces the outstanding Commonwealth's debt and other claims by almost **80%**, from **$33** billion of existing claims to **$7.4** billion in new debt.
- Reduces the Commonwealth's total debt service payments (including COFINA Senior Bonds) by more than **60%** from **$90.4** billion to **$34.1** billion, saving the Government of Puerto Rico almost **$60** billion in debt service payments.
- Reducing maximum annual debt service payments from **$3.9** billion to **$1.15** billion per year.
- Before PROMESA, the Government paid **25** cents of every dollar it collected in taxes and fees to creditors. Under this plan it would be less than **7.2** cents.

Upon the final approval and implementation of the provisions of this Plan, the Commonwealth is expected to gain access to the capital markets.

	GASB 73		GASB 68			
As of June 30,	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Institute's proportionate share of the total pension liability	0.23588%	0.24012%	0.09241%	0.09613%	0.09137%	0.08785%
Institute's proportionate share of the total pension liability	$ 58,616,777	$ 58,804,169	$ 31,620,368	$ 36,238,336	$ 30,460,270	$ 24,476,427
Total covered payroll per valuation report (All employers)	N/A	N/A	$ 690,933,522	$ 3,344,382,000	$ 3,319,280,000	$ 3,489,096,000
Institute's proportion of covered payroll calculation	N/A	N/A	$ 638,479	$ 3,214,954	$ 3,032,826	$ 3,065,171
Institute's proportionate share of the total pension liability as a percentage of its covered-employee payroll	N/A	N/A	4952.46%	1127.18%	1004.35%	798.53%
Plan fiduciary net position as percentage of the total pension liability (All employers)	N/A	N/A	6.20%	3.47%	2.05%	0.27%

Notes to required supplementary information

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

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

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

The amounts presented were determined by an actuarial valuation as of July 1, 2018 that was rolled forward to June 30, 2019, the measurement date.

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

Valuation Date: July 1, 2018
Measurement Date: June 30, 2019

Actuarially determined contribution rates are calculated as of June 30, 2018, one year prior to the end of the fiscal year in which contributions are reported and applied to all periods included in the measurement.

Actuarial cost method	Entry Age Normal Cost Method
Inflation rate	Not applicable
Salary increases	**3.00%** per year. No compensation increases are assumed until July 1, 2021 as a result of Act 3-2017, four-year extension of Act No. 66-2014, and the current general economy.
Pre-Retirement Mortality	For general employees not covered by Act No. 127, RP2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP2019 from 2006 base year and projected forward using MP2019 on generational basis. For members covered under Act No. 127, RP2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP2019 from 2006 base year and projected forward using MP2019 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 Healthy Mortality	Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to **92%** of the rated from the UP1994 Mortality Table for Males and **95%** of the rates from the UP1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
Post-Retirement Disabled Mortality	Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are **105%** of the rates from the UP1994 Mortality Table for Males and **115%** of the rates from the UP1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

As of June 30,	2020	2019	2018	2017
Institute's proportionate share of the total OPEB liability	0.25820%	0.26059%	0.25270%	0.25007%
Institute's proportionate share of the total OPEB liability	$ 2,148,819	$ 2,194,541	$ 2,326,150	$ 2,963,617
Total actual employer benefit payments per valuation report (All employers)	N/A	N/A	$ 77,130,918	$ 79,797,657
Institute's proportion of covered employer benefit payment calculation	N/A	N/A	$ 194,910	$ 199,550
Institute's proportionate share of the total OPEB liability as a percentage of its employer benefit calculation	N/A	N/A	1193.45%	1485.15%

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, 2018 that was rolled forward to June 30, 2019, the measurement date.

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

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through To Sub-recipients	Federal Expenditures
Direct Programs:				
National Endowment for the Arts				
Promotion of the Arts-State:				
Partnership agreement	45.025	17-6100-2065 1845512-61-18 1855972-61-19	$ 74,935	$ 598,552
COVID 19 Partnership Agreement (CARES Act)	45.025	1855972-61-19 (CARES Act)	120,000	198,606
Total Expenditures of Federal Awards			$ 194,935	$ 797,158

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

A summary of the significant accounting policies used by the **Institute** in the preparation of the Schedule follows:

a) The accompanying Schedule of Expenditures of Federal Awards is prepared from the **Institute's** accounting records and is not intended to present the financial position or results of operations.

b) The financial transactions are recorded by the **Institute** in accordance with the terms and conditions of the grant, which may not be consistent with generally accepted accounting principles in the United States of America.

c) Expenditures are recognized in the accounting period in which the liability is incurred, is measurable or when actually paid, whichever occurs first.

d) Expenditures for Public Assistance Grants (FEMA) are recognized in the period when: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred.

e) The **Institute** has not elected to use the **10 percent** "de minimus" indirect cost rate allowed under the Uniform Guidance.

3. FEDERAL CFDA NUMBER

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

3. FEDERAL CFDA NUMBER (CONTINUED)

State or local government redistributions of federal awards to the Municipality, known as “pass–through awards”, should be treated by the Municipality 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.

4. MAJOR FEDERAL PROGRAM

Major program is 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	$ 797,158
Less: Expenditures of other funds not related to federal grants	-
Federal expenditures per Statement of Expenditures of Federal Awards	$ 797,158

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, 2020, 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 23, 2022.

Our report included a qualified opinion because we were unable to observe, and test count the inventory as of June 30, 2020. Also, a slow moving inventory have been identified for which an evaluation have not been performed in order to determine a reserve for possible loss to account for the inventory at the lower of cost or market.

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.

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Internal Control Over Financial Reporting (Continued)

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Question Costs as item no. **2020-001** that we consider a material weakness.

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 inst*ances of noncompliance or other matters that are required to be reported under Government Auditing Standards* which are described in the accompanying Schedule of Finding and Questioned Costs as item **2020-001**.

The Institute's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

R & S, CPA's, PSC

RODRIGUEZ & SANTIAGO, CPA's, PSC

San Juan, Puerto Rico
March 23, 2022

The Stamp **#E484194** 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 **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, 2020. The **Institute's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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Basis for Qualified Opinion on Promotion of the Arts Partnership Agreements

As described in the accompanying schedule of findings and questioned costs, the **Institute** did not comply with requirement regarding the following:

Finding No.	CFDA No.	Program Name	Compliance Requirement
2020-02	45.025	Promotion of the Arts Partnership Agreement	Reporting

Compliance with such requirement is necessary, in our opinion, for the **Institute** to comply with the requirements applicable to that program.

Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the **Institute** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Promotion of the Arts Partnership Agreements for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

Report on Internal Control Over Compliance (Continued)

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identified a deficiency in internal control over compliance, as described in the accompanying schedule of finding and questioned costs as item **2020-002** that we consider to be material weakness.

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

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

R & S, CPA's, PSC

RODRIGUEZ & SANTIAGO, CPA's, PSC

San Juan, Puerto Rico
March 23, 2022

The Stamp **#E484195** of the Puerto Rico
Society of Certified Public Accountants
was affixed to the original of this Report

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: :	Qualified	
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:	Qualified	
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:

CFDA Number	Name of Federal Program or Cluster
45.025	Promotion of the Arts Partnership Agreements

Dollar threshold used to distinguish between Type A and Type B Programs	**$750,000**	
Auditee qualified as low-risk auditee?	☐Yes	☒No

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2020-001

Requirement: **Financial Reporting**

Type of Finding: **Internal Control over Financial Reporting and Other Matters-Material Weakness (MW)**

This finding is similar to prior year finding 2019-001.

Statement of Condition

1. We were unable to physically observe and test count the **Institute's** inventory presented in the General Fund as of June 30, 2020, as required by the auditing standards generally accepted in the United States of America. Also, 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, 2020.

2. The **Institute** maintained unencumbered general and special appropriation funds related to previous years with the Treasury Department and no detail was provided of the funds as of June 30, 2020, that may indicate its availability from the current and prior years.

Criteria

1. AU-C 501.11 states that when inventory is material to the financial statements, the auditor needs to get sufficient evidence regarding the existence and condition of inventory.

2. When inventory can't be sold in the markets, it declines significantly in value and could be deemed useless to the entity. To recognize the fall in value, obsolete inventory must be written-down or written-off in the financial statements in accordance with generally accepted accounting principles (GAAP).

3. Governments should establish and maintain internal controls that provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. These internal controls should be in compliance with the "Internal Control Integrated Framework", issued by the Committee of Sponsoring of the Treadway Commission (COSO).

SECTION II – FINANCIAL STATEMENTS FINDINGS (CONTINUED)

Finding No. 2020-001 (Continued)

Effect of Condition

The **Institute's** inability to prepare accurate financial statements in compliance with GAAP could lead to the risk of issuing financial statements materially misstated.

Cause of condition

Failure to established and follow internal controls over accounting procedures

Questioned Costs

None

Recommendation

The **Institute's** accounting personnel should follow proper internal controls procedures as established by policies, laws and regulations.

Auditee Response

See Grantee's Corrective Action Plan

SECTION III – FINDING AND QUESTIONED COSTS RELATING TO FEDERAL AWARD

Finding No. 2020-002	**Late Single Audit Submission**
Compliance Requirement	**Reporting**
Category	**Material Weakness in Internal Control and Material Noncompliance**
Program	**Promotion of the Arts Partnership Agreement**
CFDA No.	**45.025**
Federal Agency	**National Endowment for the Arts**

This finding is similar to prior year finding 2019-002.

Statement of Condition

The Data Collection Form and the Reporting Package for the year ended June 30, 2020 was not timely submitted to the federal government by the **Institute**. The Data Collection Form and the Reporting Package must be submitted by the auditee within the earlier of 30-day after the receipt of the auditor's reports or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. No extension from the cognizant or oversight agency was noted.

Criteria

The Uniform Guidance 2 CFR Section 200.512(a) requires the audit to be completed and the reporting package and data collection form be submitted to the Federal Audit Clearinghouse ("FAC") nine months after the end of the audit period.

Cause of Condition

The **Department** has not been able to provide the necessary information for the preparation of the single audit report on a timely basis in order to complete its reporting requirement for the fiscal year ended on June 30, 2020.

Effect of Condition

The **Institute** is not complying with the reporting requirements set forth by federal regulations, which could affect the future of its federal grants.

SECTION III – FINDING AND QUESTIONED COSTS RELATING TO FEDERAL AWARD (CONTINUED)

Recommendation

The **Institute** should adopt policies and procedures to ensure that the annual audit is performed and submitted in a timely manner.

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

Finding No. 2019-001

Statement of Condition

1. Auditors were unable to physically observe and test count the **Institute's** inventory presented in the General Fund as of June 30, 2019, as required by the auditing standards generally accepted in the United States of America. Also, 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, 2019.

2. The **Institute** maintained unencumbered general and special appropriation funds related to previous years with the Treasury Department and no detail was provided of the funds as of June 30, 2019, that may indicate its availability from the current and prior years.

Status

Still prevails. Refer to finding 2020-001.

Finding No. 2019-002

Statement of Condition

The Data Collection Form and the Reporting Package for the year ended June 30, 2019 was not timely submitted to the federal government by the **Institute**.

Status

Still prevails. Refer to finding 2020-002.

INSTITUTO de CULTURA PUERTORRIQUEÑA

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

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Mr. Carlos Ruiz Cortés-Director

Contact Person: Mrs. Wanda Barbosa-Accounting and Finance Director Phone: (787) 724-0700

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2020-001	We concur with the finding.	a. Inventory- The inventory was observed by subsequent auditors, in September 2021. We expect that subsequently auditors observe inventory as required by regulation. b. State General and Special Funds Budget Resolutions-The Institute, as a component unit of the Commonwealth of Puerto Rico, are under budgetary restrictions as per the Financial Oversight and Management Board for Puerto Rico. The Board restricts the use of unencumbered amounts in the Institute's bank accounts but as of this date petitions to use the funds for the Institute's operations have been approved. Responsible person: Mrs. Wanda Barbosa – Accounting and Finance Director Implementation date: June 30, 2022

INSTITUTO
de CULTURA
PUERTORRIQUEÑA

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

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Mr. Carlos Ruiz Cortés-Director

Contact Person: Mrs. Wanda Barbosa-Accounting and Finance Director Phone: (787) 724-0700

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2020-002	We concur with the finding.	The situation arised from the effects of hurricanes, the COVID-19 pandemic and the subsequent periods of emergency, in which the administrative and operational efforts of the Institute have been restoring and protecting the Island's cultural heritage Notwithstanding the budgetary restrictions imposed on the Institute by the Financial Oversight and Management Board for Puerto Rico, the Institute expects to comply with the Single Audit Report deadline in the following year. Responsible person: Mrs. Wanda Barbosa – Accounting and Finance Director Implementation date: June 30, 2022.