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, 2021

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, 2021

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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, 2021

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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, 2021, 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:

During the audit, 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. The **Institute** has not established a process to write-down inventory to lower of cost or market as of June 30, 2021. 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.

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, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described on **Note 11** the Government of Puerto Rico enacted Law No. 26 on April 29, 2017, known as "Law of Compliance with the Fiscal Plan". Under the provisions of Law No. 26 Public corporations, agencies and instrumentalities of the Government of Puerto Rico are hereby ordered to transfer to the Department of the Treasury the surplus of the income generated. Those funds will be considered as available resources of the Government of Puerto Rico and shall be deposited by the Department of the Treasury in the General Fund of the Government of Puerto Rico to meet the liquidity requirements contemplated in the Fiscal Plan adopted under the provisions of Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA).

As of June 30, 2021, the **Institute** maintains deposited on its commercial bank account certain surpluses funds from prior years that might be subject to the provisions of Law No. 26. As of the date of the financial statements, no final determination have been made by the designed committee in relation to any amount of those surpluses funds that shall be transferred by the **Institute**, if any.

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 **13**, and the schedules of proportionate share of collective total pension liability and total other post-employment benefits on pages **66** through **67**, 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.

The Schedule of Expenditures of Federal Awards, presented in page **69,** 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 September 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
September 23, 2022

Stamp No. **E484237** 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, 2021. 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) increased by **$2.2** million.
- General fund's operations resulted in an excess of revenues and other financing sources over expenditures and other financing uses amounting to **$1.3** million.

Using this Annual Report

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

The Statement of Net Position and the Statement of Activities

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

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

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, 2021 and 2020, as restated.

Table 1

Statements of Net Position	**2021**	**2020, as restated**	**Change**	**%**
Current assets	$ 14,676,090	$ 15,476,810	$ (800,720)	-5%
Capital assets	32,686,761	35,326,771	(2,640,010)	-7%
Deferred outflows of resources	12,010,717	5,874,069	6,136,648	104%
Total Assets and Deferred Outflows of Resources	59,373,568	56,677,650	2,695,918	5%
Current liabilities	8,066,275	9,779,155	(1,712,880)	-18%
Long-term liabilities	66,534,756	59,355,096	7,179,660	12%
Deferred inflows of resources	3,642,331	4,386,040	(743,709)	-17%
Total Liabilities and Deferred Inflows of Resources	78,243,362	73,520,291	4,723,071	6%
Net position:				
Net investment in capital assets	32,686,761	35,349,471	(2,662,710)	-8%
Restricted for capital projects	663,065	666,916	(3,851)	-1%
Unrestricted (deficit)	(52,219,620)	(52,859,028)	639,408	-1%
Total Net Position	$ (18,869,794)	$ (16,842,641)	$ (2,027,153)	12%

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. Mostly, the adoption of the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* impacted the **Institute** long term liabilities by **$65** 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 **$2.2** million for the effects of the **Institute's** proportionate share of the total OPEB liability.

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

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Governmental activities

Revenues for the **Institute's** governmental activities (including grants for capital improvements) decreased by **14%** or **$2.5** million. Total expenses increased by **17%** or **$2.6** million, as shown on **Table 2**.

Table 2 Statement of Activities	2021	2020, as restated	Change	%
Revenues				
Functions/Programs				
Governmental activities:				
Administrative services	$ 11,198,906	$ 15,096,245	$ (3,897,339)	-26%
Culture promotion	762,352	660,919	101,433	15%
Documental patrimony conservation	680,840	829,783	(148,943)	-18%
Historic patrimony conservation	2,531,425	1,103,160	1,428,265	129%
Total revenues	15,173,523	17,690,107	(2,516,584)	-14%
Expenses				
Functions/Programs				
Governmental activities:				
Administrative services	13,569,199	12,773,232	795,967	6%
Culture promotion	1,317,329	1,240,606	76,723	6%
Documental patrimony conservation	1,303,722	1,121,995	181,727	16%
Historic patrimony conservation	1,521,913	1,502,705	19,208	1%
Pension expenses	192,709	(1,202,552)	1,395,261	116%
Other post-employment benefits expenses	135,789	(40,421)	176,210	436%
Total expenses	18,040,661	15,395,565	2,645,096	17%
Special items:				
Insurance claim	839,985	-	839,985	100%
Changes in net position	(2,027,153)	2,294,542	(4,321,695)	-188%
Beginning net position	(16,856,209)	(19,150,751)	2,294,542	12%
Prior period adjustment	13,568	-	13,568	100%
Net position – beginning, as restated	(16,842,641)	(19,150,751)	2,308,110	12%
Net position – ending	$ (18,869,794)	$ (16,856,209)	$ (2,013,585)	-12%

The decrease in revenues was mainly due to Financial Oversight and Management Board for Puerto Rico decreased appropriations for fiscal year 2020-21.

Increase in **Institute's** expenses was mainly due to current year movement of expenses and deferred outflows and inflows of resources.

Capital Assets

As of June 30, 2021, the **Institute** had **$32.6** million invested in capital assets net from accumulated depreciation. This amount represents a net decrease of **$2.6** million when compared to the fiscal year ended June 30, 2020, as restated. Capital assets depreciation recorded during the fiscal year ended June 30, 2021 amounted to **$3.0** million and additions made during the year amount to **$536** thousand.

A detail of the **Institute's** capital assets at June 30, 2021 and 2020, follows:

Table 3 Capital Assets	2021	2020, as restated	Change
Land	$ 55,205	$ 55,205	$ -
Building and improvements	105,070,432	105,070,432	-
Furniture, fixtures and equipment	3,633,349	3,857,731	(224,382)
Computers and software	1,653,548	1,488,792	164,756
Vehicles	692,826	692,826	-
Total capital assets	$ 111,105,360	$ 111,164,986	(59,626)
Less: accumulated depreciation	(78,418,599)	(75,838,215)	(2,580,384)
Capital assets, net of depreciation	$ 32,686,761	$ 35,326,771	$ (2,640,010)

Long term-Debt

As of June 30, 2021, long-term debt of the **Institute** amounted to **$69.9** million of which **$3.3** million are due within one year. Long-term debt includes total pension liability recorded in accordance with GASB Statement No. 73 amounting to **$65.6** million and total other post-employment benefits liability for a total of **$2.2** million during the year ended June 30, 2021.

Long term debt increased by approximately **12%** during fiscal year 2020-21.

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.

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**.**

Hurricanes Irma and María

During September 2017, hurricanes Irma and María struck the island of Puerto Rico causing widespread damages throughout the island. These hurricanes made landfall in the island as a Category 4 hurricane on the Saffir-Simpson scale, causing catastrophic winds and water damages to the islands' infrastructure, homes and businesses. Most business establishments, including retailers and wholesalers, financial institutions, manufacturing facilities and hotels, were closed for several days. The damages caused by the hurricanes were substantial and have had a material adverse impact on economic activity in the island, thus, affecting the **Institute**.

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

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

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

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. The **Institute** was assigned **$28.5** million in ARPA funds during 2021-2022 fiscal year.

Impact of Earthquake in Puerto Rico

On January 7, 2020, the Puerto Rico South Central Area experienced a magnitude 6.4 earthquake located 6 kilometers south of the Municipality of Guayanilla. It was followed by many aftershocks through December 2020. The United States President approved a disaster declaration for affected municipalities in the area and federal assistance have been made available to supplement local recovery efforts. The **Institute** owns buildings in the affected area and is evaluating with FEMA damages to its properties. Total costs due to earthquake damage cannot be calculated at this time. However, the **Institute** has determined that no impairment of the property was caused by this situation.

During the fiscal year ended June 30, 2021, the **Institute** received $539,985 for insurance recovery related to certain damages caused by the earthquakes that affected **Institute's** properties located in the southwest of the island during January 2020.

Commonwealth Plan of Adjustment

As described in **Note 14**, on January 18, 2022, the Title III Court entered its findings of fact and conclusions of law (the Findings of Fact) in connection with the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19812] (the Commonwealth Plan of Adjustment), and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

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

Commonwealth Plan of Adjustment (Continued)

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

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

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

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, 2021

	Governmental Activities
Assets	
Cash in commercial banks	$ 10,778,685
Receivables, net:	
Trade	716,280
Intergovernmental	547,325
Inventory	1,970,735
Restricted cash in commercial banks	663,065
Capital assets	
Land	55,205
Other capital assets, net of depreciation and amortization	32,631,556
Total assets	**47,362,851**
Deferred outflows of resources	
Pension related	11,841,074
Other post-employment benefits related	169,643
Total assets and deferred outflows of resources	**59,373,568**
Liabilities	
Accounts payable and accrued liabilities	3,001,120
Unearned revenue	1,686,444
Liabilities payable within one year:	
Compensated absences	24,758
Voluntary termination benefits	246,282
Pension liability	2,938,028
Other post-employment benefits liability	169,643
Liabilities payable over one year:	
Compensated absences	470,404
Voluntary termination benefits	1,197,572
Pension liability	62,759,648
Other post-employment benefits liability	2,107,132
Total liabilities	**74,601,031**
Deferred inflows of resources	
Pension related	3,642,331
Total liabilities and deferred inflows of resources	**78,243,362**
Net position	
Investment in capital assets	32,686,761
Restricted for:	
Capital projects	663,065
Unrestricted	(52,219,620)
Total net position	**$ (18,869,794)**

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

		Program Revenues		Net (Expenses) Revenues and Change in Net Position
Functions/Programs	**Expenses**	**Operating Grants**	**Capital Grants**	**Governmental Activities**
Governmental Activities:				
Administrative services	$ 13,897,697	$ 11,198,906	$ -	$ (2,698,791)
Culture promotion	1,317,329	762,352	-	(554,977)
Documental patrimony conservation	1,303,722	680,840	-	(622,882)
Historic patrimony conservation	1,521,913	2,531,425	-	1,009,512
	$ 18,040,661	$ 15,173,523	$ -	(2,867,138)
		Extraordinary item:		
		Insurance claim		839,985
	Change in net position			(2,027,153)
	Net position - beginning of fiscal year, as restated			(16,842,641)
	Net position - ending of fiscal year			$ (18,869,794)

	General Fund	Federal Grants Fund	Other Non-Major Funds	Total Governmental Funds
ASSETS				
Cash in commercial banks	$ 4,538,700	$ 4,511,495	$ 1,728,490	$ 10,778,685
Receivables, net:				
Trade	694,361	21,919	-	716,280
Intergovernmental	-	547,325	-	547,325
Inventory	1,970,735	-	-	1,970,735
Restricted cash in commercial banks	-	-	663,065	663,065
Due from other funds	3,150,275	-	-	3,150,275
Total assets	**$ 10,354,071**	**$ 5,080,739**	**$ 2,391,555**	**$ 17,826,365**
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	$ 2,587,975	$ 285,837	$ 127,308	$ 3,001,120
Due to other funds	-	3,108,458	41,817	3,150,275
Unearned revenue	-	1,686,444	-	1,686,444
Total liabilities	2,587,975	5,080,739	169,125	7,837,839
Fund balances				
Nonspendable	1,970,735	-	-	1,970,735
Restricted	483,827	-	2,222,430	2,706,257
Unassigned	5,311,534	-	-	5,311,534
Total fund balances	7,766,096	-	2,222,430	9,988,526
Total liabilities and fund balances	**$ 10,354,071**	**$ 5,080,739**	**$ 2,391,555**	**$ 17,826,365**

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

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2021

Total governmental fund balances	**$ 9,988,526**
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	32,686,761
Deferred outflows of resources - pension related	11,841,074
Deferred outflows of resources - OPEB related	169,643
Voluntary termination benefits not payable from current resources and, therefore, are not reported in the Balance Sheet- Governmental Funds:	(1,443,854)
OPEB liability are not payable from current resources and, therefore, are not reported in the Balance Sheet - Governmental Funds:	(2,276,775)
Compensated absences not liquidated immediately with current financial resources are not reported in the in the Balance Sheet - Governmental Funds:	(495,162)
Deferred inflows of resources - pension related	(3,642,331)
Pension liability	(65,697,676)
Net position of governmental activities	**$ (18,869,794)**

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
Revenues				
Contributions from Commonwealth	$ 12,950,000	$ 61,329	$ -	$ 13,011,329
Intergovernmental	-	1,245,017	-	1,245,017
Other	302,813	551,325	63,039	917,177
Total revenues	13,252,813	1,857,671	63,039	15,173,523
Expenditures				
Administrative services	$ 10,973,719	$ 782,883	$ 30,000	11,786,602
Culture promotion:				
Plastic arts	271,299	-	-	271,299
Popular arts	102,157	-	17,500	119,657
Cultural centers	135,971	-	-	135,971
Music	77,803	-	-	77,803
Theater	188,174	-	-	188,174
	775,404	-	17,500	792,904
Documental patrimony conservation:				
General archives of PR	449,171	4,432	321,180	774,783
Publications	147,513	-	-	147,513
General library	134,638	-	-	134,638
	731,322	4,432	321,180	1,056,934
Historic patrimony conservation:				
Historic patrimony	380,595	-	4,177	384,772
Archeology	172,622	-	-	172,622
Museums and parks	563,489	-	-	563,489
	1,116,706	-	4,177	1,120,883
Capital Outlays	186,124	39,503	311,266	536,893
Total expenditures	13,783,275	826,818	684,123	15,294,216
Excess (deficiency) of revenues over (under) expenditures	(530,462)	1,030,853	(621,084)	(120,693)
Special item:				
Insurance claim	839,985	-	-	839,985
Transfer in	1,030,853	-	-	1,030,853
Transfers out	-	(1,030,853)	-	(1,030,853)
Total other financing sources (uses)	1,870,838	(1,030,853)	-	839,985
Net change in fund balances	1,340,376	-	(621,084)	719,292
Fund balance, beginning, as restated	6,425,720	-	2,843,514	9,269,234
Fund balance, ending	$ 7,766,096	$ -	$ 2,222,430	$ 9,988,526

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, 2021

Net change in fund balances - total governmental funds		**$ 719,292**
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	$ 536,893	
Loss on disposal of assets	(92,053)	
Less: current-year depreciation	(3,084,851)	(2,640,011)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Compensated absences (net change)	(61,625)	
Voluntary termination benefits	283,689	
Pension and other post-employment benefit expense	(328,498)	(106,434)
Change in net position of governmental activities		**$ (2,027,153)**

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2021

Assets		
Cash in commercial bank	$	265,047
Liabilities		
Accounts payable	$	265,047

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, 2021 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, 2021 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, 2021.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.
- Total pension liability at June 30, 2021 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, 2021, 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 8**. 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)

Adoption of new accounting pronouncements – Effective July 1, 2020, the **Institute** adopted the provisions of the following GASB Statements:

(a) 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.

(b) 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.

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

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.

The implementation of these statements has not significant impact on the **Institute's** financial statements for the fiscal year ended June 30, 2021.

Future Adoption of Accounting Pronouncements **–** The GASB has issued the following accounting standards that have effective dates after June 30, 2021**:**

(a) 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.

(b) 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.

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

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

(c) 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.

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

(d) 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.

(e) 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.

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

- 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.

(f) 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.

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

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

(g) 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)

(h) 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)

(h) 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.

(i) 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.

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

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

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

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

- Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.

- Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

- Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.

- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.

- Clarification of provisions in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements.

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

(j) GASB Statement No. 99, "OMNIBUS 2022" (Continued)

- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

- Terminology used in Statement 53 to refer to resource flows statements

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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

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

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

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

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

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

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

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

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

3. CASH AND CASH EQUIVALENTS

The table presented below discloses the level of custodial risk assumed by the **Institute** at June 30, 2021. 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, 2021, approximately **$13** million of the depository bank balance was insured as follows:

Governmental activities

	Carrying Amount			Depository
	Unrestricted	Restricted	Total	Bank Balance
Commercial bank	$ 10,778,685	$ 663,065	$ 11,441,750	$ 11,860,320

Fiduciary activities

	Carrying Amount			Depository
	Unrestricted	Restricted	Total	Bank Balance
Commercial bank	$ -	$ 265,047	$ 265,047	$ 265,047

As of June 30, 2021, 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, 2021 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.

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2021 are summarized as follows:

Receivable Fund			Payable Fund		
General fund	$	3,108,458	Federal grants fund	$	3,108,458
General fund		41,817	Other non-major funds		41,817
Total	$	3,150,275		$	3,150,275

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

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

5. CAPITAL ASSETS

The **Institute's** capital assets at June 30, 2021 were as follows:

Capital Assets	Beginning Balance, as restated	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	3,857,731	83,223	(307,605)	3,633,349
Computers and software	1,488,792	453,670	(288,914)	1,653,548
Vehicles	692,826	-	-	692,826
	111,109,781	536,893	(596,519)	111,050,155

5. CAPITAL ASSETS (CONTINUED)

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Less accumulated depreciation:				
Buildings and improvements	(71,059,060)	(2,924,769)	-	(73,983,829)
Furniture, fixtures and equipment	(3,068,502)	(89,448)	258,041	(2,899,909)
Computers and software	(1,127,188)	(67,848)	246,425	(948,611)
Vehicles	(583,464)	(2,786)	-	(586,250)
	(75,838,214)	(3,084,851)	504,466	(78,418,599)
Net depreciable assets	35,271,567	(2,547,958)	(92,053)	32,631,556
Capital assets, net	$ 35,326,772	$ (2,547,958)	$ (92,053)	$ 32,686,761

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, 2021, FEMA obligated **$16.8 million** (and disbursed **$887,465**) for debris removal, emergency protective actions, buildings and equipment and direct administrative costs. The **Institute** estimates total funding for repair of buildings and facilities in approximately for **$25** million (including the cost of removing hazardous and poisonous materials).

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

5. CAPITAL ASSETS (CONTINUED)

Also, on January 7, 2020, the Puerto Rico South Central Area experienced a magnitude 6.4 earthquake located 6 kilometers south of the Municipality of Guayanilla. It was followed by many aftershocks through December 2020. The United States President approved a disaster declaration for affected municipalities in the area and federal assistance have been made available to supplement local recovery efforts. The **Institute** owns buildings in the affected area and is currently evaluating with FEMA damages to its properties. Total costs due to earthquake damage cannot be calculated at this time. During the fiscal year ended June 30, 2021, the Institute received $539,985 for insurance recovery related to certain damages caused by the earthquakes that affected Institute's properties located in the southwest of the island during January 2020.

Given the effects of these natural disasters, GASB No. 42 requires the recognition of capital asset impairments as soon as they occur. However, the current year analysis identified no significant impairments, and subsequently after the hurricanes and the earthquake, all historic properties remained in operation. During the fiscal year ended June 30, 2021 depreciation expense was charged to functions/programs as follows:

Program	Amount
Administrative Services	**$ 1,912,608**
Culture promotion:	
Plastic Arts	**92,546**
Popular Arts	**61,697**
Cultural Centers	**123,394**
Music	**123,394**
Theater	**123,394**
	524,425
Documentary Patrimony Conservation:	
General Archives	**123,394**
Publications	**61,697**
General Library	**61,697**
	246,788
Historic Patrimony Conservation:	
Historic Patrimony	**92,545**
Archeology	**61,697**
Museums and Parks	**246,788**
	401,030
Total depreciation expense	**$ 3,084,851**

6. COMPENSATED ABSENCES

The balance of compensated absences as of June 30, 2021 was as follows:

	Beginning Balance	Net Change	Ending Balance	Due within one year
Vacation licenses	$ 433,537	$ 61,625	$ 495,162	$ 24,758
Total	$ 433,537	$ 61,625	$ 495,162	$ 24,758

7. 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	Federal Grants Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Nonspendable – Inventory	$ 1,970,735	$ -	$ -	$ 1,970,735
Restricted:				
Capital projects	483,827	-	638,970	1,122,797
Other purposes	-	-	1,583,460	1,583,460
Unassigned	5,311,534	-	-	5,311,534
Total fund balances	$ 7,766,096	$ -	$ 2,222,430	$ 9,988,526

8. 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.

8. 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, 2020, the **Institute** disclosed a liability of **$65,697,676** for its proportionate share of the total pension liability. This liability was determined as of June 30, 2020 (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, 2021. The amount was measured as of June 30, 2020 and the total pension liability used to calculate the liability was determined by an actuarial valuation as of July 1, 2019, rolled forward to the measurement date of June 30, 2020.

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, 2020, the **Institute's** proportionate share was **.23405%** which was a decrease of **.18%** from its proportionate share measured on June 30, 2019.

The pension expense incurred during fiscal year ended June 30, 2021 amounted to **$3,130,736**.

8. PENSION PLAN (CONTINUED)

Also, as of June 30, 2021, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 135,511	$ 1,478,915
Change of assumptions	8,247,696	1,127,747
Change in proportions and difference between the employer's contributions and proportionate share of contributios	519,839	1,035,669
Institute contributions subsequent to measurement date	2,938,028	-
Total	**$ 11,841,074**	**$ 3,642,331**

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2020 will be recognized in pension expense (benefit) in future years as follows:

Year ending June 30,	Amount
2021	$ 1,204,110
2022	1,204,110
2023	1,204,113
2024	1,648,382
Total	$ 5,260,715

8. 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. 3-2017, four-year extension of Act No. 66-2014 and the current general economy.

The mortality tables used in the June 30, 2020 valuation were as follows:

Pre-Retirement Mortality: For general employees not covered by Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females projected to reflect Mortality Improvement Scale MP-2020 on generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2020 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 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by **100%** for males and **110%** for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death the PubG-2010(B) contingent survivor rates, adjusted by **110%** for males and **120%** for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurements.

Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by **80%** for males and **100%** for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

8. PENSION PLAN (CONTINUED)

Discount Rate

The discount rate was **2.21%** on June 30, 2020. 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 **2.21%,** 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
	1.21%	2.21%	3.21%
Total pension liability	$ 75,360,323	$ 65,697,676	$ 57,905,100

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9. 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.

9. 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, 2021, the Institute reported a liability of approximately **$2.2** million for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2021, was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020 (measurement date). As of June 30, 2020, the Institute's proportionate share was **0.26031%.** Also, for the year ended June 30, 2021, the Institute recognized an OPEB expense of **$305,432**.

The **Institute's** total OPEB liability as of June 30, 2021 was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. 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, 2021 was **2.21%**. 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, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis.

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Mortality (Continued)

Pre-retirement Mortality (Continued)

For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 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 the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubS-2010 healthy retiree rates, adjusted by **100%** for males and **110%** for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by **110%** for males and **120%** for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by **80%** for males and **100%** for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

9. 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, 2020, (measurement date), calculated using the discount rate of **2.21%**, as well as the Plan total OPEB liability if it were calculated using the discount rate of 1-percentage point lower **(1.21%)** or 1-percentage point higher **(3.21%)** than the current rate:

	1% Decrease	At Current Discount Rate	1% Increase
	1.21%	2.21%	3.21%
Total OPEB liability	$ 2,510,089	$ 2,276,775	$ 2,079,577

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, 2021, **$169** 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, 2021.

10. 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:

10. 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%**

10. 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, 2021 unpaid long-term benefits granted on Act 70 were discounted at **1.15%.** Voluntary termination benefits balance activity during the fiscal year ended June 30, 2021 was as follows:

	Beginning Balance	Net Change	Ending Balance	Due within One Year
Voluntary Termination Benefits	$ 1,727,542	$ (283,688)	$ 1,443,854	$ 246,282

11. CONTINGENCIES

Legal Claims

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.

11. CONTINGENCIES (CONTINUED)

Transfer of Surpluses Funds (Law No. 26)

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

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

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

As of June 30, 2021, the **Institute** maintains deposited on its commercial bank account certain surpluses funds from prior years that might be subject to the provisions of Law No. 26. As of the date of the financial statements, no final determination have been made by the designed committee in relation to any amount of those surpluses funds that shall be transferred by the **Institute**, if any.

12. 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, 2021, the Cultural Affairs Financing Fund had no operations and is presented in the Non-Major Funds column in the fund financial statements.

13. 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**	**Other Governmental Funds**	**Governmental Activities**
Total fund balances / net position, at beginning of year, as previously reported	**$ 6,040,603**	**$ 2,843,514**	**$ (17,218,626)**
Recognition of accounts receivable from prior years as per OCPR audit	385,117	-	385,117
To correct GASB 73 Deferred Outflows of Resources balance	-	-	8,955
To correct GASB 75 Deferred Outflows of Resources balance	-	-	4,613
To correct difference with property subsidiary	-	-	(22,700)
Fund balance/net position, beginning, as restated	**$ 6,425,720**	**$ 2,843,514**	**$ (16,842,641)**

14. SUBSEQUENT EVENTS

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

Approval of Commonwealth's Plan of Adjustment

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities, including the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the GDB, the Puerto Rico Infrastructure Financing Authority (PRIFA), and CCDA initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

14. SUBSEQUENT EVENTS (CONTINUED)

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021, and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

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

Between January 28, 2022, and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.

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

End of notes

As of June 30,	2021	2020	2019
Institute's proportionate share of the total pension liability	0.23405%	0.23588%	0.24012%
Institute's proportion of the total pension liability	$ 65,697,676	$ 58,616,777	$ 58,804,169

Notes to required supplementary information

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

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

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

The amounts presented were determined by an actuarial valuation as of July 1, 2019 that was rolled forward to June 30, 2020, the measurement date.

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

Valuation Date:	July 1, 2019
Measurement Date:	June 30, 2020

Actuarially determined contribution rates are calculated as of June 30, 2019, 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, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females projected to reflect Mortality Improvement Scale MP-2020 on generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2020 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 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by **100%** for males and **110%** for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death the PubG-2010(B) contingent survivor rates, adjusted by **110%** for males and **120%** for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurements.
Post-Retirement Disabled Mortality:	Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by **80%** for males and **100%** for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

As of June 30,	2021	2020	2019	2018	2017
Institute's proportionate share of the total OPEB liability	0.26031%	0.25820%	0.26059%	0.25270%	0.25007%
Institute's proportion of the total OPEB liability	$ 2,276,775	$ 2,148,819	$ 2,194,541	$ 2,326,150	$ 2,963,617

Notes to required supplementary information

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

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

The amounts determined by an actuarial valuation as of July 1, 2019 that was rolled forward to June 30, 2020, the measurement date.

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

Federal Grantor or Cluster/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures	Pass-through to subrecipients
Direct Programs:				
National Endowment for the Arts				
Promotion of the Arts- State:				
Partnership Agreements	45.025	1845512-61-18 1855972-61-19	$ 518,768	$ 71,436
Partnership Agreements (CARES Act)	45.025	1855972-61-19 (CARES Act)	242,289	208,171
Total National Endowment for the Arts			**761,057**	**279,607**
National Endowment for the Humanities				
Division of Preservation and Access:				
Promotion of the Humanities	45.149	PF-272015-20	4,432	-
Total National Endowment for the Humanities			**4,432**	**-**
U.S. Department of Treasury				
Pass-through the Government of Puerto Rico				
Office of Budget and Management:				
Covid-19 Coronavirus Relief Fund (CRF)	21.019	N/AV	**61,329**	**-**
Total U.S. Department of Treasury			**61,329**	**-**
Total Expenditures of Federal Awards			**$ 826,818**	**$ 279,607**

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. INDIRECT COST RATE

The Institute has elected not to use the ten percent “de minimis” indirect cost rate allowed under the Uniform Guidance.

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	**$**	**826,818**
Less: Expenditures of other funds not related to federal grants		**-**
Federal expenditures per Statement of Expenditures of Federal Awards	**$**	**826,818**

6. EXTENSION OF SINGLE AUDIT SUBMISSION

In accordance with the Federal Office of Management and Budget Memorandum of March 19, 2021, agencies should allow grantees to delay the completion and submission of the single audit report, as required under Subpart F of 2 C.F.R. Part 200 - Audits Requirements, to six (6) months beyond the normal due date (from March 31, 2022 to September 30, 2022).

In addition, on September 18, 2022, Puerto Rico was declared a major disaster area due to the effects of the passing of the Hurricane Fiona. As a result, the OMB has granted a six months extension for single audit that cover recipients in Puerto Rico and have due dates between September 18, 2022 and December 31, 2022. In the case of the **Institute**, the due date was extended up to March 31, 2023.

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, 2021, and the related notes to the financial statements which collectively comprise the Institute's basic financial statements and have issued our report thereon dated September 23, 2022.

Our report included a qualified opinion because 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 as of June 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Institute's** internal control over financial reporting (internal control) 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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<u>Internal Control Over Financial Reporting</u> (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. **2021-001** that we consider a material weakness.

<u>Compliance and Other Matters</u>

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 **2021-001**.

<u>The Institute's Response to Findings</u>

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
September 23, 2022

The Stamp **#E484238** 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, 2021. 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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Opinion on Each Major Federal Program

In our opinion, the **Institute** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

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's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **Institute's** internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Internal Control over Compliance (Continued)

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
September 23, 2022

The Stamp **#E484239** 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:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516(a) of the Uniform Guidance?	☐Yes	☒No

Identification of Major Federal Programs:

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. 2021-001

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 2020-001 and 2019-001*.**

Statement of Condition

1. 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, 2021. Accordingly, a reserve for any possible loss have not been determined.

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. 2021-001 (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.

Views of Responsible Officials and Planned Corrective Actions

The Institute concurs with the finding. The recommendation will be implemented.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONES COSTS

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

Finding No. 2020-001 and 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

Partially corrected. Refer to finding 2021-001.

Finding No. 2020-002 and 2019-002

Statement of Condition

The Data Collection Form and the Reporting Package for the years ended June 30, 2020 and 2019 was not timely submitted to the federal government by the **Institute**.

Status

Corrected.

INSTITUTO
de CULTURA
PUERTORRIQUEÑA

Corrective Action Plan
For the Year Ended June 30, 2021

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

Audit Period: July 1, 2020 – June 30, 2021 Fiscal Year: 2020-2021

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
2021-001	We concur with the finding.	The inventory will be evaluated in order to establish those procedures that are necessary to write down inventory to lower of cost or market. Accordingly, a reserve for any possible loss resulting from the evaluation to be performed will be determined and recorded on the accounting records. Responsible person: Mrs. Wanda Barbosa – Accounting and Finance Director Implementation date: Fiscal year 2022-2023

Mrs. Wanda Barbosa
Accounting and Finance Director