

Instituto Socio-Económico Comunitario
(INSEC), Inc.
A Puerto Rico Non-Profit Organization

September 30, 2022



INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

A Puerto Rico Non-Profit Organization

September 30, 2022

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PART I
FINANCIAL



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Instituto Socio-Económico Comunitario (INSEC)

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Instituto Socio Económico Comunitario (INSEC) (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of INSEC as of September 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of INSEC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about INSEC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures

include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of INSEC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about INSEC's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2023, on our consideration of INSEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of INSEC's 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 INSEC's internal control over financial reporting and compliance.

Carolina, Puerto Rico
June 28, 2023

Aquino, De Córdova, Alfaro & Co., LLP

Stamp number E535069
of the Puerto Rico CPA Society
has been affixed to
the original report



Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

STATEMENT OF FINANCIAL POSITION

September 30, 2022

ASSETS

Current Assets:

Cash	\$ 806,912	
Account Receivable from Federal Government	5,185,665	
Prepaid Expenses.....	<u>38,543</u>	
Total Current Assets		\$ 6,031,120

Property and Equipment:

Office Equipment	1,035,625	
Trucks and Vehicles.....	1,770,958	
Equipment under Capital Lease.....	<u>83,232</u>	
Sub Total.....	2,889,815	
Less: Accumulated Depreciation.....	<u>(2,693,392)</u>	
Total Property and Equipment		<u>196,423</u>
TOTAL ASSETS		<u>\$ 6,227,543</u>

Continues

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

STATEMENT OF FINANCIAL POSITION

September 30, 2022

LIABILITIES AND NET ASSETS

Liabilities:

Current Liabilities:

Current Portion of Obligation Under Capital Lease	\$ 19,854	
Accounts Payable Suppliers	2,115,577	
Accrued Payroll Taxes and Withholding	558	
Accrued Salaries and Vacations Payable	178,499	
Accounts Payable – Federal Government	7,693	
Deferred Revenue	<u>3,533,111</u>	
Total Current Liabilities		\$ 5,855,292

Long-Term Liability:

Obligation Under Capital Lease	<u>5,305</u>	
Total Long-Term Liability		<u>5,305</u>
Total Liabilities		5,860,597

Net Assets:

Without Donor Restrictions		<u>366,946</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 6,227,543</u>

The accompanying notes are an integral part of this statement.

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS For the Year Ended September 30, 2022

	Without Donor Restriction	With Donor Restriction	Total
Revenues and Other Supports:			
Federal Awards.....	\$ -	\$23,055,290	\$23,055,290
State Awards	-	59,287	59,287
Contributions.....	74,639	-	74,639
In-Kind Contribution and Services	63,799	-	63,799
Interest.....	153	-	153
Net Assets Released from Restrictions by Satisfaction of Specific Purpose Restrictions.....	<u>23,114,577</u>	<u>(23,114,577)</u>	<u>-</u>
Total Revenues and Other Supports	<u>23,253,168</u>	<u>-</u>	<u>23,253,168</u>
Expenses:			
Program-Related Expenses:			
On the Job Training.....	4,160,193	-	4,160,193
Housing Improvements	138,942	-	138,942
Emergency Services (Crisis Support)	1,584,223	-	1,584,223
Community Development.....	1,635,683	-	1,635,683
Economic Development (Micro-enterprise).....	1,486,838	-	1,486,838
Employment Connect Now.....	4,527,416	-	4,527,416
Response for Safe Home.....	439,560	-	439,560
Recovery and Empowerment for Entrepreneurs	495,459	-	495,459
Recovery Initiative for Safe Communities	<u>7,036,811</u>	<u>-</u>	<u>7,036,811</u>
Program-Related Expenses Sub-total	21,505,125	-	21,505,125
Supporting Services:			
Management and General	<u>1,699,211</u>	<u>-</u>	<u>1,699,211</u>
Total Expenses	<u>23,204,336</u>	<u>-</u>	<u>23,204,336</u>
CHANGE IN NET ASSETS	48,832	-	48,832
Net Assets at Beginning of Year.....	<u>318,114</u>	<u>-</u>	<u>318,114</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 366,946</u>	<u>\$ -</u>	<u>\$ 366,946</u>

The accompanying notes are an integral part of this statement.

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Federal Awards	\$12,725,318	
Cash Received from State Awards	59,287	
Contributions Received	74,639	
Interest Received	153	
Cash Paid to Suppliers and Employees	(25,888,973)	
Interest Paid	<u>(3,769)</u>	
Net Cash Used In Operating Activities		(\$13,033,345)

CASH FLOWS FROM INVESTING ACTIVITY:

Cash Used for Purchase of Office Equipment	<u>(34,426)</u>	
Net Cash Used in Investing Activity		(34,426)

CASH FLOWS FROM FINANCING ACTIVITY:

Cash Used for Principal Payments of Obligations Under Capital Lease	<u>(17,836)</u>	
Net Cash Used in Financing Activity		<u>(17,836)</u>

NET DECREASE IN CASH

(13,085,607)

Cash, Beginning of Year

13,892,519

CASH, END OF YEAR

\$ 806,912

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2022

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:

CHANGE IN NET ASSETS	\$ 48,832
ADJUSTMENT TO RECONCILE CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:	
Depreciation Expense	\$ 65,366
(Increase) Decrease in Current Assets:	
Accounts Receivable from Federal Government.....	2,487,720
Other Accounts Receivable.....	24,312
Prepaid Expenses	(12,902)
Increase (Decrease) in Current Liabilities:	
Accounts Payable Suppliers.....	(2,867,992)
Accrued Payroll Taxes and Withholding.....	(722)
Accrued Salaries and Vacations Payable.....	39,733
Accounts Payable – Federal Government.....	7,693
Deferred Revenue	<u>(12,825,385)</u>
Total Adjustments.....	<u>(13,082,177)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(\$13,033,345)</u>

The accompanying notes are an integral part of this statement.

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Instituto Socio-Económico Comunitario (INSEC), Inc. (hereinafter **INSEC**) was organized under the laws of the Commonwealth of Puerto Rico on September 25, 1985 as a non-profit organization. **INSEC** is also a member of the National Association of Community Action Agencies (NACAA). It was created to develop and promote social, education, and cultural activities to alleviate the distressed social-economic conditions of the people living in low-income communities. Its strategy to increase the accessibility of services to low-income people rests upon an interaction and integration process of the following social agents: private sector, local and state government units, and residents in communities.

INSEC is supported primarily through federal awards in form of grants from U.S. Department of Health and Human Services, and U.S. Department of Housing Urban Development. For the year ended September 30, 2022, **INSEC** administered the following programs:

- **On the Job Training** – This program serves unemployed low-income individuals, youngsters, and the elderly (aged 55 and over), providing them with training and employment opportunities. In addition, the program offers: work related counseling; workshops on effective techniques to obtain and maintain employment; and referral services.
- **Housing Improvements** – This program provides decent housing, a suitable living environment, and expanding economic opportunities, principally for the persons of low income in Mayagüez. The participants served by the program are qualified and referred by this municipality.
- **Emergency Services (Crisis Support)** – This program promotes low-income people, especially vulnerable populations, achieve their potential by strengthening family and other supportive systems. For this, the program provides low-income families financial assistance, in form of goods and services, to satisfy emergency needs due to a sudden illness, disability, unemployment, use or abuse of drugs and alcohol, domestic violence, among others. In addition, the program has a component that addresses crisis support to meet the immediate emergencies of individuals or families in crisis situation, in order to promote family stability, by providing assistance in the form of goods appliances and/or services with the possibility of pay the expenses to retain the home and/ or utilities arising as a result of unemployment, drug and alcohol use and abuse domestic violence, among others.
- **Community Development** – This program provides services to develop community leadership, volunteering work, community organizations, and neighborhoods associations. Through capacity building workshops, the residents acquire life skills, such as: negotiation and persuasions, effective leadership, proposal writing, development and implementation of community work plans, and effective techniques to promote the economic development of the vicinity. Also, the program promotes activities that support sustained community development, such as: recreational, educational, and sport activities; health clinics; and environmental cleaning campaigns.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES *(continues)*

- **Economic Development (Micro-enterprise)** – This program serves low-income individuals, contributing to the development of sustainable micro-enterprises; for which, the program provides technical and financial assistance. The technical assistance offers entrepreneur counseling for the conceptualization and design of the Business Plan. The financial assistance endows the participant with the equipment and materials that makes possible the implementation of the desired business. After the business is established, the program provides entrepreneur counseling services for a period no less than a year to assure the sustainability of the business.
- **Employment Connect Now** – This program offers on-the-job training experience to qualified participants who will serve as caregivers to provide services and assist elderly or disabled people. Eligible participants will perform cleaning, accompaniment, and basic household tasks according to participant needs.
- **Recovery and Empowerment for Entrepreneurs** – This program provides support to microentrepreneurs to reduce the impact, crisis, and economic losses of their businesses because of COVID-19 pandemic. To strengthening, sustain and in most cases, reopen their economic activities, the qualified participants could receive rent/utilities payments, equipment/materials to reinforce their business or personal protective equipment (PPE) to prevent COVID-19 spread.
- **Response for Safe Home** – This program provides emergency assistance for qualified people who because of COVID-19 pandemic needs mortgage/rent relief to avoid losing their houses through foreclosure or eviction process.
- **Recovery Initiative for Safe Communities** – This initiative has emerged as crucial components of the pandemic response and recovery, focusing on addressing the disparate impact of the COVID-19 on vulnerable low-income communities. To do that, **INSEC** provides personal protective equipment and materials to minimize exposure to and spread of this novel coronavirus, including disposable masks, face shields, alcohol, anti-bacterial soap, among others. Also, provided them with rapid antigen testing kits and nutrition assistance gift cards redeemable for food only.

Financial Statements Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Financial Accounting Standards Board (“FASB”) has established the Accounting Standards Codification (“ASC”) as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES *(continues)*

Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions**

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of **INSEC**. These net assets may be used at the discretion of the **INSEC**'s management and the board of directors.

- **Net Assets With Donor Restrictions**

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of **INSEC** or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time has elapsed) are reported as reclassifications between the applicable classes of net assets.

INSEC reports gifts of land, buildings, and equipment as revenues without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions. The Foundation reports expirations of donor's restrictions when the donated or acquired long-lived assets are placed in service.

Contributions

Contributions with donor-imposed restrictions are recorded as increases net assets with donor restriction, depending on the nature of the restriction.

Contributions released from restrictions are recognized as without donor restriction upon receipt of the gift or expiration of the time restriction, and after any donor stipulations are met. In addition, grant revenues are being recognized as the qualifying expenses under the grants are incurred.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES *(continues)*

Cash Equivalents

For purposes of the statement of cash flows, **INSEC** considers all liquid investments with original maturities of three months or less to be cash equivalents. As of September 30, 2022, there are no cash equivalents.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more programs or support service of **INSEC**. Therefore, these expenses require allocation on a reasonable basis that is consistently applied.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amount and disclosures. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses. Accordingly, actual results could differ from those estimates.

Support and Revenue

INSEC is highly dependent on funding from the federal government to carry out its programs. **INSEC** receives grants from the U.S. Department of Health and Human Services, passed through the Oficina para el Desarrollo Socioeconómico y Comunitario de Puerto Rico (ODSEC), to perform activities necessary to operate **INSEC's** programs. **INSEC** also receives funding from the U.S. Department of Housing and Urban Development, passed through the Municipality of Mayagüez, Puerto Rico.

For the year ended September 30, 2022, the revenues received from federal awards in the form of grants were 99.15% from the total revenues and other supports. These funds are subject to independent financial and compliance audits under the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Federal grants are considered conditional gifts due to the strings and conditions attached to it by the federal government. Accordingly, significant federal grants receipts are accounted for as federal award – deferred revenue until the conditions imposed by the federal government have been substantially met which includes payment.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES *(continues)*

In-kind Contributions and Contributed Services

Contributions and contributed services received are recognized as in-kind revenues if the services provided, (a) create or enhance nonfinancial assets or (b) require specialized skills which would need to be purchased if they were not donated. A significant number of volunteers have donated their time and provided in-kind contributions of materials and supplies to help the Community Development program.

Property and Equipment

Property and equipment are stated at cost. Additions over \$500 are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset for a specific purpose. Asset donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted contributions. Depreciation expense is computed following the straight-line method over the estimated lives of the depreciable assets.

Accumulated depreciation as of September 30, 2022, and depreciation expense for the year then ended are as following:

Description of Assets	Estimated Lives	Depreciation Expense	Accumulated Depreciation
Vehicles	7 years	\$ 3,570	\$1,762,628
Office Equipment	5 & 7 years	45,150	868,340
Equipment under Capital Lease	5 years	<u>16,646</u>	<u>62,424</u>
Total		<u>\$ 65,366</u>	<u>\$2,693,392</u>

Income Taxes

INSEC was granted complete Puerto Rico income tax exemption, Case Number 87-101(6)-6 since September 25, 2007, under the provisions of Section 1101.01 of the Puerto Rico's Internal Revenue Code of 2011, as amended. It is also exempt from property and municipal taxes under section 9 (g) of the Municipal License Tax Act, and section 5.01(e) of the Municipal Property Tax Act, respectively. **INSEC** is also recognized as an organization exempt from federal income taxes under the Section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. However, if applicable, income from unrelated business income activities would be taxable under Sections 511 through 515.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES *(continues)*

Accounting principles generally accepted in the United States of America require that **INSEC**'s management evaluates tax extent position taken and recognize a tax liability (or asset) if **INSEC** has taken an uncertain position that more likely than not, would not be sustained upon examination of taxing authorities. All Informative Return for Income Tax Exempt Organizations [Form 480.70(OE)] through fiscal year September 30, 2022, have been appropriately filed by **INSEC**. **INSEC**'s open audit periods are the last four (4) fiscal years ending September 30, 2022. Management has evaluated **INSEC**'s tax positions and concluded that **INSEC** had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment or disclosure to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments, which are potentially subject to **INSEC** for concentrations of credit risk, consist principally of cash deposits, account receivable and income from federal awards.

Cash is maintained in one (1) financial institution. The cash deposits, at times, may exceed the amount insured by the U.S. Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. As of September 30, 2022, cash deposits exceeded the FDIC's insured limits by approximately \$1,419,076, approximately. **INSEC** periodically assesses the financial condition of these financial institutions and believes that the risk of loss is limited.

NOTE 3 RESTRICTIONS ON ASSETS

Substantially all the restrictions on assets as of September 30, 2022, are related to federal and state awards. Such assets must be used in accordance with the purposes established by the federal and state laws and regulations in contrast with unrestricted funds over which the governing board remained full control to use in achieving any of its institutional purposes.

Separate cash accounts for each federal award are maintained as required. This cash is restricted to be used only for federal awards purposes. Also, separate cash accounts are maintained for other non-federal programs.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 4 FEDERAL AWARD RECEIVABLE

As of September 30, 2022, the *Account Receivable from Federal Government* consists of the following federal program:

U.S. Department of Health and Human Services (HHS):

Community Services Block Grants	\$5,185,665
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INSEC recognizes bad debt expense when accounts are deemed uncollectible. **INSEC** did not recognize any bad debt expense for the year ended September 30, 2022.

NOTE 5 ACCOUNTS PAYABLE TO FEDERAL AND STATE GOVERNMENTS

Any federal fund received more than the amount to which **INSEC** finally determined to be entitled under the terms and conditions of the award program, the pass-through entities' agreement and federal regulation constitute an account payable to the federal government. Also, any unused state government's funds constitute an account payable to the state government.

As of September 30, 2022, **INSEC** recognizes the amount of \$7,693 as *Accounts Payable – Federal Government* for the *Coronavirus Aid, Relief, and Economic Security (CARES)* federal program.

NOTE 6 COMPENSATED ABSENCES

Employees are entitled to paid vacation and paid sick days depending on job classification, length of service, and other factors. Accrued vacation payable is included in the accompanying financial statements based on days of vacation earned by employee. This accrued compensated absences are eligible to be carried into the next fiscal year. Accrued vacation as of September 30, 2022, amounted to \$141,931, approximately.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 7 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions when expenses were incurred to satisfy the specified restricted purposes by donors for the year ended September 30, 2022, as follows:

Purpose restrictions accomplished:

Purchase of office equipment, principal payments of long-term debt, interest, and other charges:	\$ 137,958
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Program-related expenses:

On the Job Training	4,160,193
Housing Improvements	138,942
Emergency Services (Crisis Support)	1,584,223
Community Development	1,571,884
Economic Development (Micro-enterprise)	1,486,838
Employment Connect Now	4,527,416
Recovery and Empowerment for Entrepreneurs	439,560
Response for Safe Home	495,459
Recovery Initiative for Safe Communities	7,036,811
Management and General	<u>1,535,293</u>

Total	<u>\$23,114,577</u>
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NOTE 8 OBLIGATION UNDER CAPITAL LEASE

Obligation under capital lease as of September 30, 2022, is as follows:

Description	Current Portion	Long-Term Portion
Capital lease obligation covering office equipment due in monthly installments of approximately \$1,800 at 10.77% interest through December 2023. The lease includes an option to renew the agreement or purchase the office equipment at fair market value at termination of the lease agreement.	\$ 19,854	\$ 5,305

Interest expense on capital lease during the year ended September 30, 2022, amounted to \$3,769. The capital lease is collateralized by office equipment acquired under the agreement, which is recorded in the accompanying financial statements at cost totaling \$83,232. Accumulated depreciation as of September 30, 2022 on such asset totaled \$62,424. Amortization expense totaled \$16,646 and this amount was included as depreciation expense for the year ended September 30, 2022.

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INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 8 OBLIGATION UNDER CAPITAL LEASE *(continues)*

Future minimum lease payments under the capital lease agreement are as follows:

Year Ending September 30,	Amount
2023	\$34,913
2024	<u>8,728</u>
Sub-total	43,641
Less: Amount representing:	
Imputed Interest	(1,845)
Sales and Use Tax	(1,716)
Maintenance Service	<u>(14,921)</u>
Present Value of Net Minimum Payments	<u>\$ 25,159</u>

NOTE 9 COMMITMENTS AND CONTINGENCIES

Operating Leases:

INSEC conducts its operations at different premises under various operating lease agreements.

- **Central Office** – Lease agreement dated January 23, 2018 – this lease agreement is for five (5) years commencing on April 1, 2018 and ending on March 31, 2023. The base rent is \$18 dollars per rentable square foot (RSF) which is 9,033 RSF. The base rent will increase 2% annually. INSEC will pay its proportionate share of Common Area Maintenance (CAM). For the first year the estimated CAM shall be \$6.50 per RSF. Thirty (30) parking spaces free of charge. Additional parking spaces at a cost of \$85 each per month per parking. For the year ended the monthly rent and CAM payments were \$14,379 and \$4,893, respectively.
- **Regional Offices** – INSEC operates on leased facilities under an annual or monthly contract; the monthly payments range are from \$292 to \$6,071, approximately. Some leases contain annual renewal periods.
- **Parking and Storage Facilities** – INSEC also has few monthly lease contracts for parking vehicles and other facilities. The monthly payments range for these contracts lease is from \$220 to \$1,554, approximately.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continues)*

Future minimum lease payments, without common area maintenance charges (CAM), are as follow:

<u>Year Ending September 30,</u>	<u>Amount</u>
2023	\$344,157
2024	219,488
2025	167,919
2026	100,153
2027	<u>79,153</u>
	<u>\$910,870</u>

Some leases require payments of insurance and maintenance costs in addition to rent payments. Rent expense for the year ended September 30, 2022, amounted to \$489,077.

Common Area Maintenance (CAM) – These charges include property tax, insurance, garbage, disposal in common areas, administration fee, maintenance fees, security, water, parking area maintenance, common areas electricity, etc. CAM for the year ended September 30, 2022, amounted to \$86,828.

Contingencies

- **Legal Cases** – **INSEC** is a defendant in some lawsuits arising in the ordinary course of business. Management and their legal counsel believe the ultimate disposition of these matters will not have a material adverse effect on its financial position and result of operations. Any adverse effect will be presented in the financial position during the year that occurs.

Federal Grants – **INSEC** receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Accordingly, expenditures financed by these programs are subject to financial and compliance audits by the grantor agencies, which could result in request for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. Management believes that such disallowances, if any, will not have a material adverse effect on the financial position of **INSEC**.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS September 30, 2022

NOTE 10 FUNCTIONAL EXPENSES BY NATURE OF ACTIVITIES WITH SUPPORTING SERVICES

The following table presents expenses by functional expenses by nature of activities with supporting services:

Expenses	Program Related Expenses									Supporting Services	Total Expenses	
	A	B	C	D	E	F	G	H	I	Program Subtotal		Management and General
Salaries, Benefits and Taxes	\$ 434,928	\$ 93	\$ 237,910	\$ 405,810	\$ 454,474	\$ 29,100	\$ 20,693	\$ 10,995	\$ 3,882	\$ 1,597,885	\$ 875,511	\$ 2,473,396
Travels	12,961	-	12,942	13,500	13,492	13,368	9,040	4,884	1,832	82,019	4,291	86,310
Board of Directors	-	-	-	-	-	-	-	-	-	-	52,650	52,650
Professional Services	20,587	3,118	20,420	41,958	20,863	206,695	149,884	79,627	28,104	571,256	387,054	958,310
Office Material and Others	25,511	-	25,339	26,315	25,363	20,566	14,688	7,888	2,872	148,542	27,473	176,015
Rents and CAM	97,314	-	97,314	98,189	97,313	45,178	32,088	17,028	5,908	490,332	85,578	575,910
Utilities	13,746	-	13,746	13,746	13,745	9,873	7,063	3,696	1,316	76,931	12,415	89,346
Telephone	9,255	-	9,255	9,255	9,254	5,493	3,859	2,078	742	49,191	12,990	62,181
Insurance	-	-	-	-	-	-	-	-	-	-	89,706	89,706
Miscellaneous	12,688	15	12,687	12,689	12,693	1,427	1,029	533	177	53,938	62,530	116,468
Depreciation	-	-	-	-	-	-	-	-	-	-	65,366	65,366
Interest	-	-	-	-	-	-	-	-	-	-	3,769	3,769
Repair & Maintenance	12,257	-	12,257	18,316	12,257	2,285	1,625	863	305	60,165	19,878	80,043
Direct Program Services	<u>3,520,946</u>	<u>135,716</u>	<u>1,142,353</u>	<u>995,905</u>	<u>827,384</u>	<u>4,193,431</u>	<u>199,591</u>	<u>367,867</u>	<u>6,991,673</u>	<u>18,374,866</u>	-	<u>18,374,866</u>
Totals	<u>\$4,160,193</u>	<u>\$138,942</u>	<u>\$1,584,223</u>	<u>\$1,635,683</u>	<u>\$1,486,838</u>	<u>\$4,527,416</u>	<u>\$439,560</u>	<u>\$495,459</u>	<u>\$7,036,811</u>	<u>\$21,505,125</u>	<u>\$1,699,211</u>	<u>\$23,204,336</u>

Legend for Program Related Expenses:

A = On the Job Training
B = Housing Improvements
C = Emergency services (Crisis Support)

D = Community Development
E = Economic Development (Micro-Enterprise)
F = Employment Connect Now
G = Response for Safe Home
H = Recovery and Empowerment Entrepreneurs
I = Recovery Initiative for Safe Communities

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 10 FUNCTIONAL EXPENSES BY NATURE OF ACTIVITIES WITH SUPPORTING SERVICES *(continues)*

Program Services

Program services are the activities that result in good/services being distributed to beneficiaries that fulfill the purposes or mission of **INSEC**. Those services are the major purpose for and the major output of **INSEC** and often relate to several major programs.

Management and General Expenses

Management and general expenses are expenses that are not identifiable by a single program or activity.

Methods Used for Allocation of Expenses Among Programs and Supporting Services

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of **INSEC**. The following expenses are allocated between program activities as well as general and administrative:

- Salaries, Benefits and Taxes
- Rent and CAM
- Professional Services
- Utilities and Telephone
- Office Material and Others

CSBG's funds – Expenses are allocated using established percentages applicable to specific program activities as well as general and administrative. Percentages established are 100%, 25% and 20% based on experience and other criteria.

CSBG/CARES's funds – Expenses are allocated using established percentages applicable to specific program activities as well as general and administrative.

- Percentages established applicable exclusively to program activities are 45%, 36%, 14% and 5%.
- Percentages established applicable to program activities and general and administrative are 36%, 26%, 19% 14% and 5%.

NOTE 11 OTHER MATTER – CORONAVIRUS DISEASE (COVID-19)

In March 2020, the Governor of Puerto Rico declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2022. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions. During the fiscal year ended September 30, 2022, these measures has been modified based on actual conditions affected by COVID-19. The length of time these measures will continue to be in place, and the full extent of the direct or indirect financial impact on Puerto Rico is unknown at this time.

continue

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

NOTE 12 SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 28, 2023, the date on which the financial statements were available to be issued and has determined that there were no events occurring during that period that required recognition or disclosure in the accompanying financial statements.

END OF NOTES TO FINANCIAL STATEMENTS

PART II
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND UNIFORM GUIDANCE

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2022

FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM TITLE OR CLUSTER TITLE	ASSISTANCE LISTING NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
PASS-THROUGH FROM PROGRAMS:			
U.S. Department of Health and Human Services (HHS):			
Oficina para el Desarrollo Socioeconómico y Comunitario de Puerto Rico (ODSEC):			
<i>Community Services Block Grant</i>	93.569	2022-329363	\$10,091,274
<i>Coronavirus Aid, Relief, and Economic Security (CARES)</i>	93.569	2022-329366	<u>12,884,361</u>
Total for U.S. Department of Health and Human Services (HHS):			22,975,635
U.S. Department of Housing and Urban Development (HUD):			
Municipality of Mayagüez, Puerto Rico:			
<i>Community Development Block Grants / Entitlement Grants</i>	14.218	2020-000292	<u>79,655</u>
Total Expenditures of Federal Awards			<u>\$23,055,290</u>

The accompanying notes are an integral part of this schedule.

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal award (the "Schedule") includes the federal awards activity of **Instituto Socio-Económico Comunitario (INSEC), Inc.** (hereinafter "**INSEC**"), under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the **Entity**, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the **Entity**.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

INSEC elected not to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs.

NOTE 3 SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARDS REPORTING

The information included in the Schedule may not fully agree with other federal awards reports submitted directly to federal grantor agencies or pass-through entities because, among other reasons, the award report may (a) be prepared for a different fiscal period and (b) include cumulative (from prior years) data rather than data from the current year only.

NOTE 4 ASSISTANCE LISTING NUMBER

The assistance listing number included in this Schedule were determined based on the program name, review of grant contract information. Assistance listings are detailed public descriptions of federal programs that provide grants, loans, scholarships, insurance, and other types of assistance awards.

NOTE 5 PASS-THROUGH AWARDS

INSEC is a subrecipient of Oficina para el Desarrollo Socioeconómico y Comunitario de Puerto Rico (ODSEC), and the Municipality of Mayagüez. Under pass-through awards, a subrecipient is an entity that expends federal awards received from a pass-through entity to carry out a federal program. The state and local government redistributions of federal awards to **INSEC** are treated by **INSEC** as if they were received directly from the federal government. That is, federal awards expended as a subrecipient are subject to a single audit on the same basis as that of federal awards that are received directly. The Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires the Schedule to include the name of the pass-through entity and identifying number assigned by the pass-through entity for federal awards received as a subrecipient. Pass-through entity numbers identified in the Schedule as "N/AV" are not available.

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2022

NOTE 6 RESTRICTIONS

Each federal program has its own use restrictions.

NOTE 7 GENERAL OBJECTIVES

INSEC received federal awards from the following federal grantors/pass-through entities: (1) U.S. Department of Health and Human Services (HHS) / Oficina para el Desarrollo Socioeconómico y Comunitario de Puerto Rico (ODSEC) and (2) U.S. Department of Housing Urban Development (HUD) / Municipality of Mayagüez, Puerto Rico. All these federal grants are received for the development and promotion of social, educational, and cultural activities to alleviate the distressed social-economic conditions of people living in low-income communities.

Community Services Block Grant (Assistance Listing No. 93.569)

The objective of the Community Services Block Grant (CSBG) program is to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. CSBG can be used to fund programs and other activities that assist low-income individuals and families attain self-sufficiency; provide emergency assistance; support positive youth development; promote civic engagement; and improve the organization infrastructure for planning and coordination among multiple resources that address poverty conditions in the community.

Coronavirus Aid, Relief, and Economic Security (CARES) (Assistance Listing No. 93.569)

As part of the initiative to assist the island with emergency expenses and mitigate the effects of the global pandemic, the governor enacted Executive Order 2020-040 that adopts an initial strategic disbursement plan to allocate CRF funds to Puerto Rico, which amounts to \$2.2 billion. This plan addresses three main objectives: 1) provide resources to establish a public health response to the Covid-19 pandemic; 2) provide economic aid to the economy impacted by the COVID-19 pandemic; and 3) ensure continuity of Government operations. Since the beginning of the emergency, the Government of Puerto Rico has implemented measures to address the emergency, and is fully committed to assisting individuals, businesses, and the municipalities with these funds, while following the guidelines established by the United States Department of Treasury.

Community Development Block Grants / Entitlement Grants (Assistance Listing No. 14.218)

The primary objective of the Community Development Block Grants (CDBG)/Entitlement Grants program (large cities and urban counties) is to develop viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income.

END OF NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



INDEPENDENT AUDITOR'S 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

To the Board of Directors of
Instituto Socio-Económico Comunitario, Inc. (INSEC)

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 INSEC (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered INSEC'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 INSEC's internal control. Accordingly, we do not express an opinion on the effectiveness of INSEC's internal control.

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

Our consideration of the 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 were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether INSEC'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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carolina, Puerto Rico
June 28, 2023

Aquino, De Córdova, Alfaro & Co., LLP

Stamp number E535070
of the Puerto Rico CPA Society
has been affixed to
the original report



Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors of
Instituto Socio-Económico Comunitario (INSEC)

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Instituto Socio Economico Comunitario INSEC's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of INSEC's major federal programs for the year ended September 30, 2022. INSEC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, INSEC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on INSEC's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about INSEC's compliance with the requirements of each major federal program as a whole.

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

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

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

Report on Internal Control over Compliance

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

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

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.

Carolina, Puerto Rico
June 28, 2023

Aquino, De Córdova, Alfaro & Co., LLP

Stamp number E535071
of the Puerto Rico CPA Society
has been affixed to the original report

PART III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2022

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major federal programs:

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

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 200.516(a)?

Yes No

Identification of major federal programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
----------------------------------	---

93.569

Community Services Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

END OF SECTION I

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2022

Section II – Financial Statements Findings

The audit of the financial statements of the **Entity** as of and for the year ended September 30, 2022, disclosed no matters involving internal control over financial reporting and its operations.

Section III – Federal Awards Findings and Questioned Costs

The single audit of **INSEC** under the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for the year ended September 30, 2022, disclosed no instances of non-compliance.

END OF SECTIONS II AND III

INSTITUTO SOCIO-ECONÓMICO COMUNITARIO (INSEC), INC.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2022

The single audit of **INSEC** under the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for the year ended September 30, 2021, disclosed no instances of non-compliance.

END OF THIS SECTION