
**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 GUIDANCE)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2022



**INSTITUTO de CULTURA
PUERTORRIQUEÑA**

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

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

Basic Financial Statements
For the fiscal year ended June 30, 2022

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

Basic Financial Statements
For the fiscal year ended June 30, 2022

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

INDEPENDENT AUDITORS' REPORT

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

Qualified and Unmodified Opinions

We have audited the accompanying basic financial statements of the Governmental Activities and Each Major Fund and Other Non-major Funds of the **Institute of Puerto Rican Culture (A Component Unit of the Commonwealth of Puerto Rico) ("the Institute")** as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the **Institute's** basic financial statements as listed in the table of contents.

Qualified Opinion on the Governmental Activities and General Fund

In our opinion, except for the effect of the matter discussed in the "Basis for Qualified Opinion on the Governmental Activities and General Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities and General Fund of the **Institute**, as of June 30, 2022, 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.

Unmodified Opinion on the Federal Grants Fund and Other Non-major Funds

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Federal Grants Fund and Other Non-major Funds of the **Institute**, as of June 30, 2022, 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.

Basis for Qualified and Unmodified Opinions

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 the **Institute** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2022. Accounting principles generally accepted in the United States of America require that obsolete or slow-moving inventory be written down to the lower of cost or market, which would have decreased the asset and the beginning fund balance amounts in the general fund, with a lesser amount 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.

Emphasis of a Matter

As described on **Note 12** 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, 2022, the **Institute** maintains deposited on its commercial bank account certain surpluses funds from prior years that might be subject to the provisions of Law No. 26. As of the date of the financial statements, no final determination have been made by the designed committee in relation to any amount of those surpluses funds that shall be transferred by the **Institute**, if any.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages **6** through **14**, and the schedules of proportionate share of collective total pension liability and total other post-employment benefits on pages **77** through **79**, 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 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 **80**, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2023, 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.



RODRIGUEZ & SANTIAGO, CPA'S PSC

San Juan, Puerto Rico
March 23, 2023

Stamp No. **E512163** 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, 2022. The MD&A is intended to serve as an introduction to the **Institute’s** basic financial statements, which have the following components: (1) governmental-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters, provide the overview of the **Institute’s** financial activities, and highlight individual fund matters. The following presentation is by necessity highly summarized, and to gain thorough understanding of the **Institute’s** financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The **Institute’s** net position (deficit) decreased by **\$460** thousand.
- General fund’s operations resulted in an excess of revenues and other financing sources over expenditures and other financing uses amounting to **\$1.1** million.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the **Institute** as a whole and present a long-term view of the **Institute’s** finances. Fund financial statements start on page 17. Fund financial statements disclose how the **Institute’s** operations were financed in the short-term as well as the amounts available for future spending. Fund financial statements also report the **Institute’s** operations in more detail than the government-wide statements, by providing information about the **Institute’s** most significant funds. The remaining statements provide financial information about activities for which the **Institute** acts as an agent for the benefit of those outside and inside of the government.

The Statement of Net Position and the Statement of Activities

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

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

INSTITUTE OF PUERTO RICAN CULTURE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the fiscal year ended June 30, 2022

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

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

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

Reporting on the Institute's most significant funds:

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

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

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

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

INSTITUTE OF PUERTO RICAN CULTURE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the fiscal year ended June 30, 2022

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Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Overall Financial Position and Results of Operations

We provide the readers of these basic financial statements with the following summarized discussion and analysis of the relevant facts that affected the governmental-wide financial statements as of June 30, 2022 and 2021, as restated.

Table 1				
Statements of Net Position	2022	2021, as restated	Change	%
Current assets	\$ 40,400,396	\$ 13,676,842	\$ 26,723,554	195%
Capital assets	31,643,171	32,686,761	(1,043,590)	-3%
Deferred outflows of resources	9,832,898	12,017,671	(2,184,773)	-18%
Total Assets and Deferred Outflows of Resources	81,876,465	58,381,274	23,495,191	40%
Current liabilities	34,939,234	4,958,604	29,980,630	605%
Long-term liabilities	61,295,689	69,642,427	(8,346,738)	-12%
Deferred inflows of resources	5,044,044	3,642,331	1,401,713	38%
Total Liabilities and Deferred Inflows of Resources	101,278,967	78,243,362	23,035,605	29%
Net position:				
Net investment in capital assets	31,643,171	32,686,761	(1,043,590)	-3%
Restricted for capital projects	662,011	1,122,797	(460,786)	-41%
Restricted for specific purposes	-	1,583,480	(1,583,480)	-100%
Unrestricted (deficit)	(51,707,684)	(55,255,126)	3,547,442	-6%
Total Net Position	\$ (19,402,502)	\$ (19,862,088)	\$ 459,586	-2%

Net Position

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

The deficit in the unrestricted net position shows the accumulation of excessive operating expenses in disparity with actual revenues over the years. Mostly, the adoption of the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement No. 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68* impacted the **Institute** long term liabilities by **\$61.1** million in total pension liability.

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

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

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INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the fiscal year ended June 30, 2022

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Governmental activities

Revenues for the **Institute's** governmental activities (including grants for capital improvements) increased by **20%** or **\$2.9** million. Total expenses decreased by **8%** or **\$1.5** million, as shown on **Table 2**.

Table 2

Statement of Activities	2022	2021, as restated	Change	%
Revenues				
Functions/Programs				
Governmental activities:				
Administrative services	\$ 13,911,880	\$ 10,199,658	\$ 3,712,222	36%
Culture promotion	961,000	762,352	198,648	26%
Documental patrimony conservation	1,316,000	680,840	635,160	93%
Historic patrimony conservation	852,000	2,531,425	(1,679,425)	-66%
Total revenues	17,040,880	14,174,275	2,866,605	20%
Expenses				
Functions/Programs				
Governmental activities:				
Administrative services	12,265,009	13,157,494	(892,485)	-7%
Culture promotion	1,311,535	1,334,616	(23,081)	-2%
Documental patrimony conservation	1,457,678	1,681,493	(223,815)	-13%
Historic patrimony conservation	1,547,072	1,538,560	8,512	1%
Pension expenses	-	192,709	(192,709)	100%
Other post-employment benefits expenses	-	135,789	(135,789)	100%
Total expenses	16,581,294	18,040,661	(1,459,367)	-8%
Special items:				
Insurance claim	-	839,985	(839,985)	100%
Changes in net position	459,586	(3,026,401)	3,485,987	-115%
Beginning net position	(19,869,042)	(16,856,209)	(3,012,833)	18%
Prior period adjustment-GASB 75	6,954	13,568	(6,614)	-49%
Net position – beginning, as restated	(19,862,088)	(16,842,641)	(3,019,447)	18%
Net position – ending	\$ (19,402,502)	\$ (19,869,042)	\$ 466,540	-2%

The increase in revenues was mainly due to additional ARPA funds received for the Coronavirus ongoing pandemic emergency for fiscal year 2021-22.

INSTITUTE OF PUERTO RICAN CULTURE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the fiscal year ended June 30, 2022

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

Capital Assets

As of June 30, 2022, the **Institute** had **\$31.6** million invested in capital assets net from accumulated depreciation. This amount represents a net decrease of **\$1.04** million when compared to the fiscal year ended June 30, 2021. Capital assets depreciation recorded during the fiscal year ended June 30, 2022 amounted to **\$2.9** million and additions made during the year amount to **\$1.8** million.

A detail of the **Institute's** capital assets at June 30, 2022 and 2021 follows:

Table 3 Capital Assets	2022	2021	Change
Land	\$ 55,205	\$ 55,205	\$ -
Building and improvements	105,382,192	105,070,432	311,760
Furniture, fixtures and equipment	3,965,764	3,633,349	332,415
Computers and software	2,878,686	1,653,548	1,225,138
Vehicles	692,826	692,826	-
Total capital assets	\$ 112,974,673	\$ 111,105,360	1,869,313
Less: accumulated depreciation	(81,331,502)	(78,418,599)	(2,912,903)
Capital assets, net of depreciation	\$ 31,643,171	\$ 32,686,761	\$ (1,043,590)

Long-term Debt

As of June 30, 2022, long-term debt of the **Institute** amounted to **\$64.7** million of which **\$3.4** million are due within one year. Long-term debt includes total pension liability recorded in accordance with GASB Statement No. 73 amounting to **\$61.1** million and total other post-employment benefits liability for a total of **\$2.1** million during the year ended June 30, 2022.

Long term debt decreased by approximately **8%** during fiscal year 2021-22.

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

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, 2022

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	<u>Governmental Activities</u>
Assets	
Cash in commercial banks	\$ 37,314,230
Receivables, net:	
Trade	534,515
Inventory	1,889,640
Restricted cash in commercial banks	662,011
Capital assets	
Land	55,205
Other capital assets, net of depreciation and amortization	31,587,966
Total assets	<u>72,043,567</u>
Deferred outflows of resources	
Pension related	9,664,498
Other post-employment benefits related	168,400
Total assets and deferred outflows of resources	<u>81,876,465</u>
Liabilities	
Accounts payable and accrued liabilities	4,592,723
Unearned revenue	26,972,877
Liabilities payable within one year:	
Compensated absences	18,433
Voluntary termination benefits	221,672
Pension liability	2,965,129
Other post-employment benefits liability	168,400
Liabilities payable over one year:	
Compensated absences	350,227
Voluntary termination benefits	915,338
Pension liability	58,140,041
Other post-employment benefits liability	1,890,083
Total liabilities	<u>96,234,923</u>
Deferred inflows of resources	
Pension related	5,044,044
Total liabilities and deferred inflows of resources	<u>101,278,967</u>
Net position	
Investment in capital assets	31,643,171
Restricted for:	
Capital projects	662,011
Unrestricted	(51,707,684)
Total net position (deficit)	<u>\$ (19,402,502)</u>

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

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF ACTIVITIES
For the fiscal year ended June 30, 2022

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<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses)</u>
		<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Revenues and Change in Net Position</u>
				<u>Governmental Activities</u>
Governmental Activities:				
Administrative services	\$ 12,265,009	\$ 13,911,880	\$ -	\$ 1,646,871
Culture promotion	1,311,535	961,000	-	(350,535)
Documental patrimony conservation	1,457,678	1,316,000	-	(141,678)
Historic patrimony conservation	1,547,072	852,000	-	(695,072)
	<u>\$ 16,581,294</u>	<u>\$ 17,040,880</u>	<u>\$ -</u>	<u>459,586</u>
		Change in net position		459,586
		Net position - beginning of fiscal year, as restated		(19,862,088)
		Net position - ending of fiscal year		<u>\$ (19,402,502)</u>

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

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2022

	<u>General Fund</u>	<u>Federal Grants Fund</u>	<u>Other Non-Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash in commercial banks	\$ 7,189,870	\$ 28,887,392	\$ 1,236,968	\$ 37,314,230
Receivables, net:				
Trade	404,156	12,802	117,557	534,515
Inventory	1,889,640	-	-	1,889,640
Restricted cash in commercial banks	-	-	662,011	662,011
Due from other funds	1,425,764	-	-	1,425,764
Total assets	<u>\$ 10,909,430</u>	<u>\$ 28,900,194</u>	<u>\$ 2,016,536</u>	<u>\$ 41,826,160</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	\$ 3,020,122	\$ 543,371	\$ 1,029,230	\$ 4,592,723
Due to other funds	-	1,383,946	41,818	1,425,764
Unearned revenue	-	26,972,877	-	26,972,877
Total liabilities	<u>3,020,122</u>	<u>28,900,194</u>	<u>1,071,048</u>	<u>32,991,364</u>
Fund balances				
Nonspendable	1,889,640	-	-	1,889,640
Restricted	-	-	945,488	945,488
Unassigned	5,999,668	-	-	5,999,668
Total fund balances	<u>7,889,308</u>	<u>-</u>	<u>945,488</u>	<u>8,834,796</u>
Total liabilities and fund balances	<u>\$ 10,909,430</u>	<u>\$ 28,900,194</u>	<u>\$ 2,016,536</u>	<u>\$ 41,826,160</u>

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

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2022

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Total governmental fund balances	\$ 8,834,796
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	31,643,171
Deferred outflows of resources - pension related	9,664,498
Deferred outflows of resources - OPEB related	168,400
Voluntary termination benefits not payable from current resources and, therefore, are not reported in the Balance Sheet- Governmental Funds:	(1,137,010)
OPEB liability are not payable from current resources and, therefore, are not reported in the Balance Sheet - Governmental Funds:	(2,058,483)
Compensated absences not liquidated immediately with current financial resources are not reported in the in the Balance Sheet - Governmental Funds:	(368,660)
Deferred inflows of resources - pension related	(5,044,044)
Pension liability	(61,105,170)
Net position of governmental activities	<u>\$ (19,402,502)</u>

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

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the fiscal year ended June 30, 2022

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	General Fund	Federal Grants Fund	Other Non-Major Funds	Total Governmental Funds
Revenues				
Contributions from Commonwealth	\$ 12,710,454	\$ -	\$ -	\$ 12,710,454
Intergovernmental	-	2,963,247	-	2,963,247
Other	712,369	-	654,810	1,367,179
Total revenues	<u>13,422,823</u>	<u>2,963,247</u>	<u>654,810</u>	<u>17,040,880</u>
Expenditures				
Administrative services	\$ 8,845,119	\$ 2,407,433	\$ 864,115	12,116,667
Culture promotion:				
Plastic arts	278,491	-	-	278,491
Popular arts	109,490	-	-	109,490
Cultural centers	110,355	-	-	110,355
Music	85,068	-	-	85,068
Theater	232,937	-	-	232,937
	<u>816,341</u>	<u>-</u>	<u>-</u>	<u>816,341</u>
Documental patrimony conservation:				
General archives of PR	373,473	5,500	573,081	952,054
Publications	130,151	-	7,520	137,671
General library	132,084	2,837	-	134,921
	<u>635,708</u>	<u>8,337</u>	<u>580,601</u>	<u>1,224,646</u>
Historic patrimony conservation:				
Historic patrimony	315,025	-	1,389	316,414
Archeology	190,044	-	47,183	237,227
Museums and parks	448,524	-	166,230	614,754
	<u>953,593</u>	<u>-</u>	<u>214,802</u>	<u>1,168,395</u>
Capital Outlays	1,597,079	-	272,234	1,869,313
Total expenditures	<u>12,847,840</u>	<u>2,415,770</u>	<u>1,931,752</u>	<u>17,195,362</u>
Excess (deficiency) of revenues over (under) expenditures	574,983	547,477	(1,276,942)	(154,482)
Other financing sources (uses):				
Transfer in	547,477	-	-	547,477
Transfers out	-	(547,477)	-	(547,477)
Total other financing sources (uses)	<u>547,477</u>	<u>(547,477)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,122,460	-	(1,276,942)	(154,482)
Fund balance, beginning, as restated	6,766,848	-	2,222,430	8,989,278
Fund balance, ending	<u>\$ 7,889,308</u>	<u>\$ -</u>	<u>\$ 945,488</u>	<u>\$ 8,834,796</u>

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

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the fiscal year ended June 30, 2022

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Net change in fund balances - total governmental funds **\$ (154,482)**

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

Governmental funds report capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period these amounts are:

Capital outlays	\$ 1,869,313	
Less: current-year depreciation	<u>(2,912,903)</u>	(1,043,590)

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)	126,502	
Voluntary termination benefits	306,844	
Pension and other post-employment benefit expense	<u>1,224,312</u>	<u>1,657,658</u>

Change in net position of governmental activities **\$ 459,586**

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

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2022

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Assets

Cash in commercial bank

\$ 204,047

Liabilities

Accounts payable

\$ 204,047

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

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
June 30, 2022

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<u>Additions</u>	
Contributions by Central Government	\$ 3,577,000
<u>Deductions</u>	
Distributions to participants	<u>3,638,000</u>
Change in Net Position	(61,000)
Net position, beginning	<u>265,047</u>
Net position, ending	<u>\$ 204,047</u>

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 **Institute** is the organization engaged in the attainment, promotion, enrichment and divulging of the Puerto Rican cultural values. It is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities and culture.

The **Institute** is responsible for its debts and has the right to its surplus. **Institute’s** revenues are mainly composed of Commonwealth contributions. Also, contributions from Commonwealth not received by the **Institute** at June 30, 2022 are under the custody of the Secretary of the Treasury of the Commonwealth of Puerto Rico until transferred to the **Institute**. The **Institute** meets the criteria described below to be included as discretely presented component unit since it is: a legally separate entity of the Commonwealth, the Commonwealth’s government appoints a voting majority of the **Institute’s** governing body, and there is a financial benefit/burden relationship between the Commonwealth and the **Institute**.

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

Component Unit

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

Based on the above criteria there are no other potential component units which should be included as part of the **Institute’s** basic financial statements.

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 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, 2022 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, 2022.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.
- Total pension liability at June 30, 2022 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 advances made from FEMA for Hurricane Maria disaster grants and funds assigned by the Puerto Rico Office of Management and Budget relating to Coronavirus State and Local Fiscal Recovery Funds.

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

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

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

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

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

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

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

Fiduciary Fund type - Fiduciary fund type is used to report assets held by the **Institute** as an agent for individuals, private organizations, other governmental entities and/or other funds. The **Institute's** Fiduciary fund is also named as the fiduciary fund.

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

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

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

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

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

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

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

The **Institute** also maintains cash balances with the Fiscal Agent (Treasury). However, as provided by the General Fund Budget Resolution and the State Special Funds Resolution, any unencumbered previous-year balance of non-current allocations cannot longer be obligated. Any proposal to use said funds from previous years must be submitted through budget requests for the evaluation of the Oversight Board. In addition, as a general rule, previous year balances in General Fund accounts should be closed and forwarded to the Treasury. As explained in **Note 12**, the **Institute** maintains certain surpluses funds from prior years that might be subject to the provisions of Law No. 26. As of the date of the financial statements, no final determination have been made by the designed committee in relation to any amount of those surpluses funds that shall be transferred by the Institute, if any.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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, 2022, the **Institute** received federal grants from the National Endowment for the Arts and the US Department of Treasury. The **Institute** applied the provisions of GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions", which allows revenues to be recognized when eligibility requirements are met and the resources are available, whichever occurs first.

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

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

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this method, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within a period of sixty (60) days or soon enough thereafter to pay current liabilities.

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

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

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

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

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

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

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

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

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

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

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

Leases (Continued) - The criteria to be used to determine whether a lease should be recognized in the financial statements is as follows:

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

Adoption of new accounting pronouncements – Effective July 1, 2021, the **Institute** adopted the provisions of the following GASB Statements:

Leases - On July 1, 2021, the **Institute** adopted the provisions of Statement No. 87 of the Governmental Accounting Standards Board, Leases (GASB No. 87). 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 requires the 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. GASB No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financing agreements 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. For purposes of applying this Statement, a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. To determine whether a contract conveys control of the right to use the underlying asset, the **Institute** has assessed whether it has both of the following: (1) the right to obtain the present service capacity from use of the underlying asset as specified in the contract, and (2) the right to determine the nature and manner of use of the underlying asset as specified in the contract. Leases include contracts that, although not explicitly identified as leases, meet the definition of a lease. This definition excludes contracts for services except those contracts that contain both a lease component and a service component. GASB No. 87 also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements on a government's resources.

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

The **Institute** has implemented Statement No. 87 and concluded that a restatement of prior periods is not practical. The **Institute** was able to make assumptions surrounding the lease term of many of its lease assets and concluded there are inconsequential differences between the current fiscal year and the prior fiscal year, therefore, the beginning net position for fiscal year ended June 30, 2022, has not been restated by the immaterial cumulative effect.

When analyzing the resulting current fiscal year-end lease liability in proportion to the governmental activities long-term liabilities, the ratio shows that obligations related to lease assets are immaterial in relation to the total liabilities and the accompanying financial statements taken as a whole. As a result of the GASB No. 87 adoption, the **Institute's** capital assets have not been restated.

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

This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles

The requirements of this Statement, which were postponed one year by GASB Statement No. 95, are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

Omnibus 2020 - the Institute adopted the provisions of Statement No. 92, Omnibus 2020 (GASB No. 92):

Effective Date: The requirements of this Statement, which were postponed one year by GASB

Statement No. 95, 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.

Replacement of Interbank Offered Rates - the Institute adopted the provisions of Statement No. 93, Replacement of Interbank Offered Rates (GASB No. 93). Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—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.

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

Replacement of Interbank Offered Rates (Continued) - This Statement achieves that objective by:

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

The requirements of this Statement were postponed one year by GASB Statement No. 95. 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.

The implementation of these statements has not significant impact on the **Institute's** financial statements for the fiscal year ended June 30, 2022.

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

Future Adoption of Accounting Pronouncements – The GASB has issued the following accounting standards that have effective dates after June 30, 2022:

- (a) 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.

- (b) 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.

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

- (b) GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements (Continued)*

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

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

- (c) 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.

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

- (c) GASB Statement No. 96, Subscription-Based Information Technology Arrangements.(continued)

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.

- (d) 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.

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

- (d) 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)*

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

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

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

- (e) 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.

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

(e) GASB Statement No. 98 "The Annual Comprehensive Financial Report" (continued)

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.

(f) 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.

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

(f) GASB Statement No. 99, "OMNIBUS 2022" (continued)

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

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

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

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.

(g) 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)

- (g) 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.

- (h) 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, 2022. 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, 2022, approximately **\$37.5** million of the depository bank balance was insured as follows:

Governmental activities

	<u>Carrying Amount</u>			<u>Depository Bank Balance</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	
Commercial bank	<u>\$ 37,314,230</u>	<u>\$ 662,011</u>	<u>\$ 37,976,241</u>	<u>\$ 37,378,946</u>

Fiduciary activities

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

As of June 30, 2022, 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, 2022 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.

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4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2022 are summarized as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
General fund	\$ 1,383,946	Federal grants fund	\$ 1,383,946
General fund	<u>41,818</u>	Other non-major funds	<u>41,818</u>
Total	\$ <u>1,425,764</u>		\$ <u>1,425,764</u>

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

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

5. CAPITAL ASSETS

The Institute's capital assets at June 30, 2022 were as follows:

<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Non-depreciable assets:				
Land	\$ 55,205	\$ -	\$ -	\$ 55,205
	<u>55,205</u>	<u>-</u>	<u>-</u>	<u>55,205</u>
Depreciable assets:				
Buildings and improvements	105,070,432	311,760	-	105,382,192
Furniture, fixtures and equipment	3,633,349	332,415	-	3,965,764
Computers and software	1,653,548	1,225,138	-	2,878,686
Vehicles	<u>692,826</u>	<u>-</u>	<u>-</u>	<u>692,826</u>
	<u>111,050,155</u>	<u>1,869,313</u>	<u>-</u>	<u>112,919,468</u>

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5. CAPITAL ASSETS (CONTINUED)

<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less accumulated depreciation:				
Buildings and improvements	(73,983,829)	(2,723,719)	-	(76,707,548)
Furniture, fixtures and equipment	(2,899,909)	(72,989)	-	(2,972,898)
Computers and software	(948,611)	(113,409)	-	(1,062,020)
Vehicles	(586,250)	(2,786)	-	(589,036)
	<u>(78,418,599)</u>	<u>(2,912,903)</u>	<u>-</u>	<u>(81,331,502)</u>
Net depreciable assets	<u>33,631,556</u>	<u>(1,043,590)</u>	<u>-</u>	<u>31,587,966</u>
Capital assets, net	<u>\$ 32,686,761</u>	<u>\$ (1,043,590)</u>	<u>\$ -</u>	<u>\$ 31,643,171</u>

The **Institute** annually performs an impairment analysis of its capital assets in accordance with the provisions of GASB Statement No. 42. On September 6, 2017 and September 20, 2017, Hurricanes Irma and María devastated Puerto Rico. The Hurricanes caused unprecedented economic and infrastructure damages disrupting the **Institute's** operations. The **Institute** is currently evaluating with FEMA the damages suffered by buildings and other property. As of June 30, 2022, FEMA obligated **\$24.8 million** (and disbursed **\$1,095,123**) 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, 2022 depreciation expense was charged to functions/programs as follows:

<u>Program</u>	<u>Amount</u>
Administrative Services	\$ 1,806,000
Culture promotion:	
Plastic Arts	87,387
Popular Arts	58,258
Cultural Centers	116,516
Music	116,516
Theater	<u>116,516</u>
	<u>495,193</u>
Documentary Patrimony Conservation:	
General Archives	116,516
Publications	58,258
General Library	<u>58,258</u>
	<u>233,032</u>
Historic Patrimony Conservation:	
Historic Patrimony	87,387
Archeology	58,258
Museums and Parks	<u>233,033</u>
	<u>378,678</u>
Total depreciation expense	\$ <u>2,912,903</u>

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of June 30, 2022 was as follows:

	<u>General Fund</u>	<u>Federal Funds</u>	<u>Other Non- Major Funds</u>	<u>Total</u>
Accounts payable - vendors	\$ 2,946,170	\$ 519,522	\$ 392,850	\$ 3,858,542
Accrued liabilities	73,952	23,849	39,105	136,906
Bank overdraft	-	-	597,275	597,275
Total	\$ 3,020,122	\$ 543,371	\$ 1,029,230	\$ 4,592,723

7. COMPENSATED ABSENCES

The balance of compensated absences as of June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Vacation licenses	\$ 495,162	\$ (126,502)	\$ 368,660	\$ 18,433
Total	\$ 495,162	\$ (126,502)	\$ 368,660	\$ 18,433

8. UNEARNED REVENUE

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

Unearned revenue amounting to **\$26,972,877** includes unspent amount from these funds, and other unspent federal funds received as of June 30, 2022.

9. PENSION PLAN

After the approval of Act No. 106-2017, with the elimination of the Board of Trustees and the liquidation of plan assets, the GASB No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68, was implemented instead of GASB No. 68 effective on July 1, 2018. Accordingly, Total Pension Liability, Deferred Outflows / Inflows of Resources is presented. The information related to the Total Pension Liability presented is as of June 30, 2022.

1) *Description of the Plan and Basis of Presentation*

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

After that, new employees hired July 1, 2017 and later will not become ERS members, current ERS members will no longer As a result of the implementation of the "Pay-Go" system, the Plan does not meet the criteria in paragraph 4 of GASB No. 68, Accounting and Financial Reporting for Pension, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB 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 Statements 67 and 68. Under the guidance of GASB No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

9. PENSION PLAN (CONTINUED)

2) Pension Benefits

The benefits provided to the ERS participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision. Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Contributory, Defined Benefit Program)
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment.

In addition, employees who on June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3-2013 froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

a) Service Retirement Eligibility Requirements

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

9. PENSION PLAN (CONTINUED)

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

Act No. 447-1951 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

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

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

3. Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age.

4. Eligibility for Members Hired after June 30, 2013: Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

b) Compulsory Retirement

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

9. PENSION PLAN (CONTINUED)

c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

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

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

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

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

9. PENSION PLAN (CONTINUED)

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

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

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

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

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

9. PENSION PLAN (CONTINUED)

d) Special Benefits

1. Minimum Benefits

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

2. Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35-2007).

3. Special "Bonus" Benefits

- Christmas Bonus: An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. (Act No. 144-2005, as Amended by Act No. 3-2013)
- Medication Bonus: An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. (Act No. 155-2003, as Amended by Act No. 3-2013).

9. PENSION PLAN (CONTINUED)

e) Changes in Plan Provisions since Prior Valuation

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017 and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

- Act No. 116-2011 Employer Contributions
- Act No. 32-2013 Additional Uniform Contribution
- Act No. 3-2013 Supplemental Contributions □ Member Contributions

3) Allocation Methodology

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefits pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ratio of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation 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 pension amounts by employer may result in immaterial differences. The difference between the actual benefits payments' column and the benefits payments for allocation in the schedule of employer allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.

4) Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2022, the **Institute** reported a liability of **\$61,105,170** for its proportionate share of the total pension liability. This liability was determined as of June 30, 2021 (measurement date), based on the requirements of the GASB Statements No. 73. The amount was measured as of June 30, 2021 and the total pension liability used to calculate the liability was determined by an actuarial valuation as of July 1, 2020, rolled forward to the measurement date of June 30, 2021.

The **Institute's** share of the total pension liability was based on a projection of the **Institute's** long-term share of benefit payments to the pension plan relative to the projected payments of all participating employers, actuarially determined. On June 30, 2021, the **Institute's** proportion was **.22478%** which was a decrease of **.01%** from its proportion measured on June 30, 2020.

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9. PENSION PLAN (CONTINUED)

The pension expense incurred during fiscal year ended June 30, 2022 amounted to **\$1,957,865**.

Also, as of June 30, 2022, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>June 30, 2022</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 97,608	\$ 1,820,453
Change of assumptions	6,255,202	722,053
Change in proportions	346,560	2,501,538
Institute's benefit payments subsequent to measurement date	<u>2,965,128</u>	<u>-</u>
Total	<u>\$ 9,664,498</u>	<u>\$ 5,044,044</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2021 will be recognized in pension expense (benefit) in future years as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 408,921
2023	408,924
2024	<u>837,481</u>
Total	<u>\$ 1,655,326</u>

Total pension liability balance activity during the fiscal year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Pension liability	<u>\$ 65,697,676</u>	<u>\$ (4,592,506)</u>	<u>\$ 61,105,170</u>	<u>\$ 2,965,129</u>

9. PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions

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

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Compensation increases	3% per year. No compensation increases are assumed until July 1, 2022, 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, 2021 valuation were as follows:

Pre-Retirement Mortality: For general employees not covered by Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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

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

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

9. PENSION PLAN (CONTINUED)

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

Discount Rate

The discount rate was **2.16%** on June 30, 2021. 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 **2.16%**, 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
	1.16%	2.16%	3.16%
Total pension liability	\$ 69,814,822	\$ 61,105,170	\$ 54,046,988

5) “Pay-As-You-Go” Funding

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

Subsequently, on August 23, 2017, the Governor signed into law the “Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants” (Act No. 106-2017), which reformed the Commonwealth Retirement Systems. Act No. 106-2017 terminated the previously existing pension programs for the ERS’s participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106-2017 also established by law the “Pay-Go” mechanism for the payment of accumulated pension benefits and eliminated employers’ contributions and other analogous contributions. Approximately \$2 billion was allocated for the payment of “Pay-Go” benefits in each of the budgets for fiscal years 2018 through 2021.

9. PENSION PLAN (CONTINUED)

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

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

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

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

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

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

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

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

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

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

Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits provided

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

Benefits Payments

This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The **Institute's** benefits payments are financed through the monthly "PayGo" charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth benefits payments.

As a result, these OPEB are **100%** unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Allocation Methodology

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

Total OPEB Liability and Actuarial Information

As of June 30, 2022, the Institute reported a liability of approximately **\$2.1** million for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2022, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (measurement date). As of June 30, 2021, the Institute's proportion was **0.25792%**. Also, for the year ended June 30, 2022, the Institute recognized an OPEB expense (benefit) of **(\$48,649)**.

Total OPEB liability balance activity during the fiscal year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
OPEB liability	<u>\$ 2,276,775</u>	<u>\$ (218,292)</u>	<u>\$ 2,058,483</u>	<u>\$ 168,400</u>

The **Institute's** total OPEB liability as of June 30, 2022 was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021. 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 **2.16%**. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Mortality

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-2021 on a generational basis.

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-2021 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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

Post-retirement Mortality

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

Post-retirement Disabled Mortality

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

Post-Retirement Beneficiary Mortality

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

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Institute at June 30, 2021, (measurement date), calculated using the discount rate of 2.16%, as well as the Plan total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (1.16%) or 1-percentage point higher (3.16%) than the current rate:

	<u>1% Decrease</u>	<u>At Current Discount Rate</u>	<u>1% Increase</u>
	1.16%	2.16%	3.16%
Total OPEB liability	\$ 2,259,570	\$ 2,058,483	\$ 1,887,290

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, 2022, \$168 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, 2022.

11. VOLUNTARY TERMINATION BENEFITS

During the fiscal year 2010-2011, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations whose budget is fully or partially funded by the General Fund, known as Law No. 70 of July 2, 2010. The program included early retirement incentives for employees not eligible for retirement and retirement incentives for employees eligible for retirement. Under the plan, employees could select one of three options as follows:

11. VOLUNTARY TERMINATION BENEFITS (CONTINUED)

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

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

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

Annuity pension payment is based on the following parameters:

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

11. VOLUNTARY TERMINATION BENEFITS (CONTINUED)

The **Institute** will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments. Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first. Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited. At June 30, 2022 unpaid long-term benefits granted on Act 70 were discounted at **2.75%**. Voluntary termination benefits balance activity during the fiscal year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Voluntary Termination Benefits	<u>\$ 1,443,854</u>	<u>\$ (306,844)</u>	<u>\$ 1,137,010</u>	<u>\$ 221,672</u>

12. CONTINGENCIES

Legal Claims

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

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

Federal Awards

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

12. 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, 2022, the **Institute** maintains deposited on its commercial bank account certain surpluses funds from prior years that might be subject to the provisions of Law No. 26. As of the date of the financial statements, no final determination have been made by the designed committee in relation to any amount of those surpluses funds that shall be transferred by the **Institute**, if any.

13. COMMITMENTS

Lease agreements

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

Based on the foregoing, the **Institute** determined that none of its lease agreements meets any of the criteria established by the GASB 87. Accordingly, no lease assets or liabilities were recognized in the financial statements as of June 30, 2022.

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

- a. Lease agreements with the **Institute** as Lessor:
 - The **Institute** leases spaces within the structures it owns under lease agreements with terms ranging from five to ten years.
 - Total income from leases during the year ended June 30, 2022 was approximately **\$5,000**.
 - The **Institute** retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.
- b. Leasing agreements with the **Institute** as lessee:

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

14. 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:

<u>Description</u>	<u>Fund Financial Statements</u>	<u>Government-Wide Financial Statements-Net Position</u>
	<u>General Fund</u>	<u>Governmental Activities</u>
Total fund balances / net position, at beginning of year, as previously reported	\$ 7,766,096	\$ (18,869,794)
To correct GASB 75 Deferred Outflows of Resources balance	-	6,954
To eliminate interfund transactions from prior years paid during current year	(999,248)	(999,248)
Fund balance/net position, beginning, as restated	<u>\$ 6,766,848</u>	<u>\$ (19,862,088)</u>

15. SUBSEQUENT EVENTS

The **Institute** evaluated subsequent events through March 23, 2023, the date on which the financial statements were available to be issued. Management is not aware of any additional subsequent events that requires adjustment or disclosure in the basic financial statements or its related notes, except for the matter discussed in the next paragraphs.

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

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

15. SUBSEQUENT EVENTS (CONTINUED)

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

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

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

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

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

15. SUBSEQUENT EVENTS (CONTINUED)

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

As of the date of the financial statements, the economic impact, if any, of the implementation of the job classification system described above has not been determined.

End of notes

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONATE SHARE OF TOTAL PENSION LIABILITY
For the fiscal year ended June 30, 2022

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

Notes to required supplementary information

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

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

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

The amounts presented were determined by an actuarial valuation as of July 1, 2020 that was rolled forward to June 30, 2021, the measurement date.

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

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONATE SHARE OF TOTAL PENSION LIABILITY
(CONTINUED)
For the fiscal year ended June 30, 2022

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Valuation Date:	July 1, 2020
Measurement Date:	June 30, 2021
Actuarially determined contribution rates are calculated as of June 30, 2020, 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-2021 on generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2021 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.
<i>Post-Retirement Mortality:</i>	Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurements.
<i>Post-Retirement Disabled Mortality:</i>	Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
<i>Post-Retirement Beneficiary Mortality:</i>	Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivors' rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONATE SHARE OF TOTAL OPEB
For the fiscal year ended June 30, 2022

As of June 30,	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Institute's proportion of the total OPEB liability	0.25792%	0.26031%	0.25820%	0.26059%	0.25270%	0.25007%
Institute's proportionate share of the total OPEB liability	\$ 2,058,483	\$ 2,276,775	\$ 2,148,819	\$ 2,194,541	\$ 2,326,150	\$ 2,963,617

Notes to required supplementary information

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

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

The amounts determined by an actuarial valuation as of July 1, 2020 that was rolled forward to June 30, 2021, the measurement date.

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

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the fiscal year ended June 30, 2022

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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	1855972-61-19 1863425-61-20	\$ 896,125	\$ 304,424
Partnership Agreements (ARPA)	45.025	1863425-61-20	<u>374,336</u>	<u>344,256</u>
Total National Endowment for the Arts			<u>1,270,461</u>	<u>648,680</u>
National Endowment for the Humanities				
Division of Preservation and Access:				
Promotion of the Humanities	45.149	PF-272015-20	<u>8,337</u>	<u>-</u>
Total National Endowment for the Humanities			<u>8,337</u>	<u>-</u>
U.S. Department of Treasury:				
Pass-through the Government of Puerto Rico				
Office of Budget and Management				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/AV	<u>861,692</u>	<u>89,870</u>
Total U.S. Department of Treasury			<u>861,692</u>	<u>89,870</u>
U.S. Department of Homeland Security:				
Pass-through the Government of Puerto Rico				
Central Recovery and Reconstruction Office:				
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	4339-DR-PR	<u>275,280</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>275,280</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,415,770</u>	<u>\$ 738,550</u>

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.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the fiscal year ended June 30, 2022

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4. MAJOR FEDERAL PROGRAMS

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

5. RECONCILIATION TO THE FUND FINANCIAL STATEMENTS

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

Expenditures reported in the Statement of Revenues, Expenditures and changes in Fund Balances: Governmental Funds-Federal Grants Fund	\$ 2,415,770
Less: Expenditures of other funds not related to federal grants	<u>-</u>
Federal expenditures per Statement of Expenditures of Federal Awards	<u>\$ 2,415,770</u>



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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Institute of Puerto Rican Culture (the Institute)** as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements which collectively comprise the Institute's basic financial statements and have issued our report thereon dated March 23, 2023.

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, 2022.

Report on Internal Control Over Financial Reporting

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

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Internal Control Over Financial Reporting (Continued)

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Question Costs as item no. **2022-001** that we consider a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Institute's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed *instances 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 **2022-001**.

The Institute's Response to Findings

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

Purpose of this Report

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


RODRIGUEZ & SANTIAGO, CPA's, PSC

San Juan, Puerto Rico
March 23, 2023

The Stamp #E512164 of the Puerto Rico
Society of Certified Public Accountants was
affixed to the original of this report



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

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

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

Report on Compliance for Each Major Federal Program

We have audited the **Institute of Puerto Rican Culture's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the **Institute's** major federal programs for the year ended June 30, 2022. The **Institute's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

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

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Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

Purpose of this Report

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


RODRIGUEZ & SANTIAGO, CPA's, PSC

San Juan, Puerto Rico
March 23, 2023

The Stamp #E512165 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the original of this Report

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

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:

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

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

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2022-001

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 2021-001 and 2020-001.

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, 2022. 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. 2022-001 (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 QUESTIONED 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.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
Year ended June 30, 2022

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Finding No. 2021-001 and 2020-001

Statement of Condition

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

Status

Still prevails



INSTITUTO de CULTURA
PUERTORRIQUEÑA

**Corrective Action Plan
For the Year Ended June 30, 2022**

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

Audit Period: July 1, 2021 – June 30, 2022

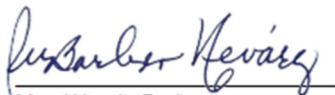
Fiscal Year: 2021-2022

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
2022-001	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