

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

*INDEPENDENT AUDITORS' REPORT*  
*AND*  
*AUDITED FINANCIAL STATEMENTS*

June 30, 2011



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

---

I.	Independent Auditors' Report .....	1
II.	Management Discussion and Analysis .....	3
III.	Statement of Net Assets.....	9
IV.	Statement of Activities .....	10
V.	Balance Sheet – Governmental Funds .....	11
VI.	Reconciliation of the Governmental Funds Balance Sheet to the Statements of Net Assets .....	12
VII.	Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.....	13
VIII.	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds with the Statement of Activities .....	14
IX.	Statement of Fiduciary Net Assets - Fiduciary Funds .....	15
X.	Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Governmental Funds .....	16
XI.	Notes to the Financial Statements.....	17





## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
The Institute of Puerto Rican Culture:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Institute of Puerto Rican Culture (the "Institute"), a component unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Institute's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 2 and 5 to the financial statements, the Institute generally records its capital assets at cost. Appraisals for certain donated or contributed collections were not performed. Capital assets should be recorded at cost, if purchased, or at fair value at the time of donation, if donated or contributed, to conform with governmental accounting principles generally accepted in the United States of America, and those amounts should be depreciated over the estimated useful lives of the assets, if applicable. The Institute's capital assets are stated net of accumulated depreciation at \$65,762,623 at June 30, 2011 and are currently under a process of reconciliation of the subsidiaries to the physical assets. As part of the ongoing management effort to reconcile subsidiaries, during the fiscal year ended June 30, 2011, the Institute's management recorded additional depreciation of \$11,726,326 to reconcile general ledger's accumulated depreciation with the capital assets subsidiaries. The subsidiaries reconciliation process will continue during the fiscal year ending June 30, 2012. We were unable to satisfy ourselves about the completeness and accuracy of the capital assets records maintained by the Institute.

The Institute does not follow encumbrance accounting and did not maintain a reconciled ledger of the Institute's encumbrances balance at June 30, 2011.

In our opinion, except for the effect of the matters described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major funds of the Institute of Puerto Rican Culture as of June 30, 2011, and the changes in its net assets and fund balances for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2011 on our consideration of the Institute's internal control over financial reporting and our tests 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 the internal

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages on pages 3 through 7, 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 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.

*Scherrer Hernández & Co.*

San Juan, Puerto Rico

September 21, 2011

Certified Public Accountants  
(of Puerto Rico)

License No. 53 expires December 1, 2012  
Stamp 2593968 of the P.R. Society of  
Certified Public Accountants has been  
affixed to the file copy of this report



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2011**

---

Our discussion and analysis of the Institute of Puerto Rican Culture financial performance provide an overview of the Institute's financial activities for the fiscal year ended June 30, 2011.

**FINANCIAL HIGHLIGHTS**

- During the current year, the Institute management recorded an accounts receivable and revenues from Federal Funds amounting \$1,543,178. This amount is shown as a separate caption in the statement on net assets.
- During the current year, the Institute's total revenues (excluding grants for capital improvements) exceeded expenses (excluding capital outlays) by \$115,065.
- General fund's operations resulted in a deficiency of \$1,004,374 mostly as a result of the recognition of the early retirement incentives liability of \$2,432,098.
- The Institute's net assets decreased by \$14,943,133 or nearly 15%, mostly as a result of additional depreciation recorded amounting \$11,726,326. Refer to Note 5.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets 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 10. For governmental activities, these 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.

**Reporting on the Institute as a whole:**

Our analysis of the Institute as a whole begins on page 5. The Statement of Net Assets and the Statement of Activities include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most companies in the private sector. All of the current year's revenues and expenses are taken into account regardless of when cash was received or paid.

These two statements report the Institute's net assets and their changes. The Institute's net assets 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 assets 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.

In the Statement of Net Assets and the Statement of Activities, the governmental activities represent the basic services provided by the following departments:



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2011**

---

administrative services, culture promotion, documental and historic patrimony conservation.

Legislative awards and federal grants finance most of the Institute's operations.

**Reporting on the Institute's most significant funds:**

Our analysis of the Institute's major funds is on page 6. The funds financial statements begin on page 11 and provide information about the most significant funds, not the Institute as a whole. Some funds are required to be established by the laws of the Commonwealth or by requirement of Federal law.

*Governmental funds* - All of the Institute's basic services 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 an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. 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.

*Agency funds* - The Institute has the responsibility to transfer funds to other entities or governmental agencies. The Institute's agency activities are reported in the separate Statement of Fiduciary Net Assets on page 15. 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**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2011**

---

**THE INSTITUTE AS A WHOLE:**

The Institute's Net Assets decreased from prior year by \$14,943,133 or 15%, mainly as a result of an additional depreciation of \$11,726,326 to reconcile general ledger balance with capital assets subsidiaries (See Note 5). Unassigned Net Assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or legal requirements decreased from \$2,403,614 at June 30, 2010, to \$1,508,969 at June 30, 2011.

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 27,184,906	\$ 25,353,167
Capital assets, net	65,762,623	78,983,998
Total assets	<u>92,947,529</u>	<u>104,337,165</u>
Lines of credit and long-term liabilities	8,034,745	2,169,455
Other liabilities	-	2,311,793
Total liabilities	<u>8,034,745</u>	<u>4,481,248</u>
Net assets:		
Invested in capital assets, net of related debt	63,935,028	78,839,920
Restricted for capital projects	11,038,662	10,872,465
Restricted for specific purpose	8,430,125	7,739,918
Unrestricted	<u>1,508,969</u>	<u>2,403,614</u>
Total net assets	<u>\$ 84,912,784</u>	<u>\$ 99,855,917</u>



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2011**

---

**Governmental activities:**

Revenues for the Institute's governmental funds (including grants for capital improvements) increased by 9.5% or \$1,988,340. Total expenditures (including capital outlays) increased by 5.11% or \$1,120,473.

<b>Functions/Programs</b>	<b>Revenues</b>		<b>Increase / (Decrease)</b>	
	<b>2011</b>	<b>2010</b>	<b>Amount</b>	<b>%</b>
<b>Governmental activities:</b>				
Administrative services	\$ 18,050,164	\$ 17,380,573	\$ 669,591	3.9%
Culture promotion	2,022,213	2,107,278	(85,065)	-4.0%
Documental patrimony conservation	453,060	386,892	66,168	17.1%
Historic patrimony conservation	2,394,831	1,057,185	1,337,646	126.5%
Total revenues	<u>\$ 22,920,268</u>	<u>\$ 20,931,928</u>	<u>\$ 1,988,340</u>	<u>9.5%</u>

<b>Functions/Programs</b>	<b>Expenditures</b>		<b>Increase / (Decrease)</b>	
	<b>2011</b>	<b>2010</b>	<b>Amount</b>	<b>%</b>
<b>Governmental activities:</b>				
Administrative services	\$ 13,564,372	\$ 12,492,202	\$ 1,072,170	8.6%
Culture promotion	3,483,029	4,433,710	(950,681)	-21.4%
Documental patrimony conservation	1,446,676	2,014,265	(567,589)	-28.2%
Historic patrimony conservation	4,574,161	3,007,588	1,566,573	52.1%
Total expenditures	<u>\$ 23,068,238</u>	<u>\$ 21,947,765</u>	<u>\$ 1,120,473</u>	<u>5.11%</u>

**General Fund Budgetary Highlights:**

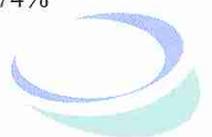
The Institute's budget increased from \$16,491,597 for the fiscal year ended June 30, 2010, to \$17,430,163 for the fiscal year ended June 30, 2011.

**THE INSTITUTE'S COMBINED FUND BALANCE:**

The Institute's governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$23,139,307, in comparison to last year's combined fund balance of \$23,287,277, representing a decrease of \$147,970, as a result of the Institute's operations during the fiscal year.

**CAPITAL ASSETS AND DEBT SERVICE:**

As of June 30, 2011, the Institute had \$65,762,623 invested in capital assets net from accumulated depreciation. This amount represents a net decrease of \$13,221,375, or approximately 16.74%



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2011**

when compared to the fiscal year ended on June 30, 2010. Capital assets depreciation recorded during the fiscal year ended June 30, 2011 amounted to \$2,874,447.

A detail of the Institute's capital assets at June 30, 2011, follow:

	<u>2011</u>	<u>2010</u>
Land	\$ 55,205	\$ 55,205
Museum equipment	6,439,819	6,425,769
Buildings and improvements	91,777,972	91,730,137
Construction in progress	2,977,473	1,883,856
Furniture, fixtures and equipment	3,574,440	3,441,142
Computers and software	1,512,626	1,451,812
Vehicles	596,558	566,774
Improvements to buildings under custody	3,322,448	3,322,448
	<u>110,256,541</u>	<u>108,877,143</u>
Less: accumulated depreciation	<u>(44,493,918)</u>	<u>(29,893,145)</u>
	<u>\$ 65,762,623</u>	<u>\$ 78,983,998</u>

The Institute's capital budget for the fiscal year ended June 30, 2011 called for the spending of \$888,783. In addition, the Institute has remaining balances on certain capital expenditure projects from previous fiscal years. Therefore, the Institute's Capital Improvement Fund balance at June 30, 2011 amounted to \$3,097,265. In addition, the Institute has remaining balances on lines of credit for which an aggregate amount of \$36,100,000 was granted at inception, and for which the following amounts are available to disburse:

	<u>2011</u>		
	<u>Credit Granted</u>	<u>Cumulative</u>	<u>Available</u>
	<u>in Prior Years</u>	<u>Expenditures</u>	<u>Amount</u>
Fortín San Gerónimo	\$ 3,010,000	\$ 1,997,642	\$ 1,012,358
Antiguo Asilo de Beneficiencia (headquarters of the Institute)	1,000,000	857,120	142,880
Convento Los Dominicos	2,000,000	1,897,045	102,955
Museo de Artes Populares	250,000	19,851	230,149
Casa Urrutia and Casa Blanca	400,000	39,794	360,206
Juan Ponce de León	663,000	406,021	256,979
Casa Wiechers Villaronga	150,000	150,030	(30)
Casa Armstrong	1,500,000	1,450,153	49,847
Centro Ceremonial Indígena	1,027,000	512,830	514,170
Archivo General de Puerto Rico	18,500,000	18,430,840	69,160
Teatros Matienzo and Music Hall	7,600,000	7,241,409	358,591
	<u>\$ 36,100,000</u>	<u>\$ 33,002,735</u>	<u>\$ 3,097,265</u>



**INSTITUTE OF PUERTO RICAN CULTURE  
(A Component Unit of the Commonwealth of Puerto Rico)  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

---

Funding for these projects are mostly obtained from lines of credit granted by the Government Development Bank of Puerto Rico, and the underlying drawings shall be paid from annual budget appropriations from the "*Fondo de Mejoras Permanentes*" at the Central Government level.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES:**

The indicators that follow were taken into account when adopting the General Fund budget for 2011. The original and the final amount available for appropriation in the General Funds budget for the fiscal year 2011 were \$14,967,000 and \$17,430,163 respectively.

**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 ASSETS**  
**FOR THE FISCAL YEAR FROM JULY 1, 2010 TO JUNE 30, 2011**

	<u>2011</u>
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	\$ 19,816,012
CASH WITH FISCAL AGENT	3,324,692
ACCOUNTS RECEIVABLE -	
Trade, net of allowance for doubtful accounts of \$662,494	664,870
ACCOUNTS RECEIVABLE FROM FEDERAL GRANTS	1,543,178
INVENTORY	1,759,734
DUE FROM OTHER FUNDS	76,420
CAPITAL ASSETS:	
Land	55,205
Museum equipment	6,439,819
Buildings and improvements	91,777,972
Construction in progress	2,977,473
Furniture, fixtures and equipment	3,574,440
Computers and software	1,512,626
Vehicles	596,558
Improvements to buildings under custody	3,322,448
Total capital assets	<u>110,256,541</u>
Accumulated depreciation and amortization	<u>(44,493,918)</u>
Capital assets, net	<u>65,762,623</u>
	<u>\$ 92,947,529</u>
<b>LIABILITIES</b>	
LINES OF CREDIT	\$ 1,827,595
ACCOUNTS PAYABLE:	
Trade	1,430,792
Retainage	182,709
COMPENSATED ABSENCES:	
Due within one year	237,324
Due over one year	1,924,227
OTHER LONG TERM DEBT	
Due within one year	234,507
Due over one year	2,197,591
Total liabilities	<u>8,034,745</u>
<b>NET ASSETS</b>	
INVESTED IN CAPITAL ASSETS	63,935,028
RESTRICTED FOR:	
Capital projects	11,038,662
Specific purpose	8,430,125
UNRESTRICTED	1,508,969
Total net assets	<u>\$ 84,912,784</u>



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR FROM JULY 1, 2010 TO JUNE 30, 2011**

FUNCTIONS / PROGRAMS	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Operating Grants	Capital Grants	
<b>Governmental activities:</b>				
Administrative services	\$ 13,564,372	\$ 11,197,113	\$ -	\$ (2,367,259)
Culture promotion	3,483,029	2,134,523	-	(1,348,506)
Documental patrimony	1,446,676	1,869,030	-	422,354
Historic patrimony	4,574,161	2,229,497	1,882,749	(461,915)
Interest on lines of credit	20,194	-	20,194	-
<b>CHANGES IN NET ASSETS</b>	<b>\$ 23,088,432</b>	<b>\$ 17,430,163</b>	<b>\$ 1,902,943</b>	<b>\$ (3,755,326)</b>
NET ASSETS, beginning of fiscal year				99,855,917
OTHER SOURCES OF FUNDS				538,519
OTHER CHANGES IN NET ASSETS				(11,726,326)
NET ASSETS, end of fiscal year				<u>\$ 84,912,784</u>



**INSTITUTE OF PUERTO RICAN CULTURE  
(A Component Unit of the Commonwealth of Puerto Rico)  
BALANCE SHEET GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	2011				
	Special Revenue Funds				
ASSETS	General Fund	Special Appropriation Fund	Other Governmental Fund	Capital Improvement Fund	Total Governmental Funds
CASH AND CASH EQUIVALENTS	\$ 2,486,985	\$ 5,194,649	\$ 1,365,244	\$ 10,769,134	\$ 19,816,012
CASH WITH FISCAL AGENT	339,459	(68,777)	3,054,010	-	3,324,692
ACCOUNTS RECEIVABLE - Trade, net of allowance for doubtful accounts of \$662,494	124,758	15,000	525,112	-	664,870
ACCOUNTS RECEIVABLE FROM FEDERAL GRANTS	-	-	1,543,178	-	1,543,178
INVENTORY	1,759,734	-	-	-	1,759,734
DUE FROM OTHER FUNDS	2,687,112	-	-	-	2,687,112
	\$ 7,398,048	\$ 5,140,872	\$ 6,487,544	\$ 10,769,134	\$ 29,795,598
<b>LIABILITIES AND FUND BALANCES</b>					
LIABILITIES:					
Accounts payable trade	\$ 1,225,509	\$ 179,975	\$ 4,139	\$ 21,169	\$ 1,430,792
Retainage	59,449	-	-	123,260	182,709
Due to other funds	10,472	4,310	2,580,635	15,275	2,610,692
Other liabilities	2,432,098	-	-	-	2,432,098
Total liabilities	3,727,528	184,285	2,584,774	159,704	6,656,291
FUND BALANCES:					
Non-spendable	1,759,734	-	-	-	1,759,734
Restricted	-	4,956,587	3,902,770	10,609,430	19,468,787
Unassigned	1,910,786	-	-	-	1,910,786
Total fund balances	3,670,520	4,956,587	3,902,770	10,609,430	23,139,307
	\$ 7,398,048	\$ 5,140,872	\$ 6,487,544	\$ 10,769,134	\$ 29,795,598



**INSTITUTE OF PUERTO RICAN CULTURE  
(A Component Unit of the Commonwealth of Puerto Rico)  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

---

	<u>2011</u>
TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 23,139,307
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet	65,762,623
Lines of credit used to finance capital assets do not require financial resources and, therefore, are not reported in the governmental funds balance sheet	(1,827,595)
Compensated absences not liquidated immediately with current financial resources are not reported in the governmental funds balance sheet	<u>(2,161,551)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 84,912,784</u>



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR FROM JULY 1, 2010 TO JUNE 30, 2011**

	2011				
	Special Revenues Funds				
	General Fund	Special Appropriation Fund	Other Governmental Funds	Capital Improvement Fund	Total Governmental Funds
REVENUES	\$ 15,969,016	\$ 2,353,083	\$ 2,715,420	\$ 1,882,749	\$ 22,920,268
EXPENDITURES:					
Administrative Services					
Culture promotion:	12,087,209	7,691	1,343,308	126,164	13,564,372
Plastic Arts	531,259	128,668	-	-	659,927
Popular Arts	175,102	245,926	-	-	421,028
Cultural Centers	594,970	-	-	-	594,970
Music	239,139	506,103	-	-	745,242
Theater	233,329	828,533	-	-	1,061,862
	1,773,799	1,709,230	-	-	3,483,029
Documental Patrimony Conservation:					
General Achieves of PR	637,030	9,843	15,608	-	662,481
Publications	241,845	150,605	-	-	392,450
General Library	388,477	2,151	1,117	-	391,745
	1,267,352	162,599	16,725	-	1,446,676
Historic Patrimony Conservation:					
Historic Patrimony	527,796	-	2,332	27,000	557,128
Archeology	353,694	7,899	-	-	361,593
Museums and Parks	963,540	608,925	90,355	-	1,662,820
Capital Outlays	-	-	-	1,992,620	1,992,620
	1,845,030	616,824	92,687	2,019,620	4,574,161
Total expenditures	16,973,390	2,496,344	1,452,720	2,145,784	23,068,238
(DEFICIENCY)/EXCESS OF REVENUES	\$ (1,004,374)	\$ (143,261)	\$ 1,262,700	\$ (263,035)	\$ (147,970)
OVER EXPENDITURES					
OTHER FINANCING SOURCES (USES), INCLUDING TRANSFERS:					
Other sources of funds to pay interest	-	-	-	20,194	20,194
Other sources of funds to pay lines of credit	-	-	-	3,494	3,494
Other use to pay interest	-	-	-	(20,194)	(20,194)
Other use to pay lines of credit	-	-	-	(3,494)	(3,494)
Total other financing sources	-	-	-	-	-
Net change in fund balance	(1,004,374)	(143,261)	1,262,700	(263,035)	(147,970)
FUND BALANCES, beginning of fiscal year	4,674,894	5,099,848	2,640,070	10,872,465	23,287,277
FUND BALANCES, end of fiscal year	\$ 3,670,520	\$ 4,956,587	\$ 3,902,770	\$ 10,609,430	\$ 23,139,307



**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 WITH THE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR FROM JULY 1, 2010 TO JUNE 30, 2011**

---

		2011
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	(147,970)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives		1,992,620
The advances from lines of credit provide current financial resources to governmental funds, whereas the corresponding line of credit liability is non-current		(1,827,595)
Other sources of funds to pay lines of credit provide current financial resources to the governmental funds, whereas the corresponding line of credit liability is non-current		3,494
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but do not require the use of current financial resources. Therefore, depreciation expense on capital assets is not reported as expenditure in the governmental funds	\$(2,874,447)	
Depreciation expense to reconcile accumulated depreciation per general ledger to the Capital Assets subsidiary (See Note 5)	<u>(11,726,326)</u>	(14,600,773)
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds		(472,638)
A reduction in the compensated absences liability represents a long-term effect in net assets that is not reported as part of net changes in governmental funds		<u>109,729</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>(14,943,133)</u>



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS**  
**JUNE 30, 2011**

---

	<u>2011</u>
	<u>Agency Fund</u>
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	\$ 3,657,540
CASH WITH FISCAL AGENT	<u>107,977</u>
	<u>\$ 3,765,517</u>
<b>LIABILITIES</b>	
ACCOUNTS PAYABLE	<u>\$ 3,765,517</u>



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES – BUDGET AND ACTUAL GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR FROM JULY 1, 2010 TO JUNE 30, 2011**

	GENERAL FUND			Variance with final budget
	Budgeted amounts		Actual amounts	
	Original	Final		
REVENUES	\$ 14,967,000	\$ 17,430,163	\$ 15,969,016	\$ (1,461,147)
EXPENDITURES:				
Administration	8,672,313	11,197,113	12,087,209	(890,096)
Culture promotion	1,923,130	2,134,523	1,773,799	360,724
Documentary patrimony conservation	1,972,720	1,869,030	1,267,352	601,678
Historic patrimony conservation	2,398,837	2,229,497	1,845,030	384,467
Total expenditures	14,967,000	17,430,163	16,973,390	456,773
EXCESS OF EXPENDITURES OVER REVENUES	-	-	(1,004,374)	(1,004,374)
OTHER FINANCING SOURCES - Transfer from other funds	-	-	-	-
NET CHANGE IN FUND BALANCE	-	-	(1,004,374)	(1,004,374)
FUND BALANCE, beginning of fiscal year	780,625	780,625	4,674,894	4,674,894
FUND BALANCE, ending of fiscal year	\$ 780,625	\$ 780,625	\$ 3,670,520	\$ 3,670,520



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

**1. NATURE OF THE INSTITUTE**

*Organization* - The Institute of Puerto Rican Culture (the "Institute") is an official, autonomous and corporate entity of the Commonwealth of Puerto Rico (a Component Unit), 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.

*Financial Independence* - The Institute is responsible for its debts and has the right to its surplus. No governmental agency receives the benefit nor can impose financial restraints on the Institute.

*Board of Directors* - The Board of Directors are 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Institute conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to governmental entities.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation:*

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 focus applied.

The basic financial statements utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery) and financial position. All assets and liabilities (whether current or non-current, financial or non-financial) associated with their activities are reported. Fund balance is classified as net assets. Legislative grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected 60 days after the end of the current fiscal year. Other revenues are considered to be measurable and available only when cash is received. Expenditures, generally, are recorded when a liability is incurred, under the accrual accounting method. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

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, (b) total governmental fund liabilities, (c) total governmental fund revenues, or (c) 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.

The following are the Institute's major governmental funds:

**General fund** - The General fund is the Institute's primary operating fund. It accounts for all financial resources not accounted for in other funds. All funds received from the Government that is not restricted by law or contractual agreement is recorded in this fund. Also, it accounts for the Government funds available and not used in prior years by the budgetary fund.

Capital outlays in the General Fund and Capital Improvements 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.

**Special revenue funds** – The special revenue funds are composed of: (a) the special appropriations fund and (b) the capital improvements fund.

- **Special appropriations fund** -The Special Appropriations fund accounts for the proceeds of special resolutions of the Commonwealth of Puerto Rico Government and private entities (other than assessments or capital projects) that are legally restricted to expenditures for specified purposes.
- **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 the corresponding interest earned from the corresponding bank accounts.



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

*Endowment fund* - The Endowment fund accounts for federal block grants awarded by the National Endowment of the Arts.

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

*National funds* - This fund is used to account for the proceeds of joint resolutions of the Commonwealth of Puerto Rico Government that are donated to qualified individuals and entities that are engaged in the promotion of theatrical, musical and general arts in Puerto Rico.

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

*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.

*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:

*Non-spendable 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.

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

*Restricted fund balance* – amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. The Institute's restricted fund balance consists of the special appropriation fund, capital improvement fund, endowment fund and national 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.

*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 Institute official delegated that authority by Board resolution.



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

*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.

The Institute applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The Institute does not have a formal minimum fund balance policy.

*Use of Estimates in the Preparation of Financial Statements* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

*Concentration of Credit Risk* - The Institute maintains cash on deposit with high rated financial institutions and with the Puerto Rico Treasury Department. 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. Deposits with the Governmental Development Bank of Puerto Rico are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the bank, the entity would not recover its deposits.

*Cash and Cash Equivalents* – Cash and cash equivalents include petty cash, checking and other instruments with original maturities of three months or less.

*Cash with Fiscal Agent* – The Institute's budgetary assignments from the Central Government are under the custody of the Puerto Rico Treasury Department ("PRTD"). The PRTD processes the Institute's payroll and such payments are deducted from the budgetary assignments. Money transfers for budgetary assignments other than payroll may be requested by the Institute at any time during the normal course of operations, subject to the Central Government's budgetary management procedures. At June 30, 2011, the Institute maintained \$3,324,692 under the PRTD's custody.

*Inventory* - Inventory is stated at cost based on the first-in, first-out method and reported at cost when individual inventory items are used.



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

**Capital Assets** - Capital assets are stated at historical cost when purchased or at estimated fair market value when donated. Costs of repairs and maintenance, which do not increase or extend the life of the respective assets are expensed as incurred. Assets whose cost or estimated fair value is stated over \$500, are capitalized when purchased or received as a donation. The historic buildings are stated at the value established when acquired or received and building improvements are capitalized as buildings are constructed or repaired. The artwork and historic collections are partially included in the financial statements of the Institute, however, there are some collections for which no valuation was performed and therefore were not included. The cost or donation amount was assigned to those included at the time of the acquisition.

Major outlays for capital assets, renewals, and betterments are capitalized as incurred. In accordance to 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
Leasehold improvements	20
Furniture and fixtures	10
Vehicles	5
Computer equipment	3

**Compensated Absences** - It is the Institute's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The excess over 60 days of vacations and over 90 days of sick leave benefits are paid to the employee. A liability is reported only for the amount due, for example, as a result of employee resignation and retirement.

**Accounting for Pension Costs** - The Institute accounts for pension costs in accordance with the provisions of GASB No. 27, *Accounting for Pensions by States and Local Governmental Employers*, as amended by GASB No. 50, *Pension Disclosures*. GASB No. 27 establishes standards of accounting and financial reporting for pension expenditures/expenses and related pension liabilities, pension assets, financial statement disclosures, and required supplementary information in the financial reports of state and local governmental employers. The Statement defines that the pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

**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.

**Budgetary Data** -The budget is prepared following the modified accrual basis of accounting. The actual results of operations, presented in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, is in conformity with the budgetary accounting of the Institute for a better comparison with the budget information.



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

*Recent Accounting Pronouncements:*

*Fund Balance Reporting and Governmental Fund Type Definitions* – In February 2009, the GASB issued GASB No. 54, which establishes accounting and financial reporting standards for all governments that report governmental funds. The standard clarifies definitions for governmental fund types and establishes criteria for classifying fund balances into specifically defined classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. In addition, in accordance with GASB No. 54, the amount of significant outstanding encumbrances must be disclosed for each major fund and in the aggregate for non-major funds. This standard is effective for financial statements for periods beginning after June 30, 2010, and should be applied retroactively to fund balances for all prior periods presented. This standard was adopted during the year ended June 30, 2011.

*Subsequent Events* - In May 2009, the FASB issued authoritative guidance for the accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. This guidance is effective for interim and annual periods ending after June 15, 2009, and is required to be applied prospectively.

For purposes of these financial statements, subsequent events have been evaluated through September 21, 2011, which is the date the financial statements were available to be issued. There are no material subsequent events that require further disclosures in the Institute's financial statements.

*Other Recent Accounting Pronouncements* – During the year ended June 30, 2011, the FASB, GASB and other standard setting bodies issued other accounting standard updates and guidance that were not relevant to the Institute's operations.

**3. CASH AND CASH EQUIVALENTS – CUSTODIAL CREDIT RISK DEPOSITS**

The Institute is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the Institute. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The Institute's policy regarding deposits requires for all opening of bank accounts to be approved by its Board of Directors.

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.



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

Although the Institute is not exposed to custodial credit risk, the following disclosure is made for reader's convenience. The Institute had the following depository accounts in commercial banks. All deposits are carried at cost plus accrued interest:

Insured by FDIC	\$ 500,000
Bank balances:	
Cash in bank held in the Institute's name	19,314,787
Total deposits	<u>\$19,814,787</u>

The securities pledged to the PR Treasury by the financial institution are sufficient to cover the Institute's deposits.

The carrying amount of deposits at June 30, 2011 as shown in the statement of net assets follows:

	<u>2011</u>
Unassigned cash	\$ 2,826,444
Restricted cash	20,314,260
	<u>\$23,140,704</u>

**4. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Changes in the allowance for doubtful accounts during the fiscal year ended June 30, 2011, are as follows:

	<u>2011</u>
Allowance for doubtful accounts, beginning of period	\$ 534,212
Provision for doubtful accounts	128,282
Allowance for doubtful accounts, end of period	<u>\$ 662,494</u>



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**5. CAPITAL ASSETS**

The Institute's capital assets at June 30, 2011 were as follow:

Capital Assets	2011			Ending Balance
	Beginning Balance	Increase	Decrease	
Non-depreciable assets:				
Land	\$ 55,205	\$ -	\$ -	\$ 55,205
Historical and archeological patrimony and works of art	6,425,769	14,050	-	6,439,819
Construction in progress	1,883,856	1,093,617	-	2,977,473
	<u>8,364,830</u>	<u>1,107,667</u>	<u>-</u>	<u>9,472,497</u>
Depreciable assets:				
Buildings	91,730,137	47,835	-	91,777,972
Building improvements	3,322,448	-	-	3,322,448
Furniture, fixtures and equipment	3,441,142	133,298	-	3,574,440
Computers and software	1,451,812	60,814	-	1,512,626
Vehicles	566,774	29,784	-	596,558
	<u>100,512,313</u>	<u>271,731</u>	<u>-</u>	<u>100,784,044</u>
Less accumulated depreciation:				
Buildings	(25,419,758)	(13,699,236)	-	(39,118,994)
Furniture, fixtures and equipment	(2,562,153)	(592,501)	-	(3,154,654)
Computers and software	(1,281,567)	(303,488)	-	(1,585,055)
Vehicles	(629,667)	(5,548)	-	(635,215)
	<u>(29,893,145)</u>	<u>(14,600,773)</u>	<u>-</u>	<u>(44,493,918)</u>
Net depreciable assets	<u>70,619,168</u>	<u>(14,329,042)</u>	<u>-</u>	<u>56,290,126</u>
Capital assets, net	<u>\$ 78,983,998</u>	<u>\$(13,221,375)</u>	<u>\$ -</u>	<u>\$ 65,762,623</u>



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

Depreciation expense was charged to functions/programs as follows:

<u>Program</u>	<u>Amount</u>
Administratives Services	\$ 1,782,158
Plastic Arts	86,233
Popular Arts	57,488
Cultural Centers	114,978
Musics	114,978
Theather	114,978
General Archives	114,978
Publications	57,488
General Library	57,488
Historic Patrimony	86,233
Archeology	57,488
Museums and Parks	<u>229,955</u>
Total depreciation expense	<u>\$ 2,874,447 *</u>

The Institute has active construction projects as of June 30, 2011. The total commitments for ongoing capital projects are composed of the following:

<u>Building</u>	<u>Amount</u>
Fortin San Geronimo	\$ 1,012,358
Antiguo Asilo de Beneficiencia (main facilities of the Institute)	142,880
Convento Los Dominicos	102,955
Museo de Artes Populares	230,149
Casa Urrutia, Casa Blanca y complejo Museo	360,206
Juan Ponce de Leon	256,979
Casa Armstrong	49,847
Centro Ceremonial Indigena	514,170
Archivo General de Puerto Rico	69,160
Teatros Matienzo y Music Hall	<u>358,591</u>
Total	<u>\$ 3,097,295</u>

These commitments will be funded by advances from the credit facilities disclosed in Note 6.

\* As part of the ongoing management effort to reconcile subsidiaries, during the fiscal year ended June 30, 2011, the Institute's management recorded additional depreciation of \$11,726,326 to reconcile general ledger's accumulated depreciation with the capital assets subsidiaries. The subsidiaries reconciliation process will continue during the fiscal year ending June 30, 2012. (See page 14)



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

**6. LINES OF CREDIT**

The Institute has three non-revolving lines of credit agreements to finance the commitments disclosed in Note 4. These credit facilities were granted by the Puerto Rico Government Development Bank. The Institute may borrow up to \$10,000,000 and \$17,100,000, respectively at a 4.24% annual rate. At June 30, 2011, lines of credit consisted of the following individual legislative resolutions:

	<b>2011</b>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Resolution #718, dated August 17, 2002, for the amount of \$10,000,000 due in annual installments until June 30, 2018	\$ 142,063	\$ 1,687,011	\$ 3,450	\$ 1,825,624
Resolution #2112, dated September 30, 2004, for the amount of \$17,100,000 due in annual installments until June 30, 2018	<u>2,015</u>	<u>-</u>	<u>44</u>	<u>\$ 1,971</u>
Total lines of credit	<u>\$ 144,078</u>	<u>\$ 1,687,011</u>	<u>\$ 3,494</u>	<u>\$ 1,827,595</u>

During the fiscal year ended June 30, 2011, the Central Government paid approximately \$3,500 of the then outstanding balance on the Institute's lines of credit with the Puerto Rico Development Bank, which paid-off these obligations, plus some advances received thereafter. The Central Government also paid accrued interest as of June 30, 2011, amounting to approximately \$20,200. These transactions were disclosed as other sources and other uses of funds in these financial statements.

The Institute also has an interagency agreement with the Infrastructure Financing Authority of Puerto Rico to rehabilitate the Music Hall Theater by means of financing with a transfer of funds for the amount of \$2,000,000, from July 15, 2004 until the completion of the project. Cumulative drawings on such facility at June 30, 2011 amounted to \$1,641,409.



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**7. COMPENSATED ABSENCES**

Compensated absences as of June 30, 2011 were as follow:

	2011				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Vacations and licenses	\$ 860,470	\$ -	3,241	\$ 863,711	\$ 86,827
Sick leave benefits	1,370,915	-	(118,677)	\$ 1,252,238	141,617
Compensatory time	39,895	5,707	-	45,602	8,880
	<u>\$ 2,271,280</u>	<u>\$ 5,707</u>	<u>\$ (115,436)</u>	<u>\$ 2,161,551</u>	<u>\$ 237,324</u>

**8. FUND BALANCES**

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

	2011				
	Special Revenue Funds				
	General Fund	Special Appropriation Fund	Other Governmental Fund	Capital Improvement Fund	Total Governmental Funds
FUND BALANCES:					
Non-spendable -					
Inventory	\$ 1,759,734	\$ -		\$ -	\$ 1,759,734
Restricted:					
Capital projects	-	4,956,587	3,902,770	10,609,430	19,468,787
Unassigned	1,910,786	-	-	-	1,910,786
Total fund balances	<u>\$ 3,670,520</u>	<u>\$ 4,956,587</u>	<u>\$ 3,902,770</u>	<u>\$ 10,609,430</u>	<u>\$ 23,139,307</u>

**9. PENSION PLAN**

The Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multi-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Institute under age 55 at the date of employment become members of the System as a condition for their employment.

The System provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited services. Benefits vest after ten years of plan participation. Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years for creditable service or members who



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be 1.5% of the average compensation multiplied by the number-of-years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than \$200 per month. For those participant employees after March 31, 1990, the amount of the annuity is 1.5% of the compensation multiplied by the number of years for credited services. The annuity should not be less than \$2,400 in any case.

Participants who have completed at least thirty years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions. On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, elected either to stay in the defined benefit plan or transfer to the new program. Persons joining on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the turn of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the deficiency of the defined benefit plan. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

Commonwealth legislation requires employees to contribute 5.775% for the first \$6,600 of their annual gross salary and 8.275% for the salary in excess of \$6,600, for employees hired on or before April 1, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The Institute's contribution is 9.275% of gross salary. Total payroll subjected to retirement contribution amounted to \$5,997,739 for the year ended June 30, 2011. Those amounts are the compensation paid by the Corporation to active employees covered by the System, which is the basis for the contribution. The pension expenses incurred by the Institute for the year ended June 30, 2011, amounted to \$435,545.



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

Act number 1 of February 16, 1990 made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

The amount of the total pension benefits obligation is based on a standardized measurement established by accounting principles generally accepted in the United States of America that, with some exceptions, must be used by a public employee retirement system. The Standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases.

The most recent actuarial valuation is as of June 30, 2011. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

- Investments Rate of Return 7.5% a year
- Payroll growth 3.0% per year
- Mortality RP 2000 Mortality Rates
- Disability Adjusted 1987 Commissioners Group Disability Table
- Retirement age Graded scale of retirement ages
- Proportion of participants with spouses 50% of participants assumed to be married, with wives assumed to be four years younger than husbands.

The financial statements and required supplementary information for the pension plan are available at the administration office of the Employees' Retirement System of the Government of Puerto Rico, P.O. Box 42003 Minillas, San Juan, Puerto Rico 00940.

**10. TERMINATION BENEFITS**

During the 2010-11 fiscal year, 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 #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:



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

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 and up	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%

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, 2011, the present value of future incentive payments reported as a liability in the statement of net assets was \$2,432,097. During the year ended June 30, 2011, 15 and 13 employees who opted for the early retirement incentive selected options 4(b) and 4(a) for a total expense recorded of \$2,432,097 and \$171,000, respectively.



**INSTITUTE OF PUERTO RICAN CULTURE**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

**11. CONTINGENCIES**

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

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

The Central Government enacted Law # 7 (the "Law") of March 9, 2009, which declares a state of fiscal emergency and establishes a stabilization plan for all governmental entities of the Commonwealth, in an effort to manage the Central Government's structural operating deficit. Pursuant to the provision of the law, a separation plan applicable to certain employees was implemented in certain agencies, based on specific criteria established by the Law.

The separation plan applicable to the Institute was implemented during the period from May 2009 through June 2010. Severance payments related to the implementation were covered by separate budgetary assignments from the Central Government during such period. The Institute's projected payroll cost reduction over the trailing twelve months after full implementation ranges from \$3.5 million to \$4.0 million. The Law provides for an appellate process that may be followed by employees after separation, if certain requirements are met. As of the date of issuance of the financial statements, the appeals filed are in its evaluation stage and the monetary impact, if any, will be covered by separate budgetary assignments from the Central Government for those employees that prevail, if any.

**12. SUBSEQUENT EVENT**

On August 18, 2011, the Governor of Puerto Rico approved Law No. 189 which amends Law No. 223 of August 21, 2004 known as "Ley de Nuestra Música Autóctona Tradicional Puertorriqueña". Law No. 223 protects and guaranties the inclusion of autochthonous musical groups in events where funds exceed \$10,000 sponsored by the Government, Municipalities, Agencies or other Instrumental Entities of the Commonwealth of Puerto Rico. In addition, requires that at least 30% of the funds should be used to contract the services of autochthonous musical groups. The Institute has the right to issue monetary sanctions and penalties to any governmental instrumentality that does not follow the guidelines of Law No. 223.

With approval of Law No. 189, all monetary sanctions and penalties imposed to any of the governmental instrumentalities under Law No. 223 will be immediately forgiven. The Institute has approximately \$77,000 recorded as accounts receivable related to the monetary sanctions and penalties imposed under Law No. 223 as of June 30, 2011.

