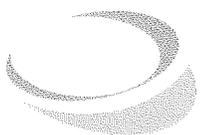


INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of
Puerto Rico)

SINGLE AUDIT REPORT

June 30, 2011



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

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

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.

Scherer 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 the recording of additional depreciation 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.

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

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

Functions/Programs	Revenues		Increase / (Decrease)	
	2011	2010	Amount	%
Governmental activities:				
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	\$ 22,920,268	\$ 20,931,928	\$ 1,988,340	9.5%

Functions/Programs	Expenditures		Increase / (Decrease)	
	2011	2010	Amount	%
Governmental activities:				
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	\$ 23,068,238	\$ 21,947,765	\$ 1,120,473	5.11%

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% 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.

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

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	(44,493,918)	(29,893,145)
	<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>
ASSETS	
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>
LIABILITIES	
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>
NET ASSETS	
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>

The accompanying notes are an integral part of these financial statements.



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	
Governmental activities:				
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	-
CHANGES IN NET ASSETS	\$ 23,088,432	\$ 17,430,163	\$ 1,902,943	\$ (3,755,326)
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>

The accompanying notes are an integral part of these financial statements.



**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				
	General Fund	Special Appropriation Fund	Other Governmental Fund	Capital Improvement Fund	Total Governmental Funds
ASSETS					
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
LIABILITIES AND FUND BALANCES					
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

The accompanying notes are an integral part of these financial statements.



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>

The accompanying notes are an integral part of these financial statements.



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	12,087,209	7,691	1,343,308	126,164	13,564,372
Culture promotion:					
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
	<u>1,773,799</u>	<u>1,709,230</u>	<u>-</u>	<u>-</u>	<u>3,483,029</u>
Documental Patrimony Conservation:					
General Archives 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
	<u>1,267,352</u>	<u>162,599</u>	<u>16,725</u>	<u>-</u>	<u>1,446,676</u>
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
	<u>1,845,030</u>	<u>616,824</u>	<u>92,687</u>	<u>2,019,620</u>	<u>4,574,161</u>
Total expenditures	<u>16,973,390</u>	<u>2,496,344</u>	<u>1,452,720</u>	<u>2,145,784</u>	<u>23,068,238</u>
(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	<u>-</u>	<u>-</u>	<u>-</u>	<u>(263,035)</u>	<u>-</u>
Net change in fund balance	<u>(1,004,374)</u>	<u>(143,261)</u>	<u>1,262,700</u>	<u>(263,035)</u>	<u>(147,970)</u>
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

The accompanying notes are an integral part of these financial statements.



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

	<u>2011</u>
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>

The accompanying notes are an integral part of these financial statements.



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

The accompanying notes are an integral part of these financial statements.



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			
	Budgeted amounts		Actual amounts	Variance with final budget
	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

The accompanying notes are an integral part of these financial statements.



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
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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
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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 are not spendable resources.

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
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NOTES TO THE FINANCIAL STATEMENTS
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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
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NOTES TO THE FINANCIAL STATEMENTS
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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

INSTITUTE OF PUERTO RICAN CULTURE
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

in Fund Balances - Budget and Actual, is in conformity with the budgetary accounting of the Institute for a better comparison with the budget information.

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 Institutes' 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
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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	<u>19,314,787</u>
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	<u>20,314,260</u>
	<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	<u>128,282</u>
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
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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	229,955
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	358,591
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
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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:

	2011			Ending Balance
	Beginning Balance	Additions	Retirements	
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	2,015	-	44	\$ 1,971
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
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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 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.



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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.

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.

INSTITUTE OF PUERTO RICAN CULTURE
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NOTES TO THE FINANCIAL STATEMENTS
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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:

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



INSTITUTE OF PUERTO RICAN CULTURE
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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.

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.

INSTITUTE OF PUERTO RICAN CULTURE
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
National Endowment for the Arts:			
Promotion of the Arts - State and Regional Programs	45.025		
Partnership agreements		09-6100-2051	\$ 245,588
Partnership agreements		10-6188-2054	271,805
			<u>\$ 517,393</u>
Promotion of the Arts - State and Regional Programs-ARRA	ARRA - 45.025		
Partnership agreements-ARRA		09-6188-2104	42,061
			<u>42,061</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 559,454</u>



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 YEAR ENDED JUNE 30, 2011

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all the federal assisted programs of the Institute for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

2. GRANTS AWARDS

The Institute received grants for the development of the arts and culture of Puerto Rico from the National Endowment for the Arts that sponsor the arts and the artists in the states and U.S. territories. Effective April 2009, the National Endowment of for the Arts granted funds from the American Recovery and Reinvestment Act of the 2009 ("ARRA") to support the art projects and activities which preserve jobs in the nonprofit arts sector threatened by declines in the philanthropic and other support during the current economic downturn. Total fund expended for the fiscal year ended June 30, 2011 is included as a separate caption in the Schedule of Expenditures of Federal Awards with the ARRA prefix.

3. ACCOUNTING BASIS

The schedule was prepared following the modified accrual basis of accounting, which is further explained in Note 2 of the Financial Statements.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule of Federal Financial Assistance are included in the Statements of Revenues, Expenditures and Changes in Fund Balances.

5. SUB-RECIPIENTS

The Institute provided federal awards to sub-recipients amounting \$230,411 during the year ended June 30, 2011.



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

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

We have audited the financial statements of the Institute of Puerto Rican Culture (the Institute) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 21, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting as a basis for designing our audit procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in item 2011-01 in the accompanying schedule of findings and questioned costs to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider the deficiencies described in items 2011-02 to 2011-05 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 2011-05.

We noted certain matters that we reported to management of the Institute in a separate letter dated October 6, 2011.

Institute's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Institute's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, and federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

Scherrer Hernandez & Co.

San Juan, Puerto Rico

October 15, 2011

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2012
Stamp 2619451 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

We have audited the compliance of the **Institute of Puerto Rican Culture** (the Institute) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2011. The Institute's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Institute's compliance with those requirements.

As described in item 2011-05 in the accompanying schedule of findings and questioned costs, the Institute did not comply with the requirement regarding Sub-recipient monitoring as required by the National Endowment for the Arts major federal program. Compliance with such requirements is necessary, in our opinion, for the Institute to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Institute complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in an entity's 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 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 than severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-02 to 2011-05 to be significant deficiencies.

The Institute's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Institute's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Institute as of and for the year ended June 30, 2011, and have issued our report dated October 15, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of the States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



To the Board of Directors of
The Institute of Puerto Rican Culture
Page 3

This report is intended solely for the information and use of the audit committee, management, and federal awarding agency and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scheerer Hernandez & Co.
San Juan, Puerto Rico

October 15, 2011

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2012
Stamp 2619452 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)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

I. SUMMARY OF AUDITORS' RESULTS

i. Financial Statements:

Type of auditors' report issued:

Qualified

Internal control over financial reporting:

- Material weakness/(es) identified? Yes
- Significant deficiencies identified that are not considered to be material weakness/(ess)? Yes

Noncompliance material to financial statements noted? Yes

ii. Financial awards:

Internal control over major programs:

- Material weakness/(es) identified? No
- Significant deficiencies identified that are not considered to be material weakness/(es)? Yes

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes

iii. Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs or Cluster</u>
45.025	Promotion of the Arts – State and Regional Programs

Dollar threshold used to distinguish Between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? No



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

II. FINANCIAL STATEMENTS FINDINGS

Refer to 2011-01 to 2011-04 included in the Institute's Schedule of Findings and Questioned Costs.

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Refer to 2011-05 included in the Institute's Schedule of Findings and Questioned Costs.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Finding 2011-01 (Concurring Finding) (Material Weakness)

Condition:

Our evaluation of accounting records and internal controls revealed the following situations:

- 1) Accounts receivable, accounts payable and capital assets subsidiaries are not reconciled on a monthly basis against their corresponding General Ledger accounts.
- 2) There is no management review of month and year-end closing accounting information.
- 3) Construction projects and equipment acquisitions transactions were not analyzed neither reconciled to the accounting system.
- 4) Lack of a formal written policies and procedures related to the evaluation of the allowance for doubtful accounts.
- 5) External financing, such as GDB line of credit and "AFI" are not reconciled with counterparty on a monthly basis.

Criteria:

The Institute has maintained its financial information in an accounting software that has not been fully deployed and integrated at the optimum level commensurate with needs of the Institute. Also, certain modules such as, property and equipment, budget management, encumbrances, purchases, among others, have not been fully integrated to the General Ledger in the required level of automation of the full accounting cycle.

Cause:

The situation has caused delays in the analysis of financial information and the accounting books and records do not provided the necessary level of reasonable assurance that all transactions and balances are properly and timely recorded in the corresponding period.

Effect:

The Institute accounting department could not issue accurate and timely interim financial statements to the Institute management and Board of Director, so they can make adequately informed administrative decisions.

Amount of questioned cost:

None.

INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Recommendation:

The institute should improve the accounting closing procedures and the utilization of its accounting system in order to provide reasonable assurance that all transactions and balances are properly and accurately recorded and reconciled within a reasonable period of time.

Management response:

Refer to the accompanying Management's Corrective Action Plan section.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2011-02 (Concurring Finding) (Significant Deficiency)

Condition:

The Institute has not submitted the data collection form and reporting packages of the fiscal years ended June 30, 2010 and 2009 as of the date of our report.

Criteria:

Laws and regulations under OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission, requires that the audit shall be completed and submitted, along with the data collection form and reporting package within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

Cause:

The Institute personnel responsible for the completion and submission of the data collection form and the reporting package has not completed the data collection form and uploaded the copy of the single audit report for the fiscal years ended June 30, 2010 and 2009.

Effect:

The Institute has not comply with the timely filing of the data collection forms and reporting packages for the Single Audit of the fiscal years ended June 30, 2010 and 2009.

Amount of questioned cost:

None.

Recommendation:

Institute management should contract the services of an external consultant to comply with the submission of the reporting package as required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Management response:

Refer to the accompanying Management's Corrective Action Plan section.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2011-03 (Concurring Finding) (Significant Deficiency)

Condition:

The accounting manuals were not updated considering the changes made with the implementation of the governmental accounting system.

Criteria:

The Institute accounting manuals are the policies and procedures established and approved by the Board of Directors to establish the internal controls and maintain written procedures over the accounting process.

Cause:

The lack of priority of management to request that accounting manuals and procedures to be updated.

Effect:

Misunderstanding of policies and procedures and weak internal controls which prevent a proper supervision due to the lack of proper accounting manuals and procedures which provide guidance and authorization for well informed decisions.

Amount of questioned cost:

None.

Recommendation:

The Institute should update the accounting manuals in accordance with new procedures performed applicable to the new governmental accounting system to prevent internal controls failures. Also, to maintain written policies and procedures as approved by the Board of Directors.

Management response:

Refer to the accompanying Management's Corrective Action Plan section.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2011-04 (Concurring Finding) (Significant Deficiency)

Condition:

The fair value of buildings, art crafts and works of art donated to the Institute were not appraised as required by the Government Accounting Standards.

Criteria:

As per the "Governmental Accounting Standard Board" - GASB Statement No. 34, when a governmental unit receives a donation of capital assets it must be recorded in the government-wide financial statements at fair value on date of donation.

Cause:

Capital assets were not appraised by a qualified professional expert because the Institute does not have necessary funds to pay for these services.

Effect:

This represents an uncertainty about the possible effects in the amount of dollars not recorded for financial statements purpose and the possible under valuation of the capital assets. As a result of this situation, certain assets are not fully covered by the insurance policy.

Amount of questioned cost:

None.

Recommendation:

The Institute should contract the services of a licensed appraiser so that all donated assets in possession of the Institute as of June 30, 2010 are properly valued and recorded in the General Ledger.

Management response:

Refer to the accompanying Management's Corrective Action Plan section.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2011-05 (Significant Deficiency)

<i>Federal Program</i>	National Endowments for the Arts - Promotion of the Arts – State and Regional Programs (45.025)
<i>Requirement</i>	Compliance and Internal Control
<i>Noncompliance</i>	Sub-recipient Monitoring Compliance Requirement

Condition:

During our audit procedures to ascertain proper monitoring of sub-grantees we noted that the Institute does not have a formal written sub-recipient monitoring policy, therefore monitoring procedures are not performed uniformly to all sub-recipients.

Criteria:

Laws and regulations under Public Assistance Grant contained in 31 USC 7502 (f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)), OMB Circular A-133, OMB Circular A-102, Common Rule and OMB Circular A-110 require pass-through entities to (1) ensure that sub-recipients expending \$500,000 (as provided in OMB Circular A-133, as revised) or more in Federal awards during the sub-recipient's fiscal year have met the audit requirements of OMB Circular A 133 (Gov. Doc. No. 8) and that the required audits are completed within nine months of the end of the sub-recipient's audit period, (2) issue a management decision on audit findings within six months after receipt of the sub-recipient's audit report, and (3) ensure that the sub-recipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a sub-recipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Cause:

Although the Institute as a pass-through entity has in place procedures to monitor their sub-recipients, these procedures are not part of a written and adopted policy.

Effect:

The Institute's sub-recipient monitoring procedures might not be applied consistently and in full compliance with OMB Circular A-133 requirements.

Amount of questioned cost:

None.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Recommendation:

The Institute should prepare and put in place a formal written sub-recipient monitoring policy to ascertain that sub-recipients comply with the following requirements:

- a. Reporting – reviewing within 6 months financial and performance reports submitted by the sub-recipient.
- b. Site Visits – performing site visits at the sub-recipient to review financial and programmatic records and observe operations regardless of amount of federal award pass-through to sub-recipients.
- c. Regular Contact – regular contacts with sub-recipients and appropriate inquiries concerning program activities.

Management response:

Refer to the accompanying Management's Corrective Action Plan section.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Condition 2010-01

Our evaluation of accounting records and internal controls revealed the following situations:

- 1) There is no formal monthly closing procedure. Book closings are not timely performed at year-end. Closing of accounting book for the year ended June 30, 2010 was completed in December 2010. This time delay is not commensurate with a sound management financial oversight practice.
- 2) Accounts receivable, accounts payable and capital assets subsidiaries are not reconciled on a monthly basis against their corresponding General Ledger accounts.
- 3) There is no management review of period end closing accounting information.
- 4) Construction projects, equipment acquisitions and retention percentage transactions were not analyzed neither reconciled to the accounting system.
- 5) Internal controls deficient procedures over certain accounting functions.
- 6) The Institute is not using Encumbrances Accounting even though the current accounting system has a module for this purpose.
- 7) Lack of a formal written policies and procedures related to the evaluation of the allowance for doubtful accounts.
- 8) External financing, such as GDB line of credit and "AFP" are not reconciled with counterparty on a monthly basis.

Status

Finding was partially corrected. Similar condition was noted during the year ended June 30, 2011. Refer to finding 2011-01 and Corrective Action Plan.

Condition 2010-02

The Institute did not submit the data collection form and reporting package within the earlier of 30 days after the receipt of the auditor's report, or nine months after the end of the audit period.

Status

Similar condition was noted during the year ended June 30, 2011. Refer to finding 2011-02 and Corrective Action Plan.

**INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Condition 2010-03

The accounting manual were not updated considering the changes made with the implementation of the governmental accounting system.

Status

Similar condition was noted during the year ended June 30, 2011. Refer to finding 2011-03 and Corrective Action Plan.

Condition 2010-04

The fair value of buildings, art crafts and works of art donated to the Institute were not appraised as required by the Government Accounting Standards.

Status

Similar condition was noted during the year ended June 30, 2011. Refer to finding 2011-04 and Corrective Action Plan.

Condition 2010-05

The Institute send the request of funds one or twice during the year, causing delays and strains in the cash flows of the entity.

Status

Condition was corrected during the fiscal year ended June 30, 2011.

Condition 2010-06

During our auditing procedures performed for quotations over purchase of materials and solicitation of professional services, we noted that in one case of material purchases only two quotations were received and analyzed. However, we did observed that three quotations were requested but they only received two. The Institute should receive and analyze at least three quotations on purchases that exceed \$1,000 based on their internal Policies and Procedures. The Institute personnel did not documented in the procurement documents the reason for only selecting two quotations.

Status

Condition was not observed for the fiscal year ended June 30, 2011.

CORRECTIVE ACTION PLAN





ESTADO LIBRE ASOCIADO DE PUERTO RICO
INSTITUTO DE CULTURA PUERTORRIQUEÑA

October 14, 2011

PO BOX 9024184
SAN JUAN DE PUERTO RICO 00902-4184

Scherrer Hernández & Co.
PO Box 363436
San Juan, Puerto Rico 00936-3436

Re: Corrective Action Plan
Compliance Attestation Examination of:

For the year ended June 30, 2011

Dear Sirs:

The Commonwealth of Puerto Rico herein presents its comments and corrective action plan for the referenced audit findings 2011-01 to 2011-05:

Finding 2011-01 (Concurring Finding) (Material Weakness)

Condition:

Our evaluation of accounting records and internal controls revealed the following situations:

- 1) Accounts receivable, accounts payable and capital assets subsidiaries are not reconciled on a monthly basis against their corresponding General Ledger accounts.
- 2) There is no management review of month and year-end closing accounting information.
- 3) Construction projects and equipment acquisitions transactions were not analyzed neither reconciled to the accounting system.
- 4) Lack of formal written policies and procedures related to the evaluation of the allowance for doubtful accounts.
- 5) External financing, such as GDB line of credit and "AFI" are not reconciled with counterparty on a monthly basis.

Criteria:

The Institute has maintained its financial information in an accounting software that has not been fully deployed and integrated at the optimum level commensurate with needs of the Institute. Also, certain modules such as, property and equipment, budget management, encumbrances, purchases, among others,

have not been fully integrated to the General Ledger in the required level of automation of the full accounting cycle.

Cause:

The situation has caused delays in the analysis of financial information and the accounting books and records do not provide the necessary level of reasonable assurance that all transactions and balances are properly and timely recorded in the corresponding period.

Effect:

The Institute accounting department could not issue accurate and timely interim financial statements to the Institute management and Board of Directors, so they can make adequately informed administrative decisions.

Amount of questioned cost:

None

Recommendation:

The institute should improve the accounting closing procedures and the utilization of its accounting system in order to provide reasonable assurance that all transactions and balances are properly and accurately recorded and reconciled within a reasonable period of time.

Management response:

The Institute concurs with the conditions. We are working hard to implement policies and procedures that will ensure transactions are reviewed, recorded, processed and reconciled on a timely basis in order to produce interim financial reports.

The Institute takes exception on the recommendation. An improvement in the utilization of the accounting software will be helpful, but it will not solve by itself the situations mentioned in this finding. All these situations have to do with conciliations, reviews, analyses and evaluations, which require human intervention. Limitations in human resource availability and/or performance are affecting our ability to accomplish this.

Finding 2011-02 (Concurring Finding) (Significant Deficiency)

Condition:

The Institute has not submitted the data collection form and reporting packages of the fiscal years ended June 30, 2010 and 2009 as of the date of our report.

Criteria:

Laws and regulations under OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission, requires that the audit shall be completed

and submitted, along with the data collection form and reporting package within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

Cause:

The Institute personnel responsible for the completion and submission of the data collection form and the reporting package has not completed the data collection form and uploaded the copy of the single audit report for the fiscal years ended June 30, 2010 and 2009.

Effect:

The Institute has not complied with the timely filing of the data collection forms and reporting packages for the Single Audit of the fiscal years ended June 30, 2010 and 2009.

Amount of questioned cost:

None

Recommendation:

Institute management should contract the services of an external consultant to comply with the submission of the reporting package as required by OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" Subpart C – Auditees - .320 Report Submission Section.

Management response:

The Institute complied with submitting copies of the Single Audits for the fiscal years ended June 30, 2010 and 2009 to the federal awarding agency (National Endowment for the Arts, Office of the Inspector General) and the pass-through entity (Puerto Rico Department of Education, Title I, Part B) within 30 days after receipt of the auditor's report(s) (received December 2010). The Data Collection form and reporting package were not filed in conjunction with the auditors (auditor sections of the form) through the federal clearinghouse. Will schedule accordingly.

WJG
Finding 2011-03 (Concurring Finding) (Significant Deficiency)

Condition:

The accounting manuals were not updated considering the changes made with the implementation of the governmental accounting system.

Criteria:

The Institute accounting manuals are the policies and procedures established and approved by the Board of Directors to establish the internal controls and maintain written procedures over the accounting process.

Cause:

The lack of priority of management to request that accounting manuals and procedures be updated.

Effect:

Misunderstanding of policies and procedures and weak internal controls which prevent a proper supervision due to the lack of proper accounting manuals and procedures which provide guidance and authorization for well informed decisions.

Amount of questioned cost:

None

Recommendation:

The Institute should update the accounting manuals in accordance with new procedures performed applicable to the new governmental accounting system to prevent internal control failures. Also, to maintain written policies and procedures as approved by the Board of Directors.

Management response:

We are aware that manuals should be prepared and/or updated. Several budget and accounting policies have already been prepared and approved by management, but some more have to be prepared and implemented. A consultant is already working on this.

Finding 2011-04 (Concurring Finding) (Significant Deficiency)*Condition:*

The fair value of buildings, art crafts and works of art donated to the Institute were not appraised as required by the government accounting standards.

Criteria:

As per the "Governmental Accounting Standard Board" - GASB Statement No. 34, when a governmental unit receives a donation of capital assets, it must be recorded in the government-wide financial statements at fair value on date of donation.

Cause:

Capital assets were not appraised by a qualified professional expert because the Institute does not have necessary funds to pay for these services.

Effect:

This represents an uncertainty about the possible effects in the amount of dollars not recorded for financial statements' purpose and the possible under valuation of the capital assets. As a result of this situation, certain assets are not fully covered by the insurance policy.

Amount of questioned cost:

None

Recommendation:

The Institute should contract the services of a licensed appraiser so that all donated assets in possession of the Institute as of June 30, 2010 are properly valued and recorded in the General Ledger.

Management response:

The "Reglamento para la Adquisición de Obras de Arte para las Colecciones del Instituto de Cultura Puertorriqueña (#7063)" already states that donated assets should be appraised at the fair value at the date of the donation, as required by GASB 34. The Institute will follow this statement when registering new donations.

Finding 2011-05 (Significant Deficiency)

<i>Federal Program</i>	National Endowments for the Arts - Promotion of the Arts – State and Regional Programs (45.025)
<i>Requirement</i>	Compliance and Internal Control
<i>Noncompliance</i>	Sub-recipient Monitoring Compliance Requirement

Condition:

During our audit procedures to ascertain proper monitoring of sub-grantees, we noted that the Institute does not have a formal written sub-recipient monitoring policy; therefore, monitoring procedures are not performed uniformly to all sub-recipients.

Criteria:

Laws and regulations under Public Assistance Grant contained in 31 USC 7502 (f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)), OMB Circular A-133, OMB Circular A-102, Common Rule and OMB Circular A-110 require pass-through entities to (1) ensure that sub-recipients expending \$500,000 (as provided in OMB Circular A-133, as revised) or more in Federal awards during the sub-recipient's fiscal year have met the audit requirements of OMB Circular A_133 (Gov. Doc. No. 8) and that the required audits are completed within nine months of the end of the sub-recipient's audit period,

(2) issue a management decision on audit findings within six months after receipt of the sub-recipient's audit report, and (3) ensure that the sub-recipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a sub-recipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Cause:

Although the Institute, as a pass-through entity, has in place procedures to monitor their sub-recipients, these procedures are not part of a written and adopted policy.

Effect:

Since the Institute does not have a formal written sub-recipient monitoring policy, it is possible that procedures are not followed consistently.

Amount of questioned cost:

None

Recommendation:

The Institute should prepare and put in place a formal written sub-recipient monitoring policy to ascertain that sub-recipients comply with the following requirements:

- a. Reporting – reviewing within 6 months financial and performance reports submitted by the sub-recipient.
- b. Site Visits – performing site visits at the sub-recipient to review financial and programmatic records and observe operations regardless of amount of federal award pass-through to sub-recipients.
- c. Regular Contact – regular contacts with sub-recipients and appropriate inquiries concerning program activities.

Management response:

wsg
Nonprofit organizations and colleges and universities are subject to the provisions of OMB Circular A-110 ("Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations"), as amended. Units of state and local governments and Federally-recognized Indian Tribal governments are subject to the administrative requirements codified by the Arts Endowment at "45 Code of Federal Regulations (CFR) Part 1157 - Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" ("Common Rule").

Under section 1157.40 **Monitoring and reporting program performance**, grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities, and monitoring such activities, to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Sub-recipients are monitored closely, from the contract signature date to the filing of their final programmatic and financial report. During the period of support, sub-recipients are required to provide, among other documentation, revised budgets adjusted to the amount of the award, evidence that a separate account will be maintained for the project and that matching requirements are being met,

adjusted schedules detailing dates for program activities, invitations or tickets to presentations, and any other information deemed necessary to ascertain progress toward project objectives outlined in the approved application. Site visits may be conducted as needed. Project publicity is also monitored and press clippings are often included as supporting documents to the project. Regular contact is sustained via telephone and e-mail to discuss any problem, delay, or adverse condition that may impair the ability to meet the objectives of the award or the time schedule. Toward the end of the period of support, final report reminders are sent and progress consultations again take place to determine whether an extension is necessary for the completion of the project or the filing of reports. A comprehensive final performance and financial report is required from sub-grantees upon expiration of grant support. The reports are revised thoroughly and if satisfactory, submitted to the Finance Department for a second intervention and payment.

Recommendations: We understand proper monitoring was conducted. Drafting a sub-recipient monitoring policy may further strengthen the process by documenting procedures.

- a. Reporting - Common Rule is that a final report is required, which was met. Quarterly or semi-annual reports may be requested, if deemed necessary. A mid-period progress report may be requested, contingent on the contract signature date relative to the end of the period of support.
- b. Site visits –may be conducted as needed to a sample of sub recipients.
- c. Regular Contact – regular contact with sub-recipients will continue (see above). Additional efforts will be made to document telephone contact and print e-mail follow-up.

External evaluations, though recommended, are not mandated by the NEA. Recognizing the value of external evaluation for project documentation of best practices, among other benefits, the ICP allocated a portion of the award to evaluation, contingent on contract formalization. The ICP will continue to recommend external evaluations with the following amendment: will remove external evaluation from ICP's contractual obligations and require the sub grantee to contract an evaluator, recommended by the ICP. The evaluation fee will be included as part of the sub-award.

Sincerely,



Mercedes Gómez Marrejo
Executive Director