

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

INDEPENDENT AUDITORS' REPORT
AND
AUDITED FINANCIAL STATEMENTS

June 30, 2010



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, 2010, 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not observe the taking of the physical inventory of materials, supplies and publications for an aggregate amount of \$1,610,860 as of June 30, 2010, and were unable to satisfy ourselves about the existence of such inventory by means of other auditing procedures.

As more fully described in Note 1 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 \$78,983,998 at June 30, 2010. The Institute is currently conducting a formal reconciliation of its subsidiary ledgers to the physical assets. However, we were unable to satisfy ourselves about the completeness and accuracy of the capital assets records maintained by the Institute at June 30, 2010.

The Institute does not follow encumbrance accounting and does not maintain a reconciled ledger of the Institute's encumbrances balance at June 30, 2010.

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, 2010, 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.

To the Board of Directors of
The Institute of Puerto Rican Culture
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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying management's discussion and analysis is not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. We did not audit such information and express no opinion on it.

Scherrer Hernández & Co.

San Juan, Puerto Rico

December 22, 2010

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2012
Stamp 2511616 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
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010.

FINANCIAL HIGHLIGHTS

- The Institute's net assets increased by \$13,967,175, or nearly 16.3%, mostly as a result of reductions of lines of credit and long-term liabilities, partially offset by depreciation recorded for the fiscal year.
- During the current year, the Institute's total expenditures (excluding capital outlays) exceeded revenues (excluding grants for capital improvements) by \$644,005.
- General fund's operations resulted in a deficiency of \$453,039, mostly as a result of an increase in its allowance for doubtful accounts receivable by \$278,539.

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 asset 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
FOR THE YEAR ENDED JUNE 30, 2010

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 10 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 of Puerto Rico 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 14. 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
FOR THE YEAR ENDED JUNE 30, 2010

THE INSTITUTE AS A WHOLE:

The Institute's Net Assets increased from prior year by \$13,967,175 or 16.3%, as a result of reductions of lines of credit and long-term liabilities, partially offset by the depreciation expense recorded for the fiscal year. Unrestricted 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 increased from \$905,816 at June 30, 2009, to \$ 2,403,614 at June 30, 2010.

	2010	2009
Current and other assets	\$ 25,353,167	\$ 26,561,008
Capital assets, net	78,983,998	82,398,029
Total assets	<u>104,337,165</u>	<u>108,959,037</u>
Lines of credit and long-term liabilities	2,169,455	20,812,401
Other liabilities	2,311,793	2,257,894
Total liabilities	<u>4,481,248</u>	<u>23,070,295</u>
Net assets:		
Invested in capital assets, net of related debt	78,839,920	64,649,894
Restricted for capital projects	10,872,465	11,276,972
Restricted for specific purpose	7,739,918	9,056,060
Unrestricted	<u>2,403,614</u>	<u>905,816</u>
Total net assets	<u>\$ 99,855,917</u>	<u>\$ 85,888,742</u>

Governmental activities:

Revenues for the Institute's governmental funds (including grants for capital improvements) decreased by 22.5% or \$6,082,087. Total expenditures (including capital outlays) decreased by 14.29% or \$3,659,418.

Functions/Programs	Revenues		Increase / (Decrease)	
	2010	2009	Amount	%
Governmental activities:				
Administrative services	\$ 17,380,573	\$ 18,578,408	\$ (1,197,835)	-6.4%
Culture promotion	2,107,278	1,496,595	610,683	40.8%
Documental patrimony conservation	386,892	416,928	(30,036)	-7.2%
Historic patrimony conservation	1,057,185	6,522,084	(5,464,899)	-83.8%
Total revenues	<u>\$ 20,931,928</u>	<u>\$ 27,014,015</u>	<u>\$ (6,082,087)</u>	<u>-22.5%</u>
Functions/Programs	Expenditures		Increase / (Decrease)	
	2010	2009	Amount	%
Governmental activities:				
Administrative services	\$ 12,492,202	\$ 14,987,639	\$ (2,495,437)	-16.6%
Culture promotion	4,433,710	4,845,668	(411,958)	-8.5%
Documental patrimony conservation	2,014,265	1,903,000	111,265	5.8%
Historic patrimony conservation	3,007,588	3,870,876	(863,288)	-22.3%
Total expenditures	<u>\$ 21,947,765</u>	<u>\$ 25,607,183</u>	<u>\$ (3,659,418)</u>	<u>-14.29%</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010

General Fund Budgetary Highlights:

The Institute's budget decreased to from \$18,056,000 for the fiscal year ended June 30, 2009, to \$16,491,597 for the fiscal year ended June 30, 2010.

THE INSTITUTE'S COMBINED FUND BALANCE:

The Institute's governmental funds (as presented in the balance sheet on page 10) reported a combined fund balance of \$23,287,277, in comparison to last year's combined fund balance of \$24,303,114, representing a decrease of \$1,015,837, as a result of the Institute's operations during the fiscal year.

CAPITAL ASSETS AND DEBT SERVICE:

As of June 30, 2010, the Institute had \$78,983,998 invested in capital assets net from accumulated depreciation. This amount represents a net decrease of \$3,414,031, or approximately 4.3% when compared to the fiscal year ended on June 30, 2009. Capital assets depreciation recorded during the fiscal year ended June 30, 2010 amounted to \$4,026,156.

A detail of the Institute's capital assets at June 30, 2010, follow:

	<u>2010</u>	<u>2009</u>
Land	\$ 55,205	\$ 55,205
Museum equipment	6,425,769	6,401,495
Buildings and improvements	91,730,137	91,577,651
Construction in progress	1,883,856	1,627,795
Furniture, fixtures and equipment	3,441,142	3,325,252
Computers and software	1,451,812	1,388,398
Vehicles	566,774	566,774
Improvements to buildings under custody	3,322,448	3,322,448
	<u>108,877,143</u>	<u>108,265,018</u>
Less: accumulated depreciation	<u>(29,893,145)</u>	<u>(25,866,989)</u>
	<u>\$ 78,983,998</u>	<u>\$ 82,398,029</u>



INSTITUTE OF PUERTO RICAN CULTURE
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MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010

The Institute's capital budget for the fiscal year ended June 30, 2010 called for the spending of \$550,000. 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, 2010 amounted to \$10,872,465. In addition, the Institute has remaining balances on lines of credit for which an aggregate amount of \$38,100,000 was granted at inception, and for which the following amounts are available to disburse:

	2010		
	Credit Granted in Prior Years	Cumulative Expenditures	Available Amount
Fortín San Gerónimo	\$ 3,010,000	\$ 545,031	\$ 2,464,969
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	171,622	491,378
Casa Wiechers Villaronga	150,000	150,000	-
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	18,500,000	-
Teatros Matienzo and Music Hall	9,600,000	8,039,666	1,560,334
	<u>\$ 38,100,000</u>	<u>\$ 32,183,112</u>	<u>\$ 5,916,888</u>

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 2010. The original and the final amount available for appropriation in the General Funds budget for the fiscal year 2010 were \$16,154,000 and \$16,491,597, 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
JUNE 30, 2010

	<u>2010</u>
ASSETS	
CASH AND CASH EQUIVALENTS	\$ 20,773,733
CASH WITH FISCAL AGENT	2,719,492
ACCOUNTS RECEIVABLE -	
Trade, net of allowance for doubtful accounts of \$534,212	172,662
INVENTORY	1,610,860
DUE FROM OTHER FUNDS	76,420
CAPITAL ASSETS:	
Land	55,205
Museum equipment	6,425,769
Buildings and improvements	91,730,137
Construction in progress	1,883,856
Furniture, fixtures and equipment	3,441,142
Computers and software	1,451,812
Vehicles	566,774
Improvements to buildings under custody	3,322,448
Total capital assets	<u>108,877,143</u>
Accumulated depreciation and amortization	<u>(29,893,145)</u>
Capital assets, net	<u>78,983,998</u>
	<u>\$ 104,337,165</u>
LIABILITIES	
LINES OF CREDIT	\$ 144,078
ACCOUNTS PAYABLE:	
Trade	1,933,514
Retainage	132,376
COMPENSATED ABSENCES:	
Due within one year	245,903
Due over one year	2,025,377
Total liabilities	<u>4,481,248</u>
NET ASSETS	
INVESTED IN CAPITAL ASSETS	78,839,920
RESTRICTED FOR:	
Capital projects	10,872,465
Specific purposee	7,739,918
UNRESTRICTED	<u>2,403,614</u>
Total net assets	<u>\$ 99,855,917</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR FROM JULY 1, 2009 TO JUNE 30, 2010

FUNCTIONS / PROGRAMS	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Operating Grants	Capital Grants	
Governmental activities:				
Administrative services	\$ 12,492,202	\$ 10,048,173	\$ -	\$ (2,444,029)
Culture promotion	4,433,710	2,188,740	-	(2,244,970)
Documental patrimony	2,014,265	1,746,828	-	(267,437)
Historic patrimony	3,007,588	2,507,856	584,602	84,870
Interest on lines of credit	1,112,751	-	1,112,751	-
CHANGES IN NET ASSETS	\$ 23,060,516	\$ 16,491,597	\$ 1,697,353	\$ (4,871,566)
NET ASSETS, beginning of fiscal year				85,888,742
OTHER SOURCES OF FUNDS				18,838,741
NET ASSETS, end of fiscal year				<u>\$ 99,855,917</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2010

ASSETS	2010				
	Special Revenue Funds				
	General Fund	Special Appropriation Fund	Other Governmental Fund	Capital Improvement Fund	Total Governmental Funds
CASH AND CASH EQUIVALENTS	\$ 3,948,231	\$ 5,452,539	\$ 259,219	\$ 11,113,744	\$ 20,773,733
CASH WITH FISCAL AGENT	(63,696)	(64,119)	2,847,307	-	2,719,492
ACCOUNTS RECEIVABLE -					
Trade, net of allowance for doubtful accounts of \$534,212	137,111	30,000	5,551	-	172,662
INVENTORY	1,610,860	-	-	-	1,610,860
DUE FROM OTHER FUNDS	438,190	-	-	-	438,190
	\$ 6,070,696	\$ 5,418,420	\$ 3,112,077	\$ 11,113,744	\$ 25,714,937
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable trade	\$ 1,325,880	\$ 314,261	\$ 140,295	\$ 153,078	\$ 1,933,514
Retainage	59,449	-	-	72,927	132,376
Due to other funds	10,473	4,310	331,713	15,274	361,770
Total liabilities	1,395,802	318,571	472,008	241,279	2,427,660
FUND BALANCES:					
Reserved for:					
Specific purposes	-	5,099,849	2,640,069	-	7,739,918
Capital expenditures	-	-	-	10,872,465	10,872,465
Unreserved	4,674,894	-	-	-	4,674,894
Total fund balances	4,674,894	5,099,849	2,640,069	10,872,465	23,287,277
	\$ 6,070,696	\$ 5,418,420	\$ 3,112,077	\$ 11,113,744	\$ 25,714,937



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, 2010

	<u>2010</u>
TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 23,287,277
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	78,983,998
Lines of credit used to finance capital assets do not require financial resources and, therefore, are not reported in the governmental funds balance sheet	(144,078)
Compensated absences not liquidated immediately with current financial resources are not reported in the governmental funds balance sheet	<u>(2,271,280)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 99,855,917</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR FROM JULY 1, 2009 TO JUNE 30, 2010

	2010				
	General Fund	Special Revenues Funds			Total Governmental Funds
		Special Appropriation Fund	Other Governmental Funds	Capital Improvement Fund	
REVENUES	\$ 17,184,138	\$ 2,379,201	\$ 783,987	\$ 584,602	\$ 20,931,928
EXPENDITURES:					
Administrative Services	11,434,093	188,549	869,560	-	12,492,202
Culture promotion:					
Plastic Arts	658,915	161,820	268	-	821,003
Popular Arts	231,133	252,147	13,723	-	497,003
Cultural Centers	842,330	-	-	-	842,330
Music	264,419	511,407	43,000	-	818,826
Theater	350,997	1,037,047	66,504	-	1,454,548
	<u>2,347,794</u>	<u>1,962,421</u>	<u>123,495</u>	<u>-</u>	<u>4,433,710</u>
Documental Patrimony Conservation:					
General Archives of PR	701,974	117,502	107,394	-	926,870
Publications	435,288	155,550	19,196	-	610,034
General Library	459,695	939	16,727	-	477,361
	<u>1,596,957</u>	<u>273,991</u>	<u>143,317</u>	<u>-</u>	<u>2,014,265</u>
Historic Patrimony Conservation:					
Historic Patrimony	574,142	-	23,930	-	598,072
Archeology	418,411	18,272	23,586	-	460,269
Museums and Parks	1,265,780	261,163	50,472	-	1,577,415
Capital Outlays	-	-	-	371,832	371,832
	<u>2,258,333</u>	<u>279,435</u>	<u>97,988</u>	<u>371,832</u>	<u>3,007,588</u>
Total expenditures	<u>17,637,177</u>	<u>2,704,396</u>	<u>1,234,360</u>	<u>371,832</u>	<u>21,947,765</u>
(DEFICIENCY)/EXCESS OF REVENUES					
OVER EXPENDITURES	\$ (453,039)	\$ (325,195)	\$ (450,373)	\$ 212,770	\$ (1,015,837)
OTHER FINANCING SOURCES (USES), INCLUDING TRANSFERS:					
Other sources of funds to pay interest	-	-	-	1,112,751	1,112,751
Other sources of funds to pay lines of credit	-	-	-	18,005,046	18,005,046
Other use to pay interest	-	-	-	(1,112,751)	(1,112,751)
Other use to pay lines of credit	-	-	-	(18,005,046)	(18,005,046)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(453,039)	(325,195)	(450,373)	212,770	(1,015,837)
FUND BALANCES, beginning of fiscal year	5,127,933	5,425,044	3,090,442	10,659,695	24,303,114
FUND BALANCES, end of fiscal year	<u>\$ 4,674,894</u>	<u>\$ 5,099,849</u>	<u>\$ 2,640,069</u>	<u>\$ 10,872,465</u>	<u>\$ 23,287,277</u>



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, 2009 TO JUNE 30, 2010

	<u>2010</u>
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (1,015,837)
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	371,832
The advances from lines of credit provide current financial resources to governmental funds, whereas the corresponding line of credit liability is non-current	(144,078)
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	18,005,046
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	(157,928)
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	934,296
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	<u>(4,026,156)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 13,967,175</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
JUNE 30, 2010

	<u>2010</u>
	<u>Agency Fund</u>
ASSETS	
CASH AND CASH EQUIVALENTS	\$ 3,606,540
CASH WITH FISCAL AGENT	107,977
ACCOUNT RECEIVABLE	<u>5,280</u>
	<u>\$ 3,719,797</u>
LIABILITIES	
ACCOUNTS PAYABLE	<u>\$ 3,719,797</u>



INSTITUTE OF PUERTO RICAN CULTURE
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR FROM JULY 1, 2009 TO JUNE 30, 2010

	GENERAL FUND			
	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
REVENUES	\$ 16,154,000	\$ 16,491,597	\$ 17,184,138	\$ 692,541
EXPENDITURES:				
Administration	9,214,339	10,048,173	11,434,093	(1,385,920)
Culture promotion	2,043,716	2,188,740	2,347,794	(159,054)
Documentary patrimony conservation	2,181,758	1,746,828	1,596,957	149,871
Historic patrimony conservation	2,714,187	2,507,856	2,258,333	249,523
Total expenditures	16,154,000	16,491,597	17,637,177	(1,145,580)
EXCESS OF EXPENDITURES OVER REVENUES	-	-	(453,039)	(453,039)
OTHER FINANCING SOURCES - Transfer from other funds	-	-	-	-
NET CHANGE IN FUND BALANCE	-	-	(453,039)	(453,039)
FUND BALANCE, beginning of fiscal year	780,625	780,625	5,127,933	5,127,933
FUND BALANCE, ending of fiscal year	\$ 780,625	\$ 780,625	\$ 4,674,894	\$ 4,674,894



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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 is appointed by the Governor of the Commonwealth of Puerto Rico, with the counsel and approval of the Senate of Puerto Rico. The Board has the power to make decisions and is responsible for them.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Financial statements are reported using the accrual basis of accounting. 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. 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.

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.



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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.

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. 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 Government of the Commonwealth of Puerto Rico 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.

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.



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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.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted of 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 higher 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 of the collateralization requirement and represent a credit risk of custody, because in case of bankruptcy of the bank the entity will not recover its deposits.

Cash and Cash Equivalents - Cash and cash equivalents include petty cash, checking and other instruments with original maturities of less than three months.

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, 2010, the Institute maintained \$2,719,492 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.

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 which cost or estimated fair value is stated over \$500 are capitalized when purchased or received as a donation. The historic buildings are at the value established when acquired or received and buildings improvements are capitalized as buildings are constructed or repaired. The artwork and historic collections are partially included in the financial statements of the Institute, but there are some collections for which no valuation was performed, therefore, were not included. The cost or donation amount was assigned to those included at the time of the acquisition.



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Major outlays for capital assets, renewals, and betterments are capitalized. 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 if the amount is due, for example, as a result of employee resignation and retirement.

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

Recently Issued Accounting Guidance:

Subsequent Events - In May 2009, the Financial Accounting Standard Board (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 generally accepted accounting principles 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 December 22, 2010, which is the date the financial statements were available to be issued.

Other Recent Accounting Guidance - During the year ended June 30, 2010, the FASB and other standard setting bodies issued other accounting standard updates that were not relevant to the Institute's operations.



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3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the allowance for doubtful accounts during the fiscal year ended June 30, 2010, are as follows:

	<u>2010</u>
Allowance for doubtful accounts, beginning of period	\$ 243,607
Provision for doubtful accounts	278,539
Other adjustment	12,066
Allowance for doubtful accounts, end of period	<u>534,212</u>

4. CAPITAL ASSETS

The Institute's capital assets at June 30, 2010 were as follow:

<u>Capital Assets</u>	<u>2010</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	
Non-depreciable assets:				
Land	\$ 55,205	\$ -	\$ -	\$ 55,205
Historical and archeological parimony and works of art	6,401,495	24,274	-	6,425,769
Construction in progress	1,627,795	256,061	-	1,883,856
	<u>8,084,495</u>	<u>280,335</u>	<u>-</u>	<u>8,364,830</u>
Depreciable assets:				
Buildings	91,577,651	152,486	-	91,730,137
Building improvements	3,322,448	-	-	3,322,448
Furniture, fixtures and equipment	3,325,252	115,890	-	3,441,142
Computers and software	1,388,398	63,414	-	1,451,812
Vehicles	566,774	-	-	566,774
	<u>100,180,523</u>	<u>331,790</u>	<u>-</u>	<u>100,512,313</u>
Less accumulated depreciation:				
Buildings	(21,622,307)	(3,797,451)	-	(25,419,758)
Furniture, fixtures and equipment	(2,430,189)	(131,964)	-	(2,562,153)
Computers and software	(1,186,394)	(95,173)	-	(1,281,567)
Vehicles	(628,099)	(1,568)	-	(629,667)
	<u>(25,866,989)</u>	<u>(4,026,156)</u>	<u>-</u>	<u>(29,893,145)</u>
Net depreciable assets	<u>74,313,534</u>	<u>(3,694,366)</u>	<u>-</u>	<u>70,619,168</u>
Capital assets, net	<u>\$82,398,029</u>	<u>\$(3,414,031)</u>	<u>\$ -</u>	<u>\$78,983,998</u>



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Depreciation expense was charged to functions/programs as follows:

<u>Program</u>	<u>Amount</u>
Administratives services	\$ 2,496,218
Plastic arts	120,785
Popular arts	80,522
Cultural Centers	161,047
Musics	161,047
Theather	161,047
General Archieves	161,047
Publications	80,522
General Library	80,522
Historic Patrimony	120,785
Archeology	80,522
Museums and Parks	<u>322,092</u>
Total depreciation expense	<u>\$ 4,026,156</u>

The Institute has active construction projects as of June 30, 2010. The total commitments for ongoing capital projects are composed of the following:

<u>Building</u>	<u>Amount</u>
Fortin San Geronimo	\$ 2,464,969
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	491,378
Casa Armstrong	49,847
Centro Ceremonial Indigena	514,170
Teatros Matienzo y Music Hall	<u>1,560,334</u>
Total	<u>\$ 5,916,888</u>

These commitments will be funded by advances from the credit facilities disclosed in Note 5.



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5. 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 \$17,100,000, \$10,000,000, and \$9,000,000, respectively at a 7.00% annual rate. At June 30, 2010, lines of credit consisted of the following individual legislative resolutions:

	2010			Ending Balance
	Beginning Balance	Additions	Retirements	
Resolution #718, dated August 17, 2002, for the amount of \$10,000,000 due in annual installments until September 30, 2018	\$ 2,335,628	\$ 398,974	\$ 2,592,539	\$ 142,063
Resolution #1780, dated December 28, 2003, for the amount of \$9,000,000 due in annual installments until December 31, 2007	924,750	-	924,750	\$ -
Resolution #2112, dated September 30, 2004, for the amount of \$17,100,000 due in annual installments until September 30, 2018	14,487,757	2,015	14,487,757	\$ 2,015
Total lines of credit	<u>\$ 17,748,135</u>	<u>\$ 400,989</u>	<u>\$ 18,005,046</u>	<u>\$ 144,078</u>

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, 2010 amounted to \$439,666. The interagency agreement expires on September 30, 2011.



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6. COMPENSATED ABSENCES

Compensated absences as of June 30, 2010 were as follow:

	2010				Due within one year
	Beginning balance	Additions	Reductions	Ending balance	
Vacations and licenses	\$ 1,269,051		(408,581)	\$ 860,470	\$ 74,443
Sick leave benefits	1,936,525		(565,610)	\$ 1,370,915	162,186
Compensatory Time	-	39,895	-	39,895	9,274
	<u>\$ 3,205,576</u>	<u>\$ 39,895</u>	<u>\$ (974,191)</u>	<u>\$ 2,271,280</u>	<u>\$ 245,903</u>

7. 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.

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.



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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 \$7,524,347, \$9,265,828, and \$9,447,464 for the years ended June 30, 2010, 2009 and 2008, respectively. 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 years ended June 30, 2010, 2009 and 2008 amounted to \$767,473, \$861,745, and \$861,965, respectively.

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

The amount of total pension benefit obligation is based on standardized measurement established by generally accepted accounting principles 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 significant actuarial assumptions used to determine the standardized measurement of the pension benefits obligation as of June 30, 2010 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 | 70% of participants assumed to be
married, with wives assumed to be four
years younger than husbands. |
| • Cost-of-living adjustment | 3% every third year |



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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.

8. CONTINGENCIES

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

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

