

**INSTITUTO DE ESTADÍSTICAS DE
PUERTO RICO
(A COMPONENT UNIT OF THE
COMMONWEALTH OF PUERTO RICO)**

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**



INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Instituto de Estadísticas de Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Instituto de Estadísticas de Puerto Rico ("the Institute"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2014, which collectively comprise the Institute basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

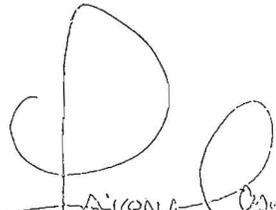
Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Institute as of June 30, 2014, and the respective changes in financial position thereof and the respective budgetary comparison for the general funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 9 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.

San Juan, Puerto Rico
October 24, 2014


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Expires December 1, 2015

The stamp number E-141229
was affixed to the original report.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)**

**MANAGEMENT DISCUSSION AND ANALYSIS¹
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The management of the Instituto de Estadísticas de Puerto Rico (“the Institute”) provides this Management’s Discussion and Analysis (“MD&A”) for the readers of the Institute’s basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the Institute for the fiscal year ended June 30, 2014, and is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Institute’s financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information together with the Institute’s basic financial statements that follow.

FINANCIAL HIGHLIGHTS

General Fund Highlights

- Total General Fund actual revenues on a budget basis (excluding other financing sources) for fiscal year 2014 was \$1,950,638, representing an increase of \$89,638, or 4.8%, from original budgeted revenues.
- Total expenditures of \$1,264,365 represented an increase of \$483,381 or 61% from 2013 actual expenditures on a budget basis.
- The General Fund balance for fiscal year 2013 increased by \$686,273, which represents 1.45 times increase in the General Fund when compared to fiscal year 2013.

Government-Wide Highlights

- The Institute reported net assets at year-end of \$1,015,661, comprised of \$1,402,885 in total assets offset by \$387,224 in total liabilities.
- The Institute’s net assets at year-end increased by \$662,205 as a result of this year’s operations.
- Total liabilities at year-end were \$387,224 in governmental activities.

¹ The management’s discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Institute’s management. The independent auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. Therefore, the independent auditors did not audit such information and did not express an opinion on it.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

- The Institute's governmental activities had total revenues of \$1,950,638, which were more than total expenses of \$1,264,365.

General Fund Budgetary Highlights

The Institute's budget is approved by its Board of Directors. The only budgeted fund is the General Fund which budget was established and amended during the year to recognize the planned expenditures and additional information became known during the fiscal year. The Board of Directors approved a budget of \$1,830,670 for the year. The use of the unreserved fund balance at the beginning of the year is a budgetary resource; however, it is not considered a current-year revenue for financial reporting purposes.

MAJOR FINANCIAL ELEMENTS

Revenues

The General Fund is the primary operating fund of the Institute. General Fund revenues are broadly based on appropriations from the Commonwealth of Puerto Rico's general fund in the amount of \$1,830,670.

Expenditures

Expenditures consist principally of grants and subsidies, personal services, other services, materials and supplies, equipment purchases, capital outlays, debt service and transfers. Total operating expenses amounted \$1,264,365. The most significant expenses were salaries and professional services in the amount of \$555,488 and \$266,653, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Institute's basic financial statements. The Institute's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains additional required supplementary information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements include two kinds of financial statements that present different views of the Institute, the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the basic financial statements that explain some of the information in the financial statements and provide more detail.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the Institute's operations in a manner similar to a private sector business. The statements provide both short and long-term information about the Institute's financial position, which assists in assessing the Institute's economic condition at the end of the fiscal year.

These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

- **Statement of Net Assets** - This presents all of the government's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in the Institute's net assets may serve as a useful indicator of whether the financial position of the Institute is improving or deteriorating.
- **Statement of Activities** - This presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of the Institute.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Institute, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related governmental requirements. The fund financial statements focus on individual parts of the Institute government, reporting the Institute's operations in more detail than the government-wide financial statements. All of the funds of the Institute are classified as governmental funds.

The services provided by the Institute are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

These statements provide a detailed short term view of the Institute's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Institute. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Institute has one major governmental fund. Such major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance. The Institute's major governmental fund is the General Fund. There are no remaining nonmajor governmental funds to be grouped and presented the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

The Institute adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The statement of revenue and expenditures - budget and actual - budget basis - general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. See note B for a reconciliation of the statement of revenue and expenditures - budget and actual - budget basis - general fund with the statement of revenues, expenditures, and changes in fund balance for the general fund.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GENERAL FUND FINANCIAL ANALYSIS

Total General Fund revenues for fiscal year 2014 were \$1,950,638, which represented: a) an increase of \$1,203,446, or 1.61 times of actual revenues for fiscal year 2013; and b) an increase of \$119,968, or 6.55% of the estimated revenues for fiscal year 2014.

Total expenditures for fiscal year 2013 were \$1,264,365 and represented an increase of \$25,980 or 2% of original budgeted expenditures. Total General Fund revenues exceeded total expenditures by \$686,273. The difference between total General Fund revenues and total expenditures is referred to herein as “excess of revenues over expenditures”. For fiscal year 2014, the excess of revenues over expenditures compares favorably to the expenditures over revenues for fiscal year 2013 of \$46,052.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of a government’s financial position. Total assets and total liabilities of the Institute at June 30, 2014 amounted to \$1,402,885 and \$387,224, respectively, for net assets of \$1,015,661, compared to the net assets of \$353,456 beginning of the current year.

A portion of the Institute’s net assets reflects its investment in capital assets such as office equipment and furniture and leasehold improvements. The Institute uses these capital assets to provide its services statistical services; consequentially, these assets are not available for future spending.

Total assets increased by \$762,565 during fiscal year 2014 when compared to the prior fiscal year. This increase is mainly due to the increase of \$726,246 in unrestricted and cash equivalents. The increase in cash was mainly due to the excess of revenues over expenditures of \$662,205.

Total liabilities increased by \$100,360 during the current fiscal year when compared to the prior fiscal year.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Summary of Net Assets

	<u>2014</u>	<u>2013</u>
Assets		
Current assets	\$ 1,334,085	\$ 600,078
Capital assets, net of accumulated depreciation	48,658	20,415
Prepaid assets	<u>20,142</u>	<u>19,827</u>
 Total assets	 <u>\$ 1,402,885</u>	 <u>\$ 640,320</u>
Liabilities and Net Assets		
Current liabilities	\$ 195,941	\$ 146,410
Long term liabilities	191,283	140,454
Invested in capital assets	48,658	20,415
Net Assets - unrestricted	<u>967,003</u>	<u>333,041</u>
 Total liabilities and net assets	 <u>\$ 1,402,885</u>	 <u>\$ 640,320</u>

Changes in Net Assets

The Institute's net assets increased by \$662,205 or 187% from last year's total net assets. Approximately 94% of the Institute's total revenue came from legislative appropriations. The Institute's largest expenses were for salaries and professional services, which presented a combined increase of \$297,342, or 56.7% when compared with prior fiscal year.

Changes in of Net Assets

	<u>2014</u>	<u>2013</u>
Program Revenues - General Fund	\$ 1,830,669	\$ 641,000
Earned income	117,683	103,900
Interest income	<u>2,286</u>	<u>2,292</u>
 Total Revenues	 1,950,638	 747,192
 Expenses	 <u>1,288,433</u>	 <u>829,351</u>
 Change in Net Assets	 <u>\$ 662,205</u>	 <u>\$ (82,159)</u>



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENTAL FUNDS

The focus of the Institute's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Institute's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2014, the Institute's governmental funds reported an ending fund balance of \$1,159,768. The revenues exceeded the expenditures by \$686,273. Prior year, the excess of expenditures over revenues amounted to \$46,052; accordingly, the fund balance of the Institute's general fund increased by 2.45 times when compared to total general fund balance reported in fiscal year 2013.

CAPITAL ASSETS

The Institute's investment in capital assets for its governmental activities as of June 30, 2014 amounts to \$198,380, less accumulated depreciation and amortization of \$149,722, leaving a book value of \$48,658. This investment in capital assets includes office equipment and leasehold improvements.

Depreciation Expense

This expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2014, \$15,424 was recorded for depreciation expense in the statement of activities.

Capital Outlay Acquisitions

For the fiscal year ended June 30, 2014, expenditures totaling \$43,667 were capitalized and recorded as assets of the Institute. These additions to the Institute's capital assets will be depreciated over time as described above. The net effect of the new capital assets and the current year's depreciation is an increase on capital assets in the amount of \$28,243 for the fiscal year ended June 30, 2014.

Additional information on the Institute's capital assets can be found in note A to the basic financial statements that accompany this report.

Requests for Information

This financial report is designed to provide a general overview of the Institute's finances for all those with an interest in the Institute's finances. If you have questions about this report, please contact Instituto de Estadísticas de Puerto Rico, Calle Quisqueya #57, San Juan, Puerto Rico 00917.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**STATEMENT OF NET ASSETS
JUNE 30, 2014**

	Governmental Activities
ASSETS	
Cash	\$ 1,326,323
Accounts receivable	7,762
Prepaid expenses	20,142
Capital assets:	
Office equipment and furniture and	172,612
Leasehold improvements	25,767
Less: accumulated depreciation	(149,721)
Net capital assets	48,658
Total Assets	\$ 1,402,885
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	181,983
Accrued liabilities	12,476
Liabilities payable within one year:	
Capital lease	1,482
Compensated absences	174,603
Liabilities payable after one year:	
Capital lease	5,172
Compensated absences	11,508
Total Liabilities	387,224
Net assets:	
Invested in capital assets	48,658
Unrestricted	967,003
Total Net Assets	1,015,661
TOTAL LIABILITIES AND NET ASSETS	\$ 1,402,885

The accompanying notes are an integral part of the basic financial statements.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

		Program Revenues	Net (expenses) revenues and changes in net assets
Activities:	Expenses	Operating grants and contributions	Governmental Activities
Governmental:			
Statistics services	\$1,288,433	\$1,948,352	\$659,919
General revenues:			
Interest			2,286
Change in net assets			662,205
Net assets - beginning			353,456
Net assets - ending			\$1,015,661

The accompanying notes are an integral part of the basic financial statements.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2014**

	<u>General Fund</u>
ASSETS	
Cash	\$ 1,326,323
Accounts receivable	7,762
Prepaid expenses	<u>20,142</u>
Total Assets	<u><u>\$ 1,354,227</u></u>
LIABILITIES	
Accounts payable	\$ 181,983
Accrued liabilities	<u>12,476</u>
Total Liabilities	194,459
FUND EQUITY	
Fund balance:	
Unassigned	<u>1,159,768</u>
Total fund balance	<u>1,159,768</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,354,227</u></u>

The accompanying notes are an integral part of the basic financial statements.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**RECONCILIATION OF GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014**

Total Governmental Fund Balance	\$ 1,159,768
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Amounts reported for governmental activities in the Statements of Net Assets are different because:

Capital assets and unamortized expenses used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet:

Cost of capital assets	\$ 198,379	
Accumulated depreciation	<u>(149,721)</u>	48,658

Long term liabilities are not due and in the current period and, therefore, are not reported in the funds:

Capital leases	(6,654)	
Compensated absences	<u>(186,111)</u>	<u>(192,765)</u>

Net Assets of Governmental Activities	<u><u>\$ 1,015,661</u></u>
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The following notes are an integral part of the financial statements.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>General Fund</u>
REVENUES	
Revenues from state sources	\$ 1,830,670
Earned income	117,682
Interests	2,286
Total Revenues	<u>1,950,638</u>
 EXPENDITURES	
Salaries	555,488
Professional services	266,653
Insurance	863
Advertising	637
Payroll taxes	56,168
Benefits	100,762
Office supplies	3,730
Travel	10,788
Utilities	40,545
Rent	77,229
Repairs and maintenance	18,970
Capital outlays	31,382
Other	101,150
Total Expenditures	<u>1,264,365</u>
 Excess of revenues over expenditures	 686,273
 Fund balance - beginning of year	 <u>473,495</u>
 Fund balance - ending of year	 <u>\$ 1,159,768</u>

The accompanying notes are an integral part of the basic financial statements.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Excess of revenues over expenditures - total governmental funds \$ 686,273

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

Governmental funds reports capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlays	43,667
Current year depreciation	(15,424)
	28,243

The issuance of long-term debt (e.g. capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items:

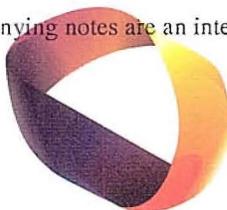
Capital lease incurred	(7,828)
Capital lease principal payments	1,174
	(6,654)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Increase in compensated absences	(45,657)
	(45,657)

Change in net assets of governmental activities \$ 662,205

The accompanying notes are an integral part of the basic financial statements.



**LLAVONA
CASAS** CPA-PSC
Tus socios para el éxito

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance
Revenues:				
State services	\$ 1,861,000	\$ 1,830,670	\$ 1,830,670	\$ -
Earned income	-	-	117,682	117,682
Earnings on deposits	-	-	2,286	2,286
Total revenues	<u>1,861,000</u>	<u>1,830,670</u>	<u>1,950,638</u>	<u>119,968</u>
Expenditures:				
Payroll and related expenses	761,000	761,000	699,752	61,248
Facilities and public services	44,328	43,432	43,285	147
Purchased services	132,982	133,079	120,470	12,609
Donations and other dirtributions	55,000	55,000	37,212	17,788
Transportation	17,900	16,400	10,364	6,036
Professional services	772,678	745,054	266,653	478,401
Other	16,800	23,031	23,031	-
Office supplies	6,900	8,400	5,599	2,801
Capital outlays	50,912	42,774	31,382	11,392
Advertising	2,500	2,500	637	1,863
Total expenditures	<u>1,861,000</u>	<u>1,830,670</u>	<u>1,238,385</u>	<u>592,285</u>
Excess of expenditures over revenues	-	-	712,253	712,253
Budgetary beginning fund balance	<u>485,755</u>	<u>485,755</u>	<u>485,755</u>	<u>485,755</u>
Budgetary ending fund balance	<u>\$ 485,755</u>	<u>\$ 485,755</u>	<u>\$ 1,198,008</u>	<u>\$ 1,198,008</u>

The accompanying notes are an integral part of the basic financial statements.



**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Instituto de Estadísticas de Puerto Rico (the "Institute") was created on August 28, 2003 under the provisions of the "Fundación para la Reforma de los Sistemas de Recopilación de Datos y Estadísticas" ("Ley del Instituto de Estadísticas de Puerto Rico"), and its first year of operation was 2007-2008. The Institute Board consists of seven members, appointed by Puerto Rico's Governor with the consent of the Senate. The Institute's reporting entity does not contain any component units as defined in Governmental Accounting Standard Board No. 14.

The financial statements of the Institute have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" which affects the way the Institute prepares and presents financial information. This Statement, which establishes new requirements and a new reporting model for the annual reports of state and local governments, was developed to make annual reports easier to understand and more useful to the people who use the governmental financial information to make decisions.

The Institute has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB 34. Therefore, the Institute has implemented in the current fiscal year GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*".

Financial reporting entity

The accompanying financial statement includes the organization units governed by the Executive officers of the Institute. In evaluating the Institute as a reporting entity, management has addressed the entire potential component unit.

The basic criteria for including a potential component unit within the reporting entity is if potential component unit are financially accountable and other organization for which the nature and significance of their relationship with the entity are that exclusion would cause the Institute's Financial Statement to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability.



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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These criteria include appointing a voting majority of an organization's governing body and (1) ability to the Institute to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Institute.

The relative importance of each criteria must be evaluate in light of specific circumstances in order to determine which components unit are to be included as part of the reporting entity. Our specific evaluation of the criteria applicable to the Institute indicates that no organization meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Institute as the reporting entity.

Basis of Presentation, Measurement Focus and Basis of Accounting

The financial report of the Institute consists of a Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

Management Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Institute's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Basic Financial Statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type.

Government-Wide Statements

The government wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Institute and its component units. For the most part, the effect of interfund activity has been removed from these government wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.



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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net assets presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in Capital Assets, Net of Related Debt - These consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted Net Assets - These result when constraints placed on the net assets' use are either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets - These consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally, it is the Commonwealth's policy to use restricted resources first, then the unrestricted resources as they are needed. The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenue includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government Wide Financial Statements - The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.



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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The appropriations from the Legislature of Puerto Rico are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2014 has been reported only in the government wide financial statements.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

Fund Accounting

The Institute reports its financial position and results of operations in funds, which are considered separate accounting entities, and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major funds are determined using a predefined percentage of the assets, liabilities, revenue, or expenditures/expenses of either the fund category or the governmental and enterprise funds combined. The Institute only reports the following general Fund, which accounts for all financial resources except those required in another funds, if any.

Deposits

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance.

Receivables

Receivables are recorded in the General Fund and are considered collectible; accordingly, no provision for doubtful account has been established.



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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net assets of governmental activities.

Capital Assets

Property and equipment purchased or acquires is carried at historical cost or estimated historical cost. The Institute's capitalization policy is to capitalize individual amounts exceeding \$500. Other cost incurred for repair and maintenance is expensed as incurred.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government wide financial statements. Depreciation on all assets is provided on the straight-line basis over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

Office equipment and furniture	5 years
Leasehold improvements	5 years

Compensated Absences

The Institute's employees accumulate vacation and sick leave. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).

The Institute accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Institute's employees are granted thirty (30) days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to the maximum of sixty (60) days and sick up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed.



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, only the matured amount that is normally expected to be paid using expendable available financial resources is reported as liability. The non-current portion of the liability is not reported.

Separation from the employment prior to the use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of services who are entitled to sick leave pay up to the maximum allowed. The Institute accrues a liability for compensated absences which meet the following criteria:

1. The Institute's obligations relating to employee's rights to receive compensation for future absences are attributable to employee's services already rendered.
2. The obligation relates to right that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASB No. 16; the Institute has accrued a liability for compensated absences, which has been earned but not taken by Institute's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following years. For the governmental funds statements, the current portion for compensated absences is only considered and represents a reconciling item between the fund level and government-wide presentation. Accrued compensated absences for the fiscal year ended June 30, 2013 amounted to \$140,454.

Encumbrances

Encumbrance accounting is employed in the governmental fund types. Under the encumbrance system all purchases orders, contracts and other commitments issued for goods and services not received at the year-end are recorded in order to reserve that portion of the applicable appropriation.



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets and Reservations of Fund Balance

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislations of other governments that relate to specific projects of the Institute. Net assets not reported as invested in capital assets, net of related debt or as restricted, are reported as unrestricted.

Fund Balance Categories

The GASB Statement No, 54 "Fund Balance Reporting and Governmental Fund Type Definitions" establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources in governmental fund. The fund balance categories are the following: Non-Spendable - are balances in permanent funds and inventories that are permanently precluded from conversion to cash.

Restricted - requires that inflows and outflows of resources and balances be constrained to specific purpose by enabling legislation, external parties or constitutional provisions.

Committed - are those balances with constraints imposed by the government using the highest level of decision-making authority. The constraint can only be removed or changed by the same decision-making authority taking the same type of action.

Assigned - are amounts intended for a specific purpose by a government's management (department/agency heads and other signatory authorities) and are also appropriations of existing fund balances.

Unassigned - are amounts available for any purpose. They are not precluded by a management decision, law or constitutional provision in the general fund.

Use of Estimates

The preparation of the financial statements in conformity with accounting principle generally accepted in the United States of America requires management to make estimates and assumption that affect the reported amounts of assets and liabilities at the date of the basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual result count differs from those estimates.



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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards Adopted

The following new accounting standards was adopted by the Institute effective July 1, 2013:

- GASB Statement No. 66, *Technical Corrections 2012 - an Amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.

Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standard that have effective dates after June 30, 2014:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement is effective for fiscal years beginning after June 15, 2014.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The impact of these statements on the Institution's basic financial statements has not yet been determined.

NOTE B - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The statement of revenue and expenditures - budget and actual - budget basis - general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. It presents comparisons of the legally adopted budget with actual data on a budget basis.

The Institute's budget is prepared for the Governmental Fund following state requirements. Budget amendments are approved by the Board of Directors. The budget is prepared on a budgetary (statutory) basis of accounting which is different from GAAP. Revenues include amounts classified by GAAP as other financing sources and is generally recognized when cash is received. Expenditures include encumbrances and amounts classified by GAAP as other financing uses and are generally recorded when the related expenditure is incurred or encumbered. Unencumbered appropriations lapse at year-end.



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JUNE 30, 2014**

On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. On the other hand, under the statutory basis of accounting, the Institute uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The presentation of the budgetary data excludes long-term obligations such as compensated absents and depreciation charges for capital assets. Historically, those obligations have been budgeted on a pay as you go basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2014 is presented below for the general fund:

Actual amounts (budgetary basis) charged to appropriations	\$ 1,238,385
Adjustment for encumbrances	17,892
Current year expenditures against prior year encumbrances	<u>8,088</u>
 Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance	 <u><u>\$ 1,264,365</u></u>

NOTE C - DEPOSITS

The Institute maintains its cash deposits with the Government Development Bank for Puerto Rico (“GDB”) (a governmental bank), whose balance of \$186,495 is not insured. At year-end, the Institute maintained cash deposited over the amount covered by the insurance of the Federal Deposit Insurance Corporation (FDIC) by \$654,012.

NOTE D - CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2014 was as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	\$ 145,771	\$ 30,407	\$ (3,566)	\$ 172,612
Leasehold improvements	12,507	13,260	-	25,767
Total Historical Cost	<u>158,278</u>	<u>43,667</u>	<u>(3,566)</u>	<u>198,379</u>
 Less: Accumulated Depreciation	 <u>(137,863)</u>	 <u>(15,424)</u>	 <u>3,566</u>	 <u>(149,721)</u>
Net Capital Assets	<u><u>\$ 20,415</u></u>	<u><u>\$ 28,243</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 48,658</u></u>



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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Depreciation expense was charged to the governmental administration function as an administrative expenditure for a total amount of \$15,424.

NOTE E - LONG-TERM LIABILITIES

Long term liabilities represent capital lease and compensated absences balances of accrued vacation and sick leave and represents the Institute's commitment to fund such costs from future assignments. The following summarizes the activity of the capital lease and the compensated absences obligations for the fiscal year ended June 30, 2014:

	Beginning Balance	Increase	Decrease	Ending Balance	Current Portion
Governmental activities:					
Capital lease	\$ -	\$ 7,828	\$ 1,174	\$ 6,654	\$ 1,482
Compensated absences	140,454	48,747	3,090	186,111	174,603
	<u>\$ 140,454</u>	<u>\$ 56,575</u>	<u>\$ 4,264</u>	<u>\$ 192,765</u>	<u>\$ 176,085</u>

The Institute is obligated under a capital lease that expires on 2019 for an equipment. At June 30, 2014, the capitalized cost of the equipment amounted to \$7,828 and is included in the accompanying government wide statement of net assets within capital assets. The present value of future minimum capital lease payments at June 30, 2014 reported in the accompanying government wide statement of net assets is as follows:

Year Ending June 30,	
2015	\$1,740
2016	1,740
2017	1,740
2018	1,740
2019	<u>435</u>
Total future minimum lease payments	7,395
Less amount representing interest costs	(741)
Present value of minimum lease payments	<u>\$6,654</u>

Amortization charge applicable to the capital lease and included within depreciation expense of capital assets amounted to \$1,174 in 2014.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE F - COMMITMENTS - OPERATING LEASES

The Institute leases its office facilities under an operating lease with a term of approximately 4 years, expiring in June 30, 2016. Lease agreement contains a renewal option and provides for an annual increase in rent of approximately 2.8%. Also, the Institute has operating leases for equipment which do not give rise to property rights of lease obligations and, therefore, are not reflected in the Institute's governmental fund statements. For the fiscal year ended June 30, 2014, rent expenditures under the above operating leases aggregated approximately \$77,229. The future minimum lease payments under this operating lease are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2015	\$ 79,704
2016	83,700
	<u>\$ 163,404</u>

NOTE G - DEFERRED CONTRIBUTION PLAN

On September 1, 2008, the Institute acquired a Defined Compensation Plan 165 (c) 401 (k) named Instituto de Estadísticas de Puerto Rico Retirement Plan Trust. All employees were eligible at the effective date. All employees hired after that date are eligible after completion of one day of service and has reached his 21th birthday and have completed 1,000 hours of service on the anniversary date of the plan. The plan requires employee contributions.

The Institute matches the contribution up to a maximum of 9.275% of the employee's monthly compensation. The Institute deposits the accumulated costs with the John Hancock, which is the Administrator of the plan. The amount contributed during the year ended June 30, 2014 amounted to \$36,168.

NOTE H - SUBSEQUENT EVENTS

The Institute has adopted the ASC 855 relating to *Subsequent Events*. The ASC 855 establishes general standards for the accounting and disclosure of events occurring after the date of the balance sheet, but before the date of issuance of the financial statements. Specifically, it sets the period after the date of the status during which the Institute management should assess events or transactions that could occur and would need to be recorded or disclosed in the financial statements, the circumstances under which the Institute should recognize and disclose these events, and the type of disclosure should be provided for these events occurring after the date of the status.

According to the ASC 855, the Institute evaluated subsequent events up to October 24, 2014, when these financial statements were ready to be issued. The Institute's management understands that no material event occurred subsequent to June 30, 2014 that requires registration or need additional disclosure in the financial statements.

