

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES**

**SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011**

COMMONWEALTH OF PUERTO RICO  
 INSTITUTE OF FORENSIC SCIENCES  
 SINGLE AUDIT REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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Ortiz, Rivera, Rivera & Co.  
Certified Public Accountants and Business Advisors

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis Rivera Zúñiga  
CPA Zoraida Cruz Claudio

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Institute of Forensic Sciences  
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Institute of Forensic Sciences, as of and for the year ended June 30, 2011, which collectively comprise the Institute's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Institute's management. Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Institute of Forensic Sciences as of June 30, 2011, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012 on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to

describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Institute of Forensic Sciences' financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico  
March 27, 2012

The stamp E22425 was affixed  
to the original of this report.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements of the Institute of Forensic Sciences includes all financial activities and include notes to the financial statements that explain and provide detail data on information in the financial statements.

The following is management's discussion and analysis of the Institute of Forensic Science's financial performance for the year ended June 30, 2011. It should be read in conjunction with the accompanying financial statements.

### Financial Highlights

- The Institute's liabilities increase \$2,925,417 during 2011. The Institute's net asset decrease \$3,300,893 during 2011.
- The total revenues of the Institute decrease \$1,625,682 during 2011. This decrease is primarily due to the decrease in General funds.
- The operation's expenses in 2011 decreased by \$1,968,863 from 2010.

The Institute of Forensic Science's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements are prepared on the accrual basis, recognizing revenue when earned and expenses when a liability is incurred, and include all of the financial activities of the Institute of Forensic Sciences. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. See notes to financial statements for a summary of significant accounting policies.

### Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Institute's basic financial statements. The Institute's basic financial statements consist of the Statement of Net Assets, Statements of Activities, Balance Sheet-Governmental Funds, Balance Sheet to Statement of Net Assets, Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement Activities, Statement of Revenues and Expenditures-General Fund. The first statements report the Institute's net assets and how they have changed. Net assets are the difference between the Institute's total assets and liabilities.

## Governmental Activities

The following table summarizes the net assets of the Institute at June 30, 2011:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Increase (Decrease)</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,470,263	\$ 2,049,460	\$ 420,803
Other receivables	122,597	85,618	36,979
Capital assets, net	<u>25,451,594</u>	<u>26,284,852</u>	<u>(833,258)</u>
Total assets	<u>\$ 28,044,454</u>	<u>\$ 28,419,930</u>	<u>\$ (375,476)</u>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,054,788	\$ 1,538,793	\$ (484,005)
Due to other agencies	410,737	368,669	42,068
Non-current liabilities:			
Accrued compensated absences -- due within one year	714,081	363,436	350,645
Accrued compensated absences -- due in more than one year	<u>8,102,639</u>	<u>5,085,930</u>	<u>3,016,709</u>
Total liabilities	<u>10,282,245</u>	<u>7,356,828</u>	<u>2,925,417</u>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	25,451,594	26,284,852	(833,258)
Restricted for:			
Capital Projects	518,593	518,593	-
Unrestricted	<u>(8,207,978)</u>	<u>(5,740,343)</u>	<u>(2,467,635)</u>
Total net assets	<u>\$ 17,762,209</u>	<u>\$ 21,063,102</u>	<u>\$ (3,300,893)</u>

## REVENUES

Operating and non-operating revenues for the Institute of Forensic Sciences totaled \$18,416,850 for the year ended June 30, 2011. Of this total, general fund totaled \$17,656,211 or 96.00 percent of total revenues. Other governmental funds totaled \$760,639 or 4.00 percent of total revenues.

A summary of revenues is provided in the following tabulation:

	2011			2010	Increase (Decrease)
	General	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds	
<b>REVENUES</b>					
Legislative appropriations	\$ 17,083,298	\$ -	\$ 17,083,298	\$ 18,151,961	\$ (1,068,663)
Federal financial assistance		760,639	760,639	1,219,053	(458,414)
Charges for service	565,053		565,053	550,853	14,200
Interest	7,860		7,860	9,536	(1,676)
Total Revenues	<u>\$ 17,656,211</u>	<u>\$ 760,639</u>	<u>\$ 18,416,850</u>	<u>\$ 19,931,403</u>	<u>\$ (1,514,553)</u>

#### EXPENSES

Operating and non-operating expenses totaled \$19,026,751 for the year ended June 30, 2011. Of this amount, salaries and payroll taxes totaled \$11,398,473, fringe benefits totaled \$1,377,339, equipment and materials totaled \$1,692,946, utilities totaled \$1,538,924, professional services totaled \$753,714, repairs and maintenance totaled \$649,388, representation and travel totaled \$97,667, rent totaled \$146,432, transportation \$74,938, insurance totaled \$152,078, printing totaled \$74,970 and others totaled \$1,069,882.

Summary data is presented in the following tabulation:

	2011			2010	Increase (Decrease)
	General	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds	
<b>EXPENDITURES</b>					
Salaries and payroll taxes	\$ 11,110,891	\$ 287,582	\$ 11,398,473	\$ 12,325,259	\$ (926,786)
Fringe benefits	1,370,189	7,150	1,377,339	1,487,199	(109,860)
Equipment and materials	1,374,999	317,947	1,692,946	3,230,389	(1,537,443)
Utilities	1,538,924		1,538,924	1,437,315	101,609
Professional services	670,732	82,982	753,714	621,873	131,841
Repairs and maintenance	648,988	400	649,388	491,485	157,903
Representation and travel	64,670	32,997	97,667	73,750	23,917
Rent	146,432		146,432	52,462	93,970
Transportation	74,938		74,938	60,162	14,776
Insurance	152,078		152,078	240,580	(88,502)
Printing	74,970		74,970	47,507	27,463
Others	1,021,990	47,892	1,069,882	816,504	253,378
Total Expenditures	<u>\$ 18,249,801</u>	<u>\$ 776,950</u>	<u>\$ 19,026,751</u>	<u>\$ 20,884,485</u>	<u>\$ (1,857,734)</u>

## Financial Analysis of Institute of Forensic Sciences

The financial statements are prepared on the accrual basis, recognizing revenue when earned and expenses when incurred, and include all of the financial activities of the Institute of Forensic Sciences. Assets are designated as restricted in accordance with debt and other agreements.

Institute's operations ended the year with a total of net assets of \$17,762,209. Net asset decreased \$4,459,868 during 2011.

### Budget Variances in the General Fund

The following tabulation compared the differences between the original budgets for the general fund, the final amended budget actual amounts for the year ended June 30, 2011.

	Budgeted Amounts		
	Original	Final	Actual
<b>REVENUES</b>			
Legislative appropriations	\$ 17,083,298	\$ 17,083,298	\$ 17,083,298
Interest	-	-	7,860
Total revenues	\$ 17,083,298	\$ 17,083,298	\$ 17,091,158
<b>EXPENDITURES</b>			
Salaries and payroll taxes	12,939,000	12,939,000	10,939,679
Fringe Benefits	741,298	1,268,944	1,370,189
Equipment and materials	1,770,000	1,770,000	1,321,853
Utilities	848,000	848,000	1,538,924
Professional services	300,000	300,000	670,732
Repairs and maintenance	55,000	55,000	648,988
Representation and travel	23,000	23,000	63,681
Rent	36,000	36,000	101,940
Transportation	30,000	30,000	74,938
Insurance	159,000	159,000	152,078
Printing	2,000	2,000	62,132
Others	180,000	180,000	969,315
Total expenditures	\$ 17,083,298	\$ 17,610,944	\$ 17,914,449
Excess of expenditures over revenues			\$ (823,291)

### Capital Assets

Operating assets with a cost of \$100 or more are capitalized and depreciated over their useful lives using the straight-line method. As of June 30, 2011, capital assets and accumulated depreciation totaled \$39,872,093 and \$14,420,499 respectively. Summary data is presented in the following tabulation:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets:				
Building and building improvements	\$ 28,868,657	\$ -	\$ -	\$ 28,868,657
Equipment, furniture and fixtures	10,020,819	293,400	64,666	10,249,553
Vehicles	753,883			753,883
Total capital assets	<u>39,643,359</u>	<u>293,400</u>	<u>64,666</u>	<u>39,872,093</u>
Less accumulated depreciation for:				
Building and building improvements	5,366,920	314,386		5,681,306
Furniture and fixtures	7,284,664	789,253	62,344	8,011,573
Vehicles and equipment	706,923	20,697		727,620
Total accumulated depreciation	<u>13,358,507</u>	<u>1,124,336</u>	<u>62,344</u>	<u>14,420,499</u>
Total capital assets, net	<u>\$ 26,284,852</u>	<u>\$ (830,936)</u>	<u>\$ 2,322</u>	<u>\$ 25,451,594</u>

### Other Liabilities

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Institute of Forensic Sciences. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consists of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement benefit program, the Institute will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Institute's financial statements of a liability of \$3,101,007 in the statement of net assets as of June 30, 2011 and a charge of \$3,226,290 in the statement of activities for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program were discounted at 3.24%

### Request for Information

This financial report is designed to provide interested parties with a general overview of the Institute of Forensic Science's finances. Should you have any questions about this report or need additional information, please contact the Director of Budget and Finance Division, Call Box 11878, Caparra Heights Station, San Juan, PR 00922.

COMMONWEALTH OF PUERTO RICO  
 INSTITUTE OF FORENSIC SCIENCES  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2011

Assets

	<b>Governmental Activities</b>
Cash and cash equivalents (Note 4)	\$ 2,470,263
Other receivables	122,597
Capital assets, net (Note 6)	25,451,594
Total assets	\$ 28,044,454

Liabilities and Net Assets

**Liabilities**

Accounts payable and accrued liabilities	\$ 1,054,788
Due to other agencies (Note 7)	410,737
Noncurrent liabilities (Note 8):	
Due within one year	714,081
Due in more than one year	8,102,639
Total liabilities	10,282,245
Commitments (Note 12)	

**Net Assets**

Investment in capital assets, net of related debt	25,451,594
Restricted for:	
Capital projects	518,593
Unrestricted	(8,207,978)
Total net assets	\$ 17,762,209

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

COMMONWEALTH OF PUERTO RICO  
 INSTITUTE OF FORENSIC SCIENCES  
 STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>Revenue and</u>
		<u>Services</u>	<u>and Contributions</u>	<u>and Change in</u>
				<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
<b>Governmental Activities:</b>				
Criminal investigation	\$ 22,874,396	\$ 565,053	\$ 17,843,937	\$ (4,465,406)
General revenues:				
Interest income				7,860
Total general revenues				7,860
Change in net assets				(4,457,546)
Loss on disposition of assets				(2,322)
Net assets at beginning of year, as restated (Note 14)				22,222,077
Net assets at end of year				\$ 17,762,209

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

COMMONWEALTH OF PUERTO RICO  
 INSTITUTE OF FORENSIC SCIENCES  
 BALANCE SHEET-GOVERNMENTAL FUNDS  
 JUNE 30, 2011

<u>Assets</u>	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (Note 4)	\$ 1,857,904	\$ 154,754	\$ 457,605	\$ 2,470,263
Other receivables	122,597	-	-	122,597
Due from other funds (Note 5)	207,775	363,839	267,478	839,092
Total assets	<u>\$ 2,188,276</u>	<u>\$ 518,593</u>	<u>\$ 725,083</u>	<u>\$ 3,431,952</u>

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

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2011**

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 932,452	-	122,336	\$ 1,054,788
Due to other agencies (Note 7)	410,737			410,737
Due to other funds (Note 5)	631,317		207,775	839,092
Other liabilities (Note 8)	714,081			714,081
Total liabilities	<u>2,688,587</u>	<u>-</u>	<u>330,111</u>	<u>3,018,698</u>
Commitments (Note 12)				
<b>Fund Balance (Deficit)</b>				
Restricted		518,593	394,972	913,565
Assigned	565,348			565,348
Unassigned	(1,065,659)			(1,065,659)
Total fund balance (deficit)	<u>(500,311)</u>	<u>518,593</u>	<u>394,972</u>	<u>413,254</u>
Total liabilities and fund balance (deficit)	<u>\$ 2,188,276</u>	<u>\$ 518,593</u>	<u>\$ 725,083</u>	<u>\$ 3,431,952</u>

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

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE TO STATEMENT OF NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Total fund balances - governmental funds	\$ 413,254
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	25,451,594
• Accrued compensated absences, claims and judgments and accounts payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(8,102,639)</u>
Net assets of governmental activities	<u>\$ 17,762,209</u>

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

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COMMONWEALTH OF PUERTO RICO  
 INSTITUTE OF FORENSIC SCIENCES  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCE (DEFICIT) - GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Legislative appropriations	\$ 17,083,298	\$ -	\$ -	\$ 17,083,298
Federal financial assistance			760,639	760,639
Charges for service	565,053			565,053
Interest	7,860			7,860
Total revenues	<u>17,656,211</u>	<u>-</u>	<u>760,639</u>	<u>18,416,850</u>
<b>EXPENDITURES</b>				
Salaries and payroll taxes	11,110,891		287,582	11,398,473
Fringe benefits	1,370,189		7,150	1,377,339
Equipment and materials	1,374,999		317,947	1,692,946
Utilities	1,538,924			1,538,924
Professional services	670,732		82,982	753,714
Repairs and maintenance	648,988		400	649,388
Representation and travel	64,670		32,997	97,667
Rent	146,432			146,432
Transportation	74,938			74,938
Insurance	152,078			152,078
Printing	74,970			74,970
Others	1,021,990		47,892	1,069,882
Total expenditures	<u>18,249,801</u>	<u>-</u>	<u>776,950</u>	<u>19,026,751</u>
Deficiency of revenues under expenditures	(593,590)	-	(16,311)	(609,901)
<b>FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 14)</b>	<u>93,279</u>	<u>518,593</u>	<u>411,283</u>	<u>1,023,155</u>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<u>\$ (500,311)</u>	<u>\$ 518,593</u>	<u>\$ 394,972</u>	<u>\$ 413,254</u>

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

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds \$ (609,901)

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

- Governmental funds report capital 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. 293,400
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (1,124,336)
- 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. (3,016,709)
- Loss on disposition of assets is reported in the statement of activities, but do not require the use of current financial resources. (2,322)

Changes in net assets of governmental activities \$ (4,459,868)

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

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	General Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Legislative appropriations	\$ 17,083,298	\$ 17,083,298	\$ 17,083,298	\$ -
Interest			7,860	7,860
Total revenues	<u>17,083,298</u>	<u>17,083,298</u>	<u>17,091,158</u>	<u>7,860</u>
<b>EXPENDITURES</b>				
Salaries and payroll taxes	12,939,000	12,939,000	10,939,679	1,999,321
Fringe benefits	741,298	741,298	1,370,189	(628,891)
Equipment and materials	1,770,000	1,770,000	1,321,853	448,147
Utilities	848,000	848,000	1,538,924	(690,924)
Professional services	300,000	300,000	670,732	(370,732)
Repairs and maintenance	55,000	55,000	648,988	(593,988)
Representation and travel	23,000	23,000	63,681	(40,681)
Rent	36,000	36,000	101,940	(65,940)
Transportation	30,000	30,000	74,938	(44,938)
Insurance	159,000	159,000	152,078	6,922
Printing	2,000	2,000	62,132	(60,132)
Others	180,000	180,000	969,315	(789,315)
Total expenditures	<u>17,083,298</u>	<u>17,083,298</u>	<u>17,914,449</u>	<u>(831,151)</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (823,291)</u>	<u>\$ (823,291)</u>

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

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**1. ORGANIZATION**

The Institute of Forensic Sciences (the Institute) was created by Act 13 of July 24, 1985, as amended, for the purpose of guarantee objectivity in the criminal justice system through participation and scientific investigation as key role in clarifying beyond any reasonable doubt, the causes, means, and circumstances of deaths and crimes by forensic sciences.

The Institute is governed by an eight-member board comprised by the Secretary of Justice, who is the Chairman, the Police Superintendent, the Counselor of Medical Science campus of the University of Puerto Rico, the Secretary of Health, the Administrative Director of the Office for Courts Administration and three other members appointed by the Governor with the consent of the Senate.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Institute have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

- Management's Discussion and Analysis - GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of management's discussion and analysis (MD&A).
- Government - Wide Financial Statements - The new reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

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- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Institute, including capital assets and infrastructure. The net assets of the Institute will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- Statement of Program Activities - The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Institute will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

GASB 33, as amended by GASB 36, establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

GASB 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance - related legal and contractual provisions, debt and lease obligations, short-term debt, desegregation of receivable and payable balances, and interfund balances and transfers with GASB 34 is implemented.

The net assets of the Institute will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- Statement of Program Activities - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Institute will continue to provide budgetary

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comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

- Reporting Entity

In evaluating how to define the Institute for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB, as amended by Statement No. 39, "Determining whether certain organizations are component units - an amendment of Statement No. 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Institute's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Institute's balances and transactions. Based on the aforementioned criteria, the Institute has no component units.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units. A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual

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organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Institute. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

For the fiscal year ended June 30, 2011, the Institute implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*". The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It 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 reported in governmental funds.

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GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

**c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are 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 imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are 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 within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Institute reports the following major governmental funds:

1) General Fund

This is the operating fund of the Institute and accounts for all financial resources, except those required to be accounted for in another fund.

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2) Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provide; 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

**d. Cash and Cash Equivalents**

The Institute's Finance Director is responsible for investing available resources. The Institute is restricted by law to invest only in savings accounts with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

**e. Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

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**f. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Institute, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental column in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

**g. Fund Balances**

In the current year, the Institute adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Institute is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to

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inventories, prepaid items, and long term balances of interfund loans and accounts receivable.

- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Institute's highest level of decision making authority (Board of Directors) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Institute for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- 5) *Unassigned* - Represent the residual classification for the Institute's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Institute reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Institute has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2011.

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In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Institute uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Institute generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Institute's individual governmental funds among general, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54. In addition, the financial positions and the results of operations reported in the accompanying fund financial statements as of and for the fiscal year ended June 30, 2011 have not been affected for this change in accounting principle. Accordingly, the accompanying fund financial statements have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2011.

**h. Compensated Absences**

The Institute employees are entitled to 2.5 days per month, up to maximum of 60 days, for vacation, and 1.5 days per month, up to a maximum of 90 days, for sick leave. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the current rate, if the employee has at least ten years of services with the government.

The Public Service Personnel Law requires the executive agencies of the Commonwealth of annually pay the employees the accumulated vacation and such leave earned in excess of the limits mentioned above.

**i. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period.

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**j. Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Institute has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
57	OPEB Measurement by Agent Employees and Agent Multi-Employers Plans	2011-12
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34	2012-13
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and AICPA Pronouncements	2012-13
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2012-13
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53	2011-12

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

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**k. Subsequent Events**

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through March 27, 2012, the date the financial statements were available to be issued.

**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**a. Budgetary Control**

The Institute is required by state law to adopt an annual budget for the general fund. The budget is adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. As of September of the preceding year, the Institute prepares a budget for the next fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

The proposed budget is submitted to the Office of Management and Budget (OMB). Once approved by OMB then it is submitted to the legislative bodies of the Commonwealth of Puerto Rico. Prior to July 1, the annual budget is legally enacted through passage of legislative appropriations.

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget 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 and timing differences in the excess of expenditures over revenues for the year ended June 30, 2011 is presented below for the general fund:

Excess of expenditures over revenues - budgetary basis	\$ (823,291)
Entity differences:	
Non-budgeted funds, net	<u>229,701</u>
Excess of expenditures over revenues - GAAP basis	<u>\$ (593,590)</u>

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**c. Legal Compliance**

The legal level of budgetary control is at the individual expense object.

**4. DEPOSITS - CUSTODIAL CREDIT RISK**

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

The Institute maintains its deposits in one (1) bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

**5. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2011, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Project	General	\$ 363,839
Other Governmental Funds	General	267,478
General	Other Governmental Funds	<u>207,775</u>
		<u>\$ 839,092</u>

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**6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets, being depreciated:				
Building and building improvements	\$ 28,868,657	\$ -	\$ -	\$ 28,868,657
Equipment, furniture, and fixtures	10,020,819	293,400	64,666	10,249,553
Vehicles	753,883			753,883
Total capital assets, being depreciated	<u>39,643,359</u>	<u>293,400</u>	<u>64,666</u>	<u>39,872,093</u>
Less accumulated depreciation for:				
Buildings and building improvements	5,366,920	314,386		5,681,306
Equipment, furnitures and fixtures	7,284,664	789,253	62,344	8,011,573
Vehicles	706,923	20,697		727,620
Total accumulated depreciation	<u>13,358,507</u>	<u>1,124,336</u>	<u>62,344</u>	<u>14,420,499</u>
Total capital assets, being depreciated, net	<u>26,284,852</u>	<u>(830,936)</u>	<u>2,322</u>	<u>25,451,594</u>
Governmental activities capital assets, net	<u>\$ 26,284,852</u>	<u>\$ (830,936)</u>	<u>\$ 2,322</u>	<u>\$ 25,451,594</u>

**7. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2011 are as follows:

	<u>General Fund</u>
Employee's Retirement System	\$ 153,604
Puerto Rico Electric Power Authority	150,650
Puerto Rico General Services Administration	61,402
Puerto Rico Water and Sewer Authority	33,135
Puerto Rico Department of Labor	11,946
	<u>\$ 410,737</u>

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**8. LONG-TERM DEBTS**

Long-term debts outstanding at June 30, 2011 are as follows:

Primary Government	Beginning Balance	Additions	Payments	Ending Balance	Due within One Year
<b>Governmental Activities:</b>					
<b>Other Long-Term Liabilities:</b>					
Voluntary termination benefits (Note 13)	\$ -	\$ 3,226,290	\$ 125,283	\$ 3,101,007	\$ 237,251
Accrued compensated absences	3,880,366	266,347		4,146,713	476,830
Claims and judgements	1,569,000			1,569,000	-
<b>Total long-term liabilities</b>	<b>\$ 5,449,366</b>	<b>\$ 3,492,637</b>	<b>\$ 125,283</b>	<b>\$ 8,816,720</b>	<b>\$ 714,081</b>

**9. FUND BALANCES**

As of June 30, 2011, fund balances are comprised of the following:

	General	Capital Projects	Other Governmental Funds	Total
<b>Restricted:</b>				
Criminal investigation	\$ -	\$ -	\$ 394,972	\$ 394,972
Capital projects		518,593		518,593
<b>Assigned:</b>				
Criminal investigation	565,348			565,348
Unassigned	(1,065,659)			(1,065,659)
	<b>\$ (500,311)</b>	<b>\$ 518,593</b>	<b>\$ 394,972</b>	<b>\$ 413,254</b>

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**10. RETIREMENT PLAN**

**a. Plan Description**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) are the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico.

The System was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, and Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

The System provides retirement, death and disability benefits. 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 service. 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 of creditable service of members who have attained an age of at least fifty-eight (58) years and have completed 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 amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) 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

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five (55) years of age will receive 65% of the average compensation or if they have 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, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Institute on or after January 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on after April 1, 1990.

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 ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. 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 upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS'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 current plan.

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Institute's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2011 was approximately

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\$739,000. The Institute's payroll for employees covered by ERS was approximately \$7.9 million. The Institute total payroll for all employees was approximately \$9.8 million.

Additional information of ERS is presented in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**11. CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government through the Department of Justice of the Commonwealth of Puerto Rico. Any disallowed claims, including amounts already collected, may constitute a liability of the applicant funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Institute expects such amounts, if any, to be immaterial.

The Institute is a defendant in various lawsuits which claims for actual damages. The accompanying statement of net assets reflects a liability of approximately \$1.6 million, included as noncurrent liabilities, for the probable amounts of loss associated with these claims.

**12. COMMITMENTS**

The Institute had commitments at June 30, 2011 of approximately \$ 519,000 for the construction and improvements of current facilities.

**13. VOLUNTARY TERMINATION BENEFITS**

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Institute of Forensic Sciences. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement benefit program, the Institute will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Institute.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Institute's financial statements of a liability of \$3,101,007 in the statement of net assets as of June 30, 2011 and a charge of \$3,226,290 in the statement of activities for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program were discounted at 3.24%.

**14. RESTATEMENTS**

**a. Net Assets**

The beginning balance of net assets as of July 1, 2010 has been restated as follows:

Net assets at beginning of year, as previously reported	\$22,063,102
To correct accounts payable from prior years	<u>1,158,975</u>
Net assets at beginning of year, as restated	<u>\$22,222,077</u>

COMMONWEALTH OF PUERTO RICO  
 INSTITUTE OF FORENSIC SCIENCES  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**b. Fund Balances**

The beginning fund balances (deficit) at the general and other governmental funds have been restated as follow:

	<u>General</u>	<u>Other Governmental</u>
Beginning deficit, as previously reported	\$ (585,529)	\$ (68,884)
To correct accounts payable from prior years	<u>678,808</u>	<u>480,167</u>
Beginning fund balance, as restated	\$ <u>93,279</u>	\$ <u>411,283</u>

COMMONWEALTH OF PUERTO RICO  
 INSTITUTE OF FORENSIC SCIENCES  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Justice</b>			
Pass-through the Puerto Rico Department of Justice			
Byrne Formula Grant Program	16.579		\$ 2,800
Community Prosecution and Project Safe Neighborhoods	16.609		63,743
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		295,867
Forensic Casework DNA Backlog Reduction Program	16.743		282,601
Subtotal U.S. Department of Justice			<u>645,011</u>
<b>U.S. Department of Health and Human Services</b>			
Pass-through the Puerto Rico Department of Justice			
National Bioterrorism Hospital Preparedness Program	93.889		131,939
Subtotal U.S. Department of Health and Human Services			<u>131,939</u>
<b>TOTAL</b>			<u>\$ 776,950</u>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO  
INSTITUTE OF FORENSIC SCIENCES  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Institute of Forensic Sciences and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. BASIS OF PRESENTATION**

The expenditures of the schedule are included in the Institute's basic financial statements in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds within the other governmental funds.



Ortiz, Rivera, Rivera & Co.  
Certified Public Accountants and Business Advisors

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis Rivera Zúñiga  
CPA Zoraida Cruz Claudio

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants

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

To the Board of Directors  
Institute of Forensic Sciences  
San Juan, Puerto Rico

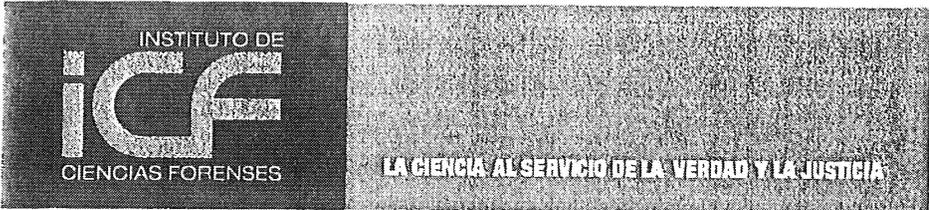
We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Institute of Forensic Sciences, as of and for the year ended June 30, 2011, which collectively comprise the Institute's basic financial statements and have issued our report thereon dated March 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Institute is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Institute of Forensic Sciences' internal control over financial reporting a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonably possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal



Dirección PO BOX 11878 CAPARRA HEIGHTS STATION  
San Juan, Puerto Rico 00922-1878  
Teléfono (787) 765-0615 Fax (787) 759-8908  
Exts. 500 / 501 / 502 / 503 / 504 / 520 / 524 / 525 / 533  
Directos (787) 200-7181 / (787) 200-7182

**División de Finanzas y Presupuesto**

**CORRECTIVE ACTION PLAN**

March 27, 2012

Cognizant or Oversight Agency for Audit:

The Institute of Forensic Sciences respectfully submits the following corrective action plan for the year ended June 30, 2011.

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2011

The findings from the June 30, 2011 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**FINDINGS AND QUESTIONED COSTS: MAYOR FEDERAL AWARD PROGRAM AUDIT**

a. **Paul Coverdell Forensic Sciences Improvement Grant Program- CFDA No. 16.742**

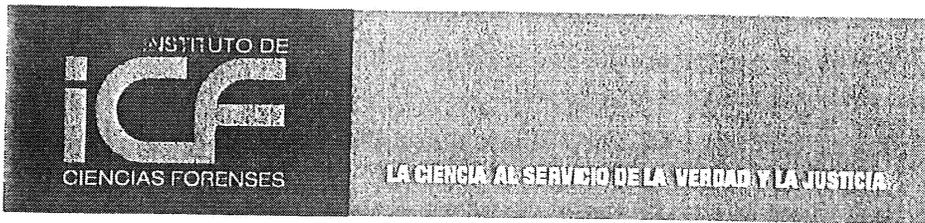
- Reportable Condition: See Condition 11-01

Recommendation:

The Institute has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.







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**División de Finanzas y Presupuesto**

Action Taken

The Institute's management will determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management will be reviewing all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. César E. Vázquez Serra, Finance and Budget Director, at (787) 765-0615, ext. 500 and 501.

Cordially,

César E. Vázquez Serra  
Finance and Budget Director



