COMMONWEALTH OF PUERTO RICO
PUERTO RICO INSTITUTE OF STATISTICS
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Instituto de Estadísticas
de Puerto Rico
Estado Libre Asociado de Puerto Rico

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INDEPENDENT AUDITORS' REPORT

Puerto Rico Institute of Statistics
(A Component Unit of the Commonwealth
of Puerto Rico)

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities of the **Puerto Rico Institute of Statistics (the Institute),** a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Institute's 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 an opinion 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 opinion.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the 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, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages **3** through **10** and **17** 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 the 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 of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

López-Vega, CPA PSC

LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
September 30, 2015

Stamp No. 2705488 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

The management of the Puerto Rico Institute of Statistics (the Institute), provides this Management 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, 2015, 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 follows.

FINANCIAL HIGHLIGHTS

General Fund Highlights

- Total General Fund revenues for fiscal year 2015 amounted to 1,451,471, representing a decrease of $499,167 or 25.59% compared to fiscal year 2014 total revenues of $1,950,638.

- Total expenditures for fiscal year 2015 amounted to $1,162,406 representing a decrease of $101,959 or 8.06% compared to expenditures of fiscal year 2014.

- The General Fund balance for fiscal year 2015 amounted to $1,448,833, and increased by $289,065, or 25% when compared to fiscal year 2014.

Government-Wide Highlights

- The Institute reported total assets amounting $1,650,321 at June 30, 2015. The major category of assets consisted of cash balance available amounting to $1,553,584, which represents 94.14% of total assets at that date.

- Total liabilities at June 30, 2015, amounted to $359,128. The major categories of liabilities consisted of accounts payable ($148,558) and accrued compensated absences ($194,189).

- The Institute's net position increased by $275,532 as a result of current fiscal year's operations.

- The Institute's capital assets net of accumulated depreciation amounted to $41,637, which represents a decrease of $7,021 compared with prior fiscal year balance of $48,658.

General Fund Budgetary Highlights

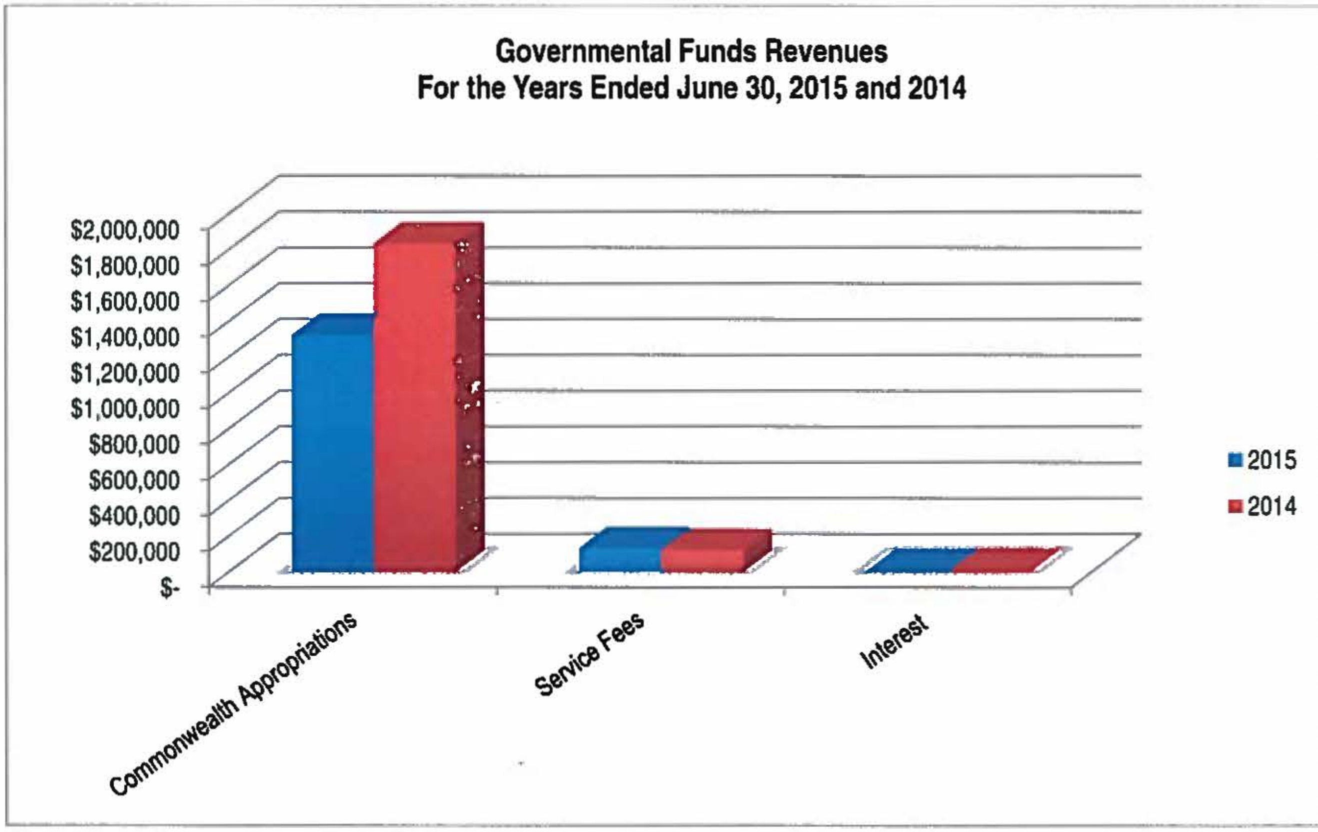
The Institute's budget is approved by its Board of Directors. The only budgeted fund is the General Fund which budget was established and amended during the year to recognize the planned expenditures and additional information became known during the fiscal year. The Board of Directors approved a budget of $1,366,850 for the year. The use of the unassigned 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 $1,319,570. Other revenues amounted to $131,901.

The following chart presents a revenues comparison of the Institute's activities for the years ended June 30, 2015 and 2014:



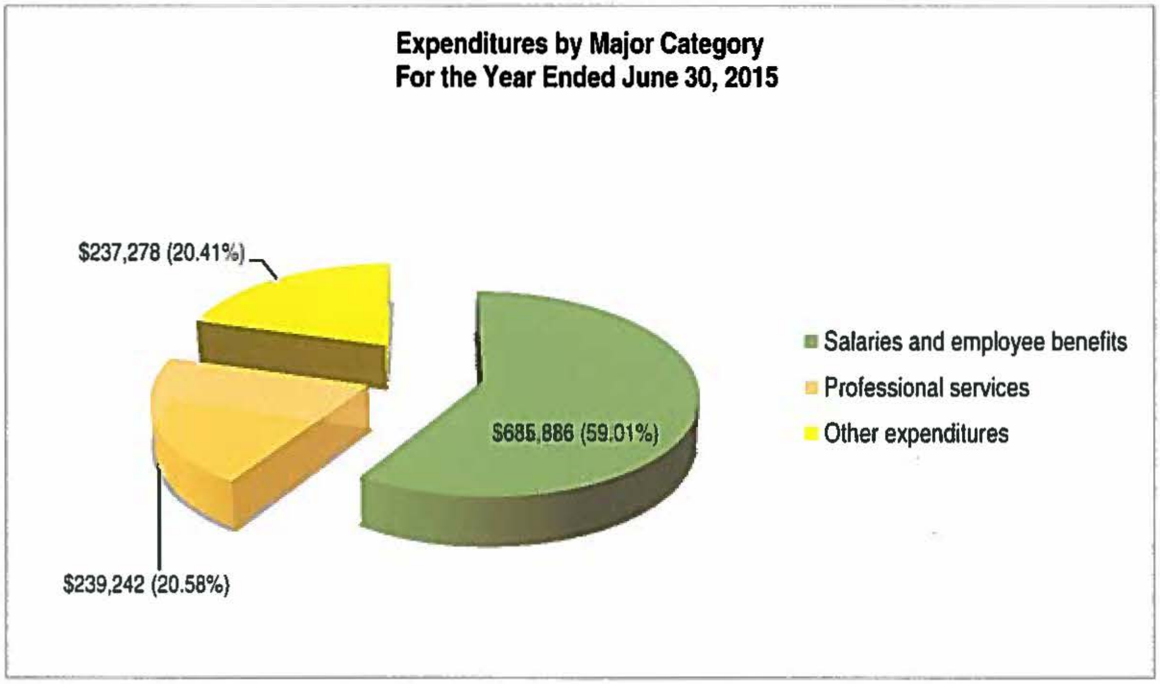
Expenditures

Expenditures consist principally of salaries and employee benefits, professional services, rent, utilities, materials and supplies and capital outlays. Total operating expenditures amounted $1,162,406. The most significant expenditures were salaries and employee benefits ($685,886), and professional services ($237,278), which represents 59.01% and 20.41% of total expenditures, respectively.

MAJOR FINANCIAL ELEMENTS (CONTINUED)

Expenditures (continued)

The following chart presents expenditures of the Institute by major category for the year ended June 30, 2015:



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 basis 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.

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 statement provides 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Financial Statements (Continued)

These financial statements are prepared using the 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 Position – This presents all of the government's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in the Institute's net position 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 position changes during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the charge 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 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 segregate 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's administration, 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.

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 financial requirements. This approach is known as using the 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

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

The Institute has only one major governmental fund which is the general fund. This major fund is presented in the governmental funds' balance sheet and in the governmental funds' statement of revenues, expenditures and changes in fund balance. There are no remaining non-major governmental funds that shall be grouped and presented in the governmental fund financial statements.

The Institute adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. This schedule only presents the revenues and expenditures, on budgetary basis, of the general fund for which there is a legally adopted budget, as required by GAAP. See Note 2 for the reconciliation of the budgetary comparison schedule 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 fully understand the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the Budgetary Comparison Schedule – General Fund.

GENERAL FUND FINANCIAL ANALYSIS

Total revenues of the general fund for fiscal year 2015 amounted to $1,451,471, which represents a decrease of $499,167 or 25.59% compared with total revenues for the fiscal year 2014 ($1,950,638).

Total expenditures, for fiscal year 2015 amounted $1,162,406 and represented a decrease of $101,959 or 8.06% compared with total expenses for fiscal year 2014 ($1,264,365).

Total revenues exceeded total expenditures by $289,065, which resulted in an increase in fund balance from $1,159,768 at June 30, 2014 to $1,448,833 at June 30, 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The net position 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, 2015 amounted to $1,650,321 and $359,128, respectively, for a net position of $1,291,193. Net position increased by $275,532 during the fiscal year 2015, compared to the net position balance of $1,015,661 at the end of fiscal year 2014.

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

Total assets increased by $247,436 during fiscal year 2015 when compared to the prior fiscal year. This increase was mainly due to the increase of $227,261 in cash. The increase in cash was mainly due to the excess of revenues over expenditures of $275,532 as a result of the 2015 fiscal year's operations.

Total liabilities decreased by $28,096 during the current fiscal year when compared to the prior fiscal year.

A condensed summary of the statements of net position of the Institute as of June 30, 2015 and 2014 follows:

Condensed Statements of Net Position
As of June 30, 2015 and 2014

	2015	2014
Assets		
Current assets	$ 1,588,209	$ 1,334,085
Prepaid assets	20,475	20,142
Capital assets, net of accumulated depreciation	41,637	48,658
Total assets	$ 1,650,321	$ 1,402,885
Liabilities		
Current liabilities	$ 159,851	$ 195,941
Long term liabilities	199,277	191,283
	359,128	387,224
Net position		
Net investment in capital assets	36,549	48,658
Unrestricted	1,254,644	967,003
	1,291,193	1,015,661
Total liabilities and net assets	$ 1,650,321	$ 1,402,885

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in Net Position

The Institute's net position increased by $275,532 or 27.13% from last year's total net position. Approximately 91% of the Institute's total revenue came from legislative appropriations. During fiscal year 2015, total revenues derived from legislative appropriations decreased by $511,099 or 27.92% when compared with the fiscal year 2014. Also, during the fiscal year 2015, total expenses decreased by $112,494 or 8.73% when compared with fiscal year 2014.

Condensed Statements of Activities
For the years ended June 30, 2015 and 2014

	2015	2014
Program revenues	$ 1,319,570	$ 1,830,669
Fees and charges for services	129,370	117,683
Interest	2,531	2,286
Total revenues	1,451,471	1,950,638
Expenses		
Statistical services	1,175,939	1,288,433
Change in net position	$ 275,532	$ 662,205

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, unassigned 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 2015, the Institute's governmental funds reported and ending fund balance of $1,448,833. The revenues exceeded the expenditures by $289,065; accordingly, the fund balance of the Institute's general fund increased by 24.92% when compared to the total general fund's balance reported in the fiscal year 2014 ($1,159,768).

CAPITAL ASSETS

The Institute's investment in capital assets for its governmental activities as of June 30, 2015 amounted to $206,036, less accumulated depreciation and amortization of $164,399, leaving a book value of $41,637. The investment in capital assets includes office equipment and leasehold improvements.

CAPITAL ASSETS (CONTINUED)

Depreciation Expense

This expense is determined and recorded using a straight-line method over the estimated useful lives of the related 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, 2015, depreciation expense recorded on books amounted to $14,678, and is presented in the statement of activities.

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 the Puerto Rico Institute of Statistics, Calle Quisqueya #57, San Juan, Puerto Rico 00917.

	Governmental Activities
Assets	
Current Assets	
Cash	$ 1,359,160
Cash with fiscal agent	194,424
Accounts receivable	34,625
Prepaid expenses	20,475
Total current assets	1,608,684
Capital assets, net	41,637
Total assets	$ 1,650,321
Liabilities	
Current liabilities:	
Accounts payable	148,558
Accrued liabilities	11,293
Accrued compensated absences, current portion	4,090
Capital lease, current portion	1,546
Total current liabilities	165,487
Non-current liabilities	
Accrued compensated absences, non-current portion	190,099
Capital lease, non-current portion	3,542
Total non-current liabilities	193,641
Total liabilities	359,128
Net position	
Net investment in capital assets	36,549
Unrestricted	1,254,644
Total net position	$ 1,291,193

See accompanying notes to basic financial statements.

Functions / Programs	Expenses	Program Revenues: Fees and Charges for services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:				
Statistical services	$ 1,175,939	$ 129,370	$ 1,319,570	$ 273,001
General Revenues				
Interest				2,531
Change in net position				275,532
Net position, at beginning of year				1,015,661
Net position, at end of year				$ 1,291,193

See accompanying notes to basic financial statements.

	General Fund
ASSETS	
Cash	$ 1,359,160
Cash with fiscal agent	194,424
Receivables	34,625
Prepaid expenses	20,475
Total assets	$ 1,608,684
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	$ 148,558
Accrued liabilities	11,293
Total liabilities	159,851
Fund balance	
Unassigned	1,448,833
Total fund balance	1,448,833
Total liabilities and fund balance	$ 1,608,684

See accompanying notes to basic financial statements.

Total fund balance per Fund Financial Statements	$ 1,448,833
Amounts reported to governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the fund financial statements.	41,637
Liabilities of accrued compensated and capital leases that are not to be paid with current financial resources and therefore, are not reported in fund financial statements.	(199,277)
Net Position of Governmental Activities	$ 1,291,193

See accompanying notes to basic financial statements

	General Fund
REVENUES	
Commonwealth appropriations	$ 1,319,570
Service fees	129,370
Interest	2,531
Total revenues	1,451,471
EXPENDITURES	
Salaries	548,855
Professional services	237,278
Insurance	863
Advertising	1,362
Payroll taxes	53,423
Benefits	83,608
Office supplies	1,948
Travel	5,711
Utilities	38,234
Rent	81,444
Repairs and maintenance	3,168
Capital outlays	17,074
Other	89,438
Total expenditures	1,162,406
Excess of revenues over expenditures	289,065
Fund balance, at beginning of year	1,159,768
Fund balance, at end of year	$ 1,448,833

See accompanying notes to basic financial statements.

Excess of revenues over expenditures- total governmental funds	$ 289,065
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense for the period.	(7,021)
The issuance of long-term debt (e.g. capital leases) provides current financial resources to governmental funds, while the repayment of the long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,566
Some expenses reported in the statement of activities do not require the use of financial resources and therefore, are not reported as expenditures in the governmental funds. This includes the increase in the accrued compensated absences debt.	(8,078)
Change in net position of governmental activities	$ 275,532

See accompanying notes to basic financial statements

	Budget Amounts Original	Budget Amounts Final	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
Revenues				
Commonwealth appropriations	$ 1,333,570	$ 1,319,570	$ 1,319,570	$ -
Miscellaneous income	33,280	33,280	129,370	96,090
Interest	-	-	2,531	2,531
Total revenues	1,366,850	1,352,850	1,451,471	98,621
Expenditures				
Payroll and related liabilities	710,000	710,000	685,886	24,114
Facilities and public services	53,038	53,038	39,202	13,836
Purchased services	114,472	114,472	107,753	6,719
Donations and other distributions	37,350	50,482	43,338	7,144
Transportation	11,300	11,300	5,711	5,589
Professional services	280,093	266,961	237,278	29,683
Other	128,497	114,497	20,493	94,004
Office supplies	7,000	7,000	4,309	2,691
Capital outlays	23,100	23,100	17,074	6,026
Advertising	2,000	2,000	1,362	638
Total expenditures	1,366,850	1,352,850	1,162,406	190,444
Excess of revenues over expenditures	$ -	$ -	$ 289,065	$ 289,065

Note 1 – Governmental environment

Organization

The Puerto Rico Institute of Statistics (the "Institute") was created on August 28, 2003 under the provisions of the "Fundacion para la Reforma de los Sistemas de Recopilación Datos y Estadísticas" ("Ley del Instituto de Estadísticas de Puerto Rico"), and its first year of operations was the fiscal year 2007-2008. The Institute's 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. The Institute has prepared the required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Puerto Rico Institute of Statistics (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

1. The primary government appoints a voting majority of the entity's governing body, and either:

   - A financial benefit/burden exist between the primary government and the entity or
   - The primary government can impose its will on the entity.

2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.

3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

Based on the above criteria, there are no potential component units which should be included as a part of the financial statements.

Note 2 – Summary of significant accounting policies

a. GASB No. 34

The accompanying basic financial statements of the Institute have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as prescribed by the Governmental Accounting Standard Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB No. 34). This statement establishes financial reporting requirements for state and local governments. The Institute has adopted the provisions of GASB No. 34 as well as others statements referred to below.

b. Basic of presentation – fund accounting

The accounts of the Institute are organized on the basis of governmental funds. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues and expenditures. Fund financial statements report detailed information about the Institute's current financial resources. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

c. Governmental funds

The Institute reports the following major governmental fund:

General Fund – This is the Institute's primary operating fund. It accounts for all financial operations, except for those required to be accounted for in another fund, if any.

d. Measurement focus and basis of accounting

Measurement focus refers to what is being measured in the financial statements, while basis of accounting refers to the timing in which transactions are recognized in the operating statements. The governmental funds use a current financial resources measurement focus and are accounted for using the modified-accrual basis of accounting.

Under the modified-accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. when they become both measurable and available. Measurable means that the amount of the transaction can be determined or reasonably estimated. 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. Expenditures are recorded when the related fund liability is incurred, i.e., that the liability will be liquidated with expendable available financial resources.

Note 2 – Summary of significant accounting policies (Continued)

e. Government-wide financial statements

The Government-wide financial statements include the statement of net position and the statement of activities and display information of all the activities of the Institute as a whole. The Institute's activities are considered governmental type. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

f. Net position

Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in government-wide financial statements. Net position might be reported in three (3) categories:

1) **Net investment in capital assets** – it consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of long-term debt that is attributable to the acquisition, construction or improvement of those assets.

2) **Restricted net position** – results when constraints placed on net position use are externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

3) **Unrestricted net position** - this consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

g. Budget

The Budgetary Comparison Schedule – 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 amount classified by GAAP as other financing sources and is generally recognized when cash is received. Expenditures include encumbrances and amount 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.

Note 2 – Summary of significant accounting policies (Continued)

g. Budget (Continued)

On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds as a designation 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 absences 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, 2015 is presented below for the general fund:

Sources / inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 1,451,471
Revenues for which no budget was approved during current year	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance – governmental fund	$ 1,451,471
Uses / outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule	$ 1,162,406
Expenditures for which no budget was approved during current year and encumbrances ant end of year	-
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance – governmental funds	$ 1,162,406

Note 2 – Summary of significant accounting policies (Continued)

h. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the balance sheet of the governmental funds and in the government-wide statement of net position (deficit). The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

2. **Unavailable revenue reported under the modified-basis of accounting –** Amounts collected or to be collected after the availability period are recognized as unavailable revenue in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

i. Non-exchange transactions

GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions" established accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

The Institute's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with generally accepted accounting principles (GAAP). The main difference between the budgetary basis and the GAAP basis used to present the fund financial statements, is that under GAAP basis, encumbrances (i.e. Purchase orders) that do not constitute expenditures or liabilities are reported as designation of fund balances because the commitment will be honored during the next fiscal year. There were no outstanding encumbrances at June 30, 2015.

Note 2 – Summary of significant accounting policies (Continued)

j. Capital assets

Property and equipment purchased or acquired is carried at historical cost or estimated historical cost. The Institute's capitalization policy is to capitalize individual amounts exceeding $500. Other costs incurred for repair and maintenance is expensed as incurred. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental funds financial statements. Depreciation expense is recorded in the government-wide financial statements. Depreciation on all assets is calculated on the straight-line basis over the asset's 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

k. Compensated absences

The Institute's employees accumulate vacations 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's employees accumulate unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. Institute's employees are granted thirty (30) days of vacations and eighteen (18) days of sick leave annually. Vacations may be accumulated up to a 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 vacations up to the maximum allowed.

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 funds 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:

- The Institute's obligations relating to employee's rights to receive compensation for future absences are attributable to employee's services already rendered.
- The obligations relate to right that vest or accumulate.
- Payment for the compensation is probable.
- The amount can be reasonably estimated.

Note 2 – Summary of significant accounting policies (Continued)

k. Compensated absences (Continued)

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 the Institute's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, the matured portion of 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, 2015 amounted to $194,189.

l. Fund balance reporting

GASB Statement No. 54 establishes standards for 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. Additionally, the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement.

Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

GASB No. 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

Non-spendable fund balance - such balance is associated with inventories, prepaid and long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

Restricted fund balance - this category includes amounts that can be spent only for the specific purpose stipulated by constitution, external source providers, or through enabling legislation.

Committed fund balance - this classification includes amounts that can be used only for specific purposes determined by a formal action of the entities' highest level decision making authority.

Note 2 – Summary of significant accounting policies (Continued)

l. Fund balance reporting (Continued)

Assigned fund balance - this classification is intended to be used by the government for specific purposes but do not meet the criteria to be committed.

Unassigned fund balance - it is the residual classification for the government's general fund and includes all expendable amounts no contained in the other classifications.

m. Use of estimates

The preparation of the 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 at the date of the basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 – Risk financing

The Institute carries commercial insurance to cover casualty, theft, claims and other losses. The Administration's current insurance policies have not been cancelled or terminated. For workers compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers compensation to the Institute's employees in case of injuries in the workplace.

Note 4 – Custodial credit risk

The Institute maintains its cash deposits with Government Development Bank of Puerto Rico ("GDB") (a governmental bank), whose balance amounting to $197,899 as of June 30, 2015, is not insured. Also, the Institute maintains cash deposited on private banks, whose balance is over the amount covered by the insurance of the Federal Deposit Insurance Corporation (FDIC) by $859,040.

Note 5 – Accounts receivable

The balance in accounts receivable as of June 30, 2015 presented in the General Fund is considered collectible and, accordingly, no provision for doubtful accounts has been established. This accounts receivable are related to fees and charges for statistical services provided by the Institute.

Note 6 – Capital assets

Capital assets' activity of the Institute for the fiscal year ended June 30, 2015 consisted of the following:

	Balance as of June 30, 2014	Additions	Retirements	Balance as of June 30, 2015
Capital assets being, depreciated:				
Office equipment	$ 172,612	$ 5,357	$ -	$ 177,969
Leasehold improvements	25,767	2,300	-	28,067
Total capital assets being, depreciated	198,379	7,657	-	206,036
Less accumulated depreciation:				
Office equipment	(135,667)	(11,681)	-	(147,348)
Leasehold improvements	(14,054)	(2,997)	-	(17,051)
Total accumulated depreciation	(149,721)	(14,678)	-	(164,399)
Capital assets, net of accumulated depreciation	$ 48,658	$ (7,021)	$ -	$ 41,637

Depreciation expense was charged to the statistical services function in the government-wide statement of activities.

Note 7 – 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, 2015:

	Balance as of June 30, 2014	Net Change	Balance as of June 30, 2015	Due within one year
Governmental Activities:				
Capital Lease	$ 6,654	$ (1,566)	$ 5,088	$ 1,546
Compensated absences	186,111	8,078	194,189	4,090
	$ 192,765	$ (6,512)	$ 199,277	$ 5,636

Note 7 – Long-term liabilities (continued)

The Institute is obligated under a capital lease that expires on 2019 for equipment, and is included in the accompanying government-wide statement of net position within capital assets. The present value of future minimum capital lease payments at June 30, 2015 reported in the accompanying government-wide statement of net position is as follows:

Year ending June 30,	
2016	$ 1,740
2017	1,740
2018	1,740
2019	435
Total future minimum lease payments	5,655
Less amount representing interest costs	(567)
Present value of minimum lease payments	$ 5,088

Amortization charge applicable to the capital lease and included within depreciation expense of capital assets amounted to $1,566 in 2015.

Note 8 – Defined Contribution Plan

On September 1, 2008, the Institute acquired a Defined Compensation Plan 165 (c) 401 (k) named Puerto Rico Institute of Statistics 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, if the employee has reached his 21th birthday and has 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 and earnings with the financial company John Hancock, which is the administrator of the plan. The amount contributed during the year ended June 30, 2015 amounted to $35,264.

Note 9 – Commitments

Operating leases

The Institute leases its office facilities under an operating lease with a term of approximately four years, expiring in June 30, 2016. The 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 government-wide financial statements. For the fiscal year ended June 30, 2015, rent expenditures under the above operating leases aggregated approximately to $79,704. The future minimum lease payments under these operating leases for the year ended June 30, 2016 is $83,700.

Note 12 – Future adoption of accounting pronouncements

- **GASB Statement No. 72, Fair Value Measurement and Application:** The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value applications guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concept Statements No. 6, *Measurement Elements of Financial Statements*, and other relevant literature. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

- **GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement and Amendments to Certain Provisions of GASB Statements 67 and 68:** The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement established requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016.

- **GASB No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans:** The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.*

Note 12 – Future adoption of accounting pronouncements (Continued

- **GASB No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (Continued):**

  It also includes requirements for defined contribution OPEB plans that replace the requirements fotr those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans an Notes Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016.

- **GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions:** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about the financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement 57, *OPEB Measurements by Agent Employers and Agent Multi-Employers Plans, for OPEB*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017.

- **GASB No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments:** The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy consists of the sources of accounting principles used to prepare the financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the authoritative of GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015.

- **GASB No. 77, Tax Abatement Disclosures:** Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bonds analysts, and others with information they need to evaluate the financial health of governments., makes decisions, and assess accountability. Accordingly, financial statement users need information about certain limitations on government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

Note 12 – Future adoption of accounting pronouncements (Continued

GASB No. 77, Tax Abatement Disclosures (Continued):

For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Also, Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015.

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

Note 13 – Subsequent events

Subsequent events were evaluated through September 30, 2015, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements, except as noted in the following paragraphs.

On June 29 2015, the Governor of Puerto Rico issued an executive order (EO 2015-022) to create a Working Group for the Fiscal and Economic Recovery of Puerto Rico. As stated on the executive order, this group will be leaded by the Secretary of the Government, the President of the Governmental Development Bank, the Secretary of Justice, the President of the Senate and the President of the House of Representatives.

This Working Group is responsible for the development of a plan and recommendations to the Governor for the Fiscal and Economic Recovery of Puerto Rico.

In connection with the fiscal and economic emergency that faces the Government of Puerto Rico (the Government), the Working Group and its advisors examined the various causes of the fiscal and economic challenges of the Government, and identified the potential reform measures to address these challenges.

Note 13 – Subsequent events (Continued)

On September 9, 2015, the Working Group issued a draft of a Fiscal and Economic Growth Plan (FEGP) for Puerto Rico. The Working Group developed the FEGP, setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Government's projected financial gaps.

In order to ensure compliance with the FEGP measures, the Working Group proposes the implementation of a control board and new budgetary regulations, pursuant to the proposed legislation known as the Fiscal Responsibility and Economic Revitalization Act (FRERA).

In addition to local policy reforms, the Working Group believes that meaningfully changes to US federal policies are critical to the ability of the Government to meet its debt service requirements while providing funding for essential services to its residents. Also, the Working Group believes that the Government of Puerto Rico must have an orderly process to restructure its liabilities.

Even after the implementation of the FEGP, which is subject to significant political and execution risk, the Working Group's projection suggests that the Government cannot meet all of its debt service requirements as currently scheduled and must restructure its liabilities. Also, the Working Group recognizes that the restructure of the government's debt would result in hardship to individual bondholders. Unless the persistent stagnation of Puerto Rico's economy that has helped fuel the increase in the Government's debt over the past decade can be reversed, the public debt is not sustainable.

The impact of the implementation of the above governmental reforms and plans measures, over the financial statements and operations of the Institute, cannot be determined at the date of issuance of these financial statements.