

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

**FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

**FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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# Llavona - Casas, CPA PSC

Certified Public Accountants and Consultants

Members of:  
Puerto Rico Society of Certified Public Accountants  
American Institute of Certified Public Accountants  
Association of Certified Fraud Examiners

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities of the Instituto de Estadísticas de Puerto Rico ("the Institute"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2012, which collectively comprise the Institute's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Institute. Our responsibility is to express an opinion on these financial statements based on our audit.

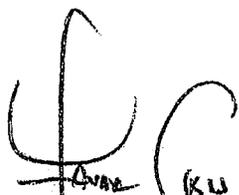
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Institute as of June 30, 2012, 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.

The management's discussion and analysis on pages 2 through 8 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico  
October 11, 2012



  
LLAYONA - CASAS, CPA PSC  
Licencia Número. 226  
Expira el 31 de diciembre de 2012

The stamp number E-35806  
was affixed to the original report.

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

**MANAGEMENT DISCUSSION AND ANALYSIS<sup>1</sup>  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The management of the Instituto de Estadísticas de Puerto Rico (“the Institute”) provides this Management’s Discussion and Analysis (“MD&A”) for the readers of the Institute’s basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the Institute for the fiscal year ended June 30, 2012, and is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Institute’s financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information together with the Institute’s basic financial statements that follow.

**FINANCIAL HIGHLIGHTS**

**General Fund Highlights**

- Total General Fund actual revenues on a budget basis (excluding other financing sources) for fiscal year 2012 was \$814,424, representing an increase of \$76,424, or 10.3%, from original budgeted revenues.
- Total expenditures of \$741,954 represented an increase of \$36,713 or 5.2% from 2011 actual expenditures on a budget basis.
- The General Fund balance for fiscal year 2012 was increased by \$43,227, a 9% increase in the General Fund when compared to fiscal year 2011.

**Government-wide Highlights**

- The Institute reported net assets at year-end of \$435,615, comprised of \$672,496 in total assets offset by \$236,881 in total liabilities.
- The Institute’s net assets at year end increased by \$11,526 as a result of this year’s operations.
- Total liabilities at year end were \$236,881 in governmental activities.

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- The Institute's governmental activities had total revenues of \$818,424, which were more than total expenses of \$806,898.

**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.

**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 \$742,000.

**Expenditures**

Expenditures consist principally of grants and subsidies, personal services, other services, materials and supplies, equipment purchases, capital outlays, debt service and transfers. Total operating expenses amounted \$806,898. The most significant expenses were salaries and professional services in the amount of \$394,420 and \$126,730, respectively.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

**Government-wide Financial Statements**

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

**Fund Financial Statements**

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

The services provided by the Institute are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short term view of the Institute's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Institute. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

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

**Notes to Basic Financial Statements**

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

**GENERAL FUND FINANCIAL ANALYSIS**

Total General Fund revenues for fiscal year 2012 were \$818,424, which represented: a) an increase of \$16,497, or 2% of actual revenues for fiscal year 2011; and b) an increase of \$103,162, or 13.9% of the estimated revenues for fiscal year 2012.

Total expenditures for fiscal year 2012 were approximately \$775,197 and represented an increase of \$33,197 or 4.5% of original budgeted expenditures. Total General Fund revenues exceeded total expenditures by 43,227, or 5.6%. The difference between total General Fund revenues and total expenditures is referred to herein as "excess of revenues over expenditures". For fiscal year 2012, the excess of revenues over expenditures compares favorably to the deficit for fiscal year 2011 of \$43,235.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Assets**

Net assets may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Institute at June 30, 2012 amounted to \$672,496 and \$236,881, respectively, for net assets of \$435,615, compared to the net assets of \$424,089 beginning of the current year.

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

Total assets increased by \$46,467 during fiscal year 2012 when compared to the prior fiscal year. This increase is mainly to the increase of \$67,619 in unrestricted and cash equivalents and the reduction of \$22,536 in capital assets. The reduction in cash was mainly due to the funding of capital projects.

Total liabilities increased by \$34,941 during the current fiscal year when compared to the prior fiscal year.

**Summary of Net Assets**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current assets	\$ 630,738	\$ 566,119
Capital assets, net of accumulated depreciation	22,232	44,768
Prepaid assets	19,526	15,142
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 672,496</u>	<u>\$ 626,029</u>
<b>Liabilities and Net Assets</b>		
Current liabilities	\$ 130,717	\$ 104,941
Long term liabilities	106,164	96,999
Invested in capital assets	22,232	44,768
Net Assets - unrestricted	413,383	379,321
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 672,496</u>	<u>\$ 626,029</u>

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Changes in Net Assets**

The Institute's net assets increased by \$11,526 or 2.7% from last year's total net assets. Approximately 99.5% of the Institute's total revenue came from legislative appropriations, while the remaining .5% resulted from interests. The Institute's largest expenses were for salaries and professional services, which presented a combined decrease of \$18,943, or 3.5% when compared with prior fiscal year.

**Changes in of Net Assets**

	<u>2012</u>	<u>2011</u>
Program Revenues - General Fund	\$ 742,000	\$ 263,000
Stabilization Fund	-	479,000
Earned Income	72,610	53,000
General Revenues	<u>3,814</u>	<u>6,927</u>
 Total Revenues	 818,424	 801,927
 Expenses	 <u>806,898</u>	 <u>877,232</u>
 Changes in Net Assets	 <u>\$ 11,526</u>	 <u>\$ (75,305)</u>

**GOVERNMENTAL FUNDS**

The focus of the Institute's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Institute's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2012, the Institute's governmental funds reported combined ending fund balance of \$519,547. The revenues exceeded the expenditures by \$43,227. Prior year, the excess of expenditures over revenue amounted to \$43,235; accordingly, the fund balance of the Institute's general fund increased by 9% decrease when compared to total general fund balance reported in fiscal year 2011.

**CAPITAL ASSETS**

The Institute's investment in capital assets for its governmental activities as of June 30, 2012 amounts to \$143,121, less accumulated depreciation and amortization of \$120,889, leaving a book value of \$22,232. This investment in capital assets includes office equipment and leasehold improvements.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Depreciation Expense**

This expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2012, \$23,708 was recorded for depreciation expense in the statement of activities.

**Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2012, expenditures totaling \$1,172 were capitalized and recorded as assets of the Institute. These additions to the Institute's capital assets will be depreciated over time as described above. The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$22,536 for the fiscal year ended June 30, 2012.

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

**Requests for Information**

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 630,738
Prepaid expenses	19,526
Capital assets:	
Office equipment and furniture and	130,614
Leasehold improvements	12,507
Less: accumulated depreciation	<u>(120,889)</u>
Net capital assets	<u>22,232</u>
<b>Total Assets</b>	<b><u><u>\$ 672,496</u></u></b>
<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	115,228
Accrued liabilities	15,489
Long term liabilities - compensated absences:	
Due within one year	34,865
Due in more than one year	<u>71,299</u>
Total Liabilities	<u>236,881</u>
Net assets:	
Invested in capital assets	22,232
Unrestricted	<u>413,383</u>
Total Net Assets	<u>435,615</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 672,496</u></u></b>

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

		Program Revenues	Net (expenses) revenues and changes in net assets
Activities:	Expenses		
		Operating grants and contributions	Governmental Activities
Governmental:			
Statistics services	\$806,898	\$814,610	\$7,712
General revenues:			
Interest			3,814
Change in net assets			11,526
Net assets - beginning			424,089
Net assets - ending			\$435,615

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2012**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash	\$ 630,738
Prepaid expenses	<u>19,526</u>
<b>Total Assets</b>	<u><u>\$ 650,264</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 115,228
Accrued liabilities	<u>15,489</u>
<b>Total Liabilities</b>	130,717
<b>FUND EQUITY</b>	
Fund balance:	
Unassigned	<u>519,547</u>
Total fund balance	<u>519,547</u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 650,264</u></u>

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**RECONCILIATION OF GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2012**

Total Governmental Fund Balance	\$ 519,547
Amounts reported for governmental activities in the Statements of Net Assets are different because:	
Capital assets and unamortized expenses used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet:	
Cost of capital assets	\$ 143,121
Accumulated depreciation	<u>(120,889)</u> 22,232
Long term liabilities are not due and in the current period and, therefore, are not reported in the funds:	
Compensated absences are included as a liability	<u>(106,164)</u>
Net Assets of Governmental Activities	<u>\$ 435,615</u>

The following notes are an integral part of the financial statements.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>General Fund</b>
<b>REVENUES</b>	
Revenues from state sources	\$ 742,000
Earned income	72,610
Interests	3,814
<b>Total Revenues</b>	<b>818,424</b>
 <b>EXPENDITURES</b>	
Salaries	385,255
Professional services	126,730
Insurance	1,108
Advertising	600
Payroll taxes	37,917
Benefits	67,067
Office supplies	2,002
Travel	7,307
Utilities	38,797
Rent	69,990
Repairs and maintenance	4,926
Capital outlays	3,320
Other	30,178
<b>Total Expenditures</b>	<b>775,197</b>
Excess of revenues over expenditures	43,227
Fund balance - beginning of year	476,320
Fund balance - ending of year	<b>\$ 519,547</b>

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

**Excess of revenues over expenditures - total governmental funds** \$ 43,227

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

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

Capital outlays	1,172
Current year depreciation	<u>(23,708)</u>
	(22,536)

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

Increase in compensated absences	<u>(9,165)</u>
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**Change in net assets of governmental activities** \$ 11,526

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

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

**FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues:</b>				
State services	\$ 742,000	\$ 742,000	\$ 742,000	\$ -
Earned Income	-	-	72,610	72,610
Earnings on deposits	-	-	3,814	3,814
Total revenues	<u>742,000</u>	<u>742,000</u>	<u>818,424</u>	<u>76,424</u>
<b>Expenditures:</b>				
Payroll and related expenses	488,626	488,626	488,626	-
Facilities and public services	39,600	39,600	39,600	-
Purchased services	85,431	82,235	82,190	45
Transportation	3,000	3,000	3,000	-
Professional services	120,000	114,738	114,738	-
Other	2,343	7,605	7,604	1
Office supplies	2,000	2,956	2,956	-
Capital outlays	1,000	3,240	3,240	-
Total expenditures	<u>742,000</u>	<u>742,000</u>	<u>741,954</u>	<u>46</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,470</u>	<u>\$ 76,470</u>

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

**Financial reporting entity**

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

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Basis of presentation, measurement focus and basis of accounting**

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

**Management Discussion and Analysis**

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

**Basic financial statements**

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

**Government-wide statements**

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

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

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2012 has been reported only in the government wide financial statements.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

**Fund Accounting**

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

**Deposits**

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

**Receivables**

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

**Inventories**

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets**

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

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

Office equipment and furniture	5 years
Leasehold improvements	5 years

**Compensated Absences**

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

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

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

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

In accordance with the above criteria and requirements as established by GASB No. 16; the Institute has accrued a liability for compensated absences, which has been earned but not taken by Institute's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following years. For the governmental funds statements, the current portion for compensated absences is only considered and represents a reconciling item between the fund level and government-wide presentation. Accrued compensated absences for the fiscal year ended June 30, 2012 amounted to \$106,164.

**Encumbrances**

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

**Net assets and reservations of fund balance**

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

**Fund Balance Categories**

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

**Use of Estimates**

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

**Future Adoption of Accounting Pronouncements**

The GASB has issued the following accounting standards that have effective dates after June 30, 2012:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This statement is effective for periods beginning after June 15, 2012.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of this Statement are effective for periods beginning after December 15, 2011.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement is effective for periods beginning after December 15, 2011.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This statement is effective for periods beginning after June 15, 2012.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities*. This statement is effective for periods beginning after December 15, 2012.
  
- GASB Statement No. 66, *Technical Corrections 2012 - an Amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.

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

**NOTE B - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING**

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

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

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

The presentation of the budgetary data excludes long-term obligations such as compensated absents and depreciation charges for capital assets. Historically, those obligations have been budgeted on a pay as you go basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2012 is presented below for the general fund:

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JUNE 30, 2012**

**NOTE B - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING  
(CONTINUED)**

Actual amounts (budgetary basis) charged to appropriations	\$ 741,954
Prior year encumbrances recorded as current year expenditures	<u>33,243</u>
Total expenditures as reported on the statment of revenues, expenditures, and changes in fund balance	<u><u>\$ 775,197</u></u>

**NOTE C - DEPOSITS**

The Institute maintains its cash deposits with the Government Development Bank for Puerto Rico (“GDB”) (a governmental bank) and in a private bank. At year-end, the Institute’s bank balance of deposits in the private bank are exposed to custodial credit risk in the amount of \$47,769.

**NOTE D - CAPITAL ASSETS**

The capital assets activity for the year ended June 30, 2012 was as follows:

Description	Beginning Balance	Additions	Ending Balance
Office equipment	\$ 129,442	\$ 1,172	\$ 130,614
Leasehold improvements	12,507	-	<u>12,507</u>
Total Historical Cost	141,949	1,172	143,121
Less: Accumulated Depreciation	<u>(97,181)</u>	<u>(23,708)</u>	<u>(120,889)</u>
Net Capital Assets	<u>\$ 44,768</u>	<u>\$ (22,536)</u>	<u>\$ 22,232</u>

Depreciation expense was charged to governmental administration function as an administrative expenditure for a total amount of \$23,708.

**NOTE E - COMMITMENTS - OPERATING LEASES**

The Institute leases its office facilities under an operating lease with a term of approximately 4 years, expiring in June 30, 2016. Lease agreement contains a renewal option and provides for an annual increase in rent of approximately 2.8%. Also, the Institute has operating leases for equipment which do not give rise to property rights of lease obligations and, therefore, are not reflected in the Institute’s governmental fund statements. For the fiscal year ended June 30, 2012, rent expenditures under the above operating leases aggregated approximately \$69,990. The future minimum lease payments under this operating lease are as follows:

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**JUNE 30, 2012**

**NOTE E - COMMITMENTS - OPERATING LEASES (CONTINUED)**

<u>Year ended June 30,</u>	
2013	\$ 72,306
2014	75,924
2015	79,704
2016	83,700
	<u>\$ 311,634</u>

**NOTE F - DEFERRED CONTRIBUTION PLAN**

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

The Institute matches the contribution up to a maximum of 9.275% of the employee's monthly compensation. The Institute deposits the accumulated costs with the John Hancock, which is the Administrator of the plan. The amount contributed during the year ended June 30, 2012 amounted to \$21,690.

**NOTE G - SUBSEQUENT EVENTS**

For the year ended June 30, 2012, the Institute adopted the ASC 855 relating to *Subsequent Events*. The ASC 855 establishes general standards for the accounting and disclosure of events occurring after the date of the balance sheet, but before the date of issuance of the financial statements. Specifically, it sets the period after the date of the status during which the Institute management should assess events or transactions that could occur and would need to be recorded or disclosed in the financial statements, the circumstances under which the Institute should recognize and disclose these events, and the type of disclosure should be provided for these events occurring after the date of the status.

According to the ASC 855, the Institute evaluated subsequent events up to October 11, 2012, when these financial statements were ready to be emitted. The Institute's management understands that no material event occurred subsequent to June 30, 2012 that requires registration or need additional disclosure in the financial statements.