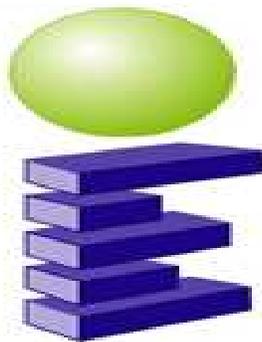


**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO INSTITUTE OF STATISTICS  
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



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

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## 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, 2016, 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.

## 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, 2016, 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.



**LOPEZ VEGA, CPA, PSC**

San Juan, Puerto Rico  
October 28, 2016

Stamp No. 2728538 of the  
Puerto Rico Society of Certified  
Public Accountants was affixed to  
the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

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, 2016, 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 2016 amounted to \$2,676,460, representing an increase of \$1,224,989 or 84.40% compared to fiscal year 2015 total revenues of \$1,451,471.
- Total expenditures for fiscal year 2016 amounted to \$1,662,402, representing an increase of \$499,996 or 43.01% compared to the expenditures of fiscal year 2015.
- The General Fund's ending fund balance for fiscal year 2016 amounted to \$2,462,891, and increased by \$1,014,058, or 70% when compared to fiscal year 2015.

#### **Government-wide Highlights**

- The Institute reported total assets amounting \$2,638,580 at June 30, 2016. The major category of assets consisted of cash balance available amounting to \$2,574,946, which represents 97.59% of total assets at that date.
- Total liabilities at June 30, 2016, amounted to \$296,755. The major categories of liabilities consisted of accounts payable (\$118,530) and accrued compensated absences (\$159,693).
- The Institute's net position increased by \$1,050,632 as a result of current fiscal year's operations.
- The Institute's capital assets, net of accumulated depreciation, amounted to \$42,149, which represents an increase of \$512 compared with prior fiscal year balance of \$41,637.

#### **General Fund Budgetary Highlights**

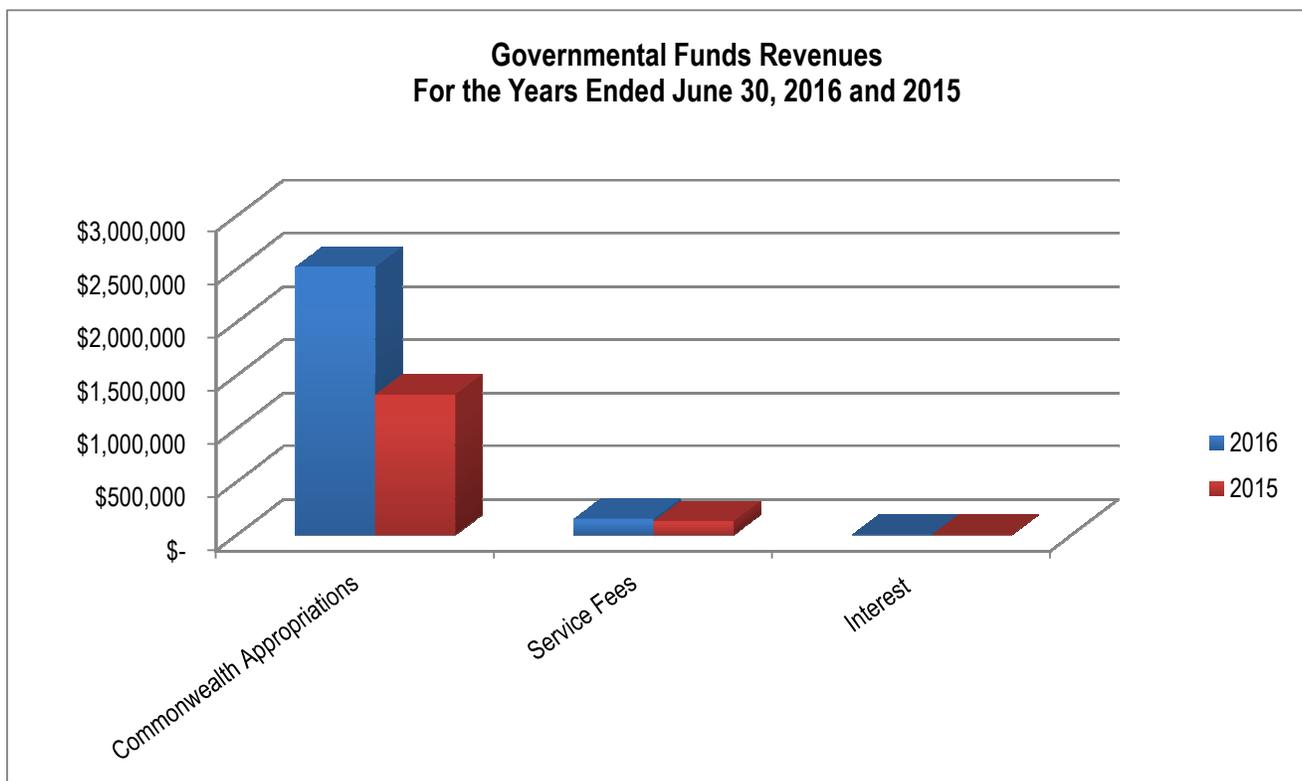
The Institute's budget is approved by its Board of Directors. The only budgeted fund is the General Fund, whose budget was established and amended during the year to recognize the planned expenditures and additional information that became known during the fiscal year. The Board of Directors approved a budget of \$2,736,957 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 \$2,521,000. Other revenues amounted to \$155,460.

The following chart presents a revenues comparison of the Institute's activities for the years ended June 30, 2016 and 2015:



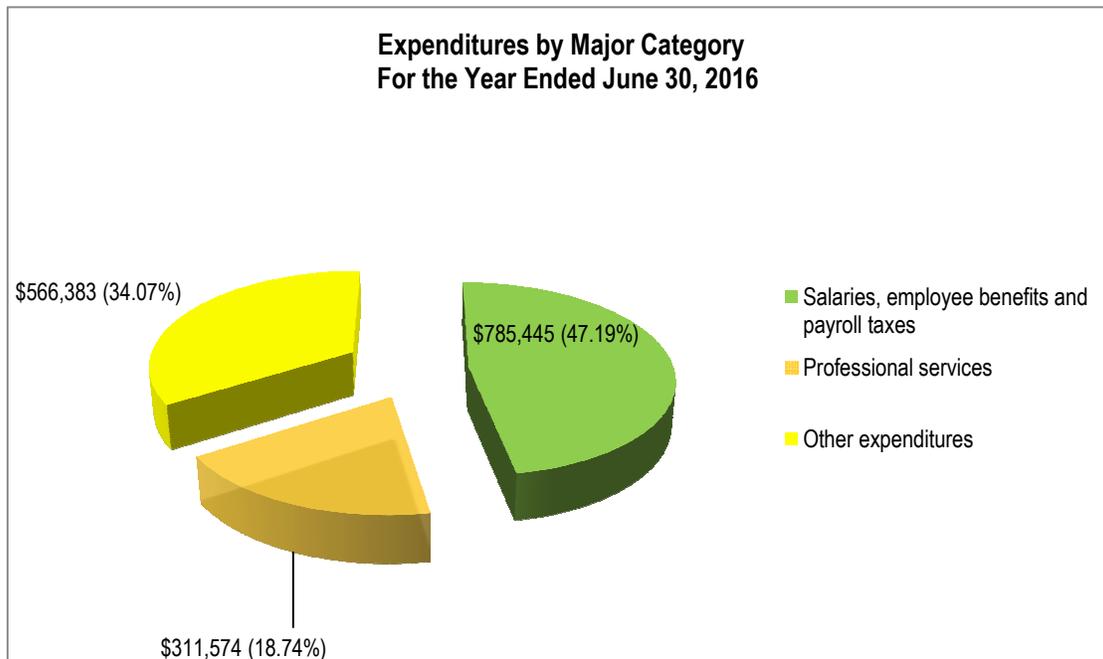
### Expenditures

Expenditures consist primarily of salaries and employee benefits, professional services, rent, utilities, materials and supplies and capital outlays. Total operating expenditures amounted to \$1,662,402. The most significant expenditures were salaries, employee benefits and payroll taxes (\$784,445), and professional services (\$311,574), which represent 47.19% and 18.74% 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, 2016:



## 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 statement provides 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 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'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 2016 amounted to \$2,676,460, which represents an increase of \$1,224,989 or 84.40% when compared with total revenues for the fiscal year 2015 (\$1,451,471).

Total expenditures for fiscal year 2016 amounted \$1,662,402 and represented an increase of \$499,996 or 43.01% when compared with total expenditures for fiscal year 2015 (\$1,662,406).

Total revenues exceeded total expenditures by \$1,014,058, which resulted in an increase in fund balance from \$1,448,833 at June 30, 2015 to \$2,462,891 at June 30, 2016.

**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, 2016 amounted to \$2,638,580 and \$296,755, respectively, for a net position of \$2,341,825. Net position increased by \$1,050,632 during the fiscal year 2016, compared to the net position balance of \$1,291,193 at the end of fiscal year 2015.

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 \$988,259 during fiscal year 2016 when compared to the prior fiscal year. This increase was mainly due to the increase of \$1,021,362 in cash. The increase in cash was mainly due to the excess of revenues over expenditures of \$1,050,632 as a result of the 2016 fiscal year's operations.

Total liabilities decreased by \$62,373 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, 2016 and 2015 follows:

**Condensed Statements of Net Position  
 As of June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current assets	\$ 2,582,931	\$ 1,588,209
Prepaid assets	13,500	20,475
Capital assets, net of accumulated depreciation	<u>42,149</u>	<u>41,637</u>
 Total assets	 \$ 2,638,580 =====	 \$ 1,650,321 =====
<b>Liabilities</b>		
Current liabilities	\$ 148,396	\$ 159,851
Long term liabilities	<u>148,359</u>	<u>199,277</u>
 Total liabilities	 <u>296,755</u>	 <u>359,128</u>
 <b>Net position</b>		
Net investment in capital assets	38,547	36,549
Unrestricted	<u>2,303,278</u>	<u>1,254,644</u>
 Total net position	 <u>2,341,825</u>	 <u>1,291,193</u>
 Total liabilities and net position	 \$ 2,638,580 =====	 \$ 1,650,321 =====

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Changes in Net Position**

The Institute's net position increased by \$1,050,632 or 81.37% from last year's total net position. Approximately 94% of the Institute's total revenue came from legislative appropriations. During fiscal year 2016, total revenues derived from legislative appropriations increased by \$1,201,430 or 91.05% when compared with the fiscal year 2015. Also, during the fiscal year 2016, total expenses increased by \$449,889 or 38.26% when compared with fiscal year 2015.

**Condensed Statements of Activities  
 For the years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Program revenues	\$ 2,521,000	\$ 1,319,570
Fees and charges for services	152,048	129,370
Interest	<u>3,412</u>	<u>2,531</u>
Total revenues	2,676,460	1,451,471
Expenses		
Statistical services	<u>1,625,828</u>	<u>1,175,939</u>
Change in net position	\$ 1,050,632 =====	\$ 275,532 =====

**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 2016, the Institute's governmental funds reported and ending fund balance of \$2,462,891. The revenues exceeded the expenditures by \$1,014,058; accordingly, the fund balance of the Institute's general fund increased by 70% when compared to the total general fund's balance reported in the fiscal year 2015 (\$1,448,833).

**CAPITAL ASSETS**

The Institute's investment in capital assets for its governmental activities as of June 30, 2016 amounted to \$221,183, less accumulated depreciation and amortization of \$179,034, leaving a book value of \$42,149. 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, 2016, depreciation expense recorded on books amounted to \$18,104, and is presented in the statement of activities.

## ECONOMIC FACTORS

The Commonwealth of Puerto Rico (the Commonwealth) and its instrumentalities are currently facing a severe fiscal and liquidity crisis. This is the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Also, credit rating agencies have been downgrading their ratings on the Commonwealth debt obligations based on, among other problems, years of deficit financing, pension underfunding, budgetary imbalance, and as mentioned before, years of prolonged recession.

As more fully explained in Note 12 to the financial statements, the Governments of the United States of America and the Commonwealth of Puerto Rico have approved and implemented certain laws to overcome this crisis. Following are some of the measurements implemented to this end:

- **Puerto Rico Fiscal and Economic Growth Plan** - On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth's projected financing gaps.
- **Puerto Rico Emergency Moratorium and Financial Rehabilitation Act** - On April 6, 2016, the Legislature approved Act No. 21, known as the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the Act). This Act empowers the Governor with narrowly tailored authority within the boundaries of the Commonwealth's laws and Constitution, to enable the Commonwealth and its instrumentalities to continue providing essential services to Puerto Rico's residents while addressing the critical need for structural and fiscal reform and debt.
- **Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)** - On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances.

### 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.

	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets:	
Cash	\$ 2,573,388
Cash with fiscal agent	1,558
Accounts receivable	7,985
Prepaid expenses	<u>13,500</u>
Total current assets	2,596,431
Capital assets, net	<u>42,149</u>
Total assets	<u>\$ 2,638,580</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	118,530
Accrued liabilities	15,010
Accrued compensated absences, current portion	13,243
Capital lease, current portion	<u>1,613</u>
Total current liabilities	<u>148,396</u>
Non-current liabilities	
Accrued compensated absences, non-current portion	146,450
Capital lease, non-current portion	<u>1,909</u>
Total non-current liabilities	<u>148,359</u>
Total liabilities	<u>296,755</u>
<b>Net position</b>	
Net investment in capital assets	38,547
Unrestricted	<u>2,303,278</u>
Total net position	<u>\$ 2,341,825</u>

See accompanying notes to basic financial statements.

Functions / Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Fees and Charges for services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Statistical services	<u>\$ 1,625,828</u>	<u>\$ 152,048</u>	<u>\$ 2,521,000</u>	\$ 1,047,220
General Revenues				
Interest				<u>3,412</u>
Change in net position				1,050,632
Net position, at beginning of year				<u>1,291,193</u>
Net position, at end of year				<u>\$ 2,341,825</u>

See accompanying notes to basic financial statements.

	<u>General Fund</u>
<b>ASSETS</b>	
Cash	\$ 2,573,388
Cash with fiscal agent	1,558
Receivables	7,985
Prepaid expenses	<u>13,500</u>
 Total assets	 <u>\$ 2,596,431</u>
 <b>LIABILITIES AND FUND BALANCE</b>	
Liabilities	
Accounts payable	\$ 118,530
Accrued liabilities	<u>15,010</u>
 Total liabilities	 <u>133,540</u>
 Fund balance	
Unassigned	<u>2,462,891</u>
 Total fund balance	 <u>2,462,891</u>
 Total liabilities and fund balance	 <u>\$ 2,596,431</u>

See accompanying notes to basic financial statements.

Total fund balance per Fund Financial Statements	\$ 2,462,891
Amounts reported in 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.	42,149
Liabilities of accrued compensated absences and capital leases that are not to be paid with current financial resources and therefore, are not reported in fund financial statements.	<u>(163,215)</u>
Net position of governmental activities	<u>\$ 2,341,825</u>

See accompanying notes to basic financial statements

	<u>General Fund</u>
<b>REVENUES</b>	
Commonwealth appropriations	\$ 2,521,000
Service fees	152,048
Interest	<u>3,412</u>
Total revenues	<u>2,676,460</u>
<b>EXPENDITURES</b>	
Salaries	636,366
Professional services	311,574
Insurance	956
Advertising	2,832
Payroll taxes	60,045
Benefits	88,034
Office supplies	3,954
Travel	8,202
Utilities	36,273
Rent	90,487
Repairs and maintenance	4,271
Capital outlays	26,035
Licenses	253,456
Other	<u>139,917</u>
Total expenditures	<u>1,662,402</u>
Excess of revenues over expenditures	1,014,058
Fund balance, at beginning of year	<u>1,448,833</u>
Fund balance, at end of year	<u>\$ 2,462,891</u>

See accompanying notes to basic financial statements.

Excess of revenues over expenditures- total governmental funds	\$ 1,014,058
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.	512
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.	1,565
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 net decrease in the accrued compensated absences debt.	<u>34,497</u>
Change in net position of governmental activities	<u>\$ 1,050,632</u>

See accompanying notes to basic financial statements

	<u>Budget Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Commonwealth appropriations	\$ 2,808,957	\$ 2,736,957	\$ 2,521,000	\$ (215,957)
Miscellaneous income	-	-	152,048	152,048
Interest	-	-	3,412	3,412
Total revenues	<u>2,808,957</u>	<u>2,736,957</u>	<u>2,676,460</u>	<u>(60,497)</u>
<b>Expenditures:</b>				
Payroll and related liabilities	885,457	885,590	784,445	101,145
Facilities and public services	47,761	47,761	36,758	11,003
Purchased services	144,968	148,582	125,220	23,362
Donations and other distributions	100,000	115,000	86,485	28,515
Transportation	22,000	22,000	8,202	13,798
Professional services	1,135,840	1,048,840	311,574	737,266
Other	70,140	66,393	16,251	50,142
Office supplies	17,500	17,500	11,143	6,357
Capital outlays and licenses	380,291	380,291	279,492	100,799
Advertising	<u>5,000</u>	<u>5,000</u>	<u>2,832</u>	<u>2,168</u>
Total expenditures	<u>2,808,957</u>	<u>2,736,957</u>	<u>1,662,402</u>	<u>1,074,555</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,014,058</u>	<u>\$ 1,014,058</u>

See accompanying notes to the financial statements.

## **Note 1 – Governmental environment**

### **Organization**

The Puerto Rico Institute of Statistics (the “Institute”) was created on August 28, 2003 under the provisions of the “Fundación 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 of Directors 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 general 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 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, 2016 is presented below for the general fund:

**Sources / inflows of resources:**

Actual amounts (budgetary basis) “available for appropriation” from the budgetary comparison schedule	\$ 2,676,460
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	<u>\$ 2,676,460</u>

**Uses / outflows of resources:**

Actual amounts (budgetary basis) “total charges to appropriation” from the budgetary comparison schedule	\$ 1,662,402
Expenditures for which no budget was approved during current year and encumbrances at end of year	_____ -
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance – governmental funds	<u>\$ 1,662,402</u>

## 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 expenditures/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, 2016.

**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, 2016 amounted to \$159,693.

**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)**

**I. 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 \$1,558 as of June 30, 2016, is not insured. (See Note 14)

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 \$2,076,952.

**Note 5 – Accounts receivable**

The balance in accounts receivable as of June 30, 2016 presented in the general fund is considered collectible and, accordingly, no provision for doubtful accounts has been established. These 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, 2016 consisted of the following:

	<u>Balance as of June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of June 30, 2016</u>
Capital assets being, depreciated:				
Office equipment	\$ 177,969	\$ 15,231	\$ (3,469)	\$ 189,731
Leasehold improvements	<u>28,067</u>	<u>3,385</u>	<u>-</u>	<u>31,452</u>
Total capital assets being, depreciated	<u>206,036</u>	<u>18,616</u>	<u>(3,469)</u>	<u>221,183</u>
Less accumulated depreciation:				
Office equipment	(147,348)	(14,736)	3,469	(158,615)
Leasehold improvements	<u>(17,051)</u>	<u>(3,368)</u>	<u>-</u>	<u>(20,419)</u>
Total accumulated depreciation	<u>(164,399)</u>	<u>(18,104)</u>	<u>3,469</u>	<u>(179,034)</u>
Capital assets, net of accumulated depreciation	<u>\$ 41,637</u>	<u>\$ 512</u>	<u>\$ -</u>	<u>\$ 42,149</u>

Depreciation expense of \$18,104 was charged to the statistical services function in the government-wide statement of activities.

**Note 7 – Long-term liabilities**

Long-term includes a capital lease obligation 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, 2016:

	<u>Balance as of June 30, 2015</u>	<u>Net change</u>	<u>Balance as of June 30, 2016</u>	<u>Due within one year</u>
Governmental Activities:				
Capital Lease	\$ 5,087	\$ (1,565)	\$ 3,522	\$ 1,613
Compensated absences	<u>194,190</u>	<u>(34,497)</u>	<u>159,693</u>	<u>13,243</u>
	<u>\$ 199,277</u>	<u>\$ (36,062)</u>	<u>\$ 163,215</u>	<u>\$ 14,856</u>

**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, 2016 reported in the accompanying government-wide statement of net position is as follows:

<b>Year ending June 30,</b>	
2017	1,740
2018	1,740
2019	<u>435</u>
Total future minimum lease payments	3,915
Less amount representing interest costs	<u>(393)</u>
Present value of minimum lease payments	<u>\$ 3,522</u>

Amortization charges applicable to the capital lease, in the amount of \$1,565, are included within depreciation expense of capital assets reported for fiscal year 2016.

**Note 8 – Defined contribution pension plan**

On September 1, 2008, the Institute acquired a Defined Contribution 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, 2016 amounted to \$31,063.

**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, 2021. 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, 2016, rent expenditures under the above operating leases aggregated approximately \$90,487. The future minimum lease payments under these operating leases are as follows:

<b>Year ending June 30,</b>	
2017	\$ 98,367
2018	99,518
2019	101,741
2020	101,944
2021	<u>8,327</u>
Total	<u>\$ 409,897</u>

**Note 12 – Future adoption of accounting pronouncements**

- **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 for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and 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. 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, make 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.

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 December 15, 2015.

**Note 12 – Future adoption of accounting pronouncements (Continued)**

- **GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employers Defined Benefit Pension Plans*:** The objective of this Statement is to address a practice issue regarding the scope and the applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). In addition, this statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities, note disclosures, and required supplementary information for pensions that have characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- **GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*:** This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. In addition, this Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for reporting periods beginning after December 15, 2015.
- **GASB Statement No. 80, *Blending Requirements for Certain Component Units*:** The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion required blending of a component unit incorporated as not-for-profit corporations in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

**Note 12 – Future adoption of accounting pronouncements (Continued)**

- **GASB Statement No. 81, *Irrevocable Split-Interest Agreements*:** The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreements. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts-or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements-in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary.

This Statement required that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreements. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. In addition, requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for period beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

- **GASB Statement No.82, *Pension Issues- an amendment of GASB Statements No. 67, No. 69 and No. 73*:** The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pensions Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No, 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding:
  1. The presentation of payroll-related measures in required supplementary information
  2. The selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes
  3. The classification of payments made by employers to satisfy employee (plan member) contribution requirements

Prior to the issuance of this Statement, Statements 67 and 68 required presentation covered-employee payrolls, which is the payroll of employees that are provided with pensions though the pension plan, and ratios that use the measurement in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

**Note 12 – Future adoption of accounting pronouncements (Continued)**

- **GASB Statement No.82, *Pension Issues- an amendment of GASB Statements No. 67, No. 69 and No. 73 (Continued)*:**

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standard Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. In addition, clarifies that payments made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pension.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

**Note 13 – CONTINGENCIES**

**Puerto Rico Fiscal and Economic Growth Plan**

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth's projected financing 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 proposed legislations known as the Fiscal Responsibility and Economic Revitalization Act (FRERA). The reform measures proposed by the FEGP, including the creation of the Control Board, have been submitted to the Commonwealth Legislature for review and final approval.

All the economic plans prepared and developed by the Government of Puerto Rico, shall be reviewed and approved by the Board established the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)

## Note 13 – CONTINGENCIES (CONTINUED)

### **Puerto Rico Emergency Moratorium and Financial Rehabilitation Act**

The Legislature Assembly of the Commonwealth of Puerto Rico resolved to provide the Governor with powers to declare a state of emergency for the Commonwealth and its instrumentalities, including the Governmental Development Bank (GDB), and declare a moratorium on the payment of certain obligations of those entities. Accordingly, on April 6, 2016, the Legislature approved Act No. 21, known as the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the Act). This Act empowers the Governor with narrowly tailored authority within the boundaries of the Commonwealth's laws and Constitution, to enable the Commonwealth and its instrumentalities to continue providing essential services to Puerto Rico's residents while addressing the critical need for structural and fiscal reform and debt.

The Act provides for moratorium measures that are temporary in nature and only apply upon a finding by the Governor that invoking the provisions of the Act is necessary to provide for health, safety, and welfare of the residents of the Commonwealth. Further, such measures (including the stay on creditor actions) are invoked on an entity-by-entity basis and, without a specification by the Governor of further enumerated obligations, only affect limited financial indebtedness obligations coming due during a temporary period.

In addition, the measures set forth in the Act are crafted with due regard to the rights of Puerto Rico's creditors. The Act does not provide for a composition or discharge of debts; instead, all claims and priorities are preserved, and any unpaid amounts on the obligations of the Commonwealth and its instrumentalities are not forgiven and instead are payable, as set forth in the Act, at the end of any moratorium period to the extent permitted by otherwise applicable law. Further, the Act respects Constitutional priorities by establishing minimum criteria for the payment of the Commonwealth's public debt that may come due during the temporary moratorium period.

On April 8, 2016, the Governor signed the Executive Order No. 2016-010 ("EO No. 2016-010) declaring the GDB to be in a state of emergency pursuant to Act No. 21 and imposing on the GDB certain operational restrictions and debt moratorium.

Also, on April 30, the Governor signed the Executive Order No. 2016-014 ("EO No. 2016-014) and pursuant the provisions established on this order, on May 1, 2016, the GDB failed to make a principal payment of approximately \$367 million in respect of its notes.

Furthermore, on July 1, 2016, the Commonwealth failed to make a principal payment of approximately \$1.1 billion in respect of its General Obligation Bonds.

### **Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)**

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In general, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a Control Board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

## **Note 13 – CONTINGENCIES (CONTINUED)**

### **Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) (Continued)**

To ensure fiscal and economic discipline, PROMESA creates a federally appointed oversight board (the Board) that has plenary authority over Puerto Rico's finances. The Board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets. The Board also has oversight over legislative processes because PROMESA requires the Board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The Board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

The enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions.

In addition, PROMESA contains two (2) mechanisms to adjust Puerto Rico's debts. The first mechanism is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors. The second mechanism is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code.

The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenue or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on a long term basis.

Accordingly, there is no assurance that the federally appointed oversight board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

## **Note 14 – Subsequent events**

Subsequent events were evaluated through October 28, 2016, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except for the event described in the following paragraph.

On August 10, 2016, the Institute entered in to a cooperative agreement with the United States Department of Health and Human Services to manage the Center for Disease Control and Prevention (CDC) program entitled Collecting Violent Death Information Using the National Violent Death Reporting System (NVDRS). The main purpose of the system is to reduce and prevent violent deaths through a surveillance system that provides continuous accurate data. The total amount granted to the Institute under this agreement of federal financial assistance amounted to \$242,286.

**Note 14 – Subsequent events (Continued)**

The Commonwealth and its public entities have not been able to repay its loans from the GDB. This situation has significantly affected the GDB's liquidity and ability to repay its obligations. Accordingly, the GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they are due. Therefore, on May 1, 2016, the GDB failed to make a principal payment of approximately \$367 million in respect of its notes.

On October 18, 2016, the Department of Treasury of Puerto Rico issued Circular Letter No. 1300-08-17, which applied to all Public Corporations and Instrumentalities of the Commonwealth, and all Municipalities. This Circular Letter states that an assessment of a possible loss shall be made on cash and investments deposited on the GDB. Any impairment loss resulting from this evaluation shall be recognized during the fiscal year ended June 30, 2016. As of that date, the balance of the cash of the Institute's account with the GDB amounted to \$1,558. This amount is not considered material in relation to the financial statements. Accordingly, no impairment adjustment was made.