

**INSTITUTO DE ESTADISTICAS
DE PUERTO RICO
(A Component Unit of the
Commonwealth of Puerto Rico)**

**COMPONENT UNIT
FINANCIAL STATEMENTS**

For the fiscal year ended June 30, 2008

INSTITUTO DE ESTADISTICAS DE PUERTO RICO

COMPONENT UNIT FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2008

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SUAREZ NIEVES P.S.C.

VILLA NEVAREZ PROFESSIONAL CENTER, SUITE 303, SAN JUAN PR 00927

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 (Institute), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2008, which collectively comprise the Institute's basic financial statements of net assets, statements of activities, balance sheet-governmental funds, statements of revenues, expenditures and changes in fund balance – governmental funds, and budgetary comparison information. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United Sates of America.

The management's discussion and analysis on pages 4 through 8 and 21 through 23, are not a required part of the basic financial statements but are 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.

SUÁREZ NIEVES P.S.C.

A handwritten signature in cursive script that reads "Suárez Nieves P.S.C.".

November 13, 2008

San Juan, Puerto Rico

The stamp #2321096 of the College of CPA's
of P.R. was affixed to the original of this report.

INSTITUTO DE ESTADISTICAS DE PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
November 13, 2008

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to Instituto de Estadísticas de Puerto Rico's basic financial statements for the fiscal year ended June 30, 2008. The Institute's basic financial statements comprise three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Institute's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Institute's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Institute's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Institute's net assets changed during the most recent fiscal year, using the full accrual basis of accounting.

Both government-wide financial statements include functions of the entity that are principally supported by intergovernmental revenues. The governmental activities of the Institute include a single program function, a general fund.

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. Instituto de Estadísticas de Puerto Rico, like other state and local governments, uses fund accounting to ensure and demonstrate

compliance with finance-related governmental requirements. The fund of the Institute is classified as governmental fund.

Governmental fund is 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, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Summary of Net Assets

The following schedule summarizes the net assets at June 30, 2008:

Assets	
Current Assets	\$533,405
Capital assets, net of accumulated depreciation	<u>80,911</u>
Total assets	<u>\$614,316</u>
Liabilities and Net Assets	
Current Liabilities	\$ 90,314
Net Assets - Unrestricted	<u>524,002</u>
Total liabilities and net assets	<u>\$614,316</u>

Analysis of Financial Position

At the end of the first fiscal year of operation ended June 30, 2008, the Institute's net assets are \$524,002. A few of the more significant factors affecting net assets during the year are discussed below:

Depreciation Expense:

Depreciation 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, 2008, \$5,616 was recorded for depreciation expense in the statement of activities.

Capital Outlay Acquisitions:

For the fiscal year ended June 30, 2008, of expenditures totaling \$86,526 were capitalized and recorded as assets of the Institute. These additions to the Institute's capital assets will be depreciated over time as described above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$80,911 for the fiscal year ended June 30, 2008.

Results of Operations:

For the fiscal year ended June 30, 2008, the changes in net assets were as follows:

	2008	% of Total
Program Revenues - General Fund	\$1,000,000	99%
General Revenues - Earnings on deposit account	<u>7,120</u>	1%
Total Revenues	<u>1,007,120</u>	<u>100%</u>
Expenses	<u>483,118</u>	<u>100%</u>
Changes in Net Assets	<u>\$ 524,002</u>	

Significant revenues and expenses are discussed in the segments below:

1. General Fund – The appropriated amount to the Instituto de Estadísticas de Puerto Rico was \$1,000,000 from the Commonwealth of Puerto Rico general fund.
2. Expenses – During year ended June 30, 2008, total operating expenses amounted \$483,118. The three highest expenses were salaries, \$135,793; professional services, \$133,987; and rent, \$67,750.

Financial Analysis of the Institute's Funds

At June 30, 2008, the Institute's governmental funds reported a combined cash and cash equivalents balance of \$257,178, which is an increase from inception. This is due to the excess of the general fund assigned over expenditures paid during the current year.

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.

Capital Assets

At June 30, 2008 the Institute spent \$86,526 in capital assets, including leasehold improvements, equipment, furniture and fixtures. For this first year of operation depreciation expense and accumulated depreciation amounted to \$5,616.

Factors Bearing on the Institute's Future

At the time that these financial statements were prepared and audited, the Institute was facing a rapid increase in services provided related to various statistical projects educating employees of governmental.

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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

INSTITUTO DE ESTADISTICAS DE PUERTO RICO
 STATEMENT OF NET ASSETS
 June 30, 2008

	Governmental Activities
<u>ASSETS</u>	
Current Assets:	
Cash in bank	\$257,178
Funds receivable	241,816
Prepaid expenses	<u>34,411</u>
Total current assets	<u>533,405</u>
Capital Assets:	
Office equipment and furniture	76,805
Leasehold improvement	9,721
Accumulated depreciation	<u>(5,615)</u>
Total capital assets	<u>80,911</u>
TOTAL ASSETS	<u>\$614,316</u>
<u>LIABILITIES AND NET ASSES</u>	
Current Liabilities:	
Accounts payable	\$ 52,688
Accrued expenses	<u>37,626</u>
Total Liabilities	<u>90,314</u>
Net Assets:	
Invested in capital assets	80,911
Unrestricted	<u>443,091</u>
Total Net Assets	<u>524,002</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$614,316</u>

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

INSTITUTO DE ESTADISTICAS DE PUERTO RICO
 STATEMENT OF ACTIVITIES
 For the year ended June 30, 2008

Functions/Programs	Expenses	<u>Program Revenue State Source</u>	Net (Expenses) Revenue and Changes in Net Assets
Primary Government:			
Governmental Activities:			
Statistics Services	\$ <u>483,118</u>	\$ <u>1,000,000</u>	\$516,882
General Revenues:			
Unrestricted interest earnings			<u>7,120</u>
Change in Net Assets			<u>524,002</u>
Net Assets, beginning of year			<u>-</u>
Net Assets, end of year			<u>\$524,002</u>

GOVERNMENTAL FUND

INSTITUTO DE ESTADISTICAS DE PUERTO RICO

BALANCE SHEET - Governmental Fund

June 30, 2008

	General Fund
<u>ASSETS</u>	
Cash in bank	\$257,178
Funds receivable	241,816
Prepaid expenses	<u>34,411</u>
Total assets	<u>\$533,405</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 52,688
Accrued expenses	<u>10,575</u>
Total Liabilities	<u>63,263</u>
<u>FUND BALANCES</u>	
Encumbrances	8,188
Unreserved, undesignated and reported in General Funds	<u>461,954</u>
Total Fund Balances	<u>470,142</u>
Total Liabilities and Fund Balance	<u>\$533,405</u>

INSTITUTO DE ESTADISTICAS DE PUERTO RICO
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 – BALANCE SHEET TO STATEMENT OF NET ASSETS
 For the year ended June 30, 2008

Total Governmental Fund Balance	\$470,142
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Amounts reported for governmental activities in the
 Statements of Net Assets are different because:

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

Cost of capital assets	\$86,526	
Accumulated depreciation	<u>(5,615)</u>	
		80,911

Compensated absences are included as a liability:

Compensated absences	<u>(27,051)</u>
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Net Assets of Governmental Activities	<u>\$524,002</u>
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INSTITUTO DE ESTADISTICAS DE PUERTO RICO
 STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - Governmental Fund
 For the year ended June 30, 2008

	General Fund
REVENUES:	
Revenues from State Sources	\$1,000,000
Earnings on deposits	<u>7,120</u>
Total revenues	<u>1,007,120</u>
EXPENDITURES:	
Salaries	135,793
Professional services	133,987
Insurance	4,360
Advertising	10,939
Payroll taxes	10,989
Benefits	1,796
Office supplies	18,896
Travel	23,117
Utilities	12,963
Rent	67,750
Repairs and maintenance	3,006
Capital Outlay	86,526
Other	<u>26,856</u>
Total expenditures	<u>536,978</u>
NET CHANGE IN FUND BALANCE	470,142
FUND BALANCE – BEGINNING OF YEAR	<u>-</u>
FUND BALANCE – END OF YEAR	\$ <u>470,142</u>

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

INSTITUTO DE ESTADISTICAS DE PUERTO RICO
 RECONCILIATION OF REVENUES, EXPENDITURES AND
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENTS OF ACTIVITIES

For the year ended June 30, 2008

Net Change in Fund Balances – Total Governmental Funds \$470,142

Amounts reported for governmental activities in the
 Statements of Net Assets are different because:

Governmental funds report capital outlays as expenditures in
 the statements of activities. These costs are allocated over
 their estimated useful lives as depreciation or amortization:

Depreciation expense	\$ (5,615)	
Capital outlay	<u>86,526</u>	
		80,911

Compensated absences are reported on the accrual method in
 the statements of activities, and recorded as an expenditures
 when financial resources are used in the governmental funds:

Compensated absences		<u>(27,051)</u>
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Change in Net Assets of Governmental Activities		<u>\$524,002</u>
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INSTITUTO DE ESTADISTICAS DE PUERTO RICO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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.

B. Basis of Presentation

Government-Wide Financial Statements:

The statement of net assets and the statement of activities display information about the primary government (the “Institute”). These statements include the non-fiduciary financial activities of the overall government. Governmental activities are supported by regional appropriations.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are a clearly identifiable activity with a specific functions or identifiable activity.

INSTITUTO DE ESTADISTICAS DE PUERTO RICO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

The Institute has a governmental fund, called the General Fund. The Institute has no other governmental proprietary or fiduciary funds.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when estate appropriation is performed and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Institute considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to certain claims and judgments and debt service payments are recorded only when payment is due.

INSTITUTO DE ESTADISTICAS DE PUERTO RICO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

D. Cash in Bank

As of June 30, 2008, cash consists of deposits in “Banco Gubernamental De Fomento Para Puerto Rico”.

Deposits with financial institutions are subject to custodial credit risk when they are not covered by depository insurance and have one of the three following characteristics (GASB-40 paragraph 8):

1. Uncollateralized (no securities are pledged to the depositor government).
2. Collateralized with securities held by the pledging financial institution.
3. Collateralized with securities held by the pledging financial institution or by its trust department or agent, but not the depositor government’s name.

At year-end, cash in bank, classified by category of credit risk, included only category 1.

E. Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INSTITUTO DE ESTADISTICAS DE PUERTO RICO

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

F. Capital Assets

Capital assets are recorded at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The Institute's capitalization policy is to capitalize individual amounts exceeding \$500.

G. 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.

NOTE 2. RISK MANAGEMENT

The Institute is exposed to various risks of loss related to torts, theft or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The Institute carries commercial insurance coverage for risk of loss associated to liability insurance; and workers compensation insurance through the governmental agency, "Fondo del Seguro de Estado".

REQUIRED SUPPLEMENTARY INFORMATION

INSTITUTO DE ESTADISTICAS DE PUERTO RICO
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES BUDGETARY COMPARISON – GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State Services	\$1,000,000	\$1,000,000	\$1,000,000	\$ -
Earnings on deposits	-	-	7,120	7,120
Total Revenues	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,007,120</u>	<u>7,120</u>
Expenditures:				
Salaries	<u>304,583</u>	<u>304,583</u>	<u>135,793</u>	<u>(168,790)</u>
Employee Fringe Benefits:				
Employee insurance	17,500	17,500	3,650	(13,850)
Retirement	18,898	18,898	-	(18,898)
Social Security	23,094	23,094	10,474	(12,620)
Worker's compensation	6,396	6,396	105	(6,291)
Christmas Bonus	3,230	3,230	1,796	(1,434)
Unemployment	-	-	515	515
Subtotal	<u>69,118</u>	<u>69,118</u>	<u>16,540</u>	<u>(52,578)</u>
Supplies and materials:				
Periodicals	5,000	5,000	10,939	5,939
Postage	4,018	4,018	1,111	(2,907)
Supplies	<u>26,402</u>	<u>26,402</u>	<u>30,664</u>	<u>4,262</u>
Subtotal	<u>35,420</u>	<u>35,420</u>	<u>42,714</u>	<u>7,294</u>
Other Operating Expenses:				
Utilities	33,783	33,783	12,962	(20,821)
Insurance – property and liability	1,210	1,210	605	(605)
Repairs and maintenance	2,000	2,000	-	(2,000)
Travel	21,500	21,500	23,344	1,844
Dues and fees	1,600	1,600	1,561	(39)
Rent	81,300	81,300	67,750	(13,550)
Legal, accounting and consulting	313,475	313,475	136,808	(176,667)
Miscellaneous	<u>11,625</u>	<u>11,625</u>	<u>12,375</u>	<u>750</u>
Subtotal	<u>466,493</u>	<u>466,493</u>	<u>255,405</u>	<u>(211,088)</u>
Capital outlay	124,386	124,386	86,526	(37,860)
Total expenditures	<u>1,000,000</u>	<u>1,000,000</u>	<u>536,978</u>	<u>(463,022)</u>
Excess of revenues over expenditures	-	-	470,142	470,142
Fund Balance – Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance – End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 470,142</u>	<u>\$ 470,142</u>