

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

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Uavona - Casas, CPA PSC

Certified Public Accountants and Consultants

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

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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Certified Public Accountants and Consultants

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities of the Instituto de Estadísticas de Puerto Rico ("the Institute"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2011, which collectively comprise the Institute's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Institute. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Institute as of June 30, 2011, 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 and budgetary comparison information on pages 2 through 5 and 20 through 21, 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.

San Juan, Puerto Rico
October 3, 2011

The stamp number 2609763
was affixed to the original report.



[Handwritten signature]
AVONA - CASAS CPA PSC
LLAVONA - CASAS, CPA PSC
Licencia Número 226
Expira el 1ro. de diciembre de 2012

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

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 a governmental fund.

The 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 expendable resources, as well as on balances of expendable 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.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Summary of Net Assets

The following schedule summarizes the net assets at June 30, 2011:

Assets	
Current assets	\$ 581,261
Capital assets, net of accumulated depreciation	<u>44,768</u>
Total assets	<u><u>\$ 626,029</u></u>
Liabilities and Net Assets	
Current liabilities	\$ 104,941
Long-term liabilities	96,999
Net Assets - Unrestricted	<u>424,089</u>
Total liabilities and net assets	<u><u>\$ 626,029</u></u>

Analysis of Financial Position

As of June 30, 2011, the Institute's net assets are \$424,089. A few of the more significant factors affecting net assets during the year are discussed below:

Depreciation Expense

This expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2011, \$32,441 was recorded for depreciation expense in the statement of activities.

Capital Outlay Acquisitions

For the fiscal year ended June 30, 2011, expenditures totaling \$9,918 were capitalized and recorded as assets of the Institute. These additions to the Institute's capital assets will be depreciated over time as described above. The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$22,523 for the fiscal year ended June 30, 2011.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Results of Operations

For the fiscal year ended June 30, 2011, the changes in net assets were as follows:

Program Revenues - General Fund	\$ 263,000
Stabilization Fund	479,000
Special Fund	53,000
General Revenues	<u>6,927</u>
 Total Revenues	 801,927
 Expenses	 <u>877,232</u>
 Changes in Net Assets	 <u>\$ (75,305)</u>

The Institute's main revenues consist of appropriations from the Commonwealth of Puerto Rico's general fund in the amount to of \$742,000. On the other hand, during year ended June 30, 2011, total operating expenses amounted \$877,232. The most significant expenses were: salaries, \$368,328; professional services, \$171,765; and rent, \$88,317. Notwithstanding, the Institute is not in overdraft, since it used the excess of revenues over expenditures from prior years to fund the excess costs that could not be afforded with the allocation provided by the Government.

Financial Analysis of the Institute's Funds

As of June 30, 2011, the Institute's governmental funds reported a combined cash and cash equivalents balance of \$563,119 a decrease of \$157,353, as compared to prior year. This was due to the reduction in accounts payable for payments done 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

As of June 30, 2011 the Institute has spent \$141,949 in capital assets, including leasehold improvements, equipment, furniture and fixtures. For this year of operation depreciation expense and accumulated depreciation amounted to \$32,441 and \$97,181, respectively.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 563,119
Accounts receivable	3,000
Prepaid expenses	15,142
Capital assets:	
Office equipment and furniture and	129,442
Leasehold improvements	12,507
Less: accumulated depreciation	<u>(97,181)</u>
Net capital assets	<u>44,768</u>
Total Assets	<u><u>\$ 626,029</u></u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	90,863
Accrued liabilities	14,078
Long term liabilities - compensated absences:	
Due within one year	57,042
Due in more than one year	<u>39,957</u>
Total Liabilities	<u>201,940</u>
Net assets:	
Invested in capital assets	44,768
Unrestricted	<u>379,321</u>
Total Net Assets	<u>424,089</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 626,029</u></u>

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

		Program Revenues	Net (expenses) revenues and changes in net assets
Activities:	Expenses	Operating grants and contributions	Governmental Activities
Governmental:			
Statistics services	\$877,232	\$795,000	(\$82,232)
General revenues:			
Interest			6,615
Other			312
Change in net assets			(75,305)
Net assets - beginning			499,394
Net assets - ending			\$424,089

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

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INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2011

	<u>General Fund</u>
ASSETS	
Cash	\$ 563,119
Accounts receivable	3,000
Prepaid expenses	<u>15,142</u>
Total Assets	<u><u>\$ 581,261</u></u>
LIABILITIES	
Accounts payable	\$ 90,863
Accrued liabilities	<u>14,078</u>
Total Liabilities	104,941
FUND EQUITY	
Fund balance:	
Unassigned	<u>476,320</u>
Total fund balance	<u>476,320</u>
Total Liabilities and Fund Balance	<u><u>\$ 581,261</u></u>

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

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**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**RECONCILIATION OF GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011**

Total Governmental Fund Balance		\$ 476,320
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	\$ 141,949	
Accumulated depreciation	<u>(97,181)</u>	44,768
Long term liabilities are not due and in the current period and, therefore, are not reported in the funds:		
Compensated absences are included as a liability		<u>(96,999)</u>
Net Assets of Governmental Activities		<u><u>\$ 424,089</u></u>

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

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**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund
REVENUES	
Revenues from state sources	\$ 795,000
Interests	6,615
Other	312
Total Revenues	801,927
 EXPENDITURES	
Salaries	368,328
Professional services	171,765
Insurance	959
Advertising	2,308
Payroll taxes	36,781
Benefits	53,970
Office supplies	2,744
Travel	2,888
Utilities	37,560
Rent	88,317
Repairs and maintenance	12,731
Capital outlays	10,946
Other	55,865
Total Expenditures	845,162
Excess of expenditures over revenues	(43,235)
Fund balance - beginning of year	519,555
Fund balance - ending of year	\$ 476,320

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

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds \$ (43,235)

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

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

Capital outlays	9,918
Current year depreciation	<u>(32,441)</u>
	(22,523)

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

Increase in compensated absences	<u>(9,547)</u>
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Change in net assets of governmental activities \$ (75,305)

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

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**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Comparability with reports issued in prior years is affected with the implementation of GASB No. 34. The Institute has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB 34. Therefore, the Institute has implemented the following GASB Statements in the current fiscal year: GASB Statement No. 37 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34"; GASB Statement No. 38 "Certain Financial Statement Note Disclosures"; and GASB Statement No. 41 "Budgetary Comparison Schedules—Perspective Differences—an amendment of GASB Statement No. 34".

Financial reporting entity

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

INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The basic criteria for including a potential component unit within the reporting entity is if potential component unit are financially accountable and other organization for which the nature and significance of their relationship with the entity are that exclusion would cause the Institute's Financial Statement to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability to the Institute to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Institute.

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

Basis of presentation, measurement focus and basis of accounting

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

Management Discussion and Analysis

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

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets.

**INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flow. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Institute. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The Institute first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

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

Governmental Fund Financial Statements

The financial transactions of the Institute are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Institute are financed.

The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion (percentage of the assets, liabilities, revenues or expenditures) or based on the Institute's official's criteria, if the fund is particularly important to financial statement users.

The Institute only reports the general fund, which is used to account for resources provided by the Legislature of the Commonwealth of Puerto Rico for the administration of statistical services. 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 Consortium considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

INSTITUTO DE ESTADÍSTICAS DE PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GABS No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the governmental column in the Government-wide Statement of Net Assets.

Deposits

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral are held by the Secretary of Treasury of Puerto Rico. In addition, the Institute maintains deposits with the Governmental Development Bank of Puerto Rico (GDB).

Receivables

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

Inventories

The purchase method is followed to account for inventory. Under this method, inventory is recorded as expenditure when purchased. The Institute estimated that the amount of inventory of office and printing supplies on hand are immaterial; accordingly, any amount of inventory is recorded in the government-wide financial statements.

Capital Assets

Property and equipment purchased or acquires is carried at historical cost or estimated historical cost. The Institute's capitalization policy is to capitalize individual amounts exceeding \$500. Other cost incurred for repair and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimates useful lives:

Office equipment	5 years
Leasehold improvements	5 years

Compensated Absences

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2010 related to compensated absences:

Description	Amount
Balance, July 1, 2010	\$ 87,451
Increases	13,194
Decreases	(3,646)
Balance, June 30, 2011	\$ 96,999
Due in one year:	\$ 57,042

Separation for 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 accrued a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by GASB No. 16; the Institute has accrued a liability for compensated absences, which has been earned but not taken by Institute's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following years. For the governmental funds

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

statements, the current portion for compensated absences is only considered and represents a reconciling item between the fund level and government-wide presentation. Accrued compensated absences for the fiscal year ended June 30, 2011 amounted to \$96,999.

Encumbrances

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

Net assets and reservations of fund balance

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

Use of Estimates

The preparation of the financial statements in conformity with accounting principle generally accepted in the United States of America requires management to make estimates and 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 result count differs from those estimates.

Future adoption of accounting pronouncements

The GASB has issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which the Institute would adopt in fiscal year ending June 30, 2012. The impact of these statements in the Institute's basic financial statements has not yet been determined.

NOTE B - DEPOSITS

The Institute maintains its cash deposits with the Government Development Bank for Puerto Rico ("GDB") (a governmental bank) and in a private bank. At year-end, the Institute's bank balance of deposits in the private bank are exposed to custodial credit risk in the amount of \$12,418.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

NOTE C - CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2011 was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Office equipment	\$119,524	\$ 9,918	\$ -	\$129,442
Leasehold improvements	<u>12,507</u>	<u>-</u>	<u>-</u>	<u>12,507</u>
Total Historical Cost	132,031	9,918	-	\$141,949
Less: Accumulated Depreciation	(<u>64,741</u>)	(<u>32,440</u>)	<u>-</u>	(<u>97,181</u>)
Net Capital Assets	<u>\$ 67,290</u>	<u>(\$22,522)</u>	<u>-</u>	<u>\$ 44,768</u>

Depreciation expense was charged to governmental administration function as an administrative expenditure for a total amount of \$32,440.

NOTE D - COMMITMENTS – OPERATING LEASES

The Institute leases its office facilities under an operating lease with a term of approximately 4 years, expiring in June 30, 2011. Lease agreement contains a renewal option and provides for an annual increase in rent of approximately 2.8%. Also, the Institute has operating leases for equipment which do not give rise to property rights of lease obligations and, therefore, are not reflected in the Institute's governmental fund statements. For the fiscal year ended June 30, 2011, rent expenditures under the above operating leases aggregated approximately \$88,317. The future minimum lease payments under this operating lease are as follows:

<u>Year ended June 30,</u>	
2012	\$ 68,850
2013	72,306
2014	75,924
2015	79,704
2016	<u>83,700</u>
	<u>\$ 380,484</u>

NOTE E - DEFERRED CONTRIBUTION PLAN

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

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

NOTE E - DEFERRED CONTRIBUTION PLAN (CONTINUED)

The Institute matches the contribution up to a maximum of 9.275% of the employee's monthly compensation. The Institute deposits the accumulated costs with the John Hancock, which is the Administrator of the plan. The amount contributed during the year ended June 30, 2011 amounted to \$17,288.

NOTE F - SUBSEQUENT EVENTS

For the year ended June 30, 2011, the Institute adopted the ASC 855 (previously FASB 165) relating to *Subsequent Events*. The ASC 855 establishes general standards for the accounting and disclosure of events occurring after the date of the balance sheet, but before the date of issuance of the financial statements. Specifically, it sets the period after the date of the status during which the Institute management should assess events or transactions that could occur and would need to be recorded or disclosed in the financial statements, the circumstances under which the Institute should recognize and disclose these events, and the type of disclosure should be provided for these events occurring after the date of the status.

According to the ASC 855, the Institute evaluated subsequent events up to October 3, 2011, when these financial statements were ready to be emitted. The Institute's management understands that no material event occurred subsequent to June 30, 2011 that requires registration or need additional disclosure in the financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance
Revenues:				
State services	\$ 263,000	\$ 263,000	\$ 263,000	\$ -
Stabilization Fund	479,000	479,000	479,000	-
Special Fund	-	-	53,000	53,000
Other	-	-	312	312
Earnings on deposits	-	-	6,615	6,615
Total revenues	742,000	742,000	801,927	59,927
Expenditures:				
Payroll and related expenses	496,166	496,166	463,943	32,223
Facilities and public services	42,900	42,344	42,344	-
Purchased services	108,210	107,765	107,765	-
Donations and other distributions	132	2,550	2,550	-
Transportation	3,200	2,759	2,748	11
Professional services	72,000	72,000	67,475	4,525
Other	6,252	3,784	3,784	-
Office supplies	4,490	3,695	3,695	-
Capital outlays	5,400	8,629	8,629	-
Advertising	3,250	2,308	2,308	-
Total expenditures	742,000	742,000	705,241	36,759
Excess of revenues over expenditures	\$ -	\$ -	\$ 96,686	\$ 96,686
<u>Explanation of Differences:</u>				
Actual amounts (budgetary basis) charged to appropriations			\$ 705,241	
Prior year encumbrances recorded as current year expenditures			139,921	
Total expenditures as reported on the statment of revenues, expenditures, and changes in fund balance			\$ 845,162	

See accompanying notes to this schedule.

Ulavona - Casas, CPA PSC

Certified Public Accountants and Consultants

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2011**

NOTE A - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Institute's budget is prepared for Governmental Fund following state requirements. Budget amendments are approved by the Board of Directors. The budget is prepared on a budgetary (statutory) basis of accounting which is different from GAAP. Revenues include amounts classified by GAAP as other financing sources and expenditures include encumbrances and amounts classified by GAAP as other financing uses. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year.

The presentation of the budgetary data excludes long-term obligations such as compensated absents and depreciation charges for capital assets. Historically, those obligations have been budgeted on a pay as you go basis. The budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis.