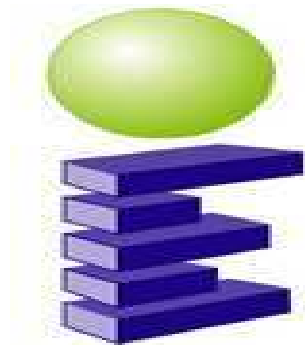


**COMMONWEALTH OF PUERTO RICO
PUERTO RICO INSTITUTE OF STATISTICS
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**(WITH ADDITIONAL REPORT REQUIRED BY THE
AUDITING GOVERNMENT STANDARDS)**



**Instituto de Estadísticas
de Puerto Rico**

Estado Libre Asociado de Puerto Rico

TABLE OF CONTENTS

	PAGES
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Balance Sheet - Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Budgetary Comparison Schedule – General Fund	18
Notes to Basic Financial Statements	19-43
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44-45



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

**To the Board of Directors
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, general fund and special revenue fund 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, 2019, 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 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 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 opinions.

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, the general fund and special revenue fund of the **Institute** as of June 30, 2019, 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 – General Fund on pages **3** through **11** and **18**, respectively, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2020, on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Institute's internal control over financial reporting and compliance.

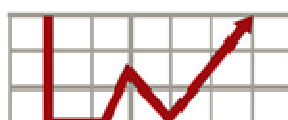


LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico

August 17, 2020

Stamp No. 2772626 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, 2019, 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.

A. FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The Institute reported total assets amounting \$4,274,249 at June 30, 2019. The major category of assets consisted of cash balance available amounting to \$4,058,133, which represents 95% of the total assets at that date.
- Total liabilities at June 30, 2019 amounted to \$317,526. The major categories of liabilities consisted of accounts payable (\$165,696) and accrued compensated absences (\$133,280).
- The Institute's net position increased by \$174,730 as a result of the current fiscal year's operations.
- The Institute's capital assets, net of accumulated depreciation, amounted to \$76,190, which represents an increase of \$152 when compared to the prior fiscal year balance of \$76,038.

General Fund Highlights

- Total General Fund revenues for the fiscal year 2019 amounted to \$1,964,477, representing a decrease of \$141,053 or 7% compared to the 2018 fiscal year's total revenues of \$2,105,530.
- Total General Fund expenditures for the fiscal year 2019 amounted to \$1,859,287, representing a decrease of \$67,021 or 3.5% compared to the expenditures of prior fiscal year of \$1,926,308.
- The General Fund's balance for the fiscal year 2019 amounted to \$4,013,813, representing an increase of \$105,190, or 2.62%, when compared to the fiscal year 2018.

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 the additional information that became known during the fiscal year. The Board of Directors approved a final revised budget of \$4,976,960 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.

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

Government-wide Financial Statements

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

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 the 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 change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as 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.

B. OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

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.

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 two (2) major governmental funds which are the general fund and the special revenue fund. These major funds are 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

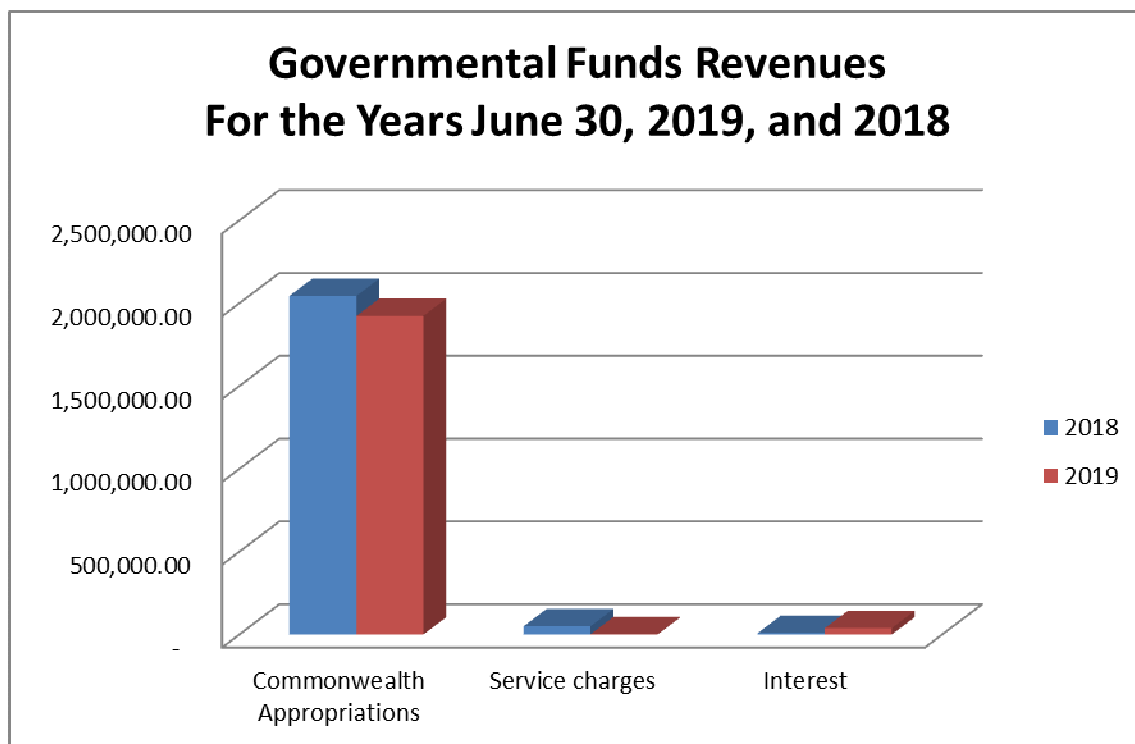
The notes provide additional information that is essential to fully understand the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the Budgetary Comparison Schedule – General Fund.

C. MAJOR FINANCIAL ELEMENTS

Revenues

The General Fund is the primary operating fund of the Institute. General Fund's revenues are broadly based on appropriations from the Commonwealth of Puerto Rico's general fund in the amount of \$1,923,595, which represents 98% of total revenues for the fiscal year 2019. Other revenues, including fees and charges for services and interest revenues, amounted to \$40,882.

The following chart presents a revenues comparison of the Institute's activities for the years ended June 30, 2019 and 2018:



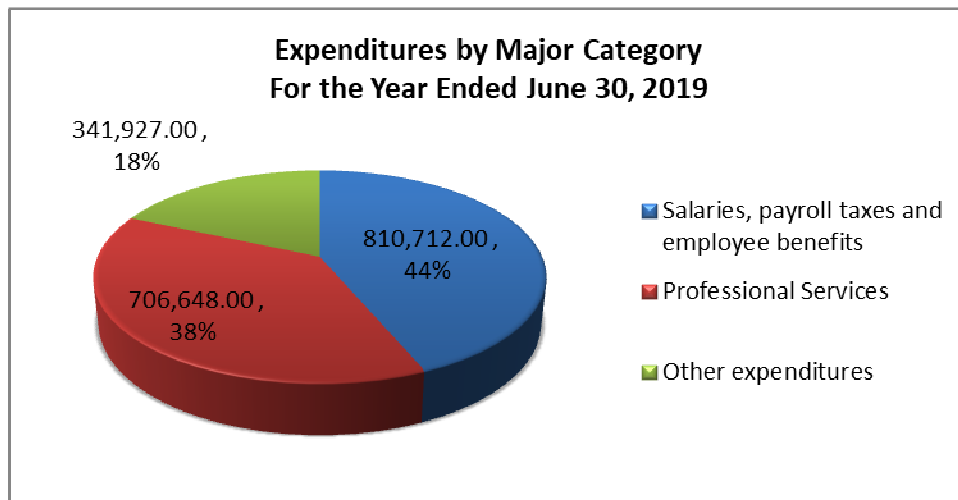
Expenditures

General Fund's expenditures consist principally of salaries and employee benefits, professional services, rent, utilities, materials and supplies, licenses, capital outlays and others. Total operating expenditures amounted \$1,859,287. The most significant expenditures were salaries, payroll taxes and employee benefits (\$810,712), and professional services (\$706,648), which represents 44% and 38% of total expenditures, respectively.

C. MAJOR FINANCIAL ELEMENTS (CONTINUED)

Expenditures (continued)

The following chart presents expenditures of the Institute's General Fund by major category for the year ended June 30, 2019:



D. 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, 2019 amounted to \$4,274,249 and \$317,526, respectively, for a net position of \$3,956,723. Net position decreased by \$174,730 during the fiscal year 2019, when compared to the net position balance of \$3,781,993 at the end of fiscal year 2018.

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 \$162,916 during the fiscal year 2019 when compared to the prior fiscal year. This increase was mainly due to an increase of \$94,412 in cash. The increase in cash was mainly due to the excess of revenues over expenditures of \$174,730 resulting from the 2019 fiscal year's operations.

Total liabilities decreased by \$11,814 during the current fiscal year when compared to the prior fiscal year.

D. GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

A condensed summary of the statements of net position of the Institute as of June 30, 2019 and 2018 follows:

**Condensed Statements of Net Position
As of June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Assets		
Current assets	\$ 4,171,434	\$ 4,008,670
Prepaid assets	26,625	26,625
Capital assets, net of accumulated depreciation	<u>76,190</u>	<u>76,038</u>
Total assets	<u>\$ 4,274,249</u>	<u>\$ 4,111,333</u>
Liabilities		
Current liabilities	\$ 197,574	\$ 147,290
Long-term liabilities	<u>119,952</u>	<u>182,050</u>
	<u>317,526</u>	<u>329,340</u>
Net position		
Net investment in capital assets	76,190	75,647
Unrestricted	<u>3,880,533</u>	<u>3,706,346</u>
	<u>3,956,723</u>	<u>3,781,993</u>
Total liabilities and net position	<u>\$ 4,274,249</u>	<u>\$ 4,111,333</u>

Changes in Net Position

The Institute's net position increased by \$174,730 or 4.62% from last year's total net position. Approximately, 98% of the Institute's total revenue came from legislative appropriations and grants. During the fiscal year 2019, total revenues derived from legislative appropriations and grants decreased by \$121,405 or 5.94% when compared with the fiscal year 2018. Also, during the fiscal year 2019, total expenses decreased by \$79,053 or 3.75% when compared with fiscal year 2018.

**Condensed Statements of Activities
For the years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Program revenues and grants	\$ 2,163,356	\$ 2,240,743
Fees and charges for services	2,172	50,620
Interest	<u>38,710</u>	<u>9,910</u>
Total revenues	2,204,238	2,301,273
Expenses		
Statistical services	<u>2,029,508</u>	<u>2,108,560</u>
Change in net position	<u>\$ 174,730</u>	<u>\$ 192,713</u>

E. GENERAL FUND FINANCIAL ANALYSIS

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 2019, the Institute's governmental funds reported and ending fund balance of \$4,013,813. The revenues exceeded the expenditures by \$105,190; accordingly, the fund balance of the Institute's general fund increased by 2.69% when compared to the total general fund's balance reported in the fiscal year 2018 (\$3,908,623).

Total revenues for the fiscal year 2019 amounted to \$2,204,236, which represents a decrease of \$97,035 or 4.40% when compared with the total revenues for the fiscal year 2018 (\$2,301,273).

Total expenditures, for the fiscal year 2019 amounted to \$2,099,046 and represented a decrease of \$200,708 or 8.73% when compared to the total expenditures for the fiscal year 2018 (\$2,299,754).

Total revenues exceeded total expenditures by \$105,190, which resulted in an increase in fund balance from \$3,908,623 at June 30, 2018 to \$4,013,813 at June 30, 2019.

F. CAPITAL ASSETS

The Institute's investment in capital assets for its governmental activities as of June 30, 2019 amounted to \$288,028, less accumulated depreciation and amortization of \$211,838, leaving a net value of \$76,190. The investment in capital assets includes office equipment and leasehold improvements.

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, when applicable. For the fiscal year ended June 30, 2019, depreciation expense recorded on books amounted to \$20,648, and is included in the statement of activities.

G. 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 11** 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:

G. ECONOMIC FACTORS (CONTINUED)

- ***Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017***

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2, known as “*The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)*” in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors’ agreements, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the FAFAA shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every board, committee, commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

- ***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017***

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5, known as “*Puerto Rico Financial Emergency and Fiscal Responsibility Act*” to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as “essential services”, in accordance with the Constitution of Puerto Rico.

- ***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico***

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico (“the Board”) provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor’s request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options.

On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board’s members, economists, consultants, attorneys and Governor’s representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA’s requirements. On March 11, 2017, the Governor submitted to the Board a revised fiscal plan. On March 13, 2017, the Board approved and certified this final plan.

G. ECONOMIC FACTORS (CONTINUED)

- ***Filing of Title III of PROMESA for the District of Puerto Rico***

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017, another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation ("COFINA") and, on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority ("HTA") and the Government of Puerto Rico Employees Retirement System ("ERS").

Puerto Rico Covid-19 Pandemic (DR-4493)

As described on **Note 13**, on December 2019, an outbreak of a virus in Wuhan, China was initially reported. It has currently spread to multiple countries, including United States and Puerto Rico. The virus appears to be a never before seen strain of coronavirus, a large family of viruses that can cause diseases ranging from the common cold to severe acute respiratory syndrome (MERS). On March 11, 2020, the World Health Organization declared a global pandemic for the virus.

On March 13, 2020, FEMA issued a nationwide Emergency Declaration in response to the ongoing Coronavirus COVID-19 pandemic.

On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public lockdown necessary to prevent the effects of the coronavirus (COVID-19) and control the risk of contagion within the Island. Following CDC guidance, the Order includes several important quarantine and social distancing measures aimed at protecting the health and welfare of Puerto Rican citizens, including implementation of a curfew and the shutdown of non-essential commercial activity.

Requests for Information

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

	Governmental Activities
Assets	
Current Assets:	
Cash	\$ 4,058,133
Account receivable	113,301
Prepaid expenses and other	<u>26,625</u>
Total current assets	<u>4,198,059</u>
Non-current Assets:	
Capital assets, net	<u>76,190</u>
Total non-current assets	<u>76,190</u>
Total assets	<u>\$ 4,274,249</u>
Liabilities	
Current liabilities:	
Accrued compensated absences, current portion	\$ 13,328
Accounts payable	165,696
Accrued liabilities	<u>18,550</u>
Total current liabilities	<u>197,574</u>
Non-current liabilities:	
Accrued compensated absences, non-current portion	<u>119,952</u>
Total non-current liabilities	<u>119,952</u>
Total liabilities	<u>317,526</u>
Net position	
Net investment in capital assets	76,190
Unrestricted	<u>3,880,533</u>
Total net position	<u>\$ 3,956,723</u>

The accompanying notes to basic financial statements are an integral part of this statement.

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>\$ 2,029,508</u>	<u>\$ 2,172</u>	<u>\$ 2,163,356</u>	\$ 136,020
General Revenues				
Interest				<u>38,710</u>
Change in net position				174,730
Net position, at beginning of year				<u>3,781,993</u>
Net position, at end of year				<u>\$ 3,956,723</u>

The accompanying notes to basic financial statements are an integral part of this statement.

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 4,020,011	\$ 38,122	\$ 4,058,133
Account receivable	676	112,625	113,301
Due from other fund	139,836	-	139,836
Prepaid expenses and other	<u>26,625</u>	<u>-</u>	<u>26,625</u>
Total assets	<u>\$ 4,187,148</u>	<u>\$ 150,747</u>	<u>\$ 4,337,895</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 158,843	\$ 6,853	\$ 165,696
Accrued liabilities	14,492	4,058	18,550
Due to other fund	<u>-</u>	<u>139,836</u>	<u>139,836</u>
Total liabilities	<u>173,335</u>	<u>150,747</u>	<u>324,082</u>
Fund balance			
Unassigned	<u>4,013,813</u>	<u>-</u>	<u>4,013,813</u>
Total fund balance	<u>4,013,813</u>	<u>-</u>	<u>4,013,813</u>
Total liabilities and fund balance	<u>\$ 4,187,148</u>	<u>\$ 150,747</u>	<u>\$ 4,337,895</u>

The accompanying notes to basic financial statements are an integral part of this statement.

Total fund balance per fund financial statements	\$ 4,013,813
Amounts reported to governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements.	76,190
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>(133,280)</u>
Net position of governmental activities	<u>\$ 3,956,723</u>

The accompanying notes to basic financial statements are an integral part of this statement.

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
REVENUES			
Commonwealth appropriations	\$ 1,923,595	\$ -	\$ 1,923,595
Federal grant	-	239,759	239,759
Service fees	2,172	-	2,172
Interest	38,710	-	38,710
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Total revenues	1,964,477	239,759	2,204,236
EXPENDITURES			
Salaries	626,022	140,040	766,062
Professional services	706,648	77,770	784,418
Insurance	5,452	1,986	7,438
Advertising	1,377	-	1,377
Payroll taxes	74,767	8,584	83,351
Employee benefits	109,923	-	109,923
Office supplies	1,539	3,647	5,186
Travel	4,620	7,732	12,352
Utilities	36,487	-	36,487
Rent	97,935	-	97,935
Repairs and maintenance	4,578	-	4,578
Capital outlays	28,988	-	28,988
Licenses	1,991	-	1,991
Other	158,960	-	158,960
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Total expenditures	1,859,287	239,759	2,099,046
Excess of revenues over expenditures	105,190	-	105,190
Fund balance, at beginning of year	3,908,623	-	3,908,623
	<hr/>	<hr/>	<hr/>
Fund balance, at end of year	<u>\$ 4,013,813</u>	<u>\$ -</u>	<u>\$ 4,013,813</u>

The accompanying notes to basic financial statements are an integral part of this statement.

Excess of revenues over expenditures- total governmental funds \$ 105,190

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 and loss on disposal of capital assets for the period. 152

Some expenses reported in the statement of activities do not require the use of financial resources and therefore, are not reported as expenditures in the governmental funds. This includes the increase in the accrued compensated absences debt. 69,388

Change in net position of governmental activities \$ 174,730

The accompanying notes to basic financial statements are an integral part of this statement.

	<u>Budget Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Commonwealth appropriations	\$ 4,976,960	\$ 4,976,960	\$ 2,163,354	\$ (2,813,606)
Fees and charges for services	-	-	2,172	2,172
Interest	-	-	38,710	38,710
Total revenues	<u>4,976,960</u>	<u>4,976,960</u>	<u>2,204,236</u>	<u>(2,772,724)</u>
Expenditures				
Payroll and related liabilities	1,138,173	1,138,173	959,337	178,836
Facilities and public services	69,981	69,981	134,423	(64,442)
Purchased services	268,562	268,562	-	268,562
Donations and other distributions	126,990	126,990	-	126,990
Transportation	18,837	18,837	12,352	6,485
Professional services	3,095,782	3,095,782	784,418	2,311,364
Advertising	4,999	4,999	1,377	3,622
Office supplies	15,810	15,810	5,186	10,624
Capital outlays	160,002	160,002	28,988	131,014
Other	77,824	77,824	172,965	(95,141)
Total expenditures	<u>4,976,960</u>	<u>4,976,960</u>	<u>2,099,046</u>	<u>2,877,914</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,190</u>	<u>\$ 105,190</u>

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 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.

Special revenue fund – This fund accounts for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specific purposes. This legal restriction may be imposed either by governments that provides funds, or by outside parties. This fund accounts for substantially all federal monies received by the Institute.

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. Net position flow assumption

Sometimes, the Institute will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Institute's policy to consider restricted – net position to have been depleted before unrestricted – net position applied.

h. 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.

Note 2 – Summary of significant accounting policies (Continued)

h. Budget (Continued)

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 amounts classified by GAAP as other financing sources and is generally recognized when cash is received. Expenditures include encumbrances and amounts classified by GAAP as other financing uses and are generally recorded when the related expenditure is incurred or encumbered. Unencumbered appropriations lapse at year end.

On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds 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 the 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 calculation of the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2019 is presented below for the general fund:

Sources / inflows of resources:

Actual amounts (budgetary basis) “available for appropriations” from the budgetary comparison schedule	\$ 1,964,477
Revenues for which no budget was approved during the current year	_____ -
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance – governmental fund	<u>\$ 1,964,477</u>

Note 2 – Summary of significant accounting policies (Continued)

h. Budget (Continued)

Uses / outflows of resources:

Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$ 1,859,287
Expenditures for which no budget was approved during the current year and encumbrances at end of year	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance – governmental funds	<u>\$ 1,859,287</u>

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, 2019.

i. 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.

Note 2 – Summary of significant accounting policies (Continued)

i. Deferred outflows/inflows of resources (Continued)

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.

j. Non-exchange transactions

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

k. 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 acquired with 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

l. 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.

Note 2 – Summary of significant accounting policies (Continued)

I. Compensated absences (Continued)

On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. Effective on that date, this Law established and recognizes that the government is a Single Employer. Under the provisions of this law annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days.

Also, the employees hired before the effectiveness of this law, will be granted annually with eighteen (18) days of sick leave. In addition, the employees hired after the effectiveness of this law, will be granted annually with twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days.

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.

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, 2019 amounted to \$133,280.

m. 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 and special revenue fund 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. Definitions of other governmental fund types also have been modified for clarity and consistency.

Note 2 – Summary of significant accounting policies (Continued)

m. Fund balance reporting (Continued)

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.

Assigned fund balance - this classification is intended to be used by the government for specific purposes that 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 not contained in the other classifications.

n. Fund balance flow assumptions

Sometimes, the Institute will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Institute's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

o. 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 Institute'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 cash deposited on private banks, whose balance is over the amount covered by the insurance of the Federal Deposit Insurance Corporation (FDIC) by \$3,556,315.

Under the statutes of the Commonwealth of Puerto Rico, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess the insurance provided by the FDIC. All securities pledged as collateral by the Institute are held by agents designated by the Puerto Rico Secretary of Treasure, but not in the Institute's name.

Note 5 – Capital assets

Capital assets activity of the Institute for the fiscal year ended June 30, 2019 consisted of the following:

	<u>Balance as of June 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of June 30, 2019</u>
Capital assets being, depreciated:				
Office equipment	\$ 187,537	\$ 20,648	\$ -	\$ 208,185
Leasehold improvements	<u>79,843</u>	<u>-</u>	<u>-</u>	<u>79,843</u>
Total capital assets being, depreciated	<u>267,380</u>	<u>20,648</u>	<u>-</u>	<u>288,028</u>
Less accumulated depreciation:				
Office equipment	(157,429)	(12,726)	-	(170,155)
Leasehold improvements	<u>(33,913)</u>	<u>(7,770)</u>	<u>-</u>	<u>(41,683)</u>
Total accumulated depreciation	<u>(191,342)</u>	<u>(20,496)</u>	<u>-</u>	<u>(211,838)</u>
Capital assets, net of accumulated depreciation	<u>\$ 76,038</u>	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ 76,190</u>

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

Note 6 – Long-term liabilities

Long-term liabilities represent capital lease and compensated absences balances of accrued vacation and sick leave and represents the Institute’s commitment to fund such costs from future assignments. The following summarizes the activity of the capital lease and the compensated absences obligations for the fiscal year ended June 30, 2019:

	<u>Balance as of June 30, 2018</u>	<u>Net Change</u>	<u>Balance as of June 30, 2019</u>	<u>Due within one year</u>
Governmental activities:				
Capital lease	\$ 391	\$ (391)	\$ -	\$ -
Compensated absences	<u>202,277</u>	<u>(68,997)</u>	<u>133,280</u>	<u>13,328</u>
	<u>\$ 202,668</u>	<u>\$ (69,388)</u>	<u>\$ 133,280</u>	<u>\$ 13,328</u>

Note 7 – Defined Contribution Plan

On September 1, 2008, the Institute established a Defined Contribution Plan 1081.01(d) named Puerto Rico Institute of Statistics Retirement Plan Trust (the Plan). All employees were eligible at the effective date. All employees hired after that date, are eligible after completion of one day of service, 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.

Employees may elect to make contributions to the Plan, subject to an annual limit of the lesser of 10% of the eligible compensation or \$15,000. The Institute may make discretionary matching contributions, which are computed based on the eligible contributions made by the employees during each Plan Year. The Institute is matching 100% of employee’s actual contributions.

Contributions shall be deposited with the Administrator of the plan within 15 days after the contribution withheld by the Institute. The amount contributed by the Institute during the year ended June 30, 2019 amounted to \$19,000 approximately.

Employees that terminate early may be able to receive a portion of the account based on a “vesting rule”. All employees contributions are 100% vested. Employer’s contributions are vested based on a percentage formula. Amounts not vested are considered forfeitures and retained in the Plan to pay administrative expenses, reduce future employer contributions or to help the Plan to pass one or more annually required Puerto Rico Internal Revenue Code’s nondiscrimination test(s). The Plan does not allow loans to participants.

Note 8 – Commitments

Operating leases

The Institute leases its office facilities under an operating lease with a term of approximately four years, expiring on July 30, 2021. 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, 2019, rent expenditures under the above operating leases aggregated approximately to \$97,900. The future minimum lease payments under these operating leases are as follows:

Year ending June 30,	
2020	99,924
2021	<u>8,327</u>
Total	<u>\$ 108,251</u>

Note 9 – Adoption of new accounting pronouncements

Effective July 1, 2018, the Authority adopted the provisions of the following GASB Statements:

- **GASB Statement No. 83, "Certain Asset Retirement Obligations":** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Note 9 – Adoption of new accounting pronouncements (Continued)

- **GASB Statement No. 88, “*Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements*”:** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Note 10 – Future adoption of accounting pronouncements

The Governmental Accounting Standards Board has issued the following accounting standards that have effective dates after June 30, 2019 for the Institute:

- **GASB Statement No. 84, “*Fiduciary Activities*”:** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Note 10 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 87, “Leases”:** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

- **GASB Statement No. 89, “Accounting for Interest Costs Incurred Before the End of a Construction Period”:** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement.

Also, This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Note 10 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 90, “Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61”:** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

- **GASB Statement No. 91, “Conduit Debt Obligations”:** The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers’ conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

Note 10 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 92, “Omnibus 2020”:** Effective Date: The requirements of this Statement are effective as follows:
 - The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
 - The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
 - The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
 - The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by topic.

- **GASB Statement No. 93, “Replacement of Interbank Offered Rates”:** Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument’s variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap

Note 10 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 93, “Replacement of Interbank Offered Rates” (Continued):**
 - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
 - Clarifying the definition of reference rate, as it is used in Statement 53, as amended
 - Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

- **GASB Statement No. 94, “Public-Private and Public-Public Partnerships and Availability Payment Arrangements”:** The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Note 10 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 95, “*Postponement of the Effective Dates of Certain Authoritative Guidance*”:** The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations.
- Statement No. 84, Fiduciary Activities.
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.
- Statement No. 90, Majority Equity Interests.
- Statement No. 91, Conduit Debt Obligations.
- Statement No. 92, Omnibus 2020.
- Statement No. 93, Replacement of Interbank Offered Rates.
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018.
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019.
- Implementation Guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases.
- Implementation Guide No. 2019-3, Leases.

The requirements of this Statement are effective immediately. Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

Note 10 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 96, “*Subscription-Based Information Technology Arrangements*”:** This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government’s incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.

Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

Note 10 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 97, “*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*”**: The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of *all* Section 457 plans should be measured as of the end of the plan’s reporting period in all circumstances.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

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

Note 11 – Contingencies

Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 “*The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)*” in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors’ agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

The FAFAA will act as fiscal agent, financial advisor and reporting agent of all entities of the Government of Puerto Rico. It shall be the governmental entity responsible for the collaboration, communication and cooperation between the Government of Puerto Rico and the Fiscal Oversight Board created under PROMESA. To such effect, the FAFAA is empowered to collaborate in conjunction with the Governor of Puerto Rico and his representatives in the creation, execution, supervision and oversight of any Fiscal Plan and any Budget as defined by the terms of PROMESA.

In addition, the Authority shall be the government entity charged with supervising, executing and administering the Fiscal Plan approved and certified in accordance with PROMESA and shall ensure that all the entities of the Government of Puerto Rico comply with the approved Fiscal Plan. In addition, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended. It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico.

The Authority shall be governed by Board of Directors composed of five (5) members, including the Executive Director of the FAFAA, appointed by the Governor, one (1) representative of the Senate of the Puerto Rico, and one (1) representative of the House of Representatives of Puerto Rico, who shall be designated by the Presiding Officer of each Legislative House. The remaining two members shall be appointed by the Governor.

Note 11 – Contingencies (Continued)***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017***

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 “*Puerto Rico Financial Emergency and Fiscal Responsibility Act*” to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as “essential services”, in accordance with the Constitution of Puerto Rico.

This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the “Moratorium Act”) and of certain Executive Orders issued by then Governor of Puerto Rico Hon. Alejandro García Padilla that provided for emergency periods and a temporary stay of litigation, thus negating the timely payment of the Government’s obligations and the initiation of a voluntary negotiation process with the creditors of the Commonwealth and its instrumentalities. It also suspends or cancels, or both, all special appropriations not budgeted in the fiscal year 2016-17 that may have been multi-year authorizations from prior fiscal years. The Emergency Period will begin with the effective date of this Act and end in May 1, 2017, and may be extended by the Governor pursuant to an executive order for one additional period of three (3) months.

During the Emergency Period declared by this Act, the Governor has the power to designate services provided by the Commonwealth and its instrumentalities as essential services or services that are not essential services and utilize available resources to provide for the satisfaction of obligations of the Commonwealth and its instrumentalities, while also recognizing the need to provide for the services essential to the health, safety and welfare of the residents of Puerto Rico.

The Governor shall pay debt service to the extent a) possible after all essential services of the Commonwealth have been provided for; or b) ordered to do so by the Oversight Board or any board created under federal law. In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the FAFAA to pay for essential services as he deems necessary to protect the health, safety and welfare of the residents of Puerto Rico; and he may take all actions deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services.

To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year. Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c).

Note 11 – Contingencies (Continued)***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017 (Continued)***

Finally, the Governor may issue executive orders as he deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of such. With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures.

If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services. If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico ("the Board") provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor's request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options. On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board's members, economists, consultants, attorneys and Governor's representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA's requirements and recommended that certain revisions be made.

Note 11 – Contingencies (Continued)

Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (Continued)

On March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior proposed plan and, during the review process, further changes were incorporated into the Government's proposed plan. On March 13, 2017, the Governor's final proposed fiscal plan was presented to the Board and, after its review and discussion, the Board approved and certified this final proposed plan with the following two (2) amendments:

- Implementation of a furlough program and the removal of all Christmas bonuses to achieve necessary liquidity and budgetary savings – The determination to implement these measures, in whole or in part, would be made on July 1 and September 1, 2017 based on the achievements by the Commonwealth of certain levels of savings and cash reserves through the right-sizing measures to be implemented in the proposed budget for the fiscal year 2017-18.
- An overhaul of the public pension systems that would provide for progressively reduced total pension outlays by 10% by fiscal year 2020.

The fiscal measures detailed in the certified fiscal plan were implemented by the approval on April 29, 2018 of Act 29 "Compliance with the Fiscal Plan Act". These measures are focused on four (4) major areas:

- Increase revenues by \$1,380 million through tax and fees increases and better tax fiscalization procedures.
- Reduce expenditures by \$1,623 million through 1) \$434 million in payroll expenditure savings through the implementation of the "Single Employer Program" (an employee mobility plan), "freezing" of job vacancies and the uniformity of fringe benefits throughout the agencies (these measures do not apply to the University of Puerto Rico nor the Municipalities); 2) \$439 million in efficiency savings through agencies consolidations, expenditure reductions and public-private alliances; 3) \$750 million in subsidies reductions to the University of Puerto Rico, Municipalities, and other entities.
- Adjustments of \$299 million in Health expenditures through the implementation of a new public healthcare model.
- An 80% reduction on debt service payments.

On March 13, 2017, the Government Development Bank of Puerto Rico submitted its proposed fiscal plan to the Financial Oversight and Management Board and it was certified on April 28, 2017. This plan contemplates an orderly wind down of its operations within a three-to-four years' period (by fiscal year 2021). To efficiently effectuate this process, the GDB's management has created a Project Management Office ("PMO") for the smooth transition of the Bank's current operations.

Note 11 – Contingencies (Continued)

Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (Continued)

The main objectives of this fiscal plan are as follows:

- All fundamental new business banking and origination activities have ceased.
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions.
- Coordinate and execute all possible collection efforts on loans held by the GDB and collateral supporting the loans, when applicable.
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value.
- Restructure the GDB's workforce through the "Single Employer Program" and voluntary incentivized separation program.

Filing of Title III of PROMESA for the District of Puerto Rico

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017 another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation ("COFINA"), and on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority ("HTA") and the Government of Puerto Rico Employees Retirement System ("ERS").

Federal awards

The Institute participates in a federal assistance program funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor.

Note 12 – Cooperative Agreement

On August 10, 2016, the Institute entered in to a cooperative agreement with the 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. During the year ended June 30, 2019, the Institute expended \$239,759 of the funds provided by this cooperative agreement. Also, there is a balance due to the General Fund of \$139,836 accounted for in the Special Revenues Fund.

Note 13 – Subsequent events

Subsequent events were evaluated through August 17, 2020, which is the date the financial statements were available to be issued.

Puerto Rico Covid-19 Pandemic (DR-4493)

In December 2019, an outbreak of a virus in Wuhan, China was initially reported. It has currently spread to multiple countries, including United States and Puerto Rico. The virus appears to be a never before seen strain of coronavirus, a large family of viruses that can cause diseases ranging from the common cold to severe acute respiratory syndrome (MERS). On March 11, 2020, the World Health Organization declared a global pandemic for the virus.

On March 13, 2020, FEMA issued a nationwide Emergency Declaration in response to the ongoing Coronavirus COVID-19 pandemic.

On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public lockdown necessary to prevent the effects of the coronavirus (COVID-19) and control the risk of contagion within the Island. Following CDC guidance, the Order includes several important quarantine and social distancing measures aimed at protecting the health and welfare of Puerto Rican citizens, including implementation of a curfew and the shutdown of non-essential commercial activity.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress with overwhelming, bipartisan support and signed into law by President Donald Trump. This over \$2 trillion economic relief package delivers on the Trump Administration's commitment to protecting the American people from the public health and economic impacts of COVID-19. The CARES Act provides fast and direct economic assistance for American workers and families, small businesses, and preserves jobs for American industries. Also, on March 27, 2020, the President of the United States of America declared that a major disaster exists in the Commonwealth of Puerto Rico and ordered Federal assistance to supplement Commonwealth and local recovery efforts in the areas affected by the Coronavirus Disease 2019 (COVID-19) pandemic beginning on January 20, 2020, and continuing. Federal funding is available to Commonwealth and eligible local governments and certain private nonprofit organizations for emergency protective measures, including direct Federal assistance, for all areas in the Commonwealth of Puerto Rico impacted by COVID-19.



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Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**To the Board of Directors
Puerto Rico Institute of Statistics
(A Component Unit of the Commonwealth
of Puerto Rico)**

We have audited, 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, the financial statements of the governmental activities, general fund and special revenue fund of **Puerto Rico Institute of Statistics (the Institute)**, a component unit of the Commonwealth of Puerto Rico, which comprise the Institute's basic financial statements, and have issued our report thereon dated August 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency*, is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
August 17, 2020
Stamp No. 2772627 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.