

**AUDITED FINANCIAL STATEMENTS**

**OFFICE OF GOVERNMENT ETHICS OF THE  
COMMONWEALTH OF PUERTO RICO**

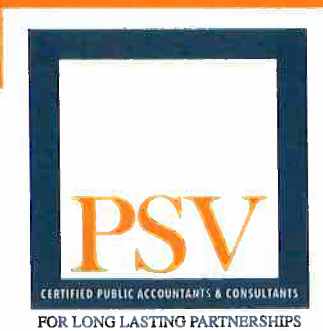
**(A Component Unit of the Commonwealth of Puerto Rico)**

**Basic Financial Statements and Required  
Supplementary Information as of and  
for the year ended June 30, 2021  
and Independent Auditors' Report**

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021

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## INDEPENDENT AUDITORS' REPORT

Mr. Luis A. Pérez Vargas, Executive Director  
Office of Government Ethics of the Commonwealth of Puerto Rico  
(A Component Unit of the Commonwealth of Puerto Rico)  
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities and each major fund of the Office of Government Ethics of the Commonwealth of Puerto Rico (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2021, which collectively comprise the Office'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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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.

## **Auditors' Responsibility - (Cont'd)**

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Office of Government Ethics of the Commonwealth of Puerto Rico (a component unit of the Commonwealth of Puerto Rico) as of June 30, 2021 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.

## **Emphasis of a Matter**

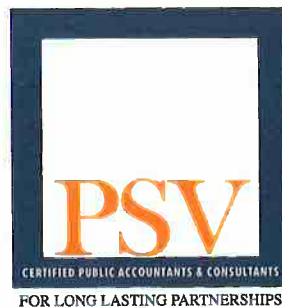
### *Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth)*

As discussed in Note B to the basic financial statements, the Office is reported as part of the Commonwealth. Considering that the Office has a significant financial dependency on the Commonwealth, the financial condition and liquidity of the Office could be negatively impacted.

The accompanying financial statements have been prepared assuming the Office will continue as a going concern, as described in Note B.

As described in Note D to the basic financial statements, as of June 30, 2021, the Office's government-wide statement of net position reflect a net position of \$2,545,767 in its governmental activities. Such position is mostly attributed to the recognition of net pension liability. Accordingly, the Office is completely dependent from the Commonwealth of Puerto Rico to pay its long term debt.

As discussed in Note D to the basic financial statements, the fund balance at the beginning of year has been restated to present a change in reporting entity. Our opinion is not modified with respect to this matter.



## Other Matters

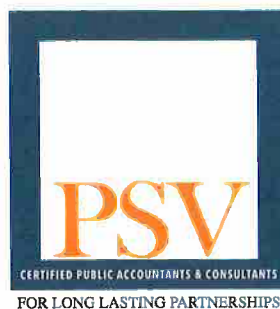
### *Required Supplementary Information Omitted*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 8 and 36 to 39 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 auditing standards generally accepted in the United States of America, which consist of inquiries to management about the methods of preparing 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 the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

February 4, 2022

Stamp E473145 of the P.R.  
Society of Certified Public  
Accountants has been affixed  
to the file copy of this report.

PSV & Co PSC



OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

This section presents a narrative overview of the financial performance of the Office of Government Ethics of the Commonwealth of Puerto Rico (the "Office") as of and for the year ended June 30, 2021. The information presented was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

FINANCIAL HIGHLIGHTS

- Net position of the Office increased \$960 thousand, from \$1.58 million as of June 30, 2020 to \$2.54 million as of June 30, 2021.
- Capital expenditures made during the fiscal year ended 2021 amounted to \$239 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of two parts, management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two types of statements that present different views of the Office:

- The first two statements are the government-wide financial statements that provide information about the Office's overall financial position and results. These statements, which are presented on the accrual basis of accounting, consist of the statement of net position and the statement of activities.
- The remaining statements are fund financial statements of the Office's major governmental fund, for which activities are funded primarily from Commonwealth appropriations and for which the Office follows the modified accrual basis of accounting.
- The basic financial statements also include the notes to financial statements section that explains some of the information in the government-wide and fund financial statements and provides more detailed data.

The government-wide financial statements report information about the Office as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the Office's assets and liabilities. All current year revenues and expenses are accounted for in the statement of activities regardless of when the cash is received or paid.

The Office record the net pension liability by request of GASB Statements No. 73 for the fiscal year ended June 30, 2021 and the financial statements of the Office for fiscal year ended June 30, 2021 were restated as discussed in Note D. However, the last audited statement of the net pension liability available by the government is on June 30, 2019, the Office recorded the net pension liability on the same date.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

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 Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Office are included in governmental funds.

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 Office near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Office maintains one individual governmental fund, the general fund. Information is presented in the governmental fund financial position and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund.

The Office received annual appropriated funds from the Commonwealth of Puerto Rico for its general fund.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE

In March 2020, the World Health Organization declared the outbreak of a new strain of the coronavirus (COVID-19) pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets.

We provide the readers of these basic financial statements with the following summarized discussion and analysis of the relevant facts that affected the government-wide financial statements as of June 30, 2021 and 2020:

	<u>2021</u>	<u>Governmental activities</u>		<u>Percentage</u>
		<u>2020</u>	<u>Change</u>	
Assets:				
Cash . . . . .	\$ 6,874,845	\$ 5,664,745	\$ 1,210,100	21.36%
Accounts receivable . . . . .	48,471	25,996	22,475	86.46%
Prepaid expenses . . . . .	59,729	48,434	11,295	23.32%
Capital assets:				
Non depreciable . . . . .	2,000,000	2,000,000	-	0.00%
Depreciable - net . . . . .	4,961,042	5,175,424	(214,382)	-4.14%
Total assets . . . . .	<u>\$ 13,944,087</u>	<u>\$12,914,599</u>	<u>\$ 1,029,488</u>	7.97%
Liabilities:				
Liabilities payable within one year . . . . .	\$ 1,216,555	\$ 1,371,465	\$ (154,910)	-11.30%
Liabilities payable after one year . . . . .	10,181,765	9,958,519	223,246	2.24%
Total liabilities . . . . .	<u>11,398,320</u>	<u>11,329,984</u>	<u>68,336</u>	0.60%
Net position:				
Invested in capital assets . . . . .	6,961,042	7,175,424	(214,382)	-2.99%
Unrestricted . . . . .	(4,415,275)	(5,590,809)	1,175,534	-21.03%
Total net position . . . . .	<u>2,545,767</u>	<u>1,584,615</u>	<u>961,152</u>	60.66%
Total liabilities and net position . . . . .	<u>\$ 13,944,087</u>	<u>\$12,914,599</u>	<u>\$ 1,029,488</u>	7.97%



OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE (CONT'D)

Net position of the Office increased \$960 thousand, from \$1.58 million as of June 30, 2020, to \$2.54 as of June 30, 2021. The increase in net position was the result of a net increase of \$1.03 million in total assets and \$68 thousand in total liabilities. The increase in total assets and total liabilities are mainly due to the following:

- Total assets increase by \$1.029 is mainly due to increase in current assets by \$1.243 and decrease in net capital asset by \$214 thousand.
- Total liabilities increased by \$68 thousand mainly due to an increase of \$190 thousand in accrued compensated absence and decrease of \$122 thousand in accounts payable and accrued liabilities.

The statement of activities shows the sources of the Office's changes in net position as they arise through its various functions. The Office currently only has governmental activities. Condensed statements of activities for the fiscal years ended June 30, 2021 and 2020 are shown in the table below:

	<u>2021</u>	<u>Governmental activities</u>		<u>Percentage</u>
		<u>2020</u>	<u>Change</u>	
Revenues:				
Program revenues:				
State appropriations. . . . .	\$ 9,112,000	\$ 9,027,000	\$ 85,000	0.94%
Special state appropriation. . . . .	117,325	16,236	101,089	622.62%
Interests and other. . . . .	5,837	106,966	(101,129)	-94.54%
Total revenues. . . . .	<u>9,235,162</u>	<u>9,150,202</u>	<u>84,960</u>	0.93%
Expenditures:				
General government. . . . .	8,208,200	7,826,729	381,471	4.87%
Expenditures from specific program:				
Special projects. . . . .	63,121	38,503	24,618	63.94%
Loss from retired capital assets. . . . .	2,689	-	2,689	100.00%
Total expenditures. . . . .	<u>8,274,010</u>	<u>7,865,232</u>	<u>408,778</u>	5.20%
Change in net position. . . . .	961,152	1,284,970	(323,818)	-25.20%
Net position at:				
Beginning of year, as restated. . . . .	<u>1,584,615</u>	<u>299,645</u>	<u>1,284,970</u>	428.83%
End of year. . . . .	<u>\$ 2,545,767</u>	<u>\$ 1,584,615</u>	<u>\$ 961,152</u>	60.66%

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE (CONT'D)

Function/program expenses increased from \$7.86 million in 2020 to \$8.27 in 2021. The variance was mainly caused by an increase of regular employees salaries and the related payroll expenses.

GOVERNMENTAL FUND RESULTS

The following is an analysis of the results of operations of the Office's major governmental funds General Fund - this fund accounts for all of the Office's activities. Total expenditures of this fund increase \$409 thousand from \$7.865 million in 2020 to \$8.274 in 2021. The increase was mainly due to payroll, repair and maintenance expenses.

CAPITAL ASSETS

The Office's investment in capital assets in June 30, 2021 and 2020 amounted to \$6.9 million and \$7.2 million, respectively, net of accumulated depreciation and amortization. Capital assets include land, buildings, building improvements, office furniture equipment, computer equipment, vehicles and intangible assets including software. See Note H included in the basic financial statements for additional details on capital assets during the fiscal year ended June 30, 2021.

CURRENTLY KNOWN FACTS

Financial deterioration of the Commonwealth of Puerto Rico ("Commonwealth")

As disclosed in Note B, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Office is part of the Commonwealth, the financial condition and liquidity of the Office could be similarly affected. The Office has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its basic financial statements and operations and has concluded that, as of June 30, 2021, the Office will continue to operate as a going concern for a period no less than twelve months after such date.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Office's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Office of the Executive Director, Office of Government Ethics of the Commonwealth of Puerto Rico, Ganges Street 108, Urbanización El Paraiso, San Juan, Puerto Rico, 00926-2906.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION  
JUNE 30, 2021

- ASSETS -

Current assets:	
Cash .....	\$ 6,874,845
Accounts receivable .....	48,471
Prepaid expenses .....	<u>59,729</u>
Total current assets .....	<u>6,983,045</u>
Capital assets:	
Non depreciable .....	2,000,000
Depreciable - net .....	<u>4,961,042</u>
Total capital assets .....	<u>6,961,042</u>
Total assets .....	<u>13,944,087</u>

- LIABILITIES AND NET POSITION -

Liabilities payable within one year:	
Accrued compensated absences .....	679,068
Accounts payable .....	257,330
Accrued liabilities .....	<u>280,157</u>
Total .....	1,216,555
Liabilities payable after one year:	
Net pension liability .....	9,099,815
Accrued compensated absences .....	<u>1,081,950</u>
Total .....	<u>10,181,765</u>
Total .....	<u>11,398,320</u>
Net position:	
Invested in capital assets .....	6,961,042
Unrestricted .....	<u>(4,415,275)</u>
Total net position .....	<u>\$ 2,545,767</u>

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

<u>Functions and programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Net revenues (expenses) and changes in net position</u>
		<u>Operating Grant and Contributions</u>	<u>Other Sources</u>	
Governmental activities:				
General government . . . . .	\$ 8,208,200	\$ 9,112,000	\$ 5,837	\$ 909,637
Special project . . . . .	<u>63,121</u>	<u>-</u>	<u>117,325</u>	<u>54,204</u>
Total governmental activities and change in net position . .	<u>\$ 8,271,321</u>	<u>\$ 9,112,000</u>	<u>\$ 123,162</u>	963,841
<u>Other</u>				
Capital loss . . . . .				<u>(2,689)</u>
Change in net position . . . . .				961,152
NET POSITION AT:				
BEGINNING OF YEAR, AS RESTATED . . . . .				<u>1,584,615</u>
END OF YEAR . . . . .				<u>\$ 2,545,767</u>

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2021

	<u>General fund</u>
ASSETS:	
Cash .....	\$ 6,874,845
Accounts receivable .....	<u>48,471</u>
 Total assets .....	 <u>\$ 6,923,316</u>
LIABILITIES:	
Accrued compensated absences .....	\$ 679,068
Accounts payable .....	257,330
Accrued liabilities .....	<u>280,157</u>
 Total liabilities .....	 <u>1,216,555</u>
FUND BALANCE:	
Unrestricted .....	<u>5,706,761</u>
 Total fund balance .....	 <u>5,706,761</u>
 Total liabilities and fund balance .....	 <u>\$ 6,923,316</u>

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET RECONCILIATION - GOVERNMENTAL  
FUND TO THE STATEMENT OF NET POSITION JUNE 30, 2021

Amounts reported for governmental activities in the  
statement of net assets are different because:

Total fund balance .....	\$ 5,706,761
Prepaid expenses are not available to pay current period expenditures and, therefore, are not deferred in the funds .....	59,729
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the Balance Sheet - Governmental Fund .....	6,961,042
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Balance Sheet - Governmental Fund:	
Net pension liability .....	(9,099,815)
Accrued compensated absences .....	<u>(1,081,950)</u>
Net position of governmental activities .....	<u>\$ 2,545,767</u>

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	<u>General fund</u>
REVENUES:	
State appropriations .....	\$ <u>9,112,000</u>
EXPENDITURES:	
Payroll and related expenses .....	6,840,463
Capital outlays .....	239,184
Insurance and related expenses .....	234,502
Office equipment and supplies .....	314,470
Other expenses .....	29,557
Rent related expenses .....	2,250
Repairs and maintenance .....	187,241
Special projects .....	3,431
Professional services .....	120,207
Utilities .....	<u>99,618</u>
Total expenditures .....	<u>8,070,923</u>
Net change in fund balances - governmental funds .....	1,041,077
FUND BALANCE AT:	
BEGINNING OF FISCAL YEAR .....	<u>1,732,565</u>
END OF FISCAL YEAR .....	\$ <u>2,773,642</u>

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
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RECONCILIATION OF STATEMENT OF REVENUE,  
EXPENDITURES AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021

Amounts reported for governmental activities in the  
statement of net assets are different because:

Net change in fund balance - governmental funds . . . . .	\$ 1,041,077
Governmental funds report prepaid expenses as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as amortization expense. This is the amount by which these expenditures exceeded amortization in the current fiscal year . . . . .	
	11,295
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays, net of disposals, exceeded depreciation in the current fiscal year . . . . .	
	(214,382)
Some revenues reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as revenues in governmental funds. This amount includes: special state appropriations and interest income. . . . .	
	<u>123,162</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES . . . . .	\$ <u>961,152</u>



OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

**NOTE A - REPORTING ENTITY**

The Office of Government Ethics of the Commonwealth of Puerto Rico (the "Office") was created by Act No. 12 of July 24, 1985, as amended, (the "Act") by the Legislature of the Commonwealth of Puerto Rico (the "Legislature"). The Office was created to promote and preserve the integrity of public servants in government institutions. In order to promote administrative independency, the Office is a separate and independent entity from any other agency or instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth"). On January 3, 2012, the Legislature enacted Act 1-2012, known as the Puerto Rico Government Ethics Act of 2011. The main purpose established in the Act is to renew and reassert the preventive and overseeing duties of the Office. Its policies enable the Office to identify, analyze, and provide education on values such as trustworthiness, caring, fairness, citizenship, respect, and responsibility, which makes the attainment of the highest levels of honesty, conscientiousness, and efficiency in performance of public servants feasible. Furthermore, the office oversees, through the vehicles and resources provided by the Act, the conduct of public servants and penalizes all those who infringe the code of ethics. The Office receives significant financial support from the Commonwealth in the form of contributions.

*Reporting Entity* - In determining its financial reporting entity, the Office has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Office, or the significance of their relationship with the Office is such that exclusion would be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and the ability of the State to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Office. Based on the above criteria there are no potential component units, which should be included in the basic financial statements.

The basic financial statements of the Office are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the Commonwealth attributable to the transactions of the Office. It does not intend to, and does not present fairly the financial position and changes in financial position of the Commonwealth in conformity with accounting principles generally accepted in the United States of America.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

**NOTE A - REPORTING ENTITY (CONT'D)**

In section 8.3, Act No. 12 of July 24, 1985, as amended, was repealed, except for the creation of the Office, the appointments, right and privileges vested, and contracts, arrangements, agreements entered there under. This repeal shall not affect any proceeding initiated or that may be initiated, pursuant to the provisions of the cited Act.

The Office is required to submit a quarterly report as established in section 4, Act No. 166 of June 17, 2014, also known as the "Special Law for Fiscal and Operational Sustainability of the Commonwealth of Puerto Rico" to the Governor of Puerto Rico, Secretary of the Puerto Rico Senate and House of representative.

The Office is exempt from all taxation in Puerto Rico. Also pursuant to both Acts, the office is exempt of the following:

Act No. 3 of January 23, 2017 also known as the "Ley para atender la crisis económica , fiscal y presupuestaria para garantizar el funcionamiento del gobierno de Puerto Rico" with the exception of Article 9 and Article 26 which are the only ones that the office is not exempt from in this act.

Act No. 8 of February 4, 2017 , also known as the "Ley para la Administración y la transformación de los recursos humanos en el Gobierno de Puerto Rico".

Act No. 230 of July 23, 1974, as amended, also known as the "Puerto Rico Government Accounting Act".

Act No. 184 of August 3, 2004, as amended, also known as the "Public Service Human Resources Administration Act of the Commonwealth of Puerto Rico".

Act No. 45 of February 25, 1998, as amended, known as the "Puerto Rico Public Service Labor Relations Act".

Act No. 54 of January 4, 2003, related to the exclusive Register of Bidders.

Act No. 147 of June 18, 1980, as amended, known as the "Management and Budget Office Organic Act".

Act No. 197 of August 18, 2002, known as the "Act to Regulate the Transition Process of the Government of Puerto Rico".

Act No. 209 of August 28, 2003, known as the "Puerto Rico Institute of Statistics Act".

Act No. 265 of September 3, 2003, known as the "Act for Regulating Certain Government Financing and Personal Property Leasing Contracts".

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

**NOTE A - REPORTING ENTITY (CONT'D)**

The Office is exempt from all taxation in Puerto Rico. Also pursuant to both Acts, the office is exempt of the following (Cont'd):

Act No. 5 of December 8, 1955, as amended, known as the "Public Documents Administration Act".

Act No. 15 of February 28, 2017, as amended, also known as the "Ley del Inspector General de P.R."

Act No. 73 of July 23, 2019, as amended, also known as the "Ley de la Administración de Servicios Generales para la Centralización de las Compras del Gobierno de Puerto Rico de 2019".

The Office's accompanying financial statements are issued solely for the information and use of the Office management and is not intended to be and should not be used by anyone other than these specified parties.

**NOTE B - GOING CONCERN**

As part of its normal operating activities, and as disclosed in note A, the Office is part of and receives significant financial support from the General Fund of the Commonwealth of Puerto Rico. As of June 30, 2021, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk; which is the risk of not having sufficient liquid financial resources to meet their obligations when they become due. However, the Office as a result of its operational efficiencies, savings and budget controls, does not foresee any possible effect of the aforementioned Commonwealth financial uncertainty on its basic financial statements and operations. The Office will continue to operate with the necessary cash flow for a period of 12 months since the issue date of the present financial statements.

It is of outmost importance to understand that as established in the Puerto Rico Government Ethics Act of 2011 -"The Office is hereby created with the clear legislative intent to operate with full autonomy and independence and at full capacity on a continuing basis, without external interventions, thus allowing it to carry out its ministerial functions efficiently and effectively, without the influence of any public servant subject to its jurisdiction. This administrative and fiscal autonomy is essential to carry out the delicate function entrusted to the Office."

In addition, as discussed in Note A, since its creation the Office was exempted from the application of the Act No. 230 of July 23, 1974 , as amended , known as the " Puerto Rico Government Accounting Act" and Act No. 147 of June 18, 1980, as amended, known as the " Management and Budget Office Organic Act". These acts regulate the use and management of governmental funds in the Commonwealth of Puerto Rico and the exemption from these acts reinforces the financial autonomy of the Office.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
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NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

**NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements present the respective financial position of the governmental activities and its major fund of the Office as of June 30, 2021, and the respective changes in financial position, thereof for the fiscal year then ended.

- a. Financial Statement Presentation - The basic financial statements of the Office have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local governmental units. The basic financial statements include both government-wide (based on the Office as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental.

The financial information of the Office is presented in this report as follows:

- i. Required Supplementary Information - Management's Discussion and Analysis - Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Office's financial activities.
- ii. Government - Wide Financial Statements ("GWFS") - While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the Statement of Net Position and the Statement of Activities) report information of all the activities of the Office.

The focus of the Statement of Net Position is designed to be similar to bottom line results for the Office's governmental activities. This statement combines and consolidates the governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The Statement of Net Position presents the Office's assets and liabilities, with the difference reported as net position. Net position is classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Office's management are not presented as restricted net position.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Office's governmental activities. Direct expenses are those that are clearly identifiable with a specific function or segment. In addition to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. Program Revenues include the appropriations from the Commonwealth of Puerto Rico to finance the Office's activities.

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NOTES TO FINANCIAL STATEMENTS

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**NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

The financial information of the Office is presented in this report as follows (Cont'd):

- iii. *Governmental Funds Financial Statements* ("GFFS") - The GFFS provide information about the Office's funds. The emphasis on fund financial statements is on major governmental funds.

The Office uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities. The Office reports the following governmental fund:

- a. *General Fund* - This fund is the general operating fund of the Office. The general fund is used to account for and report all its financial resources.

The Office periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose of external financial reports. Consequently, all superfluous funds and some operational funds currently used by the Office in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar operational funds have been combined into single funds in the accompanying fund financial statements.

The financial statements of the governmental funds are the following:

- b. *Balance Sheet* - Reports information at June 30, 2021 about the current financial resources (assets, liabilities, and fund balances) of each major governmental fund.
- c. *Statement of Revenues, Expenditures and Changes in Fund Balance* - Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2021.
- iv. *Notes to Basic Financial Statements* - The notes to basic financial statements provide information that is essential to a user's full understanding of the data provided in the basic financial statements.
- v. *Required Supplementary Information* - The basic financial statements are followed by a section of required supplementary information. This section includes a Schedule of Revenues and Expenditures Budget and Actual - General Fund - Non GAAP Budgetary Basis, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

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NOTES TO FINANCIAL STATEMENTS

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**NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

The financial information of the Office is presented in this report as follows (Cont'd):

- b. *Measurement Focus and Basis of Accounting* - The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

*Government - Wide Financial Statements* - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

*Governmental Funds Financial Statements* - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Office considers revenues to be available if they are collected within ninety (90) days after the end of the current fiscal period. On June 30, 2021, all revenues sources met this availability criterion.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental fund.

The accompanying Balance Sheet - Governmental Funds generally reflect only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet - Governmental Fund.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

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**NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

The financial information of the Office is presented in this report as follows (Cont'd):

- c. *Budgetary Information* - The Office annually adopts the Budget Resolution for all operating funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

Fund balance

Beginning with fiscal year 2011, the Office implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable - amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- Restricted - amounts constrained to specific purposes by their providers (such as grantors), through constitutional provisions, or by enabling legislation.
- Committed - amounts constrained to specific purposes by the Office itself, using its highest level of decision-making Office (such as legislation). To be reported as committed, amounts cannot be used for any other purpose unless the Office takes the same highest level action to remove or change the constraint.
- Assigned - amounts the Office intends to use for a specific purpose. Intent can be expressed by the Office or by an official or body to which the Office delegates the Office.
- Unassigned - all amounts not included in other spendable classifications.



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**NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Fund balance (Cont'd)

The Office establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Office through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In the general fund, the Office strives to maintain an unassigned fund balance to be used for unanticipated expenditures and other financing sources and uses.

Budgetary accounting

Statutory (budgetary) accounting

The Office's total available spending authorization, which is considered its budget, is adopted in accordance with a statutory basis of accounting, which is not in accordance with the modified accrual basis of accounting. Revenues are generally recognized when cash is received. Expenditures are generally recorded when the related expenditure is incurred or encumbered.

Amounts required for settling claims and judgments against the Office and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under the statutory basis of accounting, the Office 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 Office governmental funds, encumbrance is a significant aspect to budget control.

Budgetary control

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is purchase orders, contracts and other commitments of appropriated resources) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances, outstanding at fiscal year-end are reported as reservations of budgetary appropriations, GAAP fund balances do not constitute expenditures or liabilities on a GAAP basis, because such commitments will be honored during the subsequent fiscal year.

The Office is not required by the Act to submit a budget for approval by the Legislature of the Commonwealth. The Office received a group appropriation; consequently, no formal budgetary accounting procedures are followed.



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NOTES TO FINANCIAL STATEMENTS

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**NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Prepaid expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Capital assets

Capital assets, which include land, building, building improvements, computer equipment, office furniture and equipment, motor vehicles and intangible assets including software are reported in the government wide financial statements. Capital assets are defined by the Office as assets which have a cost of \$500 or more at the date of acquisition and have an expected useful life of one or more years. Purchased capital assets are valued at historical cost. Donated fixed assets are recorded at fair value at the date of donation.

Capital assets transferred from other governmental entities within the same financial reporting entity are recorded at the carrying value of the transferor. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

Capital assets are depreciated on the straight-line method over the assets' estimated useful lives generally, estimated useful lives are as follows:

Building	30 years
Building improvements	20 years
Office furniture and equipment	7 years
Computer equipment	3 years
Vehicles	5 years
Software	5 years

Use of estimates

The preparation of 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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

In March 2020, the World Health Organization declared the outbreak of a new strain of coronavirus (COVID-19) a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets.

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NOTES TO FINANCIAL STATEMENTS

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**NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Cash and cash equivalents

The Office considers all highly liquid investments with maturity of ninety (90) days or less when purchased to be cash equivalents. The cash balances are available to meet current operating requirements in various interest-bearing accounts with Commercial Banks.

Compensated absences

The vacation policy of the Commonwealth of Puerto Rico that applies to the Office employees provides for the accumulation of one and a quarter (1.25) days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of sixty (60) days. Office's employees accumulate sick leave at a rate of one and a half (1.5) days per month up to a maximum of ninety (90) days. Upon retirement, an employee receives all accumulated unpaid leave at the current rate, if the employee has at least ten (10) years of service with the Commonwealth of Puerto Rico.

Governmental funds

Reservations of fund balance

The governmental fund financial statements present reservations of fund balance for portions of fund balances that are legally segregated for a specific future spending, use or are not available for other future spending.

Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred. The noncurrent liabilities include estimates related to contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

Accounting for Pension Costs

The Office accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contribution.

**NOTE D - CHANGE IN REPORTING ENTITY**

The Office has determined that a restatement to the July 1, 2020 beginning net position was required to recognize the net pension liability balance as of June 30, 2019 as required by GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, and Statement No. 73, Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, through which accounting for pension plans and the related disclosure requirements were modified.

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**NOTE D - CHANGE IN REPORTING ENTITY (CONT'D)**

This adjustment resulted in a change to the beginning net position of the Office as follows:

Net deficit, at beginning of year as previously reported . . . . .	\$ (31,850,294)
Prior period adjustment:	
Records GASB Statements No. 73:	
Net pension liability (measurement date June 30, 2018) . . . . .	32,931,637
Net pension liability (measurement date June 30, 2019) . . . . .	<u>(781,698)</u>
Net position, at beginning of year as restated . . . . .	<u>\$ 299,645</u>

**NOTE E - CASH**

For deposits, custodial credit risk is the risk that in the event of bank failure, the Office deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial bank must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico. The balance and carrying amount of the Office accounts with commercial banks as of June 30, 2021, amounted to \$6,983,888.

**NOTE F - COMPENSATED ABSENCES**

Employees accrue vacation leave at a rate of one and a quarter (1.25) days per month up to a maximum of sixty (60) days. Unpaid vacation time accumulated is fully vested to the employees from the first (1) day of work.

Employee's accrue sick leave at a rate of one and a half (1.5) days per month up to a maximum of ninety (90) days.

Total vested pay benefits accrued for compensated absences at June 30, 2021, amount to \$1,761,018 which activity for the year ended June 30, 2021, is summarized as follows:

<u>Balance at</u> <u>June 30, 2020</u>	<u>Additions</u>	<u>Decrease</u>	<u>Balance at</u> <u>June 30, 2021</u>	<u>Due within</u> <u>One (1) Year</u>
\$ 1,570,098	\$ 748,920	\$ 558,000	\$ 1,761,018	\$ 679,068

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE G - RETIREMENT PLAN**

All full-time regular employees are covered and must participate in the employee's retirement plan administered by the Employees' Retirement System ("ERS") of the Government of Puerto Rico (created by Act No. 447 in May 15, 1951) and its Instrumentalities.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified to decrease the benefits and to postpone the retirement age from 55 to 65, in order to provide a more affordable benefit structure. Also, the level of contributions was raised and Act No. 447 was amended to provide that any increase in benefits that would require actuarial studies and identification of the financing source.

Ten years later, the continued increase in the unfunded liability required further action. As a result, the original defined benefit structure was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the pension benefit structure was further amended by Act No. 305 of September 24, 1999 (Act. No. 305) for the purpose of establishing a new pension program named (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the ERS as of December 31, 1999 had the option to stay in the defined benefit plan or transfer to System 2000. Employees joining the Office on or after January 1, 2000 are only allowed to become participants of System 2000. System 2000 is a defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age are not guaranteed by the Commonwealth. The annuity is based on a formula that assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) is invested in an account, which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or (2) earn a rate equal to 75% of the return of the ERS' investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of the defined contribution plan showing their accrued balances. System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the ERS on or after April 1, 1990. Disability pensions are not granted under System 2000.

Effective July 1, 2011, the Commonwealth of Puerto Rico implemented the increases in the Retirement System that Retirement System Commission approved for all governmental employees. These increases consist of an increase in the annual employer contribution of 1.0% of the regular retribution received by the participants, beginning on July 1, 2012 and ending on June 30, 2016, and an annual increase of the employer contribution of 1.25% of the regular retribution received by the participant beginning on July 1, 2016 and ending on June 30, 2021.

Total office contributions made for the pension plan during the year ended June 30, 2021 amounted to \$575,493 for employees paid with state funds.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE G - RETIREMENT PLAN (CONT'D)**

On April 4, 2013, the Legislature enacted Act No. 3 which amended Act No. 447, Act No. 1 of 1990 (Act No. 1) and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, became members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who on June 30, 2013, were participants of previous plans will become part of the Contributory Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for 2000 System Program participants. Ceasing future defined benefit accruals under Act No. 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employers contributions available to pay benefits and bonds payable debt service.

The Act No. 3 of 2013, amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for increases of the minimum pension payments for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- Increases the employer contribution rate from 19.275% to 20.525%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE G - RETIREMENT PLAN (CONT'D)**

- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated and the disability benefits will be substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.
- The Office contributions will increase gradually effective July 1, 2017. The required contribution for fiscal year ending June 30, 2018 will be 16.775%. Subsequently, the required contribution will increase by 1.25% every year up to a total contribution of 20.525%.

Statement No. 73 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB 73) became effective for the year ended June 30, 2015. This statement replaces the requirements of Statement No. 27.

Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the ERS.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:

As of June 30, 2019, the Office reported a liability of \$9,099,815 for its proportionate share of the net pension liability.

The total pension liability as of June 30, 2019 (measurement date) was determined by an actuarial valuation as of July 1, 2018 that was rolled forward to June 30, 2019.

For the year ended June 30, 2021, the Office recognized pension expense of \$575,493 thousand.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE G - RETIREMENT PLAN (CONT'D)**

*Actuarial Assumptions and Methods:*

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement:

Actuarial cost method:	Entry age normal
Asset valuation method:	Market value of assets
Inflation rate:	Not applicable
Salary increases:	3.00% per year. No compensation increases are assumed until July 1, 2021 as result of Act no 66-2014, and the current general economy.

The mortality tables used in the June 30, 2019 valuation were as follows:

*Pre-Retirement Mortality:* For general employees not covered by Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from 2006 base year and projected forward using MP-2018 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from 2006 base year and projected forward using MP-2018 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

*Post-Retirement Healthy Mortality:* Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

*Post-Retirement Disabled Mortality:* Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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**NOTE G - RETIREMENT PLAN (CONT'D)**

Most other demographic assumptions used in the July 30, 2019 valuation were based on the results of a 2009 actuarial experience study using data as of June 30, 2003, 2005, and 2007.

The long term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the Retirement System's Board during December 2013 and the actuary's capital market assumptions as of June 30, 2019. In addition, the assumption reflects that loans to members comprise approximately 50% of the portfolio and, have an approximate return of 9.1% with no volatility. The long term expected rate of return on pension benefits investments of 6.55% at June 30, 2016 is equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% to 6.55% per annum.

The Retirement System's policy regarding allocation of invested assets is established and may be amended by the Retirement System's Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System's financial condition for the benefits provided through the pension programs.

The following was the Retirement System's Board adopted asset allocation policy at June 30, 2019:

Asset class:	<u>Target Allocation</u>	<u>Long-term expected Real rate of return</u>
Domestic equity .....	25%	6.40%
International equity .....	10%	6.70%
Fixed income .....	64%	6.30%
Cash .....	1%	3.00%
Total .....	<u>100%</u>	

The expected long-term rates of return on pension plan investments were determined using a building block method in which the best estimates ranges of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation.



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**NOTE G - RETIREMENT PLAN (CONT'D)**

The asset basis for the date of depletion is the Retirement System's fiduciary net position (gross assets plus deferred outflows of resources less gross liabilities, including senior pension funding bonds payable, less deferred outflows of resources). On this basis, the Retirement System's net position became negative in fiscal year 2015 and accordingly, no projection of date of depletion is needed.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Therefore, actuarial determined amounts are subject to change in the near term.

*Discount rate*

The Retirement System is in a deficit position. Therefore, the tax-free municipal bond index (Bond Buyer Obligation 20 Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine total pension liability. The discount rate was 3.50% on June 30, 2019.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE G - RETIREMENT PLAN (CONT'D)**

*Sensitivity of the Office's proportionate share of net pension liability to change in the discount rate*

The following table presents the Office's proportionate share of the net pension liability calculated using the current discount rate of 3.50% as well what the Office's proportionate share of what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	At 1% decrease (2.50%)	At current discount rate (3.50%)	At 1% increase (4.50%)
Net pension liability . . . . .	\$ 10,347,933	\$ 9,099,815	\$ 8,085,827

*Payable to the Retirement System*

As of June 30, 2019, the Office reported a payable of approximately \$89,099,815 for the outstanding amount of contributions to the Retirement System for current year.

*Pension plan fiduciary net position*

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2018, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico.

As of the date of the release of this report, the ERS has not issued its 2021 and 2020 basic financial statements, nor has it provided the Office with the required information to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB 68). Therefore, the accompanying governmental activities financial statements do not have any adjustments that will be necessary for the Office to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of June 30, 2021, as well as the effect in the recorded pension expense in the statement of activities for the year ended June 30, 2021.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE G - RETIREMENT PLAN (CONT'D)**

The pension costs recognized in the accompanying financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions, which is not in accordance with accounting principles generally accepted in the United States of America. Additional information on the ERS is provided in its financial statements for the year ended June 30, 2019 a copy of which can be obtained from the Administrator of the Retirement System: P.O. Box 42003, San Juan, Puerto Rico 00940.

Effective July 1, 2017, the Government of Puerto Rico adopted the "PayGo" mechanism for all of its retirement systems. By means of this mechanism, agencies and instrumentalities are responsible for putting up the money to pay pensions. With the implementation of this charge employers' contributions, contributions ordered by special laws and the Additional Uniform Contribution (Law 32-2013) were all eliminated and replaced by the "PayGo Charge" that is collected from government entities to pay retirees.

The systems affected by the change are the government's, the judiciary, the University of Puerto Rico and those of public corporations. The Treasury Department will bill public corporations, municipalities, the central government, the Legislature and the judicial branch a monthly charge to cover the benefits to pensioners. The charge must be submitted to the Treasury Department on or before the fifteen (15th) of each month along with the individuals' contribution withheld that must be sent to a different bank account as established on Circular Letter Num. 1300-46-17. If the public corporation, municipality or any other participating entity of the Retirement System fails to comply with the corresponding payment within thirty (30) days from retention, the funds from "PayGo Charge" or the individuals' contributions withheld from participating employees, the Treasury Department will withhold from any available remittance the amount due to cover for the debt. In case of municipalities, the amount due will be requested to the Centro de Recaudaciones e Ingresos Municipales "CRIM" so that available remittances be used to cover for the debt.

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NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

**NOTE H - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Retirement</u>	<u>Ending Balance</u>
Non depreciable:				
Land .....	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Depreciable:				
Building .....	5,375,421	-	-	5,375,421
Building improvements .....	2,378,180	23,966	-	2,402,146
Office furniture and equipment .....	1,970,433	150,969	(20,640)	2,100,762
Computer equipment .....	1,112,419	30,140	(164,250)	978,309
Vehicle .....	295,713	34,109	(66,487)	263,335
Software .....	522,749	-	-	522,749
Total capital assets .....	<u>13,654,915</u>	<u>239,184</u>	<u>(251,377)</u>	<u>13,642,722</u>
Less: accumulated depreciation:				
Building .....	1,910,118	179,181	-	2,089,299
Building improvements .....	1,054,448	122,110	-	1,176,558
Office furniture and equipment .....	1,815,346	63,283	(20,633)	1,857,996
Computer equipment .....	918,229	78,854	(161,568)	835,515
Software .....	522,746	-	-	522,746
Vehicle .....	258,604	7,449	(66,487)	199,566
Total accumulated depreciation .	<u>6,479,491</u>	<u>450,877</u>	<u>(248,688)</u>	<u>6,681,680</u>
Total capital assets - net .....	<u>\$ 7,175,424</u>	<u>\$ (211,693)</u>	<u>\$ (2,689)</u>	<u>\$ 6,961,042</u>

During the fiscal year 2021, the Office depreciation expense amounted to \$450,877.

In accordance with the provisions of the Accounting of the Impairment or Disposal of Long-Lived Assets, Topic of the FASB Accounting Standard Codification management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. As of June 30, 2021, management believes that long-lived assets are not impaired at the individual asset or group level.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

**NOTE I - CONTINGENCIES**

On June 30, 2021 the Office is involved in various litigations arising in the normal course of operations. The Office believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the Office financial condition and results of operations. Based on the advice of legal counsel, management has an accrued estimate for litigation and claim losses of \$290,000 in fiscal year June 30, 2018. For the fiscal year June 30, 2021, the Office paid \$139,868 and did not accrue additional expenses for this contingency. The accrued estimated balance as of June 30, 2021 for litigation and claim losses amounting to \$150,132. Any claims with negative financial impact would be paid from the general funds of the Commonwealth of Puerto Rico.

Voluntary Termination Benefits - During the fiscal year, the Office established two programs with economic incentives for early retirement or voluntary employment termination to eligible employees in accordance with section 22 of Act 70 of July 2, 2010. The program established in October 2010 has the first two components described below. The second program established on February 2012 has three (3) components as follows:

- Economic incentives for early retirement - All employees that at September 30, 2010 have completed between 15 to 29 years of creditable service in the Retirement System, regardless their age, may receive pension benefits ranging from 37.5% to 50% of each employee's salary, depending on the years of service.
- Economic incentives for resignation - All employees can resign and receive an economic incentive of one (1) month up to six (6) months of salary depending of the employee's term in the public services. The payment will be exempted from income tax payment and will not be subject to savings and retirement plan deductions.

**NOTE J - SUBSEQUENT EVENTS**

On July 21, 2021 the Office paid the amount of \$42,871 for completed litigation process. This payment was authorized from the Financial Oversight and Management Board for Puerto Rico. The Office request authorization because the Office accrued this expense in the fiscal year ended of June 30, 2018.

Management has evaluated subsequent events through February 4, 2022, the date the financial statements were available to be issued.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO

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BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND (UNAUDITED)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u> <u>Expenditures</u>	<u>Variance</u>
Revenue:				
State appropriation . . . . .	\$ 9,112,000	\$ 9,112,000	\$ 9,112,000	\$ -
 Total revenues . . . . .	 9,112,000	 9,112,000	 9,112,000	 -
Expenditures:				
Payroll and related expenses . . . .	6,684,000	6,684,000	6,840,463	156,463
Capital outlays . . . . .	-	-	239,184	239,184
Insurance and related expenses . . .	-	82,000	234,502	152,502
Office equipment and supplies . . .	-	46,000	314,470	268,470
Other expenses . . . . .	2,340,000	1,610,000	29,557	(1,580,443)
Rent related expenses . . . . .	-	45,000	2,250	(42,750)
Repair and maintenance . . . . .	-	250,000	187,241	(62,759)
Special project . . . . .	-	-	3,431	3,431
Recycling project . . . . .	-	5,000	-	(5,000)
Remote work project . . . . .	-	100,000	-	(100,000)
Seminars and trainings . . . . .	-	50,000	-	(50,000)
Dues and subscriptions . . . . .	-	35,000	-	(35,000)
Professional service . . . . .	82,000	100,000	120,207	20,207
Utilities . . . . .	6,000	105,000	99,618	(5,382)
 Total expenditures . . . . .	 9,112,000	 9,112,000	 8,070,923	 (1,041,077)
 Net change in fund balances				
- governmental fund . . . . .	\$ -	\$ -	\$ 1,041,077	\$ 1,041,077

The Office of Government Ethics of the Commonwealth of Puerto Rico is not restricted of the use of funds nor has the need to ask approval from the Office of Management and Budget to change the use of programs funds assigned by Commonwealth of Puerto Rico.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
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STATUTORY/BUDGETARY RECONCILIATION (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2021

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in United States of America (GAAP), a reconciliation of the differences of revenues and expenditures between budgetary and GAAP presentation follows:

**Sources/Inflows of Sources:**

Actual amounts (budgetary basis) "available for appropriation" from the the budgetary comparison schedule .....	\$	9,112,000
Differences - Budget to GAAP		
Revenues for which no budget was approved during current year .....		-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental fund .....	\$	<u>9,112,000</u>

**Uses Outflows of Resources:**

Actual amounts (budgetary) basis "total charges to appropriations" from the budgetary comparison schedule .....	\$	9,112,000
Differences - Budget to GAAP .....		<u>(1,041,077)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental fund .....	\$	<u>8,070,923</u>

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2021

General Budgetary Policies and Procedures

The Office principal annual budget is the annual appropriation from the Commonwealth of Puerto Rico (the Commonwealth). The budget is prepared annually and submitted to the Legislature of the Commonwealth for approval.



OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION LIABILITY  
(UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2021

The schedule of Proportionate Shares of Collective Total Pension Liability for the Office for the year ended June 30, 2021:

	GASB 73	
	<u>2021</u>	<u>2020</u>
Proportion (percentage) of total pension liability . . . . .	<u>0.03662%</u>	<u>0.03662%</u>
Proportion (amount) of the total pension liability . . . . .	<u>\$ 9,099,815</u>	<u>\$ 9,099,815</u>

The Office net pension liability as of June 30, 2021, was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2021 (measurement date as of June 30, 2019).

As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.

The Office proportion of the total pension liability was actuarially determined based on the ratio of the Office benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.