

AUDITED FINANCIAL STATEMENTS

OFFICE OF GOVERNMENT ETHICS OF THE  
COMMONWEALTH OF PUERTO RICO

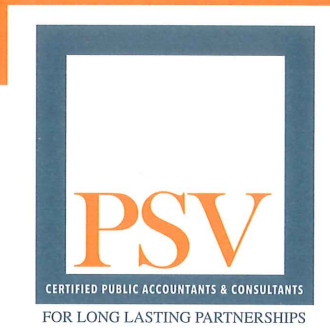
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required  
Supplementary Information as of and  
for the year ended June 30, 2024  
and Independent Auditor's 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, 2024

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## INDEPENDENT AUDITOR'S 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

### **Opinion**

We have audited the accompanying financial statements of the governmental activities and the 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, 2024, and the related notes to the financial statements, which collectively comprise the Office of Government Ethics of the Commonwealth of Puerto Rico's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and its major fund, and the aggregate remaining fund information of the Office of Government Ethics of the Commonwealth of Puerto Rico, as of June 30, 2024, and the respective changes in financial position and thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Office of Government Ethics of the Commonwealth of Puerto Rico (a component unit of the Commonwealth of Puerto Rico), and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

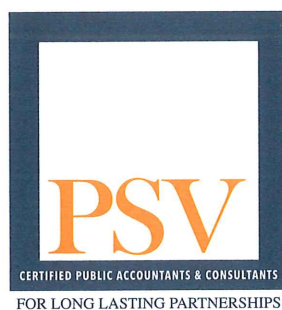
In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Office of Government Ethics of the Commonwealth of Puerto Rico (a component unit of the Commonwealth of Puerto Rico) ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Office of Government Ethics of the Commonwealth of Puerto Rico's (a component unit of the Commonwealth of Puerto Rico) internal control. Accordingly, no such opinion is expressed.



## **Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)**

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Office of Government Ethics of the Commonwealth of Puerto Rico's (a component unit of the Commonwealth of Puerto Rico) ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Emphasis of a Matter**

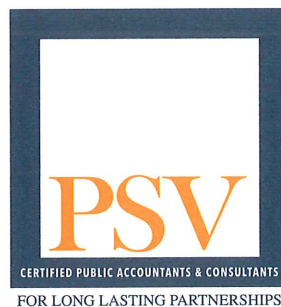
#### *Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth)*

As discussed in Note B of 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.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider 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 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 the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



## Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office of Government Ethics of the Commonwealth of Puerto Rico's (a component unit of the Commonwealth of Puerto Rico) basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

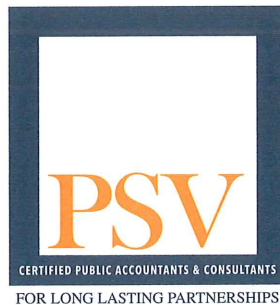
San Juan, Puerto Rico  
February 4, 2025

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OFFICE OF GOVERNMENT ETHICS OF THE  
COMMONWEALTH OF PUERTO RICO



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, 2024

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, 2024. 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 decreased by \$2.02 million from \$(2.62) million as of June 30, 2023, to \$(4.64) million as of June 30, 2024. The decrease in net position was due to an excess of expenditures over revenues in current activity during the fiscal year ended June 30, 2024.
  
- Capital expenditures made during the fiscal year ended 2024 amounted to \$151 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 provide 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 recorded the net pension liability by request of GASB Statements No. 73 for the fiscal year ended June 30, 2024. However, the last audited statement of the net pension liability available by the government is on June 30, 2023, 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, 2024

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's 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 for 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, 2024

FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>	<u>Governmental activities</u> <u>Change</u>	<u>Percentage</u>
Current assets:				
Cash . . . . .	\$ 4,583,329	\$ 4,088,113	\$ 495,216	12.11%
Prepaid expenses . . . . .	20,976	19,632	1,344	6.85%
Total current assets . . . . .	<u>4,604,305</u>	<u>4,107,745</u>	<u>496,560</u>	12.09%
Non-current assets:				
Non depreciable . . . . .	2,000,000	2,000,000	-	0.00%
Depreciable - net . . . . .	4,329,001	4,663,706	(334,705)	-7.18%
Deferred outflow of resources - pension related . . . . .	650,661	-	650,661	100.00%
Total non-current assets . . . . .	<u>6,979,662</u>	<u>6,663,706</u>	<u>315,956</u>	4.74%
Total assets . . . . .	<u>\$ 11,583,967</u>	<u>\$ 10,771,451</u>	<u>\$ 812,516</u>	7.54%
Liabilities:				
Liabilities payable within one year . .	\$ 1,680,365	\$ 1,439,214	\$ 241,151	16.76%
Liabilities payable after one year . . .	14,550,247	11,956,101	2,594,146	21.70%
Total liabilities . . . . .	<u>16,230,612</u>	<u>13,395,315</u>	<u>2,835,297</u>	21.17%
Net position:				
Net invested in capital assets . . . . .	6,268,155	6,663,706	(395,551)	-5.94%
Unrestricted . . . . .	(10,914,800)	(9,287,570)	(1,627,230)	17.52%
Total net position . . . . .	<u>(4,646,645)</u>	<u>(2,623,864)</u>	<u>(2,022,781)</u>	77.09%
Total liabilities and net position . . . . .	<u>\$ 11,583,967</u>	<u>\$ 10,771,451</u>	<u>\$ 812,516</u>	7.54%

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, 2024

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

Net position of the Office decreased \$2.02 million (rounded), from \$(2.62) million as of June 30, 2023, to \$(4.64) million as of June 30, 2024. The decrease in net position was the result of a net increase of \$812 thousand in total assets and \$2.83 million in total liabilities. The net increase in total assets and total liabilities is mainly due to the following:

- Total assets increased by \$812 thousand mainly due to deferred outflow resources - pension related.
- Total liabilities increased by \$2.83 million mainly due to an increase in the pension liability balance.

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, 2024 and 2023 are shown in the table below:

	<u>Governmental activities</u>			
	<u>2024</u>	<u>2023</u>	<u>Change</u>	<u>Percentage</u>
Revenues:				
Program revenues:				
State appropriations. . . . .	\$ 10,401,000	\$ 9,564,000	\$ 837,000	8.75%
Special state appropriation. . . . .	285,397	685,421	(400,024)	-58.36%
Interests and other. . . . .	<u>184,446</u>	<u>91,556</u>	<u>92,890</u>	101.46%
Total revenues. . . . .	<u>10,870,843</u>	<u>10,340,977</u>	<u>529,866</u>	5.12%
Expenditures:				
General government. . . . .	12,782,891	9,699,017	3,083,874	31.80%
Expenditures from specific program:				
Special projects. . . . .	110,733	122,539	(11,806)	-9.63%
Loss from retired capital assets. . . . .	<u>-</u>	<u>2,443</u>	<u>(2,443)</u>	100.00%
Total expenditures. . . . .	<u>12,893,624</u>	<u>9,823,999</u>	<u>3,069,625</u>	31.25%
Change in net position. . . . .	<u>(2,022,781)</u>	<u>516,978</u>	<u>(2,539,759)</u>	-491.27%
Net position at:				
Balances. . . . .	<u>(2,623,864)</u>	<u>(3,140,842)</u>	<u>516,978</u>	-16.46%
End of year. . . . .	<u>\$ (4,646,645)</u>	<u>\$ (2,623,864)</u>	<u>\$ (2,022,781)</u>	77.09%

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, 2024

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

Function/program expenses increased from \$9.8 million in 2023 to \$12.8 million in 2024. The variance was mainly caused by pension expense.

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 by \$811 thousand from \$9.71 million in 2023 to \$10.52 million in 2024. The increase was mainly due to regular employees salaries, adjustment plan bonus, capital outlays, and physical plant maintenance.

CAPITAL ASSETS

The Office's investment in capital assets in June 30, 2024 and 2023 amounted to \$6.3 million and \$6.6 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 G included in the basic financial statements for additional details on capital assets during the fiscal year ended June 30, 2024.

CURRENTLY KNOWN FACTS

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

As elaborated in Note B, the Commonwealth is in a bankruptcy process since May 2017. 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, 2024, the Office will continue to operate as a going concern for a period no less than twelve months after such date.

On January 18, 2023, the Title III Court confirmed the plan of adjustment of the Commonwealth of Puerto Rico. Order and Judgment Confirming Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico ("Order of Confirmation"). The Confirmation of the Plan represents a historic milestone that allows Puerto Rico to complete the restructuring of its public debt under the provisions of the "PROMESA" Act and focus its efforts on its economic recovery.

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 (DEFICIT)  
JUNE 30, 2024

- ASSETS -

Current assets:	
Cash . . . . .	\$ 4,583,329
Prepaid expenses . . . . .	20,976
	<hr/>
Total current assets . . . . .	4,604,305
Non-current assets:	
Non depreciable . . . . .	2,000,000
Depreciable - net . . . . .	4,329,001
Deferred outflow of resources - pension related . . . . .	650,661
	<hr/>
Total non-current assets . . . . .	6,979,662
	<hr/>
Total assets . . . . .	11,583,967

- LIABILITIES AND NET POSITION -

Liabilities payable within one year:	
Accrued compensated absences . . . . .	673,347
Accounts payable . . . . .	788,025
Accrued liabilities . . . . .	199,543
Lease liability . . . . .	19,450
	<hr/>
Total liabilities payable withing one year . . . . .	1,680,365
Liabilities payable after one year:	
Net pension liability . . . . .	13,210,682
Other postemployment benefits liability . . . . .	257,892
Accrued compensated absences . . . . .	957,885
Lease liability . . . . .	41,396
Deferred inflow of resources - pension related . . . . .	82,392
	<hr/>
Total liabilities payable after one year . . . . .	14,550,247
	<hr/>
Total . . . . .	16,230,612
Net position (deficit):	
Net invested in capital assets . . . . .	6,268,155
Unrestricted (deficit) . . . . .	(10,914,800)
	<hr/>
Total net position (deficit) . . . . .	\$ (4,646,645)

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

<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 . . . . .	\$ 12,782,891	\$ 10,401,000	\$ 184,446	\$ (2,197,445)
Special project . . . . .	<u>110,733</u>	<u>-</u>	<u>285,397</u>	<u>174,664</u>
Total governmental activities and change in net position . .	<u>\$ 12,893,624</u>	<u>\$ 10,401,000</u>	<u>\$ 469,843</u>	(2,022,781)
NET POSITION AT:				
BEGINNING OF YEAR . . . . .				<u>(2,623,864)</u>
END OF YEAR . . . . .				<u>\$ (4,646,645)</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, 2024

	<u>General fund</u>
<b>ASSETS:</b>	
Cash .....	\$ <u>4,583,329</u>
Total assets .....	\$ <u><u>4,583,329</u></u>
<b>LIABILITIES:</b>	
Accrued compensated absences .....	\$ 673,347
Accounts payable .....	788,025
Accrued liabilities .....	<u>199,543</u>
Total liabilities .....	<u>1,660,915</u>
<b>FUND BALANCE:</b>	
Unrestricted .....	<u>2,922,414</u>
Total fund balance .....	<u>2,922,414</u>
Total liabilities and fund balance .....	\$ <u><u>4,583,329</u></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, 2024

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

Total fund balance . . . . .	\$	2,922,414
Prepaid expenses are not available to pay current period expenditures and, therefore, are not deferred in the funds . . . . .		20,976
Capital assets and lease assets used in governmental activities are not current financial resources and, therefore, are not reported in the Balance Sheet - Governmental Fund . . . . .		6,329,001
Deferred outflow of resources - pension related . . . . .		650,661
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 . . . . .		(13,210,682)
Other postemployment benefit liability . . . . .		(257,892)
Accrued compensated absences . . . . .		(957,885)
Lease liability . . . . .		(60,846)
Deferred inflow of resources . . . . .		<u>(82,392)</u>
Net position of governmental activities . . . . .	\$	<u>(4,646,645)</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, 2024

	<u>General fund</u>
REVENUES:	
State appropriations . . . . .	\$ 10,401,000
Special state appropriation . . . . .	285,397
Interest income . . . . .	<u>184,446</u>
Total revenues . . . . .	<u>10,870,843</u>
EXPENDITURES:	
Payroll and related expenses . . . . .	7,815,851
Capital outlays . . . . .	151,563
Insurance and related expenses . . . . .	218,541
Office equipment and supplies . . . . .	896,996
Other expenses . . . . .	95,202
Rent related expenses . . . . .	1,136
Repairs and maintenance . . . . .	114,906
Special and education projects . . . . .	742,613
Seminars and trainings . . . . .	45,943
Dues and subscriptions . . . . .	2,455
Professional services . . . . .	255,457
Utilities . . . . .	<u>168,713</u>
Total expenditures . . . . .	<u>10,509,376</u>
Net change in fund balances - governmental funds . . . . .	361,467
FUND BALANCE AT:	
BEGINNING OF FISCAL YEAR . . . . .	<u>2,560,947</u>
END OF FISCAL YEAR . . . . .	<u>\$ 2,922,414</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, 2024

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

Net change in fund balance - governmental funds . . . . .	\$	361,467
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 . . . . .		
		1,344
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 . . . . .		
		(334,705)
Governmental funds report pension expense for the year according to GASB 73 . . .		(1,989,569)
Governmental funds report pension expense for the year according to GASB 75 . . .		<u>(61,318)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES . . . . .	\$	<u>(2,022,781)</u>

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

**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's 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 that 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.

In section 8.3, Act No. 12 of July 24, 1985, as amended, was repealed, except for the creation of the Office, the appointments, rights and privileges vested, and contracts, arrangements, and 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.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

**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, rights and privileges vested, and contracts, arrangements, and 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 exempt from all taxation in Puerto Rico. Also pursuant to both Acts, the office is exempt from 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.

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".

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

**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 from 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".

Act No. 53 of October 26, 2021, also known as the "Ley para Ponerle Fin a la Quiebra de Puerto Rico".

**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, 2024, 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's 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.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

**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, 2024, 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 requires 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) reports information on 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  
JUNE 30, 2024

**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, 2024 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, 2024.
- iv. *Notes to Basic Financial Statements* - The notes to basic financial statements provide information that is essential to an 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  
JUNE 30, 2024

**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, 2024, 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. Non-current 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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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):

- 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 that 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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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

**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.

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, computer equipment, vehicles, and intangible assets including software are reported in the government wide financial statements. Capital assets are defined by the Office as assets that 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

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

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

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.

Future adoption of accounting pronouncements

The Government Accounting Standards Board hereinafter referred to as GASB has issued the following statements:

GASB Statement No. 101, of the Governmental Accounting Standard Board. The objective of this statement is to better meet the information needs of financial statement users by recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously requirement disclosures. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

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. The 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.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

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

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.

Net position

Net position represents the difference between assets and liabilities.

Net investment in capital assets

Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of debts that are attributed to the acquisition of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition of capital assets.

Unrestricted net position

This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first and the unrestricted resources when they are needed.

Risk financing

The Office carries commercial insurance to cover casualty, theft, claims, and other losses. The current insurance policies have not been cancelled or terminated. The Office has not settled any claims in excess of its insurance coverage during the past three years. The Office also pays premiums for worker compensation insurance to another component unit of the Commonwealth of Puerto Rico.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE D - 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 banks 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, 2024, amounted to \$4,837,117.

**NOTE E - 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 from July thru December 2022 and from January 2023 employees accrue vacations at a rate of two (2) days per month. Unpaid vacation time accumulated is fully vested to the employees from the first (1) day of work.

Employees 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, 2024, amount to \$1,631,232 whose activity for the year ended June 30, 2024, is summarized as follows:

<u>Balance at</u> <u>June 30, 2023</u>	<u>Additions</u>	<u>Decrease</u>	<u>Balance at</u> <u>June 30, 2024</u>	<u>Due within</u> <u>One (1) Year</u>
\$ 1,715,709	\$ 850,401	\$ 934,878	\$ 1,631,232	\$ 673,347

**NOTE F - RETIREMENT PLAN**

All full-time regular employees are covered and must participate in the employees' 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 any increase in benefits that would require actuarial studies and identification of the financing source.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

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

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 to 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, 2024.

Total office contributions made for the pension plan during the year ended June 30, 2024 amounted to \$833,116 for employees paid with state funds.

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 System 2000 Program participants.

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

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.
- 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.

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

- 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%.

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

As a result of the implementation of the PayGo system, the Office does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB Statement No. 73, the Office is considered to be one employer and is classified for financial reporting purposes as a single-employer defined benefit pension plan.

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.

Total pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:

As an employer in the Plan, the Commonwealth is allocated its proportionate share of pension amounts as of the measurement date. The Commonwealth allocate its proportionate share to various internal organizations, including the Office. As of June 30, 2024, the Office reported a liability of \$13,210,682 by GASB 73 and \$257,892 by GASB 75 for its proportionate share of the net pension liability, because the last audited statement of the net pension liability available by the Commonwealth of Puerto Rico is on June 30, 2023.

The collective total pension liability for the plan was measured as of June 30, 2023 and was determined by an actuarial valuation as of July 1, 2022 that was rolled forward to June 30, 2023. At June 30, 2023, the Office's proportionate share of the Commonwealth's total pension liability allocation was \$13,210,682 and the proportion was 0.06360%.

For the fiscal year ended June 30, 2024, the Office recognized a pension expense of \$1,989,569.

At June 30, 2024, the Office reported deferred outflows of resources and deferred inflows of resources from the following sources:

	<b>Deferred Outflows of</b>	<b>Deferred Inflows of</b>
Balance of deferred outflows and inflows of resources due to:		
Difference between expected and actual experience	\$ 9,206	\$ 82,392
Changes of assumptions	504,434	-
Changes in proportion	137,021	-
Total	\$ 650,661	\$ 82,392

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

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

***Actuarial Assumptions:***

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

Measurement date:	June 30, 2023
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, 2022 as result of Act No. 3-2017, four-year extension of Act No 66-2014, and the current general economy.

The mortality tables used in the June 30, 2023 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. 127-1958.

*Post-Retirement Retiree Mortality:* Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retirees rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

*Post-Retirement Disabled Mortality:* Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PUBG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.



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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

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

*Post-Retirement Beneficiary Mortality:* Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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, 2021. 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 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.

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 the possibility 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.

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

*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 3.65% on June 30, 2023.

*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 3.65% 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 (2.65%) or one percentage point higher (4.65%) than the current rate:

	At 1% decrease (2.65%)	At current discount rate (3.65%)	At 1% increase (4.65%)
Net pension liability. . . . .	\$ 14,635,805	\$ 13,210,682	\$ 11,869,419

***Other Postemployment Benefit Plan***

**General information about the Other Postemployment Benefit Plan**

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit OPEB plan. Therefore, the Office's OPEB amounts represent its attributable participation share.

The Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the Plan members during active employment. The retirees contribute the amount .of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

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

GASB Statement No. 75 requires that the primary government and its component units that provide OPEB benefits through the same defined benefit OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). The employer allocation percentage presented in the accompany schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ratio of each participating entity's actual benefit payments to the total actual benefit payments paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

The Office's total OPEB liability was approximately \$257 thousand as of June 30, 2023. The total OPEB liability as of June 30, 2023 was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to June 30, 2023 (measurement date as of June 30, 2023). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Measurement Date	June 30, 2023
Actuarial cost method	Entry age normal.
Discount rate	3.65%
Mortality Assumption	Pre-retirement Mortality: For general employees not covered under Act 127, PubG-2010 Employee Mortality Rates, adjusted 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 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 occupational for members covered under Act 127.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG- 2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

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

**Actuarial assumptions and methods (Cont'd)**

Mortality Assumption (Cont'd)

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after 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 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

The discount rate for June 30, 2023 was 3.65%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index.

The benefits covered by the OPEB Plan (i.e., reimbursement of medical insurance premiums), is not subject to the variability on healthcare costs. Therefore, the healthcare costs trend rates do not represent a relevant assumption for the determination of the OPEB liability and, accordingly, are not included in the notes to the financial statements.

**Retiree Healthcare OPEB Liability, OPEB Expense, and Deferred Outflow of Resources**

As an employer in the Plan, the Commonwealth allocated its proportionate share of pension amounts as of the measurement date. The Commonwealth allocated its proportionate share to various internal organizations, including the Office. At June 30, 2023 the Office recorded a liability of approximately \$257,892 for its proportion of 0.03989% of the Commonwealth's total OPEB liability of approximately \$646,564,186. For the year ended June 30, 2023, the Office recognized OPEB expense of approximately \$257,892. The collective OPEB liability was measured as of June 30, 2023 and was determined by an actuarial valuation as of July 1, 2022 that was rolled forward to June 30, 2023.

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

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

*Sensitivity of the total OPEB liability to changes in the discount rate*

The following table presents the total OPEB liability of the Office's at June 30, 2023 calculated using the discount rate of 3.65%, as well what the Office's total OPEB liability if it were calculated using a discount rate that is one percentage point lower (2.65%) or one percentage point higher (4.65%) than the current rate:

	<u>At 1% decrease (2.65%)</u>	<u>At current discount rate (3.65%)</u>	<u>At 1% increase (4.65%)</u>
Total OPEB liability .....	\$ 279,788	\$ 257,892	\$ 238,975

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

**NOTE G - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2024 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 . . . . .	2,448,911	63,463	40,402	2,552,776
Office furniture and equipment . . . . .	2,208,580	58,215	-	2,266,795
Computer equipment . . . . .	1,066,778	23,135	-	1,089,913
Vehicle . . . . .	286,967	-	-	286,967
Software . . . . .	522,749	-	-	522,749
Lease asset . . . . .	97,420	-	-	97,420
Project in progress . . . . .	40,402	6,750	(40,402)	6,750
	<u>14,047,228</u>	<u>151,563</u>	<u>-</u>	<u>14,198,791</u>
Total capital assets . . . . .				
Less: accumulated depreciation:				
Building . . . . .	2,447,657	179,180	-	2,626,837
Building improvements . . . . .	1,459,256	151,924	-	1,611,180
Office furniture and equipment . . . . .	1,806,109	62,922	-	1,869,031
Computer equipment . . . . .	919,658	48,445	-	968,103
Vehicle . . . . .	210,183	25,133	-	235,316
Software . . . . .	522,749	-	-	522,749
Lease asset . . . . .	17,910	18,664	-	36,574
	<u>7,383,522</u>	<u>486,268</u>	<u>-</u>	<u>7,869,790</u>
Total accumulated depreciation . . . . .				
Total capital assets - net . . . . .	<u>\$ 6,663,706</u>	<u>\$ (334,705)</u>	<u>\$ -</u>	<u>\$ 6,329,001</u>

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

**NOTE G - CAPITAL ASSETS (CONT'D)**

During the fiscal year 2024, the Office depreciation expense amounted to \$467,604.

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, 2024, management believes that long-lived assets are not impaired at the individual asset or group level.

**Components of lease assets and liabilities follows:**

Operating lease

The Office entered into a direct financing type lease agreement that has been classified as operating lease right-of-use asset for financial statement purposes.

The following summarizes the line items in the balance sheet which include amounts for financing as of June 30, 2024:

<u>Assets:</u>	
Lease asset - net . . . . .	\$ <u>60,846</u>
 <u>Liabilities:</u>	
Current portion:	
Lease liability . . . . .	\$ 19,450
Non-current portion:	
Lease liability . . . . .	<u>41,396</u>
Total lease liability . . . . .	\$ <u><u>60,846</u></u>

A summary of the lease expense for the fiscal year ended June 30, 2024, is as follows:

<u>Operating lease expenses:</u>	
Lease expense	Expense \$ <u>21,600</u>

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

**NOTE G - CAPITAL ASSETS (CONT'D)**

Aggregate principal and interest maturities of leases as of June 30, 2024, is as follows:

<u>Fiscal year</u> <u>June 30,</u>	<u>Amount</u>
2025 .....	\$ 21,600
2026 .....	21,600
2027 .....	21,600
Future minimum lease payments .....	64,800
Less: interest .....	<u>3,954</u>
Present value of lease liabilities .....	60,846
Less: current portion .....	<u>19,450</u>
Non-current portion .....	<u>\$ 41,396</u>

Aggregate principal and interest maturities of the operating leases as of June 30, 2024, are as follows:

Weighted-average remaining lease term (years):	4
Weighted-average discount rate:	5.27%

**NOTE H - CONTINGENCIES**

On June 30, 2024 the Office was 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's 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, 2024, the Office did not accrue additional expenses for this contingency. The accrued estimated balance as of June 30, 2024 for litigation and claim losses amounts to \$107,261. Any claims with negative financial impact would be paid from the general funds of the Commonwealth of Puerto Rico.



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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024

**NOTE H - CONTINGENCIES (CONT'D)**

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.

- 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 of 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 I - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 4, 2025, 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, 2024

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Revenue:				
State appropriation . . . . .	\$ 10,401,000	\$ 10,401,000	\$ 10,401,000	\$ -
Special state appropriation . . . . .	-	-	285,397	-
Total revenues . . . . .	<u>10,401,000</u>	<u>10,401,000</u>	<u>10,686,397</u>	<u>-</u>
Expenditures:				
Payroll and related expenses . . . . .	8,841,000	8,540,400	7,815,851	(724,549)
Capital outlays . . . . .	-	550,000	151,563	(398,437)
Insurance and related expenses . . . . .	-	209,500	218,541	9,041
Office equipment and supplies . . . . .	-	60,000	896,996	836,996
Other expenses . . . . .	1,350,000	185,500	95,202	(90,298)
Rent related expenses . . . . .	-	21,600	1,136	(20,464)
Repair and maintenance . . . . .	-	321,000	114,906	(206,094)
Special and education projects . . . . .	-	70,000	742,613	672,613
Seminars and trainings . . . . .	-	90,000	45,943	(44,057)
Dues and subscriptions . . . . .	-	15,000	2,455	(12,545)
Professional service . . . . .	89,000	175,000	255,457	80,457
Utilities . . . . .	<u>121,000</u>	<u>163,000</u>	<u>168,713</u>	<u>5,713</u>
Total expenditures . . . . .	<u>10,401,000</u>	<u>10,401,000</u>	<u>10,509,376</u>	<u>108,376</u>
Net change in fund balances				
- governmental fund . . . . .	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177,021</u>	<u>\$ (108,376)</u>

The Office is not restricted from the use of funds nor has the need to ask approval from the Office of Management and Budget to change the use of program 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, 2024

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 is as follows:

**Sources/Inflows of Sources:**

Actual amounts (budgetary basis) "available for appropriation" from the the budgetary comparison schedule . . . . .	\$	10,686,397
Differences - Budget to GAAP		
Revenues for which no budget was approved during current year . . . . .		184,446
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental fund . . . . .		
	\$	10,870,843

**Uses Outflows of Resources:**

Actual amounts (budgetary) basis "total charges to appropriations" from the budgetary comparison schedule . . . . .	\$	10,509,376
Differences - Budget to GAAP . . . . .		
		-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental fund . . . . .		
	\$	10,509,376

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2024

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.

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SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION LIABILITY  
 (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2024

The schedule of Proportionate Shares of Collective Total Pension Liability for the Office for the year ended June 30, 2024:

	GASB 73	
	2024	2023
Proportion (percentage) of total pension liability .....	<u>0.04253%</u>	<u>0.05802%</u>
Proportion (amount) of the total pension liability .....	<u>\$ 13,210,682</u>	<u>\$ 14,418,707</u>

The Office's net pension liability as of June 30, 2024, was determined by an actuarial valuation as of July 1, 2023, which was rolled forward to June 30, 2024 (measurement date as of June 30, 2023).

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 fiscal year ending on the measurement date.