

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 fiscal year ended June 30, 2025
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 FISCAL YEAR ENDED JUNE 30, 2025

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INDEPENDENT AUDITOR'S REPORT

Mr. Luis A. Perez 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's (a component unit of the Commonwealth of Puerto Rico), as of and for the fiscal year ended June 30, 2025, 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, 2025, and the respective changes in financial position and thereof for the fiscal 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.

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.

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's (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.

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

- 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.
- 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.

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, which 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 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.

San Juan, Puerto Rico
April 17, 2026

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2025

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") presents an overview and analysis of the financial activities of the Office of Government Ethics of the Commonwealth of Puerto Rico (the "Office") for the fiscal year ended June 30, 2025. This discussion should be read in conjunction with the basic financial statements and the accompanying notes, which follow this section.

The MD&A is intended to provide readers with a clear and understandable explanation of the Office's financial position, results of operations, and significant changes during the fiscal year.

FINANCIAL HIGHLIGHTS

- The net position of the Office decreased by \$616 thousand, from \$(4.64) million as of June 30, 2024, to \$(5.26) million as of June 30, 2025. This deterioration was primarily driven by pension expense recognized under GASB Statement No. 73, which exceeded current-year revenues.
- Total assets decreased by \$862 thousand, mainly due to a reduction in capital assets and lease assets, as well as the elimination of deferred outflows of resources related to pensions that existed in the prior year.
- Total liabilities decreased by \$247 thousand, mainly due to lower accounts payable and other accrued compensated absences, partially offset by changes in pension and OPEB liabilities.
- Capital expenditures during the fiscal year amounted to approximately \$413 thousand, primarily related to building improvements, equipment, and lease right-of-use assets.
- Total expenses decreased by \$1.9 million mainly because variations in pension expense recognized under GASB 73.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of two primary components:

1. Management's Discussion and Analysis (this section)
2. Basic Financial Statements, which include:
 - Government-wide financial statements
 - Fund financial statements
 - Notes to the financial statements

Government-Wide Financial Statements

The government-wide financial statements present information about the Office as a whole using the economic resources measurement focus and the accrual basis of accounting. These statements include:

- The Statement of Net Position, which presents all assets, liabilities, and deferred inflows and outflows of resources of the Office, with the difference reported as net position.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Government-Wide Financial Statement (Cont'd)

- The Statement of Activities, which reports how the Office's net position changed during the fiscal year.

These statements provide a long-term perspective of the Office's financial condition, including capital assets, lease obligations, pension and OPEB liabilities, and other long-term obligations.

Fund Financial Statements

The fund financial statements focus on the Office's major governmental fund, the General Fund, and are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

Because the governmental fund statements focus on near-term inflows and outflows of spendable resources, they differ from the government-wide statements. Reconciliations are provided to explain the differences between the two presentations.

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 FISCAL YEAR ENDED JUNE 30, 2025

FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE

Assets, Liabilities and Net Position

Tables below summarize the Office's assets, liabilities and net position as of June 30, 2025 and 2024.

Condensed information - governmental activities

	<u>2025</u>	<u>2024</u>	<u>Change</u>	<u>Percentage</u>
Current assets:				
Cash	\$ 4,526,970	\$ 4,583,329	\$ (56,359)	-1.23%
Accounts receivable	574	-	574	100.00%
Prepaid expenses	<u>22,697</u>	<u>20,976</u>	<u>1,721</u>	8.20%
Total current assets	<u>4,550,241</u>	<u>4,604,305</u>	<u>(54,064)</u>	-1.17%
Non-current assets:				
Non depreciable	2,000,000	2,000,000	-	0.00%
Depreciable - net	4,171,263	4,329,001	(157,738)	-3.64%
pension related	<u>-</u>	<u>650,661</u>	<u>(650,661)</u>	-100.00%
Total non-current assets	<u>6,171,263</u>	<u>6,979,662</u>	<u>(808,399)</u>	-11.58%
Total assets	<u>\$ 10,721,504</u>	<u>\$ 11,583,967</u>	<u>\$ (862,463)</u>	-7.45%
Liabilities:				
Liabilities payable within one year	\$ 1,134,719	\$ 1,680,365	\$ (545,646)	-32.47%
Liabilities payable after one year	<u>14,849,249</u>	<u>14,550,247</u>	<u>299,002</u>	2.05%
Total liabilities	<u>15,983,968</u>	<u>16,230,612</u>	<u>(246,644)</u>	-1.52%
Net position:				
Net invested in capital assets	6,171,263	6,329,001	(157,738)	-3.94%
Unrestricted	<u>(11,433,727)</u>	<u>(10,975,646)</u>	<u>(458,081)</u>	3.38%
Total net position	<u>(5,262,464)</u>	<u>(4,646,645)</u>	<u>(615,819)</u>	13.25%
Total liabilities and net position (deficit)	<u>\$ 10,721,504</u>	<u>\$ 11,583,967</u>	<u>\$ (862,463)</u>	-7.45%

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 FISCAL YEAR ENDED JUNE 30, 2025

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

Total assets decreased by \$862 thousand during fiscal year 2025. The most significant factors contributing to this decrease were:

- A reduction in capital assets and lease right-of-use assets, net of depreciation and amortization.
- The elimination of deferred outflows of resources related to pensions, which existed in the prior fiscal year but were fully recognized during fiscal year 2025.

Total liabilities decreased by \$247 thousand. This decrease was mainly attributable to:

- Total liabilities decreased primarily due to reductions in accounts payable and accrued compensated absences, partially offset by increases in long-term pension and OPEB liabilities.

Net Position

The Office's net position continues to be reported as a deficit, primarily due to the recognition of significant long-term pension and OPEB liabilities. The decrease in net position during fiscal year 2025 reflects the recognition of pension expense under GASB 73, which is actuarially determined and not funded through employer contributions.

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 FISCAL YEAR ENDED JUNE 30, 2025

STATEMENT OF ACTIVITIES

The Statement of Activities shows how the Office's net position changed during the fiscal year as a result of current-year operations.

Tables below present a summary of revenues and expenses for fiscal years 2025 and 2024.

	<u>2025</u>	<u>2024</u>	<u>Change</u>	<u>Percentage</u>
Revenues:				
Program revenues:				
State appropriations.....	\$ 9,963,607	\$ 10,401,000	\$ (437,393)	-4.21%
Special state appropriation.....	290,237	285,397	4,840	1.70%
Interests and other.....	<u>155,085</u>	<u>184,446</u>	<u>(29,361)</u>	-15.92%
Total revenues.....	<u>10,408,929</u>	<u>10,870,843</u>	<u>(461,914)</u>	-4.25%
Expenses:				
General government.....	10,820,169	12,782,891	(1,962,722)	-15.35%
Expenses from specific program:				
Special projects.....	<u>204,579</u>	<u>110,733</u>	<u>93,846</u>	84.75%
Total expenses.....	<u>11,024,748</u>	<u>12,893,624</u>	<u>(1,868,876)</u>	-14.49%
Change in net position.....	(615,819)	(2,022,781)	1,406,962	-69.56%
Net position at:				
Balances.....	<u>(4,646,645)</u>	<u>(2,623,864)</u>	<u>(2,022,781)</u>	77.09%
End of year.....	<u>\$ (5,262,464)</u>	<u>\$ (4,646,645)</u>	<u>\$ (615,819)</u>	13.25%

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 FISCAL YEAR ENDED JUNE 30, 2025

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

Revenues

Total revenues for fiscal year 2025 decreased by \$462 thousand compared to fiscal year 2024. This decrease was primarily due to lower Commonwealth appropriations, partially offset by interest income and other miscellaneous revenues.

Expenses

Total expenses decreased by approximately \$1.87 million compared to the prior fiscal year. The decrease was mainly due to:

- Lower personnel-related costs.
- Reduced spending on special and educational projects.
- Variations in pension expense recognized under GASB 73.

GOVERNMENTAL FUND RESULTS

The General Fund accounts for all of the Office's governmental activities. During fiscal year 2025:

- Total General Fund expenditures decreased by \$665 thousand compared to fiscal year 2024.
- The decrease was primarily attributable to lower expenditures related to special education projects and other operating costs.

The fund balance of the General Fund remains unrestricted, providing the Office with operational flexibility.

CAPITAL ASSETS

Capital assets include land, buildings, building improvements, equipment, software, and lease right-of-use assets. Net capital assets decreased during fiscal year 2025 primarily due to depreciation and amortization exceeding current-year capital additions.

CURRENTLY KNOWN FACTS

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

As discussed in Note B, the Office receives significant financial support from the Commonwealth of Puerto Rico and, therefore, is subject to the Commonwealth's fiscal and budgetary environment. Although the Commonwealth continues to face fiscal challenges, management has evaluated the potential impact on the Office and determined that the Office has sufficient resources and operational controls to continue operations for at least twelve months beyond the issuance date of the 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 FISCAL YEAR ENDED JUNE 30, 2025

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)

STATEMENTS OF NET POSITION
JUNE 30, 2025

- ASSETS -

	<u>2025</u>
Current assets:	
Cash	\$ 4,526,970
Accounts receivable	574
Prepaid expenses	<u>22,697</u>
Total current assets	<u>4,550,241</u>
Non current assets:	
Non depreciable	2,000,000
Depreciable - net	4,171,263
Deferred outflow of resources - pension related	<u>-</u>
Total non-current assets	<u>6,171,263</u>
Total assets	<u>10,721,504</u>

- LIABILITIES AND NET POSITION -

Liabilities payable within one year:	
Accrued compensated absences	592,682
Accounts payable	188,121
Accrued liabilities	259,583
Lease liability	<u>94,333</u>
Total liabilities payable within one year	<u>1,134,719</u>
Liabilities payable after one year:	
Total pension liability	13,588,163
Other postemployment benefits liability	250,077
Accrued compensated absences	955,066
Lease liability	55,943
Deferred inflow of resources - pension related	<u>-</u>
Total liabilities payable after one year	<u>14,849,249</u>
Total liabilities	<u>15,983,968</u>
Net position	
Net invested in capital assets	6,171,263
Unrestricted	<u>(11,433,727)</u>
Total net position	<u>\$ (5,262,464)</u>

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, 2025

<u>Functions and programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Net revenues</u>
		<u>Operating</u>	<u>Other</u>	<u>(expenses) and</u>
		<u>Grant and</u>	<u>Sources</u>	<u>changes in</u>
		<u>Contributions</u>		<u>net position</u>
Governmental activities:				
General government	\$ 10,820,169	\$ 9,963,607	\$ 155,085	\$ (701,477)
Special project	<u>204,579</u>	<u>-</u>	<u>290,237</u>	<u>85,658</u>
Total governmental activities and change in net position	<u>\$ 11,024,748</u>	<u>\$ 9,963,607</u>	<u>\$ 445,322</u>	(615,819)
NET POSITION AT:				
BEGINNING OF YEAR				<u>(4,646,645)</u>
END OF YEAR				<u>\$ (5,262,464)</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, 2025

	<u>General Fund</u>
ASSETS:	
Cash	\$ 4,526,970
Accounts receivable	<u>574</u>
Total assets	<u>\$ 4,527,544</u>
LIABILITIES:	
Accrued compensated absences	\$ 592,682
Accounts payable	188,121
Accrued liabilities	<u>259,583</u>
Total liabilities	<u>1,040,386</u>
FUND BALANCE:	
Unrestricted	<u>3,487,158</u>
Total fund balance	<u>3,487,158</u>
Total liabilities and fund balance	<u>\$ 4,527,544</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, 2025

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

Total fund balance	\$ 3,487,158
expenditures and, therefore, are not deferred in the funds	22,697
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	6,171,263
therefore, are not reported in the Balance Sheet - Governmental Fund	
Net pension liability	(13,588,163)
Other postemployment benefit liability	(250,077)
Accrued compensated balances	(955,066)
Lease liability	<u>(150,276)</u>
Net Position of governmental activities	<u>\$ (5,262,464)</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, 2025

	General fund
REVENUES:	
State appropriations	\$ 9,963,607
Special state appropriations	290,237
Interest income	<u>155,085</u>
Total revenues	<u>10,408,929</u>
EXPENDITURES:	
Payroll and related expenses	7,642,907
Capital outlays	238,283
Insurance and related expenses	220,667
Office equipment and supplies	885,722
Other expenses	76,795
Rent-related expenses	7,360
Repairs and maintenance	141,854
Special and education projects	119,150
Seminars and trainings	22,604
Dues and subscriptions	949
Professional services	345,566
Utilities	<u>142,328</u>
Total expenditures	<u>9,844,185</u>
Net change in fund balances - governmental funds	564,744
FUND BALANCE AT:	
BEGINNING OF FISCAL YEAR	<u>2,922,414</u>
END OF FISCAL YEAR	<u>\$ 3,487,158</u>

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

RECONCILIATION OF STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

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

Net change in fund balances - governmental funds.....	\$	564,744
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.....		
		1,721
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.....		
		(247,168)
Change in Compensated Absences liability over one year.....		2,819
Governmental funds report pension expense for the fiscal year according to GASB73.....		(945,750)
Governmental funds report pension expense for the fiscal year according to GASB75.....		<u>7,815</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES.....	\$	<u>(615,819)</u>

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

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 that are fiscally dependent on the Office, or whose relationship with the Office is so significant 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
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

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:

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. 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".

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".

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE A - REPORTING ENTITY (CONT'D)

Pursuant to the Puerto Rico Government Ethics Act of 2011 (Act No. 1 of January 3, 2012, as amended), the Office of Government Ethics of the Commonwealth of Puerto Rico (the “Office”) is a legally separate and independent entity with administrative and fiscal autonomy.

In accordance with the provisions of its Organic Act, the Office is exempt from all taxation in Puerto Rico. In addition, the Office is excluded from the application of certain Commonwealth administrative, personnel, budgetary, and procurement statutes, as expressly provided by law, in order to preserve its operational independence and enable it to carry out its statutory mission effectively.

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, 2025, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet its 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. Accordingly, management believes the Office will have sufficient cash flows to meet its obligations for at least twelve months beyond the issuance date of the financial statements.

It is of utmost 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
(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

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

These financial statements present the respective financial position of the governmental activities and the major fund of the Office as of June 30, 2025, and the respective changes in financial position 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 those resources 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.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

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, 2025 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, 2025.

- 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.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

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 (60) days after the end of the current fiscal period. On June 30, 2025, 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.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

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 the 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 - to which 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.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

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

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

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

Operating leases (cont'd)

The Office accounts for leases in accordance with GASB Statement No. 87, Leases. At the commencement of a lease, the Office recognizes a right-of-use lease asset and a corresponding lease liability, measured at the present value of lease payments expected to be made during the lease term.

The right-of-use lease asset is initially measured at the amount of the related lease liability, adjusted for any lease payments made at or before the commencement date and any initial direct costs incurred. Right-of-use lease assets are amortized on a straight-line basis over the lease term. Lease liabilities are reduced as payments are made and interest expense is recognized over the term of the lease.

Additional information regarding the Office's lease arrangements, including future lease payments and the weighted-average remaining lease term, is disclosed in Note H to the financial statements.

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 fiscal year. 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, as well as for 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.

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, 2025

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

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.

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

Pension expense is recognized in accordance with GASB Statement No. 73 and is based on the actuarially determined change in the Total Pension Liability, rather than on statutory contributions.

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 attributable 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 is included.

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.

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, 2025

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

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.

NOTE D - CASH

For deposits, custodial credit risk is the risk that in the event of a bank failure, the Office's 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's accounts with commercial banks as of June 30, 2025, amounted to \$4,570,409.

Cash and cash equivalents

The Office maintains its cash balances in demand deposit accounts with local banking institutions in Puerto Rico. These balances are reported as cash and are not considered to include cash equivalents, as defined by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting because the Office does not hold short-term investments or cash-equivalent instruments.

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 during the fiscal year ended June 30, 2025. 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, 2025, amount to \$1,547,748, and the activity for the fiscal year ended June 30, 2025, is summarized as follows:

<u>Balance at</u> <u>June 30, 2024</u>	<u>Additions</u>	<u>Decrease</u>	<u>Balance at</u> <u>June 30, 2025</u>	<u>Due within One</u> <u>(1) Year</u>
\$ 1,631,232	\$ 758,682	\$ 842,166	\$ 1,547,748	\$ 592,682

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, 2025

NOTE F - PENSION PLAN (GASB STATEMENT NO. 73)

Office of Government Ethics of the Commonwealth of Puerto Rico

The employees of the Office of Government Ethics of the Commonwealth of Puerto Rico (the “Office”) participate in the Defined Benefit Pension Plan for Participants of the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (the “Plan”).

As a result of the implementation of the pay-as-you-go (“PayGo”) system, the Plan does not meet the criteria set forth in paragraph 4 of Governmental Accounting Standards Board (“GASB”) Statement No. 68 to be considered a pension plan administered through a trust. Accordingly, the Office accounts for its pension activity in accordance with GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68.

Measurement Date

The Total Pension Liability was measured as of June 30, 2024, based on actuarial information prepared by the Plan’s actuaries, for purposes of the Office’s financial statements for the fiscal year ended June 30, 2025.

Total Pension Liability

As of June 30, 2025, the Office reported a Total Pension Liability of \$13,588,163. The Office does not make contributions to the Plan; benefit payments are made by the Commonwealth on a pay-as-you-go basis.

Pension Expense

For the fiscal year ended June 30, 2025, the Office recognized pension expense of \$945,750. The pension expense recognized during the year reflects current-year actuarial activity as well as the recognition of amounts deferred in prior years, in accordance with GASB Statement No. 73.

Deferred Outflows and Deferred Inflows of Resources

At June 30, 2025, the Office reported no deferred outflows of resources and no deferred inflows of resources related to pensions, as amounts deferred in prior years were fully recognized in pension expense during the fiscal year.

Allocation Methodology

Pension amounts reported by the Office are determined based on the allocation methodology established by the Plan and provided by the Central Government. Actuarial assumptions used in the measurement of the Total Pension Liability, including the discount rate, mortality tables, and other demographic assumptions, are described in detail in the Plan’s actuarial valuation reports.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE G - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

(GASB STATEMENT NO. 75)

Office of Government Ethics of the Commonwealth of Puerto Rico

The employees and eligible retirees of the Office of Government Ethics of the Commonwealth of Puerto Rico participate in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System (the "OPEB Plan").

The OPEB Plan is an unfunded defined benefit plan administered on a pay-as-you-go ("PayGo") basis. Accordingly, no assets are accumulated in a trust that meets the criteria set forth in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Measurement Date

OPEB amounts were measured as of June 30, 2024, based on actuarial information prepared for purposes of the Office's financial statements for the fiscal year ended June 30, 2025.

Total OPEB Liability and OPEB Expense

As of June 30, 2025, the Office reported an OPEB liability of \$250,077. For the fiscal year then ended, the Office recognized a net OPEB expense adjustment of (\$7,815), reflecting changes in the actuarially determined liability.

Deferred Outflows and Deferred Inflows of Resources

Because the participants covered under the OPEB Plan consist solely of inactive participants, changes in the total OPEB liability are recognized immediately in the measurement year. Accordingly, at June 30, 2025, the Office reported no deferred outflows of resources and no deferred inflows of resources related to OPEB.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE H - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2025 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increase</u>	<u>Retirement</u>	<u>Ending</u> <u>Balance</u>
Non depreciable:				
Land	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Depreciable:				
Building	5,375,421	-	-	5,375,421
Building improvements	2,552,776	226,295	-	2,779,071
Office furniture and equipment	2,266,795	11,988	(100,696)	2,178,087
Computer equipment	1,089,913	-	(166,276)	923,637
Vehicle	286,967	-	-	286,967
Software	522,749	-	-	522,749
Lease asset	97,420	174,386	-	271,806
Project in progress	<u>6,750</u>	<u>-</u>	<u>(6,750)</u>	<u>-</u>
Total capital assets	<u>14,198,791</u>	<u>412,669</u>	<u>(273,722)</u>	<u>14,337,738</u>
Less: accumulated depreciation:				
Building	2,626,837	179,181	-	2,806,018
Building improvements	1,611,180	152,508	-	1,763,688
Office furniture and equipment	1,869,031	75,196	(97,741)	1,846,486
Computer equipment	968,103	47,861	(166,276)	849,688
Vehicle	235,316	21,000	-	256,316
Software	522,749	-	-	522,749
Lease asset	<u>36,574</u>	<u>84,956</u>	<u>-</u>	<u>121,530</u>
Total accumulated depreciation	<u>7,869,790</u>	<u>560,702</u>	<u>(264,017)</u>	<u>8,166,475</u>
Total capital assets - net	<u>\$ 6,329,001</u>	<u>\$ (148,033)</u>	<u>\$ (9,705)</u>	<u>\$ 6,171,263</u>

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE H - CAPITAL ASSETS (CONT'D)

During the fiscal year 2025, the Office depreciation and amortization expenses amounted to \$475,746, and \$84,956, respectively, that are related to other adjustments to lease assets.

In accordance with the provisions of the Accounting of the Impairment or Disposal of Long-Lived Assets, Topic 360 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, 2025, 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 statement of net position which include amounts for financing as of June 30, 2025:

Assets:

Lease asset - net	\$ <u>150,276</u>
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Liabilities:

Lease liability	\$ 94,333
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Lease liability	<u>55,943</u>
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Total lease liability	\$ <u>150,276</u>
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A summary of the lease expense for the fiscal year ended June 30, 2025, is as follows:

Lease expense	Expense	\$ <u>60,233</u>
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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, 2025

NOTE H - CAPITAL ASSETS (CONT'D)

Aggregate principal and interest maturities of leases as of June 30, 2025, is as follows:

<u>Fiscal year June 30,</u>	<u>Amount</u>
2026.....	\$ 60,233
2027.....	60,233
2028.....	<u>38,633</u>
Future minimum lease payments.....	159,099
Less: interest.....	<u>8,823</u>
Present value of lease liabilities.....	150,276
Less: current portion.....	<u>94,333</u>
Non-current portion.....	<u><u>\$ 55,943</u></u>

Aggregate principal and interest maturities of the operating leases as of June 30, 2025, are as follows:

<i>Weighted-average remaining lease term (years):</i>	4
<i>Weighted-average discount rate:</i>	5.27%

NOTE I - CONTINGENCIES

On June 30, 2025 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, 2025, the Office did not accrue additional expenses for this contingency. The accrued estimated balance as of June 30, 2025 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.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE I - 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 was 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 J - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 17, 2026, the date the financial statements were available to be issued.

OFFICE OF GOVERNMENT ETHICS OF THE COMMONWEALTH OF PUERTO RICO
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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Revenue:				
State appropriation.....	\$ 10,238,000	\$ 10,238,000	\$ 9,963,607	\$ 274,393
Special state appropriation.....	<u>-</u>	<u>-</u>	<u>290,237</u>	<u>(290,237)</u>
Total revenues.....	<u>10,238,000</u>	<u>10,238,000</u>	<u>10,253,844</u>	<u>(15,844)</u>
Expenditures:				
Payroll and related expenses....	8,527,000	8,082,500	7,642,907	439,593
Capital outlays.....	-	682,500	238,283	444,217
Insurance and related expenses.	-	226,500	220,667	5,833
Office equipment and supplies..	-	136,080	885,722	(749,642)
Other expenses.....	1,495,000	174,870	76,795	98,075
Rent related expenses.....	-	70,600	7,360	63,240
Repair and maintenance.....	-	151,650	141,854	9,796
Special and education projects..	-	119,400	119,150	250
Seminars and trainings.....	-	30,000	22,604	7,396
Dues and subscriptions.....	-	5,000	949	4,051
Professional service.....	93,000	360,000	345,566	14,434
Utilities.....	<u>123,000</u>	<u>198,900</u>	<u>142,328</u>	<u>56,572</u>
Total expenditures.....	<u>10,238,000</u>	<u>10,238,000</u>	<u>9,844,185</u>	<u>393,815</u>
Net change in fund balances				
- governmental fund.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 409,659</u>	<u>\$ (409,659)</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
(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

STATUTORY/BUDGETARY RECONCILIATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

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 then the budgetary comparison schedule.....	\$ 10,253,844
Differences - Budget to GAAP	
Revenues for which no budget was approved during current year.....	<u>155,085</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental fund.....	
	<u><u>\$ 10,408,929</u></u>

Uses Outflows of Resources:

Actual amounts (budgetary) basis "total charges to appropriations" from the budgetary comparison schedule.....	\$ 9,844,185
Differences - Budget to GAAP.....	
	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental fund.....	
	<u><u>\$ 9,844,185</u></u>

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

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
(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF PROPORTIONATE SHARE OF COLLECTIVE TOTAL PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

The schedule of Proportionate Shares of Collective Total Pension Liability for the Office for the fiscal year ended June 30, 2025:

	<u>GASB 73</u>	
	<u>2025</u>	<u>2024</u>
Proportion (percentage) of total pension liability.....	<u>0.06097%</u>	<u>0.04253%</u>
Proportion (amount) of the total pension liability.....	<u>\$ 13,588,163</u>	<u>\$ 13,210,682</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 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.