

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, 2016
and Independent Auditors' Report

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-8
FINANCIAL STATEMENTS	
Government Wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet - Governmental Fund	11
Reconciliation of the Balance Sheet Governmental Fund to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Fund to the Statement of Activities	14
Notes to Financial Statements	15 - 30
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	31
Statutory/Budgetary Reconciliation	32
Notes to Required Supplementary Information	33



INDEPENDENT AUDITORS' REPORT

Mrs. Zulma R. Rosario, Executive Director
Office of Government Ethics of the Commonwealth of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities and each major fund of the Office of Government Ethics of the Commonwealth of Puerto Rico (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2016, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditor's Responsibility - Cont'

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

Basis for Qualified Opinion and Notes to Disclosure Regarding Pension

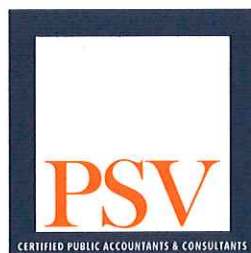
As discussed in Notes A and F to the basic financial statements, the Office has not implemented the requirements of Statement No. 68 of the Government Accounting Standard Board, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. Accordingly, the Office has not been able to determine and account for its proportionate share of net pension obligation, deferred inflow of resources and deferred outflow of resources related to pension costs and has not recognized the effect of current period changes in net pension obligation, deferred outflow of resources and deferred inflow of resources as these relate to pension costs.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amount that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expense. The amount by which this departure would affect liabilities, deferred outflow of resources, deferred resources, deferred inflow of resources, deficit, and expense has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter described above in the Basis for Qualified Opinion and Note Disclosure Regarding Pension paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Office of Government Ethics of the Commonwealth of Puerto Rico (a component unit of the Commonwealth of Puerto Rico) as of June 30, 2016 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Emphasis Matters

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth)

As discussed in Note B to basic financial statements, the Office is reported as part of the Commonwealth. As of June 30, 2016, the financial condition and liquidity of the Commonwealth have deteriorated. Considering that the Office has a significant financial dependency on the Commonwealth.

Other Matters

Required Supplementary Information Omitted

The Office has omitted the Schedule of the Office Proportionate Share of the Net Pension Liability, and the Schedule of the Office Contributions to the Employees' Pension Plan, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

As per the Circular letter number 1300-12-16 issued by the Puerto Rico Department of Treasury ,the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), provides the information needed for the Financial Statements ending June 30, 2016 to implement the provision for the pronouncement , GASB no.68 , "Accounting and Financial Reporting for Pensions". As of today the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) does not have this information available.

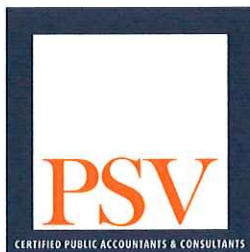
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 7 and 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.

December 15, 2016

Stamp E256713 of the P.R.
Society of Certified Public
Accountants has been affixed
to the file copy of this report.

PSV & PSC



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

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, 2016. The information presented here should be read in conjunction with the Office's basic financial statements, including the notes thereto.

FINANCIAL HIGHLIGHTS

- Net position of the Office increase \$180 thousand, from \$6.39 million as of June 30, 2015 to \$6.55 million as of June 30, 2016.
- Capital expenditures made during 2016 amounted to \$21 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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, 2016

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Office's most significant funds and not the Office as a whole. The Office has a type of fund:

- Governmental Funds - Used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government wide financial statements, government fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Office's near term financial requirements.

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, 2016 and 2015:

	2016	Governmental activities 2015	Change	Percentage
Assets:				
Cash	\$ 3,869,613	\$ 3,218,581	\$ 651,032	16.82%
Certificate of deposit	3,000,000	3,250,341	(250,341)	(8.34)%
Reservation of fund balance	139,170	-	139,170	100.00%
Other assets non-current	49,303	-	49,303	100.00%
Prepaid expenses	8,311	8,514	(203)	(2.44)%
Deferred financing cost	31,118	39,278	(8,160)	(26.22)%
Capital assets:				
Non depreciable	2,000,000	2,000,000	-	0.00%
Depreciable - net	6,453,840	7,070,116	(616,276)	(9.55)%
Total assets	<u>\$ 15,551,355</u>	<u>\$ 15,586,830</u>	<u>\$ (35,475)</u>	<u>(0.23)%</u>
Liabilities:				
Current liabilities	\$ 1,368,932	\$ 1,314,608	\$ 54,324	(2.79)%
Non-current liabilities	7,631,980	7,896,536	(264,556)	(3.47)%
Total liabilities	<u>9,000,912</u>	<u>9,211,144</u>	<u>(210,232)</u>	<u>(3.37)%</u>
Net position:				
Invested in capital assets	1,826,197	2,096,961	(270,764)	(14.83)%
Unrestricted	4,585,076	4,278,725	306,351	6.68%
Restricted	139,170	-	139,170	100.00%
Total net position	<u>6,550,443</u>	<u>6,375,686</u>	<u>174,757</u>	<u>2.67%</u>
Total liabilities and net position	<u>\$ 15,551,355</u>	<u>\$ 15,586,830</u>	<u>\$ (35,475)</u>	<u>(0.23)%</u>

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, 2016

FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE (Cont'd)

Net position of the Office increase \$180 thousand, from \$6.39 million as of June 30, 2015, to \$6.55 million as of June 30, 2016. The increase in net assets was the result of an decrease of \$40 thousand in total assets and a decrease of \$210 thousand in total liabilities. The decrease in total assets and in total liabilities are mainly due to the following:

- The budget approved by the legislative bodies amounting to \$9.28 million and \$9.53 for the years June 30, 2016 and 2015, respectively.
- Capital assets decrease \$616 thousand as a result of an increase depreciation of \$637 thousand partially offset by capital expenditures of \$21 thousand.
- Total liabilities decreased by \$210 thousand mainly due to a decrease in accounts payable suppliers and a decrease in current portion of accrued compensated absence.

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, 2016 and 2015 are shown in the table below:

	<u>2016</u>	<u>Governmental activities</u> <u>2015</u>	<u>Change</u>	<u>Percentage</u>
Revenues:				
Program revenues:				
State appropriations.	\$ 9,278,000	\$ 9,528,000	\$ (250,000)	(1.94)%
Special state appropriation. . .	21,000	-	21,000	(1.94)%
Interests and other.	52,856	11,275	41,581	(121.86)%
Total revenues.	<u>9,351,856</u>	<u>9,539,275</u>	<u>(187,419)</u>	<u>(2.00)%</u>
Expenditures:				
General government.	8,597,079	8,686,510	(89,431)	(2.11)%
Expenditures from specific program:				
Special projects.	20,055	28,885	(8,830)	(44.03)%
Interests on long - term debt.	559,965	594,633	(34,668)	(6.19)%
Total expenses.	<u>9,177,099</u>	<u>9,310,028</u>	<u>(132,929)</u>	<u>(2.45)%</u>
Change in net position.	174,757	229,247	(54,490)	(13.41)%
Net position at:				
Beginning of year.	<u>6,375,686</u>	<u>6,146,439</u>	<u>229,247</u>	3.60%
End of year.	<u>\$ 6,550,443</u>	<u>\$ 6,375,686</u>	<u>\$ 174,757</u>	<u>2.67%</u>

Total revenues decrease from \$9.53 million in 2015 to \$9.35 million in 2016.

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, 2016

FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE (Cont'd)

Function/program expenses decrease from \$9.31 million in 2015 to \$9.18 million in 2016. The positive variance was mainly caused by decreases of regular employees salaries and the related payroll expenses as result of various decreases in employees due to acts enacted during 2015 and 2016 combined with control exercise by management in other operating expenses.

GOVERNMENTAL FUND RESULTS

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 decreased \$180 thousand from \$8.69 million in 2015 to \$8.51 million in 2016. The decrease was mainly the result of a decrease in payroll and related expenditures of \$131 thousand and the decrease in capital outlays of \$91 thousand among a decrease in other expenditures. Total revenues from state appropriation decrease from \$9.53 million in 2015 to \$9.35 million in 2016.

CAPITAL ASSETS

The Office's investment in capital assets at June 30, 2016 and 2015 amounted to approximately \$8.45 million and \$9.47 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 for the basic financial statements for additional details on capital assets at year-end and on activity during the fiscal year ended June 30, 2016.

LONG-TERM DEBT

The Office has long-term debt to finance the acquisition of building for its administrative office. At June 30, 2016, total debt outstanding amounted to \$6.90 million. See Note H for the basic financial statements for additional details on long term debt at year-end and on activity during the fiscal year ended June 30, 2016.

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, Urbanizacion El Paraiso, San Juan, Puerto Rico, 00926-2906.

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

STATEMENT OF NET POSITION
JUNE 30, 2016

- ASSETS -

Cash	\$	3,869,613
Certificate of deposit		3,000,000
Reservation of fund balance		139,170
Accounts receivable		49,303
Prepaid expenses		8,311
Deferred financing cost		31,118
Capital assets:		
Non depreciable		2,000,000
Depreciable - net		<u>6,453,840</u>
Total assets		<u>15,551,355</u>

- LIABILITIES AND NET POSITION -

Current liabilities:		
Accrued compensated absence		714,121
Long term debt		105,526
Accounts payable		113,001
Accrued liabilities		<u>436,284</u>
Total current liabilities		<u>1,368,932</u>
Non-current liabilities:		
Accrued compensated absence		838,103
Long term debt		<u>6,793,877</u>
Total non-current liabilities		<u>7,631,980</u>
Total liabilities		<u>9,000,912</u>
Net position:		
Invested in capital assets		1,826,197
Unrestricted		4,585,076
Restricted		<u>139,170</u>
Total net position	\$	<u>6,550,443</u>

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Functions and programs</u>	<u>Expenses</u>	<u>Program revenues</u>		Net revenues (expenses) and changes in net position
		<u>Operating Grant and Contributions</u>	<u>Other Sources</u>	
Governmental activities:				
General government	\$ (8,597,079)	\$ 9,278,000	\$ 52,856	\$ 733,777
Special projects	(20,055)	21,000		945
Interests on long term debt .	<u>(559,965)</u>	<u>-</u>	<u>-</u>	<u>(559,965)</u>
Total governmental activities and change in net position . .	<u>\$ (9,177,099)</u>	<u>\$ 9,299,000</u>	<u>\$ 52,856</u>	174,757

NET POSITION AT:

BEGINNING OF YEAR	<u>6,375,686</u>
END OF YEAR	<u>\$ 6,550,443</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, 2016

	<u>General fund</u>	Total Governmental <u>Funds</u>
ASSETS:		
Cash	\$ 3,869,613	\$ 3,869,613
Certificate of deposit	3,000,000	3,000,000
Reservation of fund balance	139,170	139,170
Accounts receivable	<u>49,303</u>	<u>49,303</u>
 Total assets	 <u>\$ 7,058,086</u>	 <u>\$ 7,058,086</u>
LIABILITIES:		
Accounts payable	\$ 113,001	\$ 113,001
Accrued compensated absence	<u>1,150,405</u>	<u>1,150,405</u>
 Total liabilities	 <u>1,263,406</u>	 <u>1,263,406</u>
FUND BALANCE:		
Unrestricted	5,655,510	5,655,510
Restricted	<u>139,170</u>	<u>139,170</u>
Total funds	<u>5,794,680</u>	<u>5,794,680</u>
 Total liabilities and fund balance	 <u>\$ 7,058,086</u>	 <u>\$ 7,058,086</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, 2016

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

Total fund balance	\$	5,794,680
Prepaid expenses are not available to pay current period expenditures and, therefore, are not deferred in the funds		8,311
Deferred financing cost are not available to pay current period expenditures and, therefore, are not deferred in the funds		31,118
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the Balance Sheet - Governmental Fund		8,453,840
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Balance Sheet - Governmental Fund:		
Mortgage payable		(6,899,403)
Accrued compensated absence		(838,103)
Net position of governmental activities	\$	<u>6,550,443</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, 2016

	<u>General fund</u>	Total Governmental Funds
REVENUES:		
State appropriations	\$ 9,278,000	\$ 9,278,000
Special state appropriation	21,000	21,000
Other income	296	296
Interest and investment income	<u>52,560</u>	<u>52,560</u>
Total revenues	<u>9,351,856</u>	<u>9,351,856</u>
EXPENDITURES:		
Payroll and related expense	7,005,279	7,005,279
Capital outlays	20,543	20,543
Insurance and related	149,618	149,618
Office equipment and supplies	143,744	143,744
Other expenses	377,073	377,073
Rent related expense	18,000	18,000
Repair and maintenance	54,533	54,533
Special projects	20,055	20,055
Professional services	110,864	110,864
Utilities	92,786	92,786
Debt service payments:		
Principal	86,335	86,335
Interest	<u>559,965</u>	<u>559,965</u>
Total expenditures	<u>8,638,795</u>	<u>8,638,795</u>
Net change in fund balances - governmental funds	713,061	713,061
FUND BALANCE AT:		
BEGINNING OF YEAR	<u>4,243,516</u>	<u>4,243,516</u>
END OF YEAR	<u>\$ 4,956,577</u>	<u>\$ 4,956,577</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 CHANGE IN FUND BALANCE -
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

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

Net change in fund balance - governmental funds \$ 713,061

The issuance of long-term debt provides current financial
resources while the repayment of the principal of long-term debt consumes
the current financial resources of governmental funds; neither transaction,
however, has any effect on net assets. 86,335

Some expenses in the statement of activities do not require the
use of current financial resources and therefore, are not
reported as expenditure in governmental funds (8,160)

Governmental funds report prepaid expenses as expenditures.
However, in the statement of activities, the costs 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 period. (203)

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 and amortization. This is the amount by which capital outlays,
net of disposals, exceeded depreciation in the current period. (616,276)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 174,757

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, 2016

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. 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 feasible the attainment of the highest levels of honesty, conscientiousness, and efficiency in performance of public servants. 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, incorporate values into public service. The Office receives significant financial support from the Commonwealth in the form contributions.

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

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

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

Act No. 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.

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, 2016

NOTE A - REPORTING ENTITY (Cont'd)

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".

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

NOTE B - GOING CONCERN

As part of its normal operating activities, the Office, is part of and receives significant financial support from the General Fund of the Commonwealth of Puerto Rico. As of June 30, 2016, 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 of Government Ethics of the Commonwealth of Puerto Rico as a result of its operational efficiencies, savings and budget controls, does not foresee any possible effect of the aforementioned Commonwealth financial uncertainty on its basic financial statements and operations. The Office will continue to operate with the necessary cash flow for a period of 12 months since the issue date of the Present Financial Statements.

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

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, 2016

NOTE B - GOING CONCERN (Cont'd)

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.

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

The accounting and reporting policies of the Office conform to accounting principles generally accepted in the United States of America hereinafter referred to as GAAP, as applicable to governmental entities. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates.

Government wide and fund financial statements

Government -Wide Financial Statements - The statement of net assets and the statement of activities report information on all activities of the Office. The Office only has governmental activities. Governmental activities generally are financed through intergovernmental revenues and other non-exchange revenues. Following is a description of the Office's government-wide financial statements.

The statement of net position presents the Office's assets and liabilities, with the difference reported as net assets. Net position are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation and amortization. and reduced by any outstanding balances for notes and other debt that are attributed to the acquisition, construction or improvement 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.

Restricted net position result when constraints placed on net position use are either externally imposed by creator, grantor, contributor, and the like, or imposed by law through constitutional provision or enabling legislation

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, 2016

NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Government wide and fund financial statements (Cont'd)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues, if any, are reported as general revenues.

Fund Financial Statements - Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Office reports all of its governmental activities in the General Fund and the Federal Grant Fund.

Measurement focus, basis of accounting and financial statements presentation

Government-wide financial statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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, 2016

NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Measurement focus, basis of accounting and financial statements presentation (Cont'd)

Governmental funds financial statements

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

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 this purpose, the Office considers revenues to be available if they are collected within 90 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include Commonwealth and federal funds to be received by the Office. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Interest on general long-term obligations is generally recognized when paid.
- Debt service principal expenditures and claims and judgments are recorded only when payment is due.

The Office's governmental activities are accounted for in the following major funds:

- General Fund - This fund accounts for all financial resources of the Office, except for those activities related to Puerto Rico Labor Department as it relates to the Law 52.

Fund balance

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

- Nonspendable - amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

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, 2016

NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fund balance (Cont'd)

- 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 Center itself, using its highest level of decision-making authority (such as legislation). To be reported as committed, amounts cannot be used for any other purpose unless the Center 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 authority.
- Unassigned - all amounts not included in other spendable classifications.

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

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

Budgetary accounting

Statutory (budgetary) accounting

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

Amounts required settling claims and judgments against the Office and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under the statutory basis of accounting, the Office uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the Office governmental funds, encumbrance is a significant aspect to budget control.

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, 2016

NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Budgetary control

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

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

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, equipment, motor vehicles and intangible assets including software are reported in the government wide financial statements. Capital assets are defined by the Office as assets which have a cost of \$100 or more at the date of acquisition and have an expected useful life of three 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 improvement	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
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

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.

Cash and cash equivalents

The Office considers all highly liquid investments with maturity of three (3) months or less when purchased to be cash equivalents. The cash balances are available to meet current operating requirements in various interest-bearing accounts with Commercial Banks.

Compensated absences

The vacation policy of the Commonwealth of Puerto Rico that applies to the Office employees provides for the accumulation of two and a half (2.5) days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of sixty (60) days. Office's employees accumulate sick leave at a rate of one and a half (1.5) days per month up to a maximum of ninety (90) days. Upon retirement, an employee receives all accumulated unpaid leave at the current rate, if the employee has at least ten (10) years of service with the Commonwealth of Puerto Rico.

Governmental funds

Reservations of fund balance

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

Claims and Judgments

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

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, 2016

NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Future adoption of accounting pronouncements

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

GASB Statement No. 82, Pension Issue-an amendment of GASB 67, 68 and 73, which is effective for periods beginning after June 15, 2016.

Management is evaluating the impact, if any, that these statements will have on the Office's basic financial statements.

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 contributions.

For the purpose of applying the requirements of GASBS No. 68, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing defined benefit pension plan and Defined Contribution Hybrid Program, in which the employees of the Office participate. The Office is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth.

NOTE D - CASH

The level of custodial credit risk assumed by the Office at June 30, 2016 is disclosed below. Custodial credit risk is the risk that in the event of a financial institution failure, the Office's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico 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. The Office does not have a formal policy for custodial credit risk.

The Office maintains its cash balances in commercial banks. Depository bank accounts at the institution are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016, the cash balances exceeded the insured limit by \$3,523,733.

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, 2016

NOTE E - COMPENSATED ABSENCES

Employees accrue vacation leave at a rate of two and a half (2.5) days per month up to a maximum of sixty (60) days. Unpaid vacation time accumulated is fully vested to the employees from the first (1) day of work.

Employee's accrue sick leave at a rate of one and a half (1.5) days per month up to a maximum of ninety (90) days. Upon retirement, and employee receives compensation for all accumulated unpaid sick leave at their then current rate of pay, if the employee has at least ten (10) years of services with the Office.

Total vested pay benefits accrued for compensated absences at June 30, 2016, amount to \$1,552,224 which activity for the year ended June 30, 2016, is summarized as follows:

<u>Balance at</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Decrease</u>	<u>Balance at</u> <u>June 30, 2016</u>	<u>Due within</u> <u>One (1) Year</u>
<u>\$ 1,752,145</u>	<u>\$ 900,399</u>	<u>\$ 1,100,320</u>	<u>\$ 1,552,224</u>	<u>\$ 714,121</u>

NOTE F - RETIREMENT PLAN

All full-time regular employees are covered and must participate in the employee's retirement plan administered by the Employees' Retirement System of the Government of Puerto Rico (created by Act.447 in May 15, 1951) and its Instrumentalities.

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

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, 2016

NOTE F - RETIREMENT PLAN (Cont'd)

Ten years later, the continue 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). System2000 became effective on January 1, 2000. Employees participating in the ERS as of December 31, 1999 had the option to stay in the defined benefit plan or transfer to System 2000. Employees joining The Office on or after January 1, 2000 are only allowed to become participants of System 2000. System 2000 is a defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age are not guaranteed by the Commonwealth. The Annuity is based on a formula that assumes that each year the employee's contribution (with a Minimum of 8.275% of the employee's salary up to a maximum of 10%) is invested in an account, Which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or (2) Earn a rate equal to 75% of the return of the ERS' investment portfolio (net of management fees), or (3) Earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans 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 the following:

An increase in the annual employer contribution of 1% of the regular retribution received by the Participants, beginning on July 1, 2012 and ending on June 30, 2016, and an annual increase of the Employer contribution of 1.25% of the regular retribution received by the participant beginning on July 1, 2016 and ending on June 30, 2021.

Total office contributions made for the pension plan during the year ended June 30, 2016, amounted to \$842,991 for employees paid with state funds.

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, 2016

NOTE F - RETIREMENT PLAN (Cont'd)

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

The law 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 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 14.275% to 15.525%.
- 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.

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, 2016

NOTE F - RETIREMENT PLAN (Cont'd)

- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated. Disability benefits will be eliminated and substituted for a mandatory disability insurance Policy.
- Survivor benefits will be modified.
- The Office contributions will increase gradually effective July 1, 2016. The required contribution for fiscal year ending June 30, 2017 will be 15.525%. Subsequently the required contribution will increase by 1.25% every year up to a total contribution of 20.525%.

Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB 68) became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27.

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

As of the date of the release of this report, the ERS has not issued its 2016 basic financial statements, nor has it provided the Office with the required information to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB 68). Therefore, the accompanying governmental activities financial statements do not have any adjustments that will be necessary for the Office to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of June 30, 2016, as well as the effect in the recorded pension expense in the statement of activities for the year ended June 30, 2016. Also, additional disclosures required by GASB 68 as well as required supplementary information have been omitted from these basic financial statements.

The pension costs recognized in the accompanying financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions, which is not in accordance with accounting principles generally accepted in the United States of America. Additional information on the ERS is provided in its financial statements for the year ended June 30, 2016 a copy of which can be obtained from the Administrator of the Retirement System: P.O. Box 42003, San Juan, Puerto Rico 00940.

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, 2016

NOTE G - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Decrease other Reclassification</u>	<u>Ending Balance</u>
Non depreciable:				
Land	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Depreciable:				
Building	5,375,421	-	-	5,375,421
Building improvements	2,171,968	-	-	2,171,968
Office furniture and equipment	1,790,515	18,871	(11,585)	1,797,801
Computer equipment	1,084,383	1,672	(172,117)	913,938
Vehicle	254,377	-	-	254,377
Software	522,750	-	-	522,750
Total capital assets	<u>13,199,414</u>	<u>20,543</u>	<u>(183,702)</u>	<u>13,036,255</u>
Less: accumulated depreciation:				
Building	1,014,213	179,181	-	1,193,394
Building improvements	492,439	108,598	-	601,037
Office furniture and equipment	1,362,725	131,282	(11,446)	1,482,561
Computer equipment	916,050	85,391	(170,577)	830,864
Software	167,207	104,550	-	271,757
Vehicle	176,664	26,138	-	202,802
Total accumulated depreciation .	<u>4,129,298</u>	<u>635,140</u>	<u>(182,023)</u>	<u>4,582,415</u>
Total capital assets - net	<u>\$ 9,070,116</u>	<u>\$ (614,597)</u>	<u>\$ (1,679)</u>	<u>\$ 8,453,840</u>

During the year 2016, the Office charged depreciation expense and amortization amounting to \$635,140.

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, 2016

NOTE H - LONG TERM DEBT

The following is a summary of long term debt as of June 30, 2016:

The Office entered in a loan for the acquisition of real property in the amount of \$7,375,000 on October 23, 2009. The loan at fix interest 7.95% will be paid in 120 equal monthly installments of principal and interest in the amount of \$53,858, starting in November, 2009 with a final payment amount of \$6,679,649 on October 31, 2019. The term loan is collateralized by the real property acquired for its administrative facilities. \$ 6,899,403

Less current portion 105,526

Long term debt \$ 6,793,877

Principal payments required to be made for each of next four years are summarized as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2017	\$ 105,526
2018	114,228
2019	<u>6,679,649</u>
Total	<u>\$ 6,899,403</u>

As a result of this long term debt the office incurred on certain financing cost amounting to \$77,015. These costs were deferred in the accompanying Statement of Net Activities at June 30, 2016 at is amortized based on the effective rate method over the term of the debt. The amortization of this cost at June 30, 2016 amounted to \$8,160.

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, 2016

NOTE I - CONTINGENCIES

At June 30, 2016 the Office is involved in various litigations arising in the normal course of operations. The Office believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the Office financial condition and results of operations. Based on the advice of legal counsel, management recorded an estimate for litigation and claim losses of approximately \$290,000 as of June 30, 2016. Any claims with negative financial impact would be paid from the general funds of the Commonwealth of Puerto Rico.

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

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

NOTE J - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 15, 2016, the date the financial statements were available to be issued.

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

BUDGETARY COMPARISSON SCHEDULE
GENERAL FUND (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Revenue:				
State appropriation	\$ 9,278,000	\$ 9,278,000	\$ 9,278,000	\$ -
Total revenues	<u>9,278,000</u>	<u>9,278,000</u>	<u>9,278,000</u>	<u>-</u>
Expenditures:				
Payroll and related expenses . . .	7,084,010	7,084,010	6,984,330	(99,680)
Capital outlays	-	-	20,543	20,543
Insurance and related	163,285	163,285	149,618	(13,667)
Office equipment and supplies . .	420,705	420,705	143,744	(276,961)
Other expenses	199,000	199,000	377,073	178,073
Rent related expenses	123,000	123,000	18,000	(105,000)
Repair and maintenance	248,000	248,000	54,533	(193,467)
Special project	55,000	55,000	20,055	(34,945)
Professional service	282,000	282,000	110,864	(171,136)
Utilities	154,000	154,000	92,786	(61,214)
Debt service payments	<u>549,000</u>	<u>549,000</u>	<u>646,300</u>	<u>97,300</u>
Total expenditures	<u>9,278,000</u>	<u>9,278,000</u>	<u>8,617,846</u>	<u>(660,154)</u>
Net change in fund balances				
- governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 660,154</u>	<u>\$ 660,154</u>

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

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

STATUTORY/BUDGETORY RECONCILIATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

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.

The following schedule represents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Sources/Inflows of Sources:

Actual amounts (budgetary basis) "available for appropriation from the the budgetary comparison schedule	\$ 9,278,000
Differences - Budget to GAAP	
Revenues for which no budget was approved during current year	<u>73,856</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental fund	<u>9,351,856</u>

Uses Outflows of Resources:

Actual amounts (budgetary) basis "total charges to appropriations" from the budgetary comparison schedule	\$ 8,617,846
Differences - Budget to GAAP	<u>20,949</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental fund	<u>8,638,795</u>

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

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.