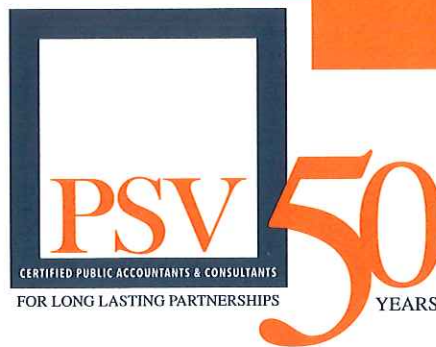


AUDITED FINANCIAL STATEMENTS  
OFFICE OF GOVERNMENT ETHICS OF THE  
COMMONWEALTH OF PUERTO RICO  
(A Component Unit of the Commonwealth of Puerto Rico)  
Basic Financial Statements and Required  
Supplementary Information as of and  
for the year ended June 30, 2018  
and Independent Auditors' Report

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, 2018

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## 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, 2018, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

## **Auditor's Responsibility - (Cont'd)**

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, decrease the net position, and change the pension expense. The amount by which this departure would affect liabilities, deferred outflow of resources, deferred resources, deferred inflow of resources, position, and expense has not been determine.

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, 2018 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 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.

## **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 partially for the Financial Statements ending June 30, 2018 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.



## Other Matters - (Cont'd)

### Required Supplementary Information Omitted (Cont'd)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 to 8 and 31 to 33 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.

November 9, 2018

Stamp E326557 of the P.R.  
Society of Certified Public  
Accountants has been affixed  
to the file copy of this report.

PSV & Co PSC



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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, 2018. The information presented herein should be read in conjunction with the Office's basic financial statements, including the notes thereto.

FINANCIAL HIGHLIGHTS

- Net position of the Office increased \$1.37 million, from \$6.68 million as of June 30, 2017 to \$8.05 million as of June 30, 2018.
- Capital expenditures made during the fiscal year ended 2018 amounted to \$148 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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, 2018

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Governmental activities</u> <u>Change</u>	<u>Percentage</u>
Assets:				
Cash . . . . .	\$ 6,033,040	\$ 4,580,851	\$ 1,452,189	31.70%
Certificate of deposit . . . . .	3,000,000	3,000,000	-	0.00%
Accounts receivable . . . . .	150,222	93,208	57,014	61.17%
Prepaid expenses . . . . .	21,685	5,432	16,253	299.21%
Deferred financing cost . . . . .	13,212	22,439	(9,227)	(41.12%)
Capital assets:				
Non depreciable . . . . .	2,000,000	2,000,000	-	0.00%
Depreciable - net . . . . .	<u>5,509,003</u>	<u>5,958,155</u>	<u>(449,152)</u>	<u>(7.54%)</u>
Total assets . . . . .	<u>\$ 16,727,162</u>	<u>\$ 15,660,085</u>	<u>\$ 1,067,077</u>	<u>6.81%</u>
Liabilities:				
Current liabilities . . . . .	\$ 1,219,600	\$ 1,307,746	\$ (88,146)	(6.74%)
Non-current liabilities . . . . .	<u>7,454,524</u>	<u>7,668,835</u>	<u>(214,311)</u>	<u>(2.79%)</u>
Total liabilities . . . . .	<u>8,674,124</u>	<u>8,976,581</u>	<u>(302,457)</u>	<u>(3.37%)</u>
Net position:				
Invested in capital assets . . . . .	804,386	1,519,832	(715,446)	(15.61%)
Unrestricted . . . . .	<u>7,248,652</u>	<u>5,163,672</u>	<u>2,084,980</u>	<u>40.38%</u>
Total net position . . . . .	<u>8,053,038</u>	<u>6,683,504</u>	<u>1,369,534</u>	<u>20.49%</u>
Total liabilities and net position . . . . .	<u>\$ 16,727,162</u>	<u>\$ 15,660,085</u>	<u>\$ 1,067,077</u>	<u>6.81%</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, 2018

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

Net position of the Office increased \$1.37 million, from \$6.68 million as of June 30, 2017, to \$8.05 million as of June 30, 2018. The increase in net position was the result of a net increase of \$1.06 million in total assets and a decrease of \$302 thousand in total liabilities. The increase in total assets and the decrease in total liabilities are mainly due to the following:

- Total assets increase mainly due to an increase in cash partially offset by an increase in accumulated depreciation.
- Total liabilities decreased by \$302 thousand mainly due to a decrease in current portion of accrued compensated absences combined with decrease of long term debt of mortgage.

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, 2018 and 2017 are shown in the table below:

	<u>2018</u>	<u>Governmental activities</u> <u>2017</u>	<u>Change</u>	<u>Percentage</u>
Revenues:				
Program revenues:				
State appropriations. . . . .	\$ 9,278,000	\$ 9,278,000	\$ -	0.00%
Special state appropriation. . . .	25,000	25,000	-	(10.30%)
Interests and other. . . . .	319,986	49,440	270,546	547.22%
Total revenues. . . . .	<u>9,622,986</u>	<u>9,352,440</u>	<u>270,546</u>	2.89%
Expenditures:				
General government. . . . .	7,694,731	8,628,933	(934,202)	(10.83%)
Expenditures from specific program:				
Special projects. . . . .	22,415	25,000	(2,585)	(10.34%)
Interests on long - term debt. . . . .	536,306	565,446	(29,140)	(5.15%)
Total expenses. . . . .	<u>8,253,452</u>	<u>9,219,379</u>	<u>(965,927)</u>	(10.48%)
Change in net position. . . . .	1,369,534	133,061	1,236,473	929.25%
Net position at:				
Beginning of year. . . . .	<u>6,683,504</u>	<u>6,550,443</u>	<u>133,061</u>	2.03%
End of year. . . . .	<u>\$ 8,053,038</u>	<u>\$ 6,683,504</u>	<u>\$ 1,369,534</u>	20.49%

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, 2018

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

Function/program expenses decreased from \$9.22 million in 2017 to \$8.25 million in 2018. The positive variance was mainly caused by decreases of regular employees salaries and the related payroll 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 \$900 thousand from \$8.83 million in 2017 to \$7.93 million in 2018. The decrease was mainly the result of a decrease in payroll and related expenditures of \$890 thousand combined with an increase in capital outlays of \$18 thousand among a decrease in other expenditures.

CAPITAL ASSETS

The Office's investment in capital assets at June 30, 2018 and 2017 amounted to approximately \$7.51 million and \$7.96 million, respectively, net of accumulated depreciation and amortization. Capital assets include land, buildings, building improvements, office furniture equipment, computer equipment, vehicles and intangible assets including software. See Note G included in the basic financial statements for additional details on capital assets at year-end and on activity during the fiscal year ended June 30, 2018.

LONG-TERM DEBT

The Office has a long-term debt used to finance the acquisition of a building for its administrative office. At June 30, 2018 total debt outstanding amounted to \$6.70 million. See Note H included in the basic financial statements for additional details on long term debt at year-end and on activity during the fiscal year ended June 30, 2018.

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, 2018

- ASSETS -

Current assets:

Cash .....	\$ 6,033,040
Certificate of deposit .....	3,000,000
Accounts receivable .....	150,222
Prepaid expenses .....	21,685
Deferred financing cost .....	13,212
Total current assets .....	<u>9,218,159</u>

Capital assets:

Non depreciable .....	2,000,000
Depreciable - net .....	<u>5,509,003</u>
Total capital assets .....	<u>7,509,003</u>
Total assets .....	<u>16,727,162</u>

- LIABILITIES AND NET POSITION -

Current liabilities:

Mortgage payable current portion .....	123,647
Accrued compensated absence .....	510,764
Accounts payable .....	194,707
Accrued expenses .....	<u>390,482</u>
Total current liabilities .....	<u>1,219,600</u>

Non-current liabilities:

Mortgage payable .....	6,580,971
Accrued compensated absence .....	<u>873,553</u>
Total non-current liabilities .....	<u>7,454,524</u>
Total liabilities .....	<u>8,674,124</u>

Net position:

Invested in capital assets .....	804,386
Unrestricted .....	<u>7,248,652</u>
Total net position .....	<u>\$ 8,053,038</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, 2018

<u>Functions and programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Net revenues (expenses) and changes in net position</u>
		<u>Operating Grant and Contributions</u>	<u>Other Sources</u>	
Governmental activities:				
General government . . . . .	\$ (7,694,731)	\$ 9,278,000	\$ 319,986	\$ 1,903,255
Special projects . . . . .	(22,415)	25,000	-	2,585
Interests on long term debt .	<u>(536,306)</u>	<u>-</u>	<u>-</u>	<u>(536,306)</u>
Total governmental activities and change in net position .	<u>\$ (8,253,452)</u>	<u>\$ 9,303,000</u>	<u>\$ 319,986</u>	<u>\$ 1,369,534</u>

NET POSITION AT:

BEGINNING OF YEAR . . . . .	<u>6,683,504</u>
END OF YEAR . . . . .	<u>\$ 8,053,038</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, 2018

	<u>General fund</u>	Total Governmental Funds
ASSETS:		
Cash .....	\$ 6,033,040	\$ 6,033,040
Certificate of deposit .....	3,000,000	3,000,000
Accounts receivable .....	<u>150,222</u>	<u>150,222</u>
 Total assets .....	 <u>\$ 9,183,262</u>	 <u>\$ 9,183,262</u>
LIABILITIES:		
Accrued compensated absence .....	\$ 510,764	\$ 510,764
Accounts payable .....	194,707	194,707
Accrued expenses .....	<u>390,482</u>	<u>390,482</u>
 Total liabilities .....	 <u>1,095,953</u>	 <u>1,095,953</u>
FUND BALANCE:		
Unrestricted .....	<u>8,087,309</u>	<u>8,087,309</u>
Total funds .....	<u>8,087,309</u>	<u>8,087,309</u>
 Total liabilities and fund balance .....	 <u>\$ 9,183,262</u>	 <u>\$ 9,183,262</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, 2018

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

Total fund balance . . . . .	\$	8,087,309
Prepaid expenses are not available to pay current period expenditures and, therefore, are not deferred in the funds . . . . .		21,685
Deferred financing cost are not available to pay current period expenditures and, therefore, are not deferred in the funds . . . . .		13,212
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the Balance Sheet - Governmental Fund . . . . .		7,509,003
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 . . . . .		(6,704,618)
Accrued compensated absence . . . . .		<u>(873,553)</u>
Net position of governmental activities . . . . .	\$	<u>8,053,038</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, 2018

	<u>General fund</u>	Total Governmental Funds
REVENUES:		
State appropriations .....	\$ 9,278,000	\$ 9,278,000
Special state appropriation .....	25,000	25,000
Other income .....	260,267	260,267
Interest and investment income .....	59,719	59,719
	<hr/>	<hr/>
Total revenues .....	9,622,986	9,622,986
EXPENDITURES:		
Payroll and related expenses .....	6,373,715	6,373,715
Capital outlays .....	148,561	148,561
Insurance and related expenses .....	160,663	160,663
Office equipment and supplies .....	246,684	246,684
Other expenses .....	64,549	64,549
Rent related expenses .....	18,000	18,000
Repair and maintenance .....	97,066	97,066
Special projects .....	6,555	6,555
Professional services .....	50,528	50,528
Utilities .....	108,699	108,699
Debt service payments:		
Principal .....	110,014	110,014
Interest .....	536,306	536,306
	<hr/>	<hr/>
Total expenditures .....	7,921,340	7,921,340
	<hr/>	<hr/>
Net change in fund balances - governmental funds .....	1,701,646	1,701,646
FUND BALANCE AT:		
BEGINNING OF YEAR .....	5,482,653	5,482,653
	<hr/>	<hr/>
END OF YEAR .....	\$ 7,184,299	\$ 7,184,299
	<hr/>	<hr/>

SEE NOTES TO FINANCIAL STATEMENTS

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 YEAR ENDED JUNE 30, 2018

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

Net change in fund balance - governmental funds . . . . .	\$ 1,701,646
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. . . . .	110,014
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 . . . . .	(9,227)
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. . . . .	16,253
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. . . . .	(449,152)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES . . . . .	<u>\$ 1,369,534</u>

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

NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**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 of 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 3 of January 23, 2017 also known as the "Ley para atender la crisis economica , fiscal y presupuestaria para garantizar el funcionamiento del gobierno de Puerto Rico" with the exception of Article 9 and Article 26 which are the only ones that the office is not exempt from in this act.

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

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

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

NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

**NOTE A - REPORTING ENTITY (Cont'd)**

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

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

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

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

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

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

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

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, 2018, 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.



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**NOTE B - GOING CONCERN (Cont'd)**

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

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

**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 position. Net position are reported in three categories:

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

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Government wide and fund financial statements (Cont'd)

Restricted net position results 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.

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.

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**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.

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**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 Office 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 Office takes the same highest level action to remove or change the constraint.
- Assigned - amounts the Office intends to use for a specific purpose. Intent can be expressed by the Office or by an official or body to which the Office delegates the 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 for settling claims and judgments against the Office and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under the statutory basis of accounting, the Office uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the Office governmental funds, encumbrance is a significant aspect to budget control.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE C - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Budgetary control

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

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

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



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**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 ninety (90) days or less when purchased to be cash equivalents. The cash balances are available to meet current operating requirements in various interest-bearing accounts with Commercial Banks.

Compensated absences

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

Governmental funds

Reservations of fund balance

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

Claims and Judgments

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

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**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. 84, Fiduciary Activities, which is effective for periods beginning after December 15, 2018.

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 GASB 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 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, 2018, the cash balances exceeded the insured limit by \$5,862,100.

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**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. Unpaid vacation time accumulated is fully vested to the employees from the first (1) day of work.

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

Total vested pay benefits accrued for compensated absences at June 30, 2018, amount to \$1,384,317 which activity for the year ended June 30, 2018, is summarized as follows:

<u>Balance at</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Decrease</u>	<u>Balance at</u> <u>June 30, 2018</u>	<u>Due within</u> <u>One (1) Year</u>
<u>\$ 1,550,084</u>	<u>\$ 569,069</u>	<u>\$ 734,836</u>	<u>\$ 1,384,317</u>	<u>\$ 510,764</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 ("ERS") of the Government of Puerto Rico (created by Act No. 447 in May 15, 1951) and its Instrumentalities.

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

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**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). System 2000 became effective on January 1, 2000. Employees participating in the ERS as of December 31, 1999 had the option to stay in the defined benefit plan or transfer to System 2000. Employees joining the Office on or after January 1, 2000 are only allowed to become participants of System 2000. System 2000 is a defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age are not guaranteed by the Commonwealth. The annuity is based on a formula that assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) is invested in an account, which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or (2) earn a rate equal to 75% of the return of the ERS' investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plan showing their accrued balances. System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the ERS on or after April 1, 1990. Disability pensions are not granted under System 2000.

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

Total office contributions made for the pension plan during the year ended June 30, 2018, amounted to \$518,111 for employees paid with state funds.

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NOTES TO FINANCIAL STATEMENTS  
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**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 of the minimum pension payments for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- Increases the employer contribution rate from 16.775% to 18.025%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 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 and the disability benefits will be substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.
- The Office contributions will increase gradually effective July 1, 2017. The required contribution for fiscal year ending June 30, 2018 will be 16.775%. Subsequently, the required contribution will increase by 1.25% every year up to a total contribution of 20.525%.

Statement No. 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 2018 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, 2018, as well as the effect in the recorded pension expense in the statement of activities for the year ended June 30, 2018. 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, 2018 a copy of which can be obtained from the Administrator of the Retirement System: P.O. Box 42003, San Juan, Puerto Rico 00940.

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**NOTE F - RETIREMENT PLAN (Cont'd)**

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

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

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE G - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2018 was as follows:

	Beginning <u>Balance</u>	Increase <u>(Decrease)</u>	Decrease other and <u>Reclassification</u>	Ending <u>Balance</u>
Non depreciable:				
Land .....	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Depreciable:				
Building .....	5,375,421	-	-	5,375,421
Building improvements .....	2,187,963	127,120	(110,385)	2,204,698
Office furniture and equipment .....	1,801,087	913	73,957	1,875,957
Computer equipment .....	1,020,661	20,528	(113,747)	927,442
Vehicle .....	254,377	-	-	254,377
Software .....	522,750	-	-	522,750
Total capital assets .....	<u>13,162,259</u>	<u>148,561</u>	<u>(150,175)</u>	<u>13,160,645</u>
Less: accumulated depreciation:				
Building .....	1,372,575	179,181	-	1,551,756
Building improvements .....	710,810	112,545	-	823,355
Office furniture and equipment .....	1,613,532	144,028	(36,151)	1,721,409
Computer equipment .....	901,940	37,891	(111,350)	828,481
Software .....	376,307	104,550	-	480,857
Vehicle .....	228,940	16,844	-	245,784
Total accumulated depreciation .	<u>5,204,104</u>	<u>595,039</u>	<u>(147,501)</u>	<u>5,651,642</u>
Total capital assets - net .....	<u>\$ 7,958,155</u>	<u>\$ (446,478)</u>	<u>\$ (2,674)</u>	<u>\$ 7,509,003</u>

During the year 2018, the Office depreciation and amortization expense amounted to \$595,039.



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**NOTE G - CAPITAL ASSETS (Cont'd)**

In accordance with the provisions of the Accounting of the Impairment or Disposal of Long-Lived Assets, Topic of the FASB Accounting Standard Codification management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. As of June 30, 2018, management believes that long-lived assets are not impaired at the individual asset or group level.

**NOTE H - LONG TERM DEBT**

The following is a summary of long term debt as of June 30, 2018:

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 has a fix interest rate of 7.95% payable in 120 equal monthly installments of principal and interest in the amount of \$53,858, starting in November 2009 with a final payment for the remaining balance on October 31, 2019. The term loan is collateralized by the real property acquired for its administrative facilities. . . . .	\$ 6,704,618
Less: current portion . . . . .	<u>123,647</u>
Long term debt . . . . .	<u>\$ 6,580,971</u>

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

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2019 . . . . .	\$ 123,647
2020 . . . . .	<u>6,580,971</u>
Total . . . . .	<u>\$ 6,704,618</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, 2018 and is amortized based on the effective rate method over the term of the debt. The amortization of this cost at June 30, 2018 amounted to \$9,227.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE I - CONTINGENCIES**

At June 30, 2018 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, 2018. 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 November 9, 2018, 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 COMPARISON SCHEDULE  
GENERAL FUND (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<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 . . .	6,612,532	6,755,832	6,351,300	(404,532)
Capital outlays . . . . .	114,223	114,263	148,561	34,298
Insurance and related expenses .	147,904	147,904	160,663	12,759
Office equipment and supplies . .	670,464	626,284	246,684	(379,600)
Other expenses . . . . .	199,000	199,000	64,549	(134,451)
Rent related expenses . . . . .	23,000	23,000	18,000	(5,000)
Repair and maintenance . . . . .	540,606	540,606	97,066	(443,540)
Special project . . . . .	60,000	60,000	6,555	(53,445)
Professional service . . . . .	255,000	155,000	50,528	(104,472)
Utilities . . . . .	123,200	124,000	108,699	(15,301)
Debt service payments . . . . .	<u>532,071</u>	<u>532,111</u>	<u>646,320</u>	<u>114,209</u>
Total expenditures . . . . .	<u>9,278,000</u>	<u>9,278,000</u>	<u>7,898,925</u>	<u>(1,379,075)</u>
Net change in fund balances				
- governmental funds . . . . .	\$ -	\$ -	\$ 1,379,075	\$ 1,379,075

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/BUDGETARY RECONCILIATION (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018

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

**Sources/Inflows of Sources:**

Actual amounts (budgetary basis) "available for appropriation" from the the budgetary comparison schedule . . . . .	\$ 9,278,000
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Differences - Budget to GAAP

Revenues for which no budget was approved during current year . . . . .	<u>344,986</u>
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Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental fund . . . . .	<u>\$ 9,622,986</u>
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**Uses Outflows of Resources:**

Actual amounts (budgetary) basis "total charges to appropriations" from the budgetary comparison schedule . . . . .	\$ 7,898,925
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Differences - Budget to GAAP . . . . .	<u>22,415</u>
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Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental fund . . . . .	<u>\$ 7,921,340</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 REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018

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.