# COMMONWEALTH OF PUERTO RICO
# PUERTO RICO ENERGY COMMISSION
# (AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

## BASIC FINANCIAL STATEMENTS

## FOR THE FISCAL YEAR ENDED JUNE 30, 2018

COMISIÓN DE ENERGÍA DE PUERTO RICO

ESTADO LIBRE ASOCIADO DE PUERTO RICO

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López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors



## INDEPENDENT AUDITORS' REPORT

**To the President of the**
**Puerto Rico Energy Commission**
**(An Executive Agency of the Commonwealth**
**of Puerto Rico)**

### Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities and the general fund of the **Puerto Rico Energy Commission (the Commission),** an Executive Agency of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the **Commission'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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

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

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



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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Opinion

In our opinion, the financial statements referred above present fairly, in all material respects, the respective financial position of the governmental activities, and the general fund of the **Commission** 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 of a matter

As described on Note **14**, on July 2, 2017, laden with a debt of approximately $9 billion, the Puerto Rico Electric Power Authority (PREPA) filed a petition of bankruptcy in the United States District Court of Puerto Rico. The effects, if any, on the PREPA's annual budget appropriations for the **Commission** that might have this bankruptcy filing cannot be determined at the date of the financial statements.

Also, as described on Note **15**, on August 12, 2018 Law No. 211 was enacted for the Execution of the Reorganization Plan of the Public Service Regulatory Board of Puerto Rico (PSRB). Under the provisions of this Law, the Commission will be part of the PSRB and will be known as the Puerto Rico Energy Bureau.

### Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages **3** through **13** and **46**, respectively, 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 the 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 of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

López-Vega, CPA, PSC

**LOPEZ VEGA, CPA, PSC**
San Juan, Puerto Rico
December 27, 2018
Stamp No. 2742214 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

**Organization**

The Puerto Rico Energy Commission (the Commission) was created under the provisions of Act No. 57 of May 27, 2014, the Puerto Rico Energy Transformation and Relief Act. Under the provisions of this Act, the Commission is the governmental agency that regulates the energy industry in Puerto Rico. The Commission was created with the primary intention of regulating the Puerto Rico Electric Power Authority (PREPA), which is the government-owned corporation that controls the monopoly of the distribution and transmission of all energy in Puerto Rico, as well as producing approximately 70% of all energy consumed in the Island. Before the Commission came into existence, PREPA regulated both itself and the energy industry without any oversight. The Commission began its operations on August 14, 2014, the date in which its president was appointed.

Organizationally, the Commission is overseen by a Board of Directors comprised of three (3) commissioners appointed by the governor with the advice and consent of the Senate. The Commission is also supported by an executive director who works together with the Puerto Rico Energy Affairs Administration and provides technical advice to the commissioners.

The Commission shall be the key component for the faithful and transparent execution of the Puerto Rico Energy Reform. It shall be an independent government entity in charge of regulating, overseeing, and ensuring compliance with the public policy on energy of the Commonwealth of Puerto Rico. As a part of the energy reform, the Commission shall adopt rules to ensure high efficiency in the generation of electricity based on fossil fuels. This shall lead to a more efficient use of fuel and, consequently, to lower energy production costs.

A key mission of the Commission shall be to evaluate the plans PREPA is required to submit. In accordance with Act No. 57, PREPA shall submit to the Commission an "Energy Relief Plan" regarding its obligation to efficiently generate electric power, various operational issues, and the integration of the renewable energy, among other mandates. Moreover, PREPA shall submit, for the evaluation of the Commission, an integrated resource plan consisting of a twenty (20) year planning period. By evaluating and following up on these plans, the Commission shall be able to guarantee the orderly and integrated development of the electrical system, thus ensuring reliability, efficiency, and transparency thereof, and the provision of electric power services at reasonable prices.

The Commission shall approve the electricity rates proposed by PREPA and other electric power companies in the Island, and shall oversee all types of operations, processes, and mandates pertaining to the efficiency of the energy sector. It shall be the entity in charge of overseeing PREPA and other power producers, promoting the diversification of the energy sources as well as the reduction of energy costs.

The management of the Commission provides this Management Discussion and Analysis ("MD&A") for the readers of the Commission's basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the Commission for the year ended June 30, 2018, and is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; (3) notes to the financial statements, and (4) required supplementary information. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Commission's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information together with the Commission's basic financial statements that follow.

## FINANCIAL HIGHLIGHTS

### Government-Wide Highlights

- The Commission reported total current assets amounting $9,220,633 at June 30, 2018. The major category of current assets consisted of cash balance available amounting to $5,312,591, which represents 57.62% of total current assets at that date.

- The Commission's capital assets, net of accumulated depreciation, amounted to $1,034,044.

- Total liabilities at June 30, 2018 amounted to $580,257. The major categories of liabilities consisted of accounts payable ($365,993), accrued liabilities ($90,969) and accrued compensated absences ($123,295).

- Total net position as of June 30, 2018 amounted to $9,674,420.

### General Fund Highlights

- Total General Fund revenues for year ended June 30, 2018 amounted to $7,432,265, including appropriations from PREPA by $5,800,000 which represents 78.04%.

- Total expenditures for year ended June 30, 2018 amounted to $2,792,279. Also, during the fiscal year 2018, the Commission recognized transfers of funds to the Independent Consumer Protection Office (ICPO) by $580,000.

- The General Fund balance as of June 30, 2018 amounted to $8,763,671.

### Major Financial Elements

### Revenues

The General Fund is the primary operating fund of the Commission. General Fund revenues are broadly based on appropriations from PREPA amounting to $5,800,000 and energy regulatory charges amounting to $1,611,079.

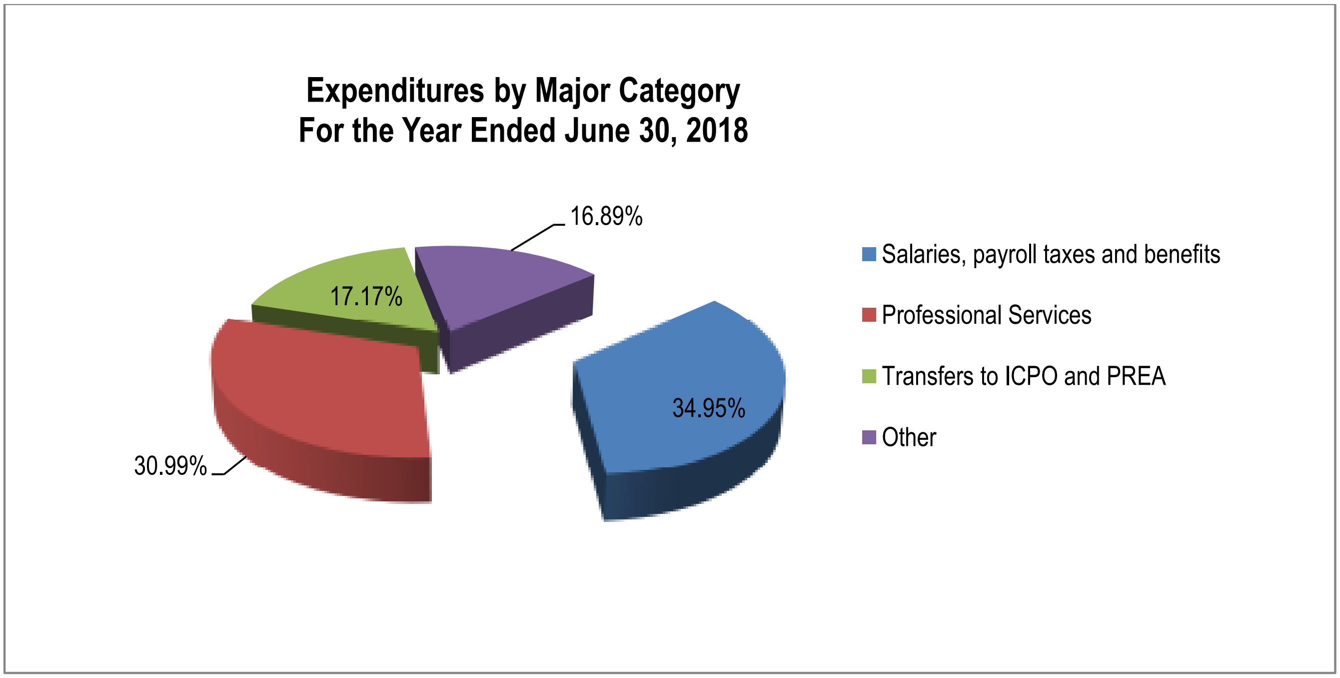
### Expenditures

Expenditures consist principally of salaries and employee benefits, professional services, rent, utilities, materials and supplies and capital outlays. Total operating expenditures amounted to $2,792,279. The most significant expenditures were employees' salaries, payroll taxes and benefits ($1,180,833) and professional services ($1,046,861), which represents 42.29% and 37.49% of total expenditures, respectively. Also, during the period, the Commission recognized transfers to the ICPO amounting to $580,000.

**FINANCIAL HIGHLIGHTS (Continued)**

**Expenditures (Continued)**

The following chart presents expenditures (including transfers) of the Commission by major category for the year ended June 30, 2018:




**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains additional required supplementary information in addition to the basic financial statements themselves. These components are described below. The basic financial statements include two kinds of financial statements that present different views of the Commission's operations, the government-wide financial statements and the fund financial statements. Finally, the notes to the basic financial statements explain some of the information reported in the financial statements and provide more detail.

**Government-wide Financial Statements**

The government-wide financial statements provide a broad view of the Commission's operations in a manner similar to a private-sector business. The statement provides both short and long-term information about the Commission's financial position, which assists in assessing the Commission's economic condition at the end of the period.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Government-wide Financial Statements (Continued)

These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the period even if the cash involved has not been received or paid. The government-wide financial statements include two statements:

- **Statement of Net Position** – This presents all of the government's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in the Commission's net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

- **Statement of Activities** – This presents information showing how the government's net position changes during the most recent period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of the Commission.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with fiscal-related governmental requirements. The fund financial statements focus on individual parts of the Commission's administration, reporting the Commission's operations in more detail than the government-wide financial statements. All of the funds of the Commission are classified as governmental funds.

The services provided by the Commission are financed through governmental funds. Governmental funds are 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, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources.

They also focus on the balances of expendable resources available at the end of the period. Such information may be useful in evaluating the government's near term financial requirements. This approach is known as using the current financial resources measurement focus and the modified-accrual basis of accounting.

These statements provide a detailed short term view of the Commission's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Commission. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Fund Financial Statements (Continued)

By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. This reconciliation is presented on the page immediately following the government-wide financial statements.

The Commission has only one major governmental fund which is the general fund. This major fund is presented in the governmental funds' balance sheet and in the governmental funds' statement of revenues, expenditures and changes in fund balance. There are no remaining non-major governmental funds that shall be grouped and presented in the governmental fund financial statements.

### Notes to Basic Financial Statements

The notes provide additional information that is essential to fully understand the data provided in the government-wide and the fund financial statements.

### Required Supplementary Information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

## GENERAL FUND FINANCIAL ANALYSIS

- Total revenues of the general fund for the year ended June 30, 2018 amounted to $7,432,265.
- Total expenditures for the year ended June 30, 2018 amounted $3,372,279, including transfers to the ICPO amounting to $580,000.
- Total revenues exceeded total expenditures, transfers and impairment on cash deposits with GDB by $4,053,985.

The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2018, the Commission's governmental funds reported an ending fund balance of $8,763,671.

### Net Position

The net position may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Commission at June 30, 2018 amounted to $10,254,677 and $580,257, respectively, resulting in a net position of $9,674,420.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Net Position (Continued)

A portion of the Commission's net position reflects its investment in capital assets such as computer and office equipment, and leasehold improvements. The Commission uses these capital assets to provide its regulatory services; consequentially, these assets are not available for future spending. The net investment in capital assets amounted to $1,034,044 as of June 30, 2018.

Total current assets amounted to $9,220,633 as of June 30, 2018, which are mainly composed of cash ($5,312,591) and accounts receivable ($3,908,042).

Total liabilities amounted to $580,257 and are composed of accounts payable and accrued liabilities of $456,962, and accrued and compensated absences of $123,295.

A condensed summary of the statement of net position of the Commission as of June 30, 2018 and 2017 is as follows:

**Condensed Statement of Net Position**
**As of June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **Assets:** | | |
| Current assets | $ 9,220,633 | $ 5,049,494 |
| Capital assets, net of accumulated depreciation | 1,034,044 | 1,049,833 |
| Total assets | $ 10,254,677 | $ 6,099,327 |
| **Liabilities:** | | |
| Current liabilities | $ 463,127 | $ 351,514 |
| Long-term liabilities | 117,130 | 222,411 |
| Total liabilities | 580,257 | 573,925 |
| **Net position:** | | |
| Net investment in capital assets | 1,034,044 | 1,049,833 |
| Unrestricted | 8,640,376 | 4,475,569 |
| Total net position | 9,674,420 | 5,525,402 |
| Total liabilities and net position | $ 10,254,677 | $ 6,099,327 |

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Changes in Net Position**

The Commission's change in net position amounted to $4,149,018 during the fiscal year ended June 30, 2018. Approximately 55.82% of the Commission's total revenues from contributions made by the Puerto Rico Electric Power Authority (PREPA), energy regulatory charges and other revenues.

**Condensed Statement of Activities**
**For the years ended June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **Revenues:** | | |
| Program revenues | | |
| Appropriations from PREPA | $ 5,800,000 | $ 6,300,000 |
| General Revenues | | |
| Energy regulatory charges | 1,611,079 | 1,740,117 |
| Interest | 21,186 | 8,774 |
| Total revenues | 7,432,265 | 8,048,891 |
| **Expenses:** | | |
| Energy regulatory services | 2,697,246 | 3,858,544 |
| Change in net position before transfers and Impairment loss on cash deposits with GDB | 4,735,019 | 4,190,347 |
| **Transfer to the ICPO** | (580,000) | (580,000) |
| **Transfer to the PREA** | - | (295,655) |
| **Impairment on cash deposits with GDB** | (6,001) | (2,973) |
| **Change in net position** | 4,149,018 | 3,311,719 |
| **Net position, beginning of year** | 5,525,402 | 2,213,683 |
| **Net position, end of year** | $ 9,674,420 | $ 5,525,402 |

## GENERAL FUND BUDGETARY HIGHLIGHTS

### *Current Year's Budget*

The General Fund's budget for the year ended June 30, 2018 was $6,050,000. Actual total revenues amounted to $7,432,265 and total expenditures amounted to $3,372,279 (including transfers to the Independent Consumer Protection Office of $580,000), resulting in an excess of revenues over expenditures of $4,059,986.

### *Next Year's Budget*

Under Act No. 57 of May 27, 2014, the Puerto Rico Electric Power Authority (PREPA) shall appropriate and provide annually $5,800,000 to the Commission for its operations. Accordingly, beginning on fiscal year 2014-2015, PREPA shall remit each year to the Puerto Rico Department of the Treasury $2,900,000 on or before June 1st and the remaining balance of $2,900,000 shall be remitted on or before December 1st of each year. During the fiscal year ended June 30, 2018, the Commission received funds amounting to $2,900,000. The remaining $2,900,000 related to the fiscal year ended June 30, 2018 were received on July 19, 2018.

Also, as described on Note **11**, under the provisions of Act No. 57, the Commission shall appropriate 10% ($580,000) of these funds to be provided to the Independent Consumer Protection Office (ICPO) for its operations. Additionally, the Commission shall appropriate funds from its budget to be provided to the Puerto Rico Energy Administration (PREA) for its operation until the Office of Management and Budget of Puerto Rico is able to provide budget appropriations to the PREA.

## CAPITAL ASSETS

The capital assets of the Commission are those assets that are used in the performance of its functions. The investment in capital assets (net of accumulated depreciation) as of June 30, 2018 amounted to $1,034,044. Additional information on the Commission's capital assets can be found in the Note **7** of the basic financial statements.

### *Depreciation Expense*

This expense is determined and recorded using a straight-line method over the estimated useful lives of the related assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the year ended June 30, 2018, depreciation expense recorded on books amounted to $31,697, and is presented in the statement of activities.

## LONG-TERM DEBT

Total accrued compensated absences owed by the Commission amounted to $123,295 as of June 30, 2018. Additional information on the Commission's long-term liabilities can be found in the Note **8** of the basic financial statements.

**ECONOMIC FACTORS**

The Commonwealth of Puerto Rico (the Commonwealth) and its instrumentalities are currently facing a severe fiscal and liquidity crisis. This is the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Also, credit rating agencies have been downgrading their ratings on the Commonwealth debt obligations based on, among other problems, years of deficit financing, pension underfunding, budgetary imbalance, and as mentioned before, years of prolonged recession.

As more fully explained in Notes **4**, **14** and **15** to the financial statements, the Government of the United States of America and the Commonwealth of Puerto Rico have approved and implemented certain laws to overcome this crisis. Following are some of the measurements implemented to this end:

- ***Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017***

  On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2, known as *"The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)"* in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors' agreements, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the FAFAA shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every board, committee, commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

- ***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017***

  On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5, known as *"Puerto Rico Financial Emergency and Fiscal Responsibility Act"* to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

- ***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico***

  On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico ("the Board") provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor's request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options.

**ECONOMIC FACTORS (CONTINUED)**

- ***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (Continued)***

  On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board's members, economists, consultants, attorneys and Governor's representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA's requirements. On March 11, 2017, the Governor submitted to the Board a revised fiscal plan. On March 13, 2017, the Board approved and certified this final plan.

- ***Filing of Title III of PROMESA for the District of Puerto Rico***

  On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filling was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017, another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation ("COFINA") and, on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority ("HTA") and the Government of Puerto Rico Employees Retirement System ("ERS"). Also, on July 1, 2017 the members of the Oversight Board of PROMESA unanimously authorized the Puerto Rico Power Authority (PREPA) to file bankruptcy under the provisions of Title III of PROMESA. Accordingly, on July 2, 2017, PREPA filed bankruptcy in the United States District Court of Puerto Rico.

- **Law No. 122 – Law of the New Government of Puerto Rico**

  Law No. 122 of December 18, 2017, was enacted to create the "New Puerto Rico Government Law", in order to empower the Governor of Puerto Rico to maximize the resources and personnel of the Executive Branch through the transfer, consolidation, reorganization, outsourcing and creation of new and more efficient structures governments and agencies through an agile process with Reorganization Plans which will be reviewed by the Legislative Assembly for approval or rejection; authorize the Governor to reorganize, outsource and consolidate, agencies, programs and services of the Executive Branch through Reorganization Plans which will be reviewed and approved by the Legislative Assembly according to the procedure described in this Law; arrange the powers and faculties of the heads of the agencies; repeal Law 182-2009, known as the "Law of Reorganization and Modernization of the Executive Branch 2009"; repeal Law 5-1993; and for other related purposes.

- **Law No. 211 – "Reorganization Plan of the Public Service regulatory Board of Puerto Rico"**

  On August 12, 2018 Law No. 211 was enacted for the Execution of the Reorganization Plan of the Public Service Regulatory Board of Puerto Rico and amendments to several related laws adopted pursuant to the Law No. 122 of December 18, 2017.

**ECONOMIC FACTORS (CONTINUED)**

- **Law No. 211 – "Reorganization Plan of the Public Service regulatory Board of Puerto Rico" (Continued)**

  Accordingly, the Law No. 211 creates the Public Service Regulatory Board of Puerto Rico (PSRB) under the plan submitted by the Governor and approved by the Legislative Assembly. The PSRB will consolidate under a new administrative and functional structure the Telecommunications Regulatory Board, the Public Service Commission, the Independent Office of Consumer Protection, the Energy Administration of Puerto Rico and the Energy Commission.

**Contacting The Commission's Financial Management**

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. If you have questions about this report, please contact the Puerto Rico Energy Commission, World Plaza Building, 268 Ave. Muñoz Rivera, Suite 702, San Juan, Puerto Rico 000918.

| | Governmental Activities |
|---|---|
| **Assets** | |
| Current assets: | |
| Cash | $ 5,312,591 |
| Accounts receivable | 3,908,042 |
| Total current assets | 9,220,633 |
| Non-current assets: | |
| Capital assets, net | 1,034,044 |
| Total non-current assets | 1,034,044 |
| Total assets | $ 10,254,677 |
| **Liabilities** | |
| Current liabilities: | |
| Accounts payable | $ 365,993 |
| Accrued liabilities | 90,969 |
| Accrued compensated absences, current portion | 6,165 |
| Total current liabilities | 463,127 |
| Non-current liabilities: | |
| Accrued compensated absences, non-current portion | 117,130 |
| Total non-current liabilities | 117,130 |
| Total liabilities | 580,257 |
| **Net position** | |
| Net investment in capital assets | 1,034,044 |
| Unrestricted | 8,640,376 |
| Total net position | $ 9,674,420 |

See accompanying notes to basic financial statements.

| | | Program Revenues | Net (Expenses) Revenues and Changes in Net Position |
|---|---|---|---|
| **Functions / Programs** | **Expenses** | **Operating Grants and Contributions** | **Governmental Activities** |
| Governmental Activities: | | | |
| Energy Regulatory Services | $ 2,697,246 | $ 7,411,079 | $ 4,713,833 |
| General Revenues | | | |
| Interest | | | 21,186 |
| Change in net position before transfers | | | 4,735,019 |
| Impairment loss on cash deposits | | | (6,001) |
| Transfers to ICPO | | | (580,000) |
| Total transfers and impairment loss on cash deposits | | | (586,001) |
| Change in net position | | | 4,149,018 |
| Net position, at beginning of year | | | 5,525,402 |
| Net position, at end of year | | | $ 9,674,420 |

See accompanying notes to basic financial statements.

| | General Fund |
|---|---|
| **ASSETS** | |
| Cash | $ 5,312,591 |
| Accounts receivable | 3,908,042 |
| Total assets | $ 9,220,633 |
| **LIABILITIES AND FUND BALANCE** | |
| Liabilities | |
| Accounts payable | $ 365,994 |
| Accrued liabilities | 90,968 |
| Total liabilities | 456,962 |
| Fund balance | |
| Assigned | |
| Energy regulatory services | 8,763,671 |
| Total fund balance | 8,763,671 |
| Total liabilities and fund balance | $ 9,220,633 |

See accompanying notes to basic financial statements.

| | |
|---|---|
| Total fund balance per Fund Financial Statements | $ 8,763,671 |
| Amounts reported to governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements. | 1,034,044 |
| Liabilities of accrued compensated absences that are not to be paid with current financial resources and, therefore, are not reported in fund financial statements. | (123,295) |
| Net position of governmental activities | $ 9,674,420 |

See accompanying notes to basic financial statements

| | General Fund |
|---|---|
| **REVENUES** | |
| Appropriations from PREPA | $ 5,800,000 |
| Energy regulatory charges | 1,611,079 |
| Interest | 21,186 |
| Total revenues | 7,432,265 |
| **EXPENDITURES** | |
| Salaries | 1,021,105 |
| Payroll taxes | 136,801 |
| Benefits | 22,927 |
| Professional services | 1,046,861 |
| Advertising | 6,571 |
| Office supplies | 3,181 |
| Travel | 8,526 |
| Rent | 481,649 |
| Insurance | 13,694 |
| Capital outlays | 25,358 |
| Other | 25,606 |
| Total expenditures | 2,792,279 |
| Excess of revenues over expenditures before transfers and impairment loss on cash | 4,639,986 |
| Impairment loss on cash deposits | (6,001) |
| Transfers to ICPO | (580,000) |
| Total transfers and impairment loss on cash deposits | (586,001) |
| Excess of revenues over expenditures, transfers and impairment loss on cash deposits | 4,053,985 |
| Fund balance, at beginning of period | 4,709,686 |
| Fund balance, at end of period | $ 8,763,671 |

See accompanying notes to basic financial statements.

| | |
|---|---|
| Excess of revenues over expenditures- total governmental funds | $ 4,053,985 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays for the period. | (15,789) |
| Some expenses reported in the statement of activities do not require the use of financial resources and therefore, are not reported as expenditures in the governmental funds. This includes the decrease in the accrued compensated absences debt. | 110,822 |
| Change in net position of governmental activities | $ 4,149,018 |

## Note 1 – Governmental environment

### Organization

The Puerto Rico Energy Commission (the “Commission”) was created on May 27, 2014 under the provisions of the “Puerto Rico Energy Transformation and Relief Act”. Under the provisions of this Act, the Commission is the governmental agency that regulates the energy industry in Puerto Rico. The Commission was created with the primary intention of regulating the Puerto Rico Electric Power Authority (PREPA), which is the government-owned corporation that controls the monopoly of distribution and transmission of energy in Puerto Rico, as well as producing approximately 70% of all energy consumed on the Island. The Commission began its operations on August 14, 2014, the date in which its president was appointed. The Commission shall be the key component for the faithful and transparent execution of the Puerto Rico Energy Reform. It shall be an independent government entity in charge of regulating, overseeing, and ensuring compliance with the public policy on energy of the Commonwealth of Puerto Rico. Organizationally, the Commission is overseen by a Board of Directors comprised of three (3) commissioners appointed by the governor with the advice and consent of the Senate. The Commission is also supported by an executive director who works together with the Puerto Rico Energy Affairs Administration and provides technical advice to the commissioners.

As described on Note **15**, on August 12, 2018 Law No. 211 was enacted for the Execution of the Reorganization Plan of the Public Service Regulatory Board of Puerto Rico (PSRB) and amendments to several related laws adopted pursuant to the Law No. 122 of December 18, 2017. Under the provisions of this Law the Commission will be part of the PSRB and will be known as the Puerto Rico Energy Bureau.

The financial statements of the Commission have been prepared in accordance with accounting principles generally accepted in the United States, as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The Commission has prepared the required supplementary information titled Management’s Discussion and Analysis, which precedes the basic financial statements and the Budgetary Comparison Schedule – General Fund, which succeeds the notes to the financial statements.

### Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Commission (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management’s professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity’s financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit’s relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

**Note 1 – Governmental environment (Continued)**

**Financial reporting entity (Continued)**

1. The primary government appoints a voting majority of the entity's governing body, and either:
    - A financial benefit/burden exist between the primary government and the entity or
    - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

Based on the above criteria, there are no potential component units which should be included as a part of the financial statements.

**Note 2 – Summary of significant accounting policies**

**a. GASB No. 34**

The accompanying basic financial statements of the Commission have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as prescribed by the Governmental Accounting Standard Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB No. 34). This Statement establishes financial reporting requirements for state and local governments. The Commission has adopted the provisions of GASB No. 34 as well as others statements referred to below.

**b. Basic of presentation – fund accounting**

The accounts of the Commission are organized on the basis of governmental funds. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues and expenditures. Fund financial statements report detailed information about the Commission's current financial resources. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

**c. Governmental funds**

The Commission reports the following major governmental fund:

**General Fund –** This is the Commission's primary operating fund. It accounts for all financial operations, except for those required to be accounted for in another fund, if any.

## Note 2 – Summary of significant accounting policies (Continued)

### d. Measurement focus and basis of accounting

Measurement focus refers to what is being measured in the financial statements, while basis of accounting refers to the timing in which transactions are recognized in the operating statements. The governmental funds use a current financial resources measurement focus and are accounted for using the modified-accrual basis of accounting.

Under the modified-accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. when they become both measurable and available. Measurable means that the amount of the transaction can be determined or reasonably estimated. 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. Expenditures are recorded when the related fund liability is incurred, i.e., that the liability will be liquidated with expendable available financial resources.

### e. Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities and display information of all the activities of the Commission, as a whole. The Commission's activities are considered governmental type. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

### f. Net position

Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net position might be reported in three (3) categories:

1) **Net investment in capital assets –** it consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of long-term debt that is attributable to the acquisition, construction or improvement of those assets.

2) **Restricted net position –** results, when constraints placed on net position use, are externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

3) **Unrestricted net position –** this consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

**Note 2 – Summary of significant accounting policies (Continued)**

**g. Net position flow assumption**

Sometimes, the Commission will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Commission's policy to consider restricted – net position to have been depleted before unrestricted – net position applied.

**h. Deferred outflows/inflows of resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three (3) items that qualify for reporting in this category:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the balance sheet of the governmental funds and in the government-wide statement of net position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

2. **Unavailable revenue reported under the modified-basis of accounting –** Amounts collected or to be collected after the availability period are recognized as unavailable revenue in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

3. **Deferred outflows/inflows of resources related to pensions -** Amounts reported for changes in calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between the Commission's contributions and proportionate share contributions; and e) the Commission's contributions subsequent to the measurement date.

**Note 2 – Summary of significant accounting policies (Continued)**

**i. Non-exchange transactions**

GASB Statement No. 33, *"Accounting and Financial Reporting for Non-exchange Transactions"* established accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this Statement, the provider and the recipient should recognize the non-exchange transaction as an expense/expenditure and revenue, respectively, when all eligibility requirements are satisfied.

**j. Capital assets**

Property and equipment purchased or acquired is carried at historical cost or estimated historical cost. The Commission's capitalization policy is to capitalize individual amounts exceeding $500. Other costs incurred for repair and maintenance are expensed as incurred. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental funds financial statements. Depreciation expense is recorded in the government-wide financial statements.

Depreciation on all assets is calculated on the straight-line basis over the asset's estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful lives of capital assets are as follows:

| | |
|---|---|
| Office and computer equipment and furniture | 5 Years |
| Leasehold improvements | 10 Years |

**k. Compensated absences**

The Commission's employees accumulate vacations and sick leave. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).The Commission's employees accumulate unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee.

On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. Effective on that date, this Law established and recognizes that the government is a Single Employer. Under the provisions of this law annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days.

**Note 2 – Summary of significant accounting policies (Continued)**

**k. Compensated absences (Continued)**

Also, the employees hire before the effectiveness of this law, will be granted annually with eighteen (18) days of sick leave. In addition, the employees hire after the effectiveness of this law, will be granted annually with twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds financial statements, only the matured amount that is normally expected to be paid using expendable available financial resources is reported as liability. The non-current portion of the liability is not reported. Separation from the employment prior to the use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of services, who are entitled to sick leave pay up to the maximum allowed. The Commission accrues a liability for compensated absences which meet the following criteria:

- The Commission’s obligations relating to employee’s rights to receive compensation for future absences are attributable to employee’s services already rendered.
- The obligations relate to right that vest or accumulate.
- Payment for the compensation is probable.
- The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASB No. 16, the Commission has accrued a liability for compensated absences, which has been earned but not taken by the Commission’s employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, the matured portion of compensated absences is only considered and represents a reconciling item between the fund level and government-wide presentation. Accrued compensated absences as of June 30, 2018 amounted to $123,295.

**l. Fund balance reporting**

GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement.

**Note 2 – Summary of significant accounting policies (Continued)**

**l. Fund balance reporting (Continued)**

Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

GASB No. 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

**Non-spendable -** such balance is associated with inventories, prepaid and long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

**Restricted -** this category includes amounts that can be spent only for the specific purpose stipulated by constitution, external source providers or through enabling legislation.

**Committed -** this classification includes amounts that can be used only for specific purposes determined by a formal action of the entities' highest level decision making authority.

**Assigned -** this classification is intended to be used by the government for specific purposes but do not meet the criteria to be committed.

**Unassigned -** it is the residual classification for the government's general fund and includes all expendable amounts no contained in the other classifications.

**m. Fund balance flow assumptions**

Sometimes, the Commission will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Commission's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Note 2 – Summary of significant accounting policies (Continued)**

**n. Use of estimates**

The preparation of the 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 at the date of the basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 3 – Risk financing**

The Commission carries commercial insurance to cover casualty, theft, claims and other losses. The Commission's current insurance policies have not been cancelled or terminated. For workers compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers compensation to the Commission's employees in case of injuries in the workplace.

**Note 4 – Custodial credit risk**

The custodial credit risk is the risk that, in an event of a bank failure, the Commission deposit might not be recovered. The Commonwealth of Puerto Rico requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. The Commission maintains its cash deposits with a commercial bank and with the Government Development Bank of Puerto Rico ("GDB") (a governmental bank). As described below, the cash balance deposited in the GDB whose balance, amounting to $6,003,805 as of June 30, 2018, is considered to be impaired.

On October 18, 2016, the Puerto Rico Department of Treasury issued Circular Letter Number 1300-08-17, Impairment Loss on Deposits Held in the Governmental Development Bank. This letter provides guidance on the calculation of an impairment loss on the deposits maintained at the GDB and the reporting of such loss, if any, in the financial statements of the Commonwealth of Puerto Rico and its instrumentalities for the fiscal year ending on June 30, 2015 and after. The issuance of this letter is the result of the fiscal and liquidity crisis confronted by the Commonwealth and the GDB, leading the management of both entities to determine that a substantial doubt exits as to the GDB's ability to continue as a going concern.

The Commission performed an impairment analysis on the cash balances deposited in GDB. As a result of this analysis the Commission determined and recorded an impairment loss on the cash balance with GDB of $2,973 during 2017 and $6,001 during 2018. The impairment loss is presented in the Statement of Activities.

As described on Note **15**, On March 23, 2018, GDB ceased its operations and on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification).

**Note 4 – Custodial credit risk (Continued)**

In addition, the Commission maintains a cash balance with a financial institution in excess of the applicable depository insurance limitation of $250,000. At June 30, 2018, the Commission has approximately $5.1 million over the applicable depository insurance limitation.

**Note 5 – Accounts receivable**

The account receivable balance as of June 30, 2018 amounted to $3,908,042 and is composed of $2,900,000 from the Puerto Rico Electric Power Authority and $1,008,042 from electric power service companies in Puerto Rico for regulatory fees billed by the Commission. (See Note **6**)

**Note 6 – Regulatory fees**

The Commission shall impose and collect fees pursuant the provisions of Section 6.16 of Act No. 57 in order to generate sufficient income to cover its operating expenses and those of the Commonwealth Energy Public Policy Office (CEPPO). The annual fee shall be fixed by the Commission proportionally on the basis of the gross income earned by any person under the jurisdiction of the Commission from the provision of electric power services, or electric power transmission services. These fees shall be paid to the Commission on a quarterly basis, pursuant the regulations promulgated by the Commission. The Commission shall review annually the fee to be imposed on persons under its jurisdiction, in accordance with Section 6.16.

Any other person or electric power service company that earns profit from the generation of electric power shall pay a fee to the Commission that shall not exceed .25% of its annual gross income earned from the provision of such services in Puerto Rico. No electric power service company that has entered into a power purchase agreement, an interconnection agreement or a wheeling agreement with PREPA may claim a refund for or include the expenses incurred in connection with the annual fee paid to the Commission in the computation of rates, the capacity fee, energy fee or any other fee or sum of money that such electric power service company collects from PREPA under such power purchase agreement, interconnection agreement, or wheeling agreement.

The following table shows the amount revenues of the Commission derived from the Puerto Rico Electric Power Authority appropriations and the regulatory fees charges to the electrical power companies in Puerto Rico for the fiscal year ended June 30, 2018.

| | Amount |
|---|---|
| Puerto Rico Electric Power Authority | $ 5,800,000 |
| Electrical Power Service Companies | 1,611,079 |
| Total | $ 7,411,079 |

## Note 7 – Capital assets

Capital assets' activity of the Commission for the year ended June 30, 2018, consisted of the following:

| | Balance as of July 1, 2017 | Additions | Retirements | Balance as of June 30, 2018 |
|---|---|---|---|---|
| Capital assets not been depreciated: | | | | |
| Construction in progress | $ 444,036 | $ - | $ - | $ 444,036 |
| Capital assets being, depreciated: | | | | |
| Office equipment | 46,117 | 9,224 | - | 55,341 |
| Computer equipment | 110,558 | - | - | 110,558 |
| Leasehold improvements | 536,891 | 6,684 | - | 543,575 |
| Total capital assets being, depreciated | 693,566 | 15,908 | - | 709,474 |
| Less accumulated depreciation: | | | | |
| Office equipment | (12,647) | (10,299) | | (22,946) |
| Computer equipment | (43,768) | (14,267) | - | (58,035) |
| Leasehold improvements | (31,354) | (7,131) | - | (38,485) |
| Total accumulated depreciation | ( 87,769) | (31,697) | - | (119,466) |
| Capital assets, net of accumulated depreciation | **$ 1,049,833** | **$ (15,789)** | **$ -** | **$ 1,034,044** |

Depreciation expense amounting to $31,697 was charged to the Energy Regulatory Services function in the government-wide statement of activities.

## Note 8 – Long-term liabilities

Long-term liabilities consists of compensated absences balances of accrued vacation and sick leave and represents the Commission's commitment to fund such costs from future assignments. The following summarizes the activity of the compensated absences obligations as of June 30, 2018:

| | Balance as of June 30, 2017 | Net Change | Balance as of June 30, 2018 | Due within one year |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Compensated absences | $ 234,117 | $ (110,822) | $ 123,295 | $ 6,165 |
| | **$ 234,117** | **$ (110,822)** | **$ 123,295** | **$ 6,165** |

**Note 9 – Employees' pension plan**

As of June 30, 2018, the Commission is in the process of evaluating a pension plan for its employees. As of that date, the Commission's employees might be entitled to participate in the Employee's Retirement System of the Government of Puerto Rico (ERS). In order to be covered by and participate in the ERS, the Commission's governance body shall submit a resolution and an application to the ERS establishing their interest to be accepted into the ERS. Once completed and submitted to the ERS, the application will be subject to the evaluation and approval of the ERS's Board of Trustees.

As of the date of the financial statements, the Commission has not issued a resolution and/or made a decision in order to establish a pension plan for its employees.

During fiscal years ended June 30, 2015 and 2016, the Commission made certain withholdings to its employees and employer contribution to the ERS related to possible pension plan contributions amounting to $225,389. During August 2016, the ERS reimbursed $218,644 to the Commission in relation to the contributions made during prior years.

**Note 10 –Commitments**

The Commission has non-cancelable operating leases with the Public Finance Administration (AFI), primarily for the Commission's administrative facilities, that expire over minimum term of five (5) years and can be renewed for additional terms, as provided in each contract. For the period ended June 30, 2018, rent expenditures for the Commission amounted to $453,918 under such operating leases.

The future minimum payments for these leases are as follows:

| Year ending June 30, | Amount |
|---|---|
| 2019 | $ 453,918 |
| 2020 | 453,918 |
| 2021 | 264,785 |
| | $ 1,172,621 |

## Note 11 – Transfers to ICPO and PREA

***Independent Consumer Protection Office (ICPO)***

Under the provisions of Act No. 57 of May 27, 2014, Section 6.41 provides for the creation of the Independent Consumer Protection Office (ICPO). The ICPO was created to educate, advice, assist, and represent electric power customers in the Commonwealth of Puerto Rico. Act No. 57 establishes the following in relation to the Office:

- Shall have the administrative support of the Commission, the Commonwealth Energy Public Policy Office, PREPA and any other electric power company certified in the Commonwealth of Puerto Rico.

- Shall be composed of a Director, appointed by the governor with the advice and consent of the Senate, for a term of six (6) years as well as of the personnel and external consultants necessary to fully carry out the duties and functions of the ICPO.

Also, in accordance with the provisions of Act No. 57, the Office shall receive an annual appropriation equal to ten percent (10%) of the amount appropriated to the Commission. During the fiscal year ended June 30, 2018, the Commission recognized transfers of funds to the ICPO by $580,000. As of June 30, 2018 the amount due to the ICPO of $267,516 is presented in the accounts payable balance.

***Puerto Rico Energy Administration (PREA)***

The provisions of Section 6.1 of Act No. 57 of May 27, 2014, provides for the creation of the Puerto Rico Energy Administration (PREA). The PREA was created as an independent and autonomous governmental entity that will provide support to the Energy Commission of Puerto Rico (the Commission), to the State Office of Public Energy Policy (SOPEP) and the Independent Consumer Protection Office (ICPO). The PREA will provide support to those entities to regulate, supervise and ensure compliance with the public energy policy of the Commonwealth of Puerto Rico.

The PREA will be directed by an Administrator and will be the administrative and operational support of the Commission, the SOPEP and the ICPO that are established through Act No. 57. In its capacity as administrative and operational support, the PREA will offer these entities administrative services, such as human resources management, procurement, budget, finance, technology, maintenance and others.

The PREA's Administrator will be appointed by a majority vote of the President of the Commission, the Executive Director of the SOPEP, and the Director of the ICPO. Due to the financial crisis of the Commonwealth of Puerto Rico the Office of Management and Budget of Puerto Rico (OMBPR) was not able to provide a budget appropriation to provide funds for the operations of PREA.

Accordingly, on June 1, 2016, the PREA entered into a collaborative agreement with the Commission, the SOPEP and the ICPO. Under this agreement these governmental entities will transfer funds for the PREA operations until the OMBPR is able to provide a budget appropriation or the PREA can have its own funds. During the fiscal year ended June 30, 2017, the Commission made transfers of funds to the PREA by $295,655. During fiscal year 2018 no transfers of funds to PREA were approved and recognized on the Commissions basic financial statements.

**Note 12 – Adoption of new accounting pronouncements**

Effective July 1, 2017, the Authority adopted the provisions of the following GASB Statements:

- **GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*:** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about the financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and Statement 57, *OPEB Measurements by Agent Employers and Agent Multi-Employers Plans, for OPEB*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017.

- **GASB Statement No. 81**, ***"Irrevocable Split-Interest Agreements"*:** The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreements. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary.

  This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreements. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests.

  In addition, requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for period beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

- **GASB Statement No. 85, *"OMNIBUS 2018"*:** The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

**Note 12 – Adoption of new accounting pronouncements (Continued)**

- **GASB Statement No. 85, *"OMNIBUS 2018" (Continued)*:**

  Specifically, this Statement addresses the following topics:

  - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statements presentation.
  - Reporting amounts previously reported as goodwill and "negative" goodwill.
  - Classifying real estate held by insurance entities.
  - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
  - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurements focus.
  - Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
  - Presenting payroll-related measure in required supplementary information for purposes of reporting by OPEB plans and employers that provided OPEB.
  - Classifying employer-paid member contributions for OPEB.
  - Simplifying certain aspects of the alternative measurement method for OPEB.
  - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

- **GASB Statement No. 86, *"Certain Debt Extinguishment Issues"*:** The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

**Note 13 – Future adoption of accounting pronouncements**

- **GASB Statement No. 83, *"Certain Asset Retirement Obligations"*:** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- **GASB Statement No. 84, *"Fiduciary Activities"*:** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

- **GASB Statement No. 87, *"Leases"*:** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

**Note 13 – Future adoption of accounting pronouncements (Continued)**

- **GASB Statement No. 88, *"Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements"*:** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

  This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- **GASB Statement No. 89, *"Accounting for Interest Costs Incurred Before the End of a Construction Period"*:** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement.

  This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

  This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

**Note 13 – Future adoption of accounting pronouncements (Continued)**

- **GASB Statement No. 90, *"Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61"*:** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

  A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund.

  Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit.

  Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

The impact of the implementation of these statements on the Commission's financial statements, if any, has not yet been determined.

**Note 14 – Contingencies**

***Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017***

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 *"The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)"* in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes. The FAFAA will act as fiscal agent, financial advisor and reporting agent of all entities of the Government of Puerto Rico. It shall be the governmental entity responsible for the collaboration, communication and cooperation between the Government of Puerto Rico and the Fiscal Oversight Board created under PROMESA. To such effect, the FAFAA is empowered to collaborate in conjunction with the Governor of Puerto Rico and his representatives in the creation, execution, supervision and oversight of any Fiscal Plan and any Budget as defined by the terms of PROMESA. In addition, the Authority shall be the government entity charged with supervising, executing and administering the Fiscal Plan approved and certified in accordance with PROMESA and shall ensure that all the entities of the Government of Puerto Rico comply with the approved Fiscal Plan. In addition, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended. It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico. The Authority shall be governed by Board of Directors composed of five (5) members, including the Executive Director of the FAFAA, appointed by the Governor, one (1) representative of the Senate of the Puerto Rico, and one (1) representative of the House of Representatives of Puerto Rico, who shall be designated by the Presiding Officer of each Legislative House. The remaining two members shall be appointed by the Governor.

***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017***

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 *"Puerto Rico Financial Emergency and Fiscal Responsibility Act"* to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

**Note 14 – Contingencies (Continued)**

***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017 (Continued)***

This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the "Moratorium Act") and of certain Executive Orders issued by then Governor of Puerto Rico Hon. Alejandro García Padilla that provided for emergency periods and a temporary stay of litigation, thus negating the timely payment of the Government's obligations and the initiation of a voluntary negotiation process with the creditors of the Commonwealth and its instrumentalities. It also suspends or cancels, or both, all special appropriations not budgeted in the fiscal year 2016-17 that may have been multi-year authorizations from prior fiscal years. The Emergency Period will begin with the effective date of this Act and end in May 1, 2017, and may be extended by the Governor pursuant to an executive order for one additional period of three (3) months.

During the Emergency Period declared by this Act, the Governor has the power to designate services provided by the Commonwealth and its instrumentalities as essential services or services that are not essential services and utilize available resources to provide for the satisfaction of obligations of the Commonwealth and its instrumentalities, while also recognizing the need to provide for the services essential to the health, safety and welfare of the residents of Puerto Rico. The Governor shall pay debt service to the extent a) possible after all essential services of the Commonwealth have been provided for; or b) ordered to do so by the Oversight Board or any board created under federal law. In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the FAFAA to pay for essential services as he deems necessary to protect the health, safety and welfare of the residents of Puerto Rico; and he may take all actions deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services. To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year. Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c). Finally, the Governor may issue executive orders as he deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of such. With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures.

**Note 14 – Contingencies (Continued)**

***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017 (Continued)***

If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services.

If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico***

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico ("the Board") provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor's request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options. On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board's members, economists, consultants, attorneys and Governor's representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA's requirements and recommended that certain revisions be made.

On March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior proposed plan and, during the review process, further changes were incorporated into the Government's proposed plan. On March 13, 2017, the Governor's final proposed fiscal plan was presented to the Board and, after its review and discussion, the Board approved and certified this final proposed plan with the following two (2) amendments:

- Implementation of a furlough program and the removal of all Christmas bonuses to achieve necessary liquidity and budgetary savings – The determination to implement these measures, in whole or in part, would be made on July 1 and September 1, 2017 based on the achievements by the Commonwealth of certain levels of savings and cash reserves through the right-sizing measures to be implemented in the proposed budget for the fiscal year 2017-18.

**Note 14 – Contingencies (Continued)**

***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (Continued)***

- An overhaul of the public pension systems that would provide for progressively reduced total pension outlays by 10% by fiscal year 2020.

The fiscal measures detailed in the certified fiscal plan were implemented by the approval on April 29, 2018 of Act 29 *"Compliance with the Fiscal Plan Act".* These measures are focused on four (4) major areas:

- Increase revenues by $1,380 million through tax and fees increases and better tax fiscalization procedures.
- Reduce expenditures by $1,623 million through 1) $434 million in payroll expenditure savings through the implementation of the "Single Employer Program" (an employee mobility plan), "freezing" of job vacancies and the uniformity of fringe benefits throughout the agencies (these measures do not apply to the University of Puerto Rico nor the Municipalities); 2) $439 million in efficiency savings though agencies consolidations, expenditure reductions and public-private alliances; 3) $750 million in subsidies reductions to the University of Puerto Rico, Municipalities, and other entities.
- Adjustments of $299 million in Health expenditures through the implementation of a new public healthcare model.
- An 80% reduction on debt service payments.

On March 13, 2017, the Government Development Bank of Puerto Rico submitted its proposed fiscal plan to the Financial Oversight and Management Board and it was certified on April 28, 2017. This plan contemplates an orderly wind down of its operations within a three-to-four years' period (by fiscal year 2021).To efficiently effectuate this process, the GDB's management has created a Project Management Office ("PMO") for the smooth transition of the Bank's current operations.

The main objectives of this fiscal plan are as follows:

- All fundamental new business banking and origination activities have ceased.
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions.
- Coordinate and execute all possible collection efforts on loans held by the GDB and collateral supporting the loans, when applicable.
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value.
- Restructure the GDB's workforce through the "Single Employer Program" and voluntary incentivized separation program.

**Note 14 – Contingencies (Continued)**

***Filing of Title III of PROMESA for the District of Puerto Rico***

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filling was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017 another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation ("COFINA"), and on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority ("HTA") and the Government of Puerto Rico Employees Retirement System ("ERS"). Also, as described below, on July 1, 2017 the members of the Oversight Board of POMESA unanimously authorized the Puerto Rico Power Authority (PREPA) to file bankruptcy under the provisions of Title III of PROMESA. Accordingly, on July 2, 2017, PREPA filed bankruptcy in the United States District Court of Puerto Rico.

***PREPA Filing of Title III of PROMESA for the District of Puerto Rico***

On July 1, 2017 the members of the Oversight Board of PROMESA unanimously authorized the Puerto Rico Power Authority (PREPA) to file bankruptcy under the provisions of Title III of PROMESA. Accordingly, on July 2, 2017, laden with a debt of approximately $9 billion, PREPA filed a petition of bankruptcy in the United States District Court of Puerto Rico. PREPA does not currently have sufficient funds available to fully repay its obligations as they come due. The filing of bankruptcy under the provisions of Title III of PROMESA will provide to PREPA the tools necessary to ensure its uninterrupted operation and achieve a successful restructuring. The filling came after nearly three years of restructuring meetings between the PREPA and its creditors.

**Law No. 122 – Law of the New Government of Puerto Rico**

Law No. 122 of December 18, 2017, was enacted to create the "New Puerto Rico Government Law", in order to empower the Governor of Puerto Rico to maximize the resources and personnel of the Executive Branch through the transfer, consolidation, reorganization, outsourcing and creation of new and more efficient structures governments and agencies through an agile process with Reorganization Plans which will be reviewed by the Legislative Assembly for approval or rejection; authorize the Governor to reorganize, outsource and consolidate, agencies, programs and services of the Executive Branch through Reorganization Plans which will be reviewed and approved by the Legislative Assembly according to the procedure described in this Law; arrange the powers and faculties of the heads of the agencies; repeal Law 182-2009, known as the "Law of Reorganization and Modernization of the Executive Branch 2009"; repeal Law 5-1993; and for other related purposes.

**Note 14 – Contingencies (Continued)**

**Law No. 122 – Law of the New Government of Puerto Rico (Continued)**

In the Plan for Puerto Rico, the Governor of Puerto Rico, Ricardo Rossello and the legislative majority, is committed to create a new government that is fair, sensitive, efficient, effective, full, transparent and agile for the public administration. To achieve the modernization of the governmental structure, the Government has begun to reformulate the current bureaucratic model and reduce spending on government structures by eliminating redundancy, consolidating functions, facilitating the transfer of employees, merging some dependencies, decentralizing services, using technology to simplify processes and interconnect all agencies and public corporations, among other measures. This, with the clear objective of not allowing the dismissal of public employees.

To this end, the Government has taken, the following initiatives in the governmental sphere by enacting the following laws, among others:

a. Law 8-2017 that creates a Single Employer system in the Government of Puerto Rico.

b. Law 20-2017 that creates the Department of Public Security.

c. Law 26-2017 that creates the legal structure to comply with the Fiscal Plan certified in accordance with PROMESA.

d. Law 75-2017 that transforms the Public Service Commission to consolidate functions and avoid redundancies.

e. Law 81-2017 repealing the Office of the Commissioner of Municipal Affairs.

f. Law 106-2017 that guarantees pensions and restructures retirement systems.

g. Law 109-2017 authorizing the Restructuring of the Debt of the Government Development Bank.

Under the provisions of Law No. 122, the Governor is authorized to examine and evaluate the organization of all the agencies of the Executive Branch and its programs, in accordance with this Law and with the objectives of this Act.

The agencies created by this Legislative Assembly, with the exception of those listed in Article 2.01 of the Law, may be consolidated, outsourced and / or reorganized in accordance with the public policy established in this Law, through a Reorganization Plan. Said Reorganization Plans shall comply with the provisions of this Act.

The Reorganization Plans will provide the pertinent recommendations for:

a) The transfer of all or any part of an agency or of all or any functions and programs thereof to another agency.

b) The consolidation of all or any part or function of an agency with another agency.

c) The review of functions or processes to streamline the provision of services;

d) The creation or consolidation of an agency.

e) The delegation or transfer of functions or powers of agencies to the municipalities of Puerto Rico or their consortiums, to the third sector or another entity.

**Note 14 – Contingencies (Continued)**

**Law No. 122 – Law of the New Government of Puerto Rico (Continued)**

f) The delegation of greater powers to the local and regional levels of the agencies to bring decision-making closer to citizens.
g) The establishment of parameters and operational guidelines to propitiate the efficient functioning of the agencies that are the object of the Reorganization Plan.
h) Change the name of any agency affected by any reorganization and the title of its head or its governing body, as well as designates the name of the new agency and the title of its head and the composition of the governing body.
i) Establish the compensation or salary of the head and / or officials of any agency; provided that it will never be superior to the one currently established by law for the same position or one of a similar nature. If appointed as head and / or officer in more than one agency, the remuneration or salary shall be the highest of those established by the laws creating said positions.
j) Detail the savings and / or projected efficiencies with the implementation of the Reorganization Plan.
k) Authorize the agencies to enact regulations, establish adjudicative processes, circular letters, administrative orders, regulations, as well as any other delegation that it deems necessary.
l) Any other function necessary for the achievement of the public policy of this Act and the powers delegated here.

As stated in this Law, the Governor will evaluate the functioning of all the agencies of the Executive Branch. Within this evaluation, the Governor will identify which agencies, offices, units, services or programs should be created, transferred, reorganized, grouped, consolidated or outsourced. The Governor is authorized to use all the resources at his disposal to make the corresponding analysis. Once the Governor identifies which agencies, services or programs will be served, he will present one or several Reorganization Plans that will describe the new structure of the Government or part thereof with the functions and programs of the agencies as it is proposed to reorganize them. This Plan will establish any consolidation, outsourcing, creation, transfer, reorganization or grouping. It will also provide for the internal functioning and organization of the reorganized agency. The Reorganization Plan will be presented by the Governor to the Legislative Assembly, who will have the power to approve or deny the proposed plan. The Plan will be attended to be approved or denied by the plenary of each Legislative Body.

**Note 15 – Subsequent events**

Subsequent events were evaluated through December 27, 2018, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except as noted in the following paragraphs:

**Law No. 211 was enacted for the Execution of the Reorganization Plan of the Public Service Regulatory Board of Puerto Rico**

On August 12, 2018 Law No. 211 was enacted for the Execution of the Reorganization Plan of the Public Service Regulatory Board of Puerto Rico and amendments to several related laws adopted pursuant to the Law No. 122 of December 18, 2017.

**Note 15 – Subsequent events (Continued)**

**Law No. 211 was enacted for the Execution of the Reorganization Plan of the Public Service Regulatory Board of Puerto Rico**

Accordingly, the Law No. 211 creates the Public Service Regulatory Board of Puerto Rico (PSRB) under the plan submitted by the Governor and approved by the Legislative Assembly. The PSRB will consolidate under a new administrative and functional structure the Telecommunications Regulatory Board, the Public Service Commission, the Independent Office of Consumer Protection, the Energy Administration of Puerto Rico and the Energy Commission.

The PSRB will operate as an independent agency and will be endowed with the capacity and powers necessary to comply with this Act and the Reorganization Plan of the Public Service Regulatory Board of Puerto Rico. This Law allows government activities of essential public services to be integrated into a single entity directed by a collegiate body, whose main mission will be to regulate, supervise and manage more efficiently the instrumentalities that are part of the component.

Under the provisions of Law No. 211, the PSRB will create and operate the Puerto Rico Telecommunications Bureau, the Puerto Rico Energy Bureau and the Puerto Rico of Transportation and Other Public Services. The President of the PSRB, in coordination with the Commissioners of each Bureau, will prepare, administer, request, manage, receive, and formulate annual budgets, as well as determine the use and control of equipment, materials and all property transferred, always respecting the operational and functional independence of each Bureau. All funds available, of any nature, that come from the budgets, powers and or functions performed by the Bureaus, and that are transferred to the PSRB for administration, shall be used to cover the operational expenses of the PSRB and each of the Bureaus in compliance with the purposes for which they were intended, subject to the terms, restrictions, limitations and or requirements imposed on them by the applicable state or federal laws.

Beginning with the fiscal year 2018-2019 and subsequent years, the President, in coordination with the Executive Director and the Commissioners of each Bureau, shall prepare the annual budget of the Bureaus. The Executive Director shall submit the budget of the Bureaus to the Office of Management and Budget and to the Legislative Assembly for the inclusion and approval of their budgetary allocations.

The PSRB shall be composed of two (2) associate members and one (1) President, all appointed by the Governor of Puerto Rico with the advice and consent of the Senate of Puerto Rico, and may only be removed for just cause. Initially, the President shall hold office for a term of six (6) years and associate members shall hold office for a term of three (3) and two (2) years, respectively. The members of the PSRB who succeed the President and associate members, shall hold office for a term of four (4) years. The members of the Board shall be citizens of the United States of America and residents of Puerto Rico, and shall be of legal age, possess recognized professional capacity, moral probity, knowledge and experience in the field of public administration and government management, academic preparation and experience in matters under the jurisdiction of, at least, one of the regulatory instrumentalities consolidated in the Plan. However, one of the members must have experience in matters under the jurisdiction of the Energy Bureau.

**Note 15 – Subsequent events (Continued)**

***GDB Qualifying Modification under Title VI of PROMESA***

On March 23, 2018, The Governmental Development Bank for Puerto Rico (GDB) ceased its operations. Also, on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. As a result of the Qualifying Modification, loans in the total aggregate amount of approximately $1.9 billion owed by the Authority to GDB were transferred to the GDB Debt Recovery Authority.

| | Budget Amounts | | Actual Amounts | Variance |
| --- | --- | --- | --- | --- |
| | Original | Final | (Budgetary Basis) | Positive (Negative) |
| Revenues | | | | |
| PREPA appropriations | $ 5,491,000 | $ 5,800,000 | $ 5,800,000 | $ - |
| Energy regulatory charges | 250,000 | 250,000 | 1,611,079 | 1,361,079 |
| Interest | - | - | 21,186 | 21,186 |
| Total revenues | 5,741,000 | 6,050,000 | 7,432,265 | 1,382,265 |
| Expenditures | | | | |
| Salaries and fringe benefits | 2,495,000 | 2,804,000 | 1,180,833 | 1,623,167 |
| Professional services | 1,536,000 | 1,536,000 | 1,046,861 | 489,139 |
| Transfers to ICPO | 580,000 | 580,000 | 580,000 | - |
| Impairment loss on cash deposits | - | - | 6,001 | (6,001) |
| Insurance | 80,000 | 80,000 | 13,694 | 66,306 |
| Advertising | - | - | 6,571 | (6,571) |
| Office supplies | 60,000 | 60,000 | 3,181 | 56,819 |
| Travel | 15,000 | 15,000 | 8,526 | 6,474 |
| Rent | 480,000 | 480,000 | 481,649 | (1,649) |
| Capital outlays | 140,000 | 140,000 | 25,358 | 114,642 |
| Other | 355,000 | 355,000 | 19,605 | 335,395 |
| Total expenditures | 5,741,000 | 6,050,000 | 3,372,279 | 2,677,721 |
| Excess of revenues over expenditures | $ - | $ - | $ 4,059,986 | $ 4,059,986 |

See accompanying notes to budgetary comparison schedule

## 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Budgetary Control

The Budgetary Comparison Schedule – General Fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. It presents comparisons of the legally adopted budget with actual data on a budgetary basis. The Commission's budget is prepared for the General Fund following state requirements. Budget amendments are approved by the Board of Directors. The budget is prepared on a budgetary (statutory) basis of accounting which is different from GAAP. Revenues include amounts classified by GAAP as other financing sources and are generally recognized when cash is received. Expenditures include encumbrances and amounts classified by GAAP as other financing uses and are generally recorded when the related expenditure is incurred or encumbered. Unencumbered appropriations lapse at year end.

On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds as a designation of fund balance since they do not constitute expenditures or liabilities, while on a budgetary basis encumbrances are recorded as expenditures of the current year. On the other hand, under the statutory basis of accounting, the Commission 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 governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The presentation of the budgetary data excludes long-term obligations such as compensated absences and depreciation charges for capital assets. Historically, those obligations have been budgeted on a pay-as-you-go basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2018 is presented below for the General Fund:

| | |
|---|---|
| **Uses / outflows of resources:** | |
| Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule | $ 3,372,279 |
| Encumbrances at end of period | - |
| Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance – governmental funds | **$ 3,372,279** |