

Commonwealth of Puerto Rico
Independent Consumer Protection Office
(An Executive Agency of the
Commonwealth of Puerto Rico)

Basic Financial Statements

June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Director of the
Independent Consumer Protection Office
(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 of the Independent Consumer Protection Office (the Office), an Executive Agency of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 opinion.

To the Director of the
Independent Consumer Protection Office
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OFFICE OF THE DIRECTOR OF THE
INDEPENDENT CONSUMER PROTECTION

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 Office as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Office will continue as a going concern. As discussed in Note 10 to the financial statements, the Office's revenues derive from appropriations made by the Puerto Rico Energy Commission, which is calculated at 10% of the Puerto Rico Energy Commission's revenues from appropriations made by Puerto Rico Electric Power Authority (PREPA), as mandated by Act No. 57 of May 27, 2014. On January 2018, Puerto Rico's Governor Ricardo Rosello revealed a plan to privatize PREPA over the next 18-months. The effect of the approval and completion of the privatization of PREPA over the Office's operations and existence had not been determined yet. These conditions raise substantial doubt about its ability to continue as a going concern. The Office administration's plans regarding those matters also are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our opinion is not modified with respect to this matter.

OFFICE OF THE DIRECTOR OF THE
INDEPENDENT CONSUMER PROTECTION

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 4 through 15 and 38 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.



FPV Galindez

San Juan, Puerto Rico
May 21, 2018

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

June 30, 2017

Organization

The Puerto Rico Independent Consumer Protection Office (the Office) was created under the provisions of Act No. 57 of May 27, 2014, the Puerto Rico Energy Transformation and Relief Act (Act 57), to educate, advise, assist and represent electric power service customers in the Commonwealth of Puerto Rico. It is the governmental entity responsible for representing and advocating for the interests of electric power service customers before both the Puerto Rico Power Authority (PREPA) and the regulatory entity. The Office's duty is to defend and advocate for the interests of customers in all matters before the Puerto Rico Energy Commission (the Commission), including those related to disputed PREPA bills. Furthermore, the Office has the duty to coordinate citizens' participation in PREPA's internal rate review process and before the Commission, as the case may be, so that such citizens' participation in the process is guaranteed.

Organizationally, the Office is composed of a Director as well as of the personnel and external consultants necessary to fully carry out the duties and functions provided in said Act. The Director is appointed by the Governor with the advice and consent of the Senate for a term of six (6) years, and he/she shall be an attorney-at-law duly licensed to practice under the laws of Puerto Rico, with at least five (5) years of experience, of recognized probity and resident of Puerto Rico.

Operationally, it has the administrative support of the Puerto Rico Energy Administration (PREA), but operates as an independent entity.

Besides educating, informing, and providing orientation and assistance to consumers on their rights and responsibilities with regard to the electric power service and the public policy on savings, conservation, and efficiency, the Office is required to evaluate the impact that the rates, electricity bills, public policy of energy, and any other issue may have on electric power service consumers in Puerto Rico, and make appropriate recommendations to the Commission regarding said rates and any other issue that may affect electric power service consumers. The Office is required to defend and advocate for the interests of customers in all matters brought before the Commission or been addressed by Commonwealth Energy Public Policy Office (CEPPO) with regard to electric power rates and charges, PREPA's debt issue, the quality of the electric power service, services provided by electric power service companies to their customers, resource planning, public policy, and any other matter of interest for customers.

To perform its duties, the Office is entitled by the Act 57 to receive an annual appropriation equal to ten percent (10%) of the amount appropriated to the Commission, which shall originate from the same financing source as the Commission.

The Office's management provides this Management Discussion and Analysis ("MD&A") for the readers of the Office's basic financial statements. This MD&A provides a narrative overview and analysis of Office's financial activities as of and for the year ended June 30, 2017, 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

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Management's Discussion and Analysis – (Continued)

June 30, 2017

financial statements; (3) notes to the financial statements (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 Office'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 Office's basic financial statements that follow.

Financial Highlights

- According to Act No. 57 of May 27, 2014, the Puerto Rico Energy Transformation and Relief Act, the Office is entitled to receive an annual appropriation equal to ten percent (10%) of the amount appropriated to the Office, which is equivalent to \$580k per year. During the year ended June 30, 2017, the Office recognized revenues amounting to \$580k from appropriations made by the Puerto Rico Electric Power Authority to the Puerto Rico Energy Commission.
- Capital assets increased by \$5.1 thousand or 20%, primarily due to the acquisition of office and computer equipment.
- Net position increases by \$19k or 7% due to an excess of revenues over expenses.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Office's basic financial statements. The Office'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 Office'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 Office's operations in a manner similar to a private-sector business. The statement provides both short and long-term information about the Office's financial position, which assists in assessing the Office's economic condition at the end of the fiscal year. 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 like those used by private nongovernmental organizations. They take into account all revenues and expenses connected with the fiscal year even if the cash involved has not been received or paid.

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Management's Discussion and Analysis – (Continued)

June 30, 2017

The government-wide financial statements include two statements:

Statement of Net Position – This statement presents all of the government's assets and liabilities and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Office's net position may serve as a useful indicator of whether the financial position of the Office is improving or deteriorating.

Statement of Activities – This statement presents information regarding the Office's net position changes during the most recent fiscal year. 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 Office.

The government wide financial statements can be found immediately following this Management's Discussion and Analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The Office's funds belong to categories of 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, governmental fund financial statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable Office's resources available at the end of the fiscal year. Such information is useful in evaluating the Office's near term financial requirements.

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. By doing so, users of the basic financial statements may better understand the long-term impact of the Office's near term financial decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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Management's Discussion and Analysis – (Continued)

June 30, 2017

The Office maintains one individual governmental fund and adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with such budget.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately after the basic financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

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Independent Consumer Protection Office
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Management's Discussion and Analysis – (Continued)

June 30, 2017

Government-Wide Financial Analysis

Statement of Net Position

Governmental entities are required by accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standard Board (GASB), to report on their net position. The Statement of Net Position presents the value of all of the Office's assets and deferred outflow of resources, and liabilities and deferred inflow of resources, with the difference between them reported as net position. The following was derived from the Statement of Net Position as of June 30, 2017 and 2016:

	Governmental Activities			
	2017	2016	Change	%
Assets:				
Current assets	\$ 311,377	\$ 343,153	\$ (31,776)	-9.3%
Noncurrent assets	29,943	24,804	5,139	20.7%
Total assets	<u>341,320</u>	<u>367,957</u>	<u>(26,637)</u>	-7.2%
Liabilities:				
Current Liabilities	18,343	72,732	\$ (54,389)	-74.8%
Noncurrent Liabilities	<u>31,060</u>	<u>22,513</u>	<u>8,547</u>	38.0%
Total liabilities	<u>49,403</u>	<u>95,245</u>	<u>(45,842)</u>	-48.1%
Net position				
Net investment in capital assets	29,943	24,804	5,139	20.7%
Unrestricted	<u>261,974</u>	<u>247,908</u>	<u>14,066</u>	5.7%
Total net position	<u>\$ 291,917</u>	<u>\$ 272,712</u>	<u>\$ 19,205</u>	7.0%

Total assets of governmental activities decreased approximately by \$26.6 thousand or 7.2% when compared to 2016. The decreased is mainly related to a reduction in cash of approximately \$35 thousand, net of an increase in capital assets and other current assets of approximately \$5 thousand and \$4 thousand, respectively.

Total liabilities of governmental activities decreased approximately by \$45.8 thousand or 48.1% when compared to previous year. This is mainly related to a decrease in accounts payable, payroll taxes payable and due to the Puerto Rico Energy Commission of \$16.5 thousand, \$21.3 thousand, and \$16.5 thousand, net of an increase in accrued compensated absences of \$8.5 thousand.

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Management's Discussion and Analysis – (Continued)

June 30, 2017

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 Office as of June 30, 2017 amounted to approximately \$341.3 thousand and \$49.4 thousand, respectively, resulting in a net position of approximately \$291.9 thousand or an increase of approximately 7%, when compared with previous period, which included seven months of operations since the date of inception on December 2015 through June 30, 2016.

A portion of the Office's net position reflects its investment in capital assets such as computer and office equipment. The Office uses these capital assets to provide its consumer protection services; consequentially, these assets are not available for future spending. The net investment in capital assets amounted to approximately \$29.9 thousand as of June 30, 2017.

Statement of Activities

The following was derived from the statement of activities for the year ended June 30, 2017 and for the period of seven months ended June 30, 2016:

	Governmental Activities			
	Year Ended June 30, 2017	Seven months period ended June 30, 2016	Change	%
Program Revenues:				
Appropriations from Puerto Rico Energy Commission	\$ 580,000	\$ 1,160,000	\$ (580,000)	-50.0%
Total Revenues	<u>580,000</u>	<u>1,160,000</u>	<u>(580,000)</u>	-50.0%
Expenses:				
Consumer Protection Services	<u>514,395</u>	<u>159,712</u>	<u>354,683</u>	222.1%
Change in net position before extraordinary items	65,605	1,000,288	(934,683)	-93.4%
Transfer to AEPR	(46,400)	-	(46,400)	100.0%
Extraordinary item:				
Impairment loss on deposits held by GDB	<u>-</u>	<u>(727,576)</u>	<u>727,576</u>	100.0%
Increase (decrease) in net position	19,205	272,712	(253,507)	-93.0%
Beginning net position	<u>272,712</u>	<u>-</u>	<u>272,712</u>	
Ending net position	<u>\$ 291,917</u>	<u>\$ 272,712</u>	<u>\$ 19,205</u>	7.0%

Independent Consumer Protection Office
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Management's Discussion and Analysis – (Continued)

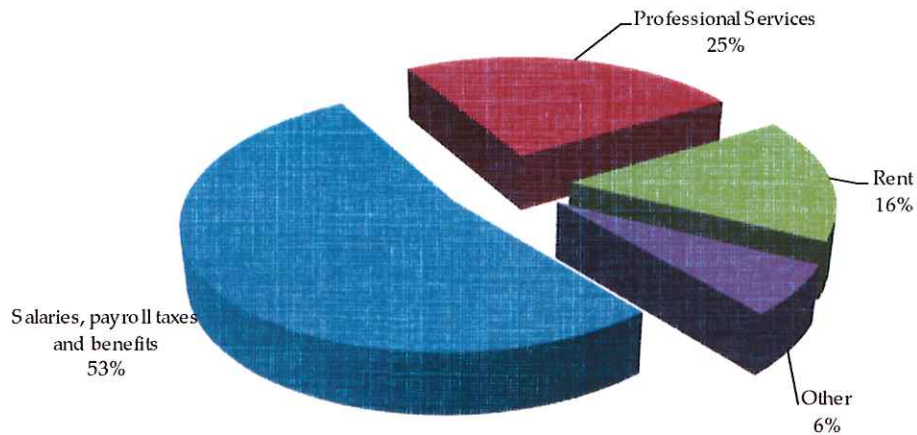
June 30, 2017

Act No. 57 of May 27, 2014, known as the "Puerto Rico Energy Transformation and Relief Act", provided the Office within an on-going assignment of 10% of the appropriations made to the Puerto Rico Energy Commission (the Commission), resulting in \$580 thousand per year. Total revenues amounted \$580 thousand, a decrease of 50% when compared to previous period, which included seven months of operations since the date of inception in December 2015 through June 30, 2016. The decrease is because during the previous period, the Office received \$1.16 million in revenues as a result of the appropriations made to the Commission during its first two years of operations (FY-2014-2015 and FY-2015-2016).

Total expenses amounted to approximately \$514.3 thousand and represented an increase of approximately \$354.6 thousand, when compared to previous period, which included seven months of operations since the date of inception in December 2015 through June 30, 2016. The change is mainly related to an increment of approximately \$131.5 in salaries, payroll taxes and benefits, \$121.0 in professional services and \$75.4 in rent.

The following chart presents the governmental activities expenses of the Office by major categories for the year ended June 30, 2017:

**Expenses by Major Categories
For the Year Ended June 30, 2017**



During the year, the Office also transferred \$46.4 to the Puerto Rico Energy Administration. This is required by Act No. 57 of May 27, 2014, known as the "Puerto Rico Energy Transformation and Relief Act".

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Management's Discussion and Analysis – (Continued)

June 30, 2017

Governmental Fund Analysis

The Office's governmental fund focus is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Office's financing requirements. In addition, fund balance for the governmental funds provide classifications that comprise a hierarchy based primarily on the extent to which the Office is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Balance Sheet

The following is the condensed balance sheet-governmental fund as of June 30, 2017 and 2016, respectively:

	Condensed Balance Sheet			
	2017	2016	Change	%
Total assets	\$ 311,377	\$ 343,153	\$ (31,776)	-9.3%
Total liabilities	\$ 18,343	\$ 72,732	\$ (54,389)	-74.8%
Fund balance	<u>293,034</u>	<u>270,421</u>	<u>22,613</u>	8.4%
Total liabilities and fund balances	<u>\$ 311,377</u>	<u>\$ 343,153</u>	<u>\$ (31,776)</u>	-9.3%

Total assets in the general fund decreased approximately by \$31.7 thousand or 9.3% when compared to 2016. The decreased is related to a reduction in cash of approximately \$35 thousand, net of an increase in other current assets of approximately \$4 thousand.

Total liabilities of governmental activities decreased approximately by \$54.3 thousand or 74.8% when compared to previous period. This is mainly related to a decrease in accounts payable, payroll taxes payable and due to the Puerto Rico Energy Commission of \$16.5 thousand, \$21.3 thousand, and \$16.5 thousand.

Independent Consumer Protection Office
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Management's Discussion and Analysis – (Continued)

June 30, 2017

Statement of Revenues, Expenditures and Changes in Fund Balances

The following are the condensed statement of revenues, expenditures, and changes in fund balance for the year ended June 30, 2017 and for the seven months period ended June 30, 2016:

	Condensed Statements of Revenues, Expenditures and Changes in Fund Balances			
	2017	2016	Change	%
Total revenues	\$ 580,000	\$ 1,160,000	\$ (580,000)	-50.0%
Total expenditures	<u>(510,987)</u>	<u>(162,003)</u>	<u>(348,984)</u>	215.4%
Excess of revenues over expenditures	69,013	997,997	(928,984)	-93.1%
Transfers	(46,400)	-	(46,400)	
Extraordinary item	<u>-</u>	<u>(727,576)</u>	<u>727,576</u>	100.0%
Change in fund balance	22,613	270,421	(247,808)	-91.6%
Beginning fund balance	<u>270,421</u>	<u>-</u>	<u>270,421</u>	
Ending fund balance	<u>\$ 293,034</u>	<u>\$ 270,421</u>	<u>\$ 22,613</u>	8.4%

The Office's revenues derive from appropriations made by the Puerto Rico Energy Commission, which is calculated at 10% of the Commission's revenues from appropriations made by the Puerto Rico Electric Power Authority (PREPA), as mandated by Act No. 57 of May 27, 2014. Total revenues in the general fund decreased by 50%, when compared to previous period, which included seven months of operations since the date of inception in December 2015 through June 30, 2016. As the Puerto Rico Energy Commission began operations during fiscal year 2015 and the Office began operations during fiscal year 2016, the Office's total revenue for 2016 includes the appropriations made by the Commission for 2015 and 2016, of \$580 thousand per year, totaling \$1.16 million.

Total expenditures amounted to approximately \$510.9 thousand and represented an increase of approximately 215.4% when compared to the previous period, which included seven months of operations since the date of inception in December 2015 through June 30, 2016. It is mainly related to an increase of approximately \$145.4 thousand or 123.82% in salaries, payroll taxes and benefits, \$121 thousand or 1955.6% in professional services and \$21.4 thousand or 369.4% in rent.

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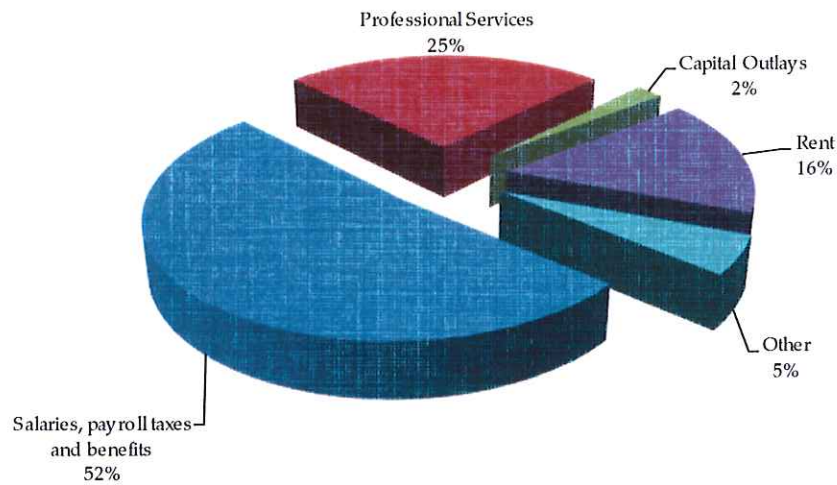
Management’s Discussion and Analysis – (Continued)

June 30, 2017

During the year, the Office also transferred \$46.4 to the Puerto Rico Energy Administration. This is required by Act No. 57 of May 27, 2014, known as the “Puerto Rico Energy Transformation and Relief Act”.

The following chart presents the Office's expenditures by major categories for the year ended June 30, 2017:

**Expenditures by Major Categories
For the Year Ended June 30, 2017**



General Fund Budgetary Highlights

The general fund budget for the fiscal year ended June 30, 2017 was \$580 thousand. Actual expenditures were \$557 thousand. The total expenditures represented 96.1% of the total budget availability for the fiscal year. The Office’s expenditure rate presents a higher rate when compared to the prior year’s performance of 76.7%.

The following table summarizes the budget, expenditures and unexpended balance for fiscal year ended June 30, 2017 and the period of seven months ended June 30, 2016:

Budget and Expenditures Comparison

	2017	2016
Revenues	\$ 580,000	\$ 1,160,000
Expenditures	557,387	889,579
Unexpended balance	\$ 22,613	\$ 270,421
Expenditure rate	96.1%	76.7%

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Management's Discussion and Analysis – (Continued)

June 30, 2017

Capital Assets Debt Administration

The Office's capital assets are those assets that are used in the performance of its function, which is to provide consumer protection services. The investment in capital assets (net of accumulated depreciation) as of June 30, 2017 amounted to \$29.9 thousand or an increase of approximately 21% when compared with the previous period. Additional information on the Office's capital assets can be found in the Note 6 of the basic financial statements.

Depreciation 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, 2017, depreciation expense recorded on books amounted to \$5.1 thousand and is presented in the statement of activities.

The following is a schedule of the Office's capital assets activity:

	Governmental Activities		
	2017	2016	Change
Capital assets being depreciated			
Office equipment	\$ 20,938	\$ 13,059	\$ 7,879
Computer equipment	15,283	12,165	3,118
Total capital assets being depreciated	<u>36,221</u>	<u>25,224</u>	<u>10,997</u>
Less accumulated depreciation			
Office equipment	(3,279)	(218)	(3,061)
Computer equipment	(2,999)	(202)	(2,797)
Total accumulated depreciation	<u>(6,278)</u>	<u>(420)</u>	<u>(5,858)</u>
Capital assets, net of accumulated depreciation	<u>\$ 29,943</u>	<u>\$ 24,804</u>	<u>\$ 5,139</u>

Long-term Debt

Total accrued compensated absences owed by the Office amounted to \$31k as of June 30, 2017. Additional information on the Office's long-term liabilities can be found in the Note 7 of the basic financial statements.

Independent Consumer Protection Office
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Management's Discussion and Analysis – (Continued)

June 30, 2017

Currently Known Facts

Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)

On June 30, 2016, President Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). The Act would create a structure for exercising federal oversight over the fiscal affairs of territories. PROMESA (a) established an Oversight Board with broad powers of budgetary and financial control over Puerto Rico; and (b) is creating procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for debts of other territories. Other diverse provisions of the Act include the Puerto Rico's right to determine its future political status is affirmed, the authority of the Governor, with board approval, to reduce the minimum wage for most workers in Puerto Rico under the age of 25 for a four-year period, an automatic stay on litigation, and accelerated processes for the review and permitting of infrastructure projects designated as "Critical Projects." The effect of the approval of this Act over the Office's, if any, has not been determined.

Contacting the Office's Financial Management

This financial report is designed to provide a general overview of the Office's finances for all those with an interest in the Office's finances. If you have questions about this report, please contact the Puerto Rico Independent Consumer Protection Office , The Hato Rey Center, Suite 524, 268 Ponce de Leon Avenue, San Juan, Puerto Rico 00918.

Independent Consumer Protection Office
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Statement of Net Position

June 30, 2017

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash	\$ 307,538
Prepaid	3,739
Account receivable	<u>100</u>
Total current assets	<u>311,377</u>
Non-current assets	
Capital assets, net	<u>29,943</u>
Total assets	<u><u>\$ 341,320</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 2,903
Accrued liabilities	703
Due to Puerto Rico Energy Commission	<u>14,737</u>
Total current liabilities	<u>18,343</u>
Non-current liabilities	
Accrued compensation absences, non-current portion	<u>31,060</u>
Total liabilities	<u>49,403</u>
Net position	
Net investment in capital assets	29,943
Unrestricted	<u>261,974</u>
Total net position	<u>291,917</u>
Total liabilities and net position	<u><u>\$ 341,320</u></u>

See accompanying notes to basic financial statements

Independent Customer Protection Office
 (An Executive Agency of the Commonwealth of Puerto Rico)

Statement of Activities

Year Ended June 30, 2017

	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u> <u>Governmental Activities</u>
Governmental activities:			
Consumer protection services	\$ 514,395	\$ 580,000	\$ 65,605
Transfer out			
Transfer out to Puerto Rico Energy Administration			<u>(46,400)</u>
Change in net position			19,205
Net position, beginning of period			<u>272,712</u>
Net position, end of year			<u>\$ 291,917</u>

See accompanying notes to basic financial statements

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Balance Sheet - Governmental Fund

June 30, 2017

	<u>General Fund</u>
Assets	
Cash	\$ 307,538
Prepaid	3,739
Account receivable	<u>100</u>
 Total assets	 <u>\$ 311,377</u>
 Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 2,903
Accrued liabilities	703
Due to Puerto Rico Energy Commission	<u>14,737</u>
Total liabilities	<u>18,343</u>
 Fund balance	
Assigned	
Consumer protection services	<u>293,034</u>
Total liabilities and fund balance	<u>\$ 311,377</u>

See accompanying notes to basic financial statements

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position

June 30, 2017

Total fund balance per fund financial statements	\$ 293,034
Amounts reported for 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, net of accumulated depreciation of \$6,278	29,943
Liabilities of accrued compensated absences that are not to be paid with current financial resources and, therefore, are not reported in the fund financial statements	<u>(31,060)</u>
Net position of governmental activities	<u>\$ 291,917</u>

See accompanying notes to basic financial statements

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2017

Revenues:	
Appropriations from Puerto Rico Energy Commission	<u>\$ 580,000</u>
Expenditures:	
Salaries	236,000
Payroll taxes	26,946
Professional services	127,204
Advertising	6,575
Rent	82,745
Insurance	3,845
Office Supplies	8,506
Capital outlays	10,997
Other	<u>8,169</u>
Total expenditures	<u>510,987</u>
Excess of revenues over expenditures before transfers	69,013
Transfer Out	
Transfer out to Puerto Rico Energy Administration	<u>(46,400)</u>
Change in fund balance	22,613
Fund balance, at beginning of period	<u>270,421</u>
Fund balance, at end of year	<u><u>\$ 293,034</u></u>

See accompanying notes to basic financial statements

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

June 30, 2017

Net changes in fund balance - total governmental funds	\$ 22,613
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 capital outlays exceeded depreciation expenses for this period.	5,139
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 increase in the accrued compensated absences debt.	<u>(8,547)</u>
Change in net position of governmental activities	<u>\$ 19,205</u>

See accompanying notes to basic financial statements

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Financial Statements

June 30, 2017

Note 1 - Reporting entity

Organization

The Independent Consumer Protection Office (the "Office") was created on May 27, 2014 under the provisions of the "Puerto Rico Energy Transformation and Relief Act". The Office began its operations on December 15, 2015, the date in which its director was appointed. The Office 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 educating, assisting, and representing customers who receive energy services in the Commonwealth of Puerto Rico. Organizationally, the Office is overseen by the Director appointed by the Governor with the advice and consent of the Senate. The Office 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 financial statements of the Office 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 Office 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 Office (primary government). 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:

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Financial Statements – (Continued)

June 30, 2017

Note 1 - Reporting entity – (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 - Basis of presentation and summary of significant accounting policies

GASB No. 34

The accompanying basic financial statements of the Office 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 Office has adopted the provisions of GASB No. 34 as well as others statements referred to below.

Basis of presentation – fund accounting

The accounts of the Office 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 Office'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.

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Governmental funds

The Office reports the following major governmental fund: General Fund – This is the Office’s primary operating fund. It accounts for all financial operations, except for those required to be accounted for in another fund, if any.

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.

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 Office as a whole. The Office’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 reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

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:

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Net position – (continued)

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.

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.

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.

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:

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.

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Deferred outflows/inflows of resources – (continued)

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.

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 Office's contributions and proportionate share contributions; and e) the Office's contributions subsequent to the measurement date.

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.

Capital assets

Property and equipment purchased or acquired are carried at historical cost or estimated historical cost. The Office'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 assets' estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful lives of capital assets are as follows:

Independent Consumer Protection Office
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Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Capital assets – (continued)

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

Compensated absences

The Office'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 Office's employees accumulate unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Office's employees are granted fifteen (15) days of vacations and eighteen (18) days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacations up to the maximum allowed. Employee who separate from employment due to retirement or with at least ten (10) years of service and was not a participant of any retirement system of the Commonwealth of Puerto Rico are entitled to a sick leave payment up to ninety (90) days.

The accrual of compensated absences includes only vacation and sick leave. 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. The Office accrues a liability for compensated absences which meet the following criteria:

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

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Compensated absences – (continued)

In accordance with the above criteria and requirements as established by GASB No. 16 “Accounting for Compensated Absences”, the Office has accrued a liability for compensated absences, which has been earned but not taken by the Office’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. The non-current portion of accrued compensated absences as of June 30, 2017 amounted to \$31,060.

Fund balance reporting

GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, 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.

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 fund balance – amounts that cannot be spend because they are either: (a) not unspendable or (b) legally or contractually required to be maintained intact.

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

Committed fund balance - 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.

Independent Consumer Protection Office
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Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Fund balance reporting – (continued)

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

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

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.

Recent pronouncements

GASB Statement 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 Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", as amended, and Statement No. 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 agreement. 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 agreement. 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. This Statement requires that a government recognize revenue when the

Independent Consumer Protection Office
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Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basic of presentation and summary of significant accounting policies – (continued)

Recent pronouncements – (continued)

GASB Statement No. 81, “Irrevocable Split-Interest Agreements”: – (continued)

resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 and should be applied retroactively.

GASB Statement No. 82, “Pension Issues- An Amendment of GASB Statement No. 67, No. 68 and No. 73”: The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, “Financial Reporting for Pension Plans”, No. 68, “Accounting and Financial Reporting for Pensions”, and No. 73, “Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”.

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. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

Independent Consumer Protection Office
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Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Recent pronouncements – (continued)

GASB Statement No. 83, “Certain Asset Retirement Obligations” – (continued)

Also, this Statement requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. This Statement requires similar disclosures for a government’s minority shares of AROs.

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. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government’s fiduciary funds. 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.

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Recent pronouncements – (continued)

GASB Statement No. 85, “Omnibus 87”

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 (OPEB)). 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 the financial statements for debt that is defeased in substance. This statement is effective for reporting periods beginning after June 15, 2017. 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 established a single model for lease accounting based on the foundational principles that leases are financing 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.

Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Financial Statements – (Continued)

June 30, 2017

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Recent pronouncements – (continued)

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

Note 3 - Risk financing

The Office carries commercial insurance to cover casualty, theft, claims and other losses. The Office'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 Office'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 financial institution failure, the Office's deposits may 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.

Note 5 - Consumer Protection Services

The Office shall receive an annual budget allocation equal to ten (10) percent of the amount allocated to the Puerto Rico Energy Commission pursuant to Article 6.16 (c) of Act No. 57. This allocation shall come from the same source of financing as the Commission. During the period ended June 30, 2016, the Office recorded in 2015 and 2016 appropriations since the Office commenced operations on December 15, 2015.

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Independent Consumer Protection Office
(An Executive Agency of the Commonwealth of Puerto Rico)

Notes to the Financial Statements – (Continued)

June 30, 2017

Note 6 - Capital assets

Capital assets' activity of the Office for the year ended June 30, 2017, consisted of the following:

	<u>Balance as of</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of</u> <u>June 30, 2017</u>
Capital assets being depreciated:				
Office equipment	\$ 13,059	\$ 7,879	\$ -	\$ 20,938
Computer equipment	12,165	3,118	-	15,283
Total capital assets being depreciated	<u>25,224</u>	<u>10,997</u>	<u>-</u>	<u>\$ 36,221</u>
Less accumulated depreciation				
Office equipment	(218)	(3,061)	-	(3,279)
Computer equipment	(202)	(2,797)	-	(2,999)
Total accumulated depreciation	<u>(420)</u>	<u>(5,858)</u>	<u>-</u>	<u>(6,278)</u>
Capital assets, net of accumulated depreciation	<u>\$ 24,804</u>	<u>\$ 5,139</u>	<u>\$ -</u>	<u>\$ 29,943</u>

Depreciation expense amounting to \$5,858 was charged to the Consumer Protection Services function in the government -wide statements of activities.

Note 7 - Non-current liabilities

Non-current liabilities consist of compensated absences balances of accrued vacation and sick leave and represents the Office's commitment to fund such costs from future assignments. The following summarizes the activity of the compensated absences obligations as of June 30, 2017:

	<u>Balance as of</u> <u>June 30, 2016</u>	<u>Net Change</u>	<u>Balance as of</u> <u>June 30, 2017</u>	<u>Due within</u> <u>One Year</u>
Governmental Activities:				
Compensated absences	<u>\$ 22,513</u>	<u>\$ 8,547</u>	<u>\$ 31,060</u>	<u>\$ -</u>

Note 8 - Employees' pension plan

As of the date of these financial statements, the Office does not participate in the Employees' Retirement System of the Government of Puerto Rico (ERS).

Independent Consumer Protection Office
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Notes to the Financial Statements – (Continued)

June 30, 2017

Note 9 - Commitments

The Office has non-cancelable operating leases with the SF III PR, LLC, primarily for the Office's administrative facilities that expire over a minimum term of five (5) years and can be renewed for additional terms, as provided in each contract. For the year ended June 30, 2017, rent expenditures for the Office amounted to approximately \$82,700 under such operating leases.

The future minimum payments for these leases are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2018	\$ 70,061
2019	70,954
2020	71,877
2021	<u>72,828</u>
Total	<u>\$ 285,720</u>

Note 10 - Going concern

Puerto Rico's Governor Ricardo Roselló has recently revealed a plan to privatize the Puerto Rico Electric Power Authority (PREPA) over the next 18-months. The Office's revenues derive from appropriations made by the Puerto Rico Energy Commission, which are calculated at 10% of the Puerto Rico Energy Commission's revenues from appropriations made by PREPA, as mandated by Act No 57 of May 27, 2014.

The Office will implement the following critical factors in the case that the privatization of PREPA occurs in the near future:

- a. Cut professional services contracts
- b. Seek legislation in order to propose a tariff-based revenue of the Office from all energy suppliers of Puerto Rico.

The effect of the approval of the privatization of PREPA over the Office's operations and existence had not been determined yet.

Independent Consumer Protection Office
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Notes to the Financial Statements -- (Continued)

June 30, 2017

Note 11 - Subsequent events

The Commission evaluated subsequent events through May 21, 2018, which is the date these financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and the dates the financial statements were available to be issued, that would require additional adjustments or disclosure in the financial statements.

Independent Consumer Protection Office
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Required Supplementary Information
Budgetary Comparison Schedule – General Fund

Year Ended June 30, 2017

	Budget Amounts Original	Budget Amounts Final	Actual (Budgetary Basis)	Variance Positive (Negative)
Revenues				
Appropriations from Puerto Rico Energy Commission	\$ 580,000	\$ 580,000	\$ 580,000	\$ -
Expenditures				
Salaries and fringe benefits	274,000	274,000	262,946	11,054
Professional services	169,000	169,000	127,204	41,796
Insurance	15,000	15,000	3,845	11,155
Travel	5,000	5,000	-	5,000
Rent	70,000	70,000	82,745	(12,745)
Materials	10,000	10,000	8,506	1,494
Capital outlays	20,000	20,000	10,997	9,003
Other	17,000	17,000	14,744	2,256
Total expenditures	580,000	580,000	510,987	69,013
Transfer out				
Transfer out Puerto Rico Energy Administration	-	-	46,400	(46,400)
Excess of revenues over expenditures	\$ -	\$ -	\$ 22,613	\$ 22,613

Independent Consumer Protection Office
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Notes to the Budgetary Comparison Schedule – General Fund

June 30, 2017

Note 1 - Stewardship, compliance and accountability

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 Office’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 Office uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the 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, 2017 is presented below for the general fund:

Uses/outflows of resources:

Actual amounts (budgetary basis) total charges to appropriation	
from the budgetary comparison schedule	\$ 510,987
Transfer out -	46,400

Encumbrances at end of period	<u> -</u>
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Total expenditures as reported on the statements of revenues, expenditures and changes in fund balance - governmental funds	<u><u>\$ 557,387</u></u>
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