

**GOVERNMENT OF PUERTO RICO  
PUBLIC SERVICE REGULATORY BOARD  
INDEPENDENT CONSUMER  
PROTECTION OFFICE**

**BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2019**



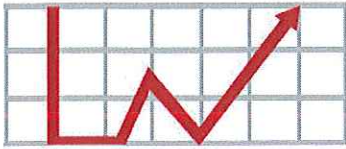
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**OFICINA INDEPENDIENTE DE PROTECCIÓN AL CONSUMIDOR**

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**TABLE OF CONTENTS**

<b><u>BASIC FINANCIAL STATEMENTS</u></b>	<b><u>PAGES</u></b>
Independent Auditors' Report	1-2
Required Supplementary Information (Part I)	
Management's Discussion and Analysis	3-12
Basic Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Balance Sheet - Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Notes to Basic Financial Statements	19-38
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule – General Fund	39
Notes to the Budgetary Comparison Schedule – General Fund	40



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## INDEPENDENT AUDITORS' REPORT

**To the Commissioner of the  
Government of Puerto Rico  
Puerto Rico Public Service Regulatory Board  
Independent Consumer Protection Office**

### **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 Public Service Regulatory Board Independent Consumer Protection Office (the Office)**, an Executive Agency of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2019, 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 opinions.

### **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, 2019, 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.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Emphasis of a matter

As discussed in **Note 1**, the financial statements of the **Office**, are intended to present the financial position, the changes and financial position of only that portion of the governmental activities and each major fund of the Puerto Rico Public Service Regulatory Board that is attributable to the transactions of the **Office**. They do not purport to, and do not, present fairly the financial position of the Puerto Rico Public Service Regulatory Board as of June 30, 2019 and the changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Also, as described on **Note 12**, 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 **Office** that might have this bankruptcy filing cannot be determined at the date of the financial statements. Actually, the Government of Puerto Rico is in the process of negotiation of a debt restructure agreement with PREPA's creditors.

### 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 **12** and **39**, 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.



**LOPEZ VEGA, CPA, PSC**

San Juan, Puerto Rico

March 12, 2020

Stamp No. 2772581 of the  
Puerto Rico Society of Certified  
Public Accountants was affixed to  
the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

## 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 interest 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 Bureau (the Bureau) (formerly known as the Puerto Rico Energy Commission), including those related to dispute PREPA bills. Furthermore, the **Office** has the duty to coordinate citizens' participation in PREPA's internal rate review process and before the Bureau, 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 provide 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 licenses 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.

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. 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 Office, the Independent Office of Consumer Protection ("the Office"), the Energy Administration of Puerto Rico and the Energy Office.

Pursuant to the Reorganization Plan of the Puerto Rico Public Service Regulatory Board and Act No. 211-2018, the **Office** is hereby merged with the Public Service Regulatory Board. The personnel designated to the **Office** by virtue of the 'Puerto Rico Energy Transformation and RELIEF Act' shall be transferred to the Public Service Regulatory Board created by virtue of the Reorganization Plan of the Puerto Rico Public Service Regulatory Board. Any transfer of personnel shall be made in accordance with the provisions of Act No. 8-2017, as amended.

The **Office** shall have the administrative support of the Public Service Regulatory Board, and shall operate as an entity independent from PREB, the Authority, any other electric power company certified in Puerto Rico, the Telecommunications Bureau, the Transport and other Public Services Bureau, and any other entity regulated by any of the latter.

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 **Office** regarding said rates and any other issue that may affect electric power service consumers.

## ORGANIZATION (CONTINUED)

The **Office** is required to defend and advocate for the interests of customers in all matters brought before the **Office** 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 Puerto Rico Energy Bureau. Total annual appropriations amounted to \$580,000.

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, 2019, 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 (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

### Government-Wide Highlights

- The **Office** reported total current assets amounting \$572,470 at June 30, 2019. The major category of current assets consisted of cash balance available amounting to \$568,631, which represents 99.33% of total current assets at that date.
- The **Office's** capital assets, net of accumulated depreciation, amounted to \$17,883.
- Total liabilities at June 30, 2019 amounted to \$68,109. The major categories of liabilities consisted of accounts payable (\$41,991), accrued liabilities (\$5,359) and accrued compensated absences (\$20,759).
- Total net position as of June 30, 2019 amounted to \$522,244.

### General Fund Highlights

- Total General Fund revenues for year ended June 30, 2019 amounted to \$583,802, including appropriations from the Puerto Rico Energy Bureau by \$580,000 which represents 99.35%.
- Total expenditures for year ended June 30, 2019 amounted to \$404,541.
- The General Fund balance as of June 30, 2019 amounted to \$525,120.

## FINANCIAL HIGHLIGHTS (CONTINUED))

### Major Financial Elements

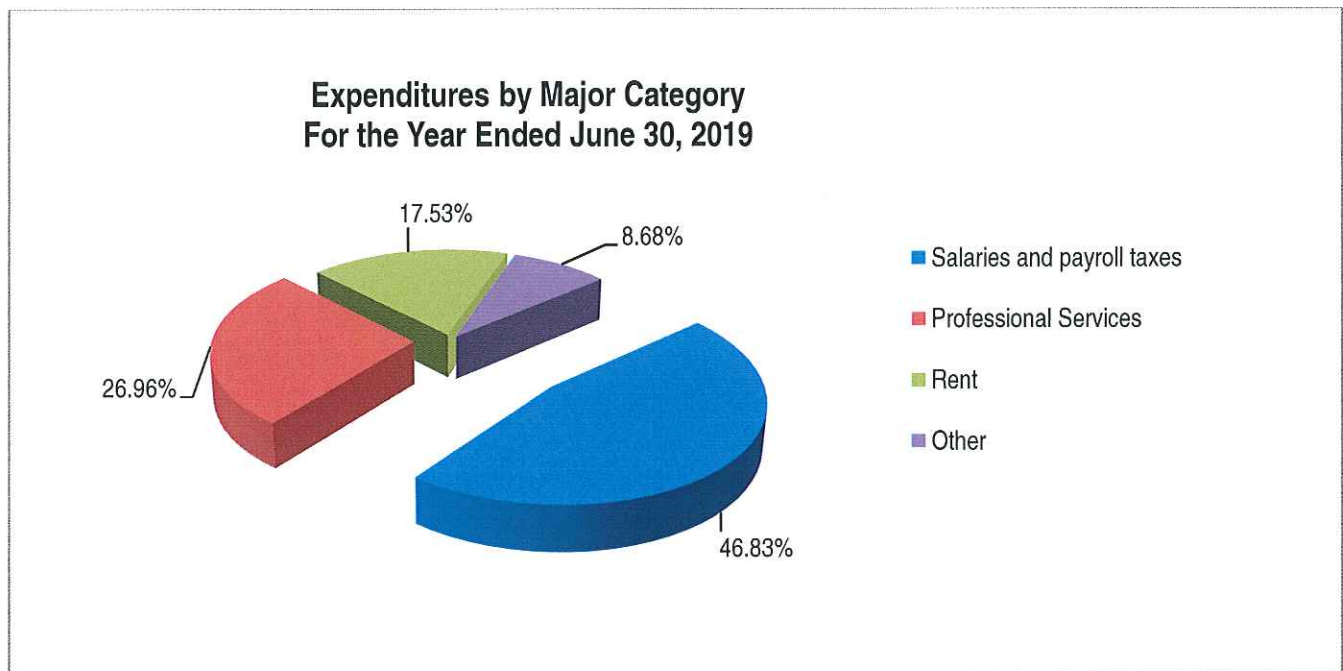
#### Revenues

The General Fund is the primary operating fund of the **Office**. General Fund revenues are broadly based on appropriations from the Puerto Rico Energy Bureau amounting to \$580,000 and interest income of \$3,802.

#### Expenditures

Expenditures consist principally of salaries and employee benefits, professional services, rent, utilities, materials and supplies and capital outlays. Total operating expenditures amounted to \$404,541. The most significant expenditures were employees' salaries and payroll taxes (\$189,434) and professional services (\$109,079), which represents 46.83% and 26.96% of total expenditures, respectively.

The following chart presents expenditures (including transfers) of the **Office** by major category for the year ended June 30, 2019:



## 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 period.

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 **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 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 **Office**.

### 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 fiscal-related governmental requirements. The fund financial statements focus on individual parts of the **Office's** administration, reporting the **Office's** operations in more detail than the government-wide financial statements. All of the funds of the **Office** are classified as governmental funds.

The services provided by the **Office** 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.



## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Fund Financial Statements (Continued)

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 **Office's** finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the **Office**. 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, 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 **Office** 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, 2019 amounted to \$583,802.
- Total expenditures for the year ended June 30, 2019 amounted \$404,541.
- Total revenues exceeded total expenditures by \$179,261.

The focus of the **Office's** governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the **Office'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 2019, the **Office's** governmental funds reported an ending fund balance of \$525,120.

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

**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** at June 30, 2019 amounted to \$590,353 and \$68,109, respectively, resulting in a net position of \$522,244.

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 regulatory services; consequentially, these assets are not available for future spending. The net investment in capital assets amounted to \$17,883 as of June 30, 2019.

Total current assets amounted to \$572,470 as of June 30, 2019, which are mainly composed of cash (\$568,631).

Total liabilities amounted to \$68,109 and are composed of accounts payable and accrued liabilities of \$47,350, and accrued and compensated absences of \$20,759.

A condensed summary of the statement of net position of the **Office** as of June 30, 2019 and 2018 is as follows:

**Condensed Statements of Net Position  
 as of June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Assets:</b>		
Current assets	\$ 572,470	\$ 373,868
Capital assets, net of accumulated depreciation	<u>17,883</u>	<u>24,048</u>
Total assets	<u>\$ 590,353</u>	<u>\$ 397,916</u>
<b>Liabilities:</b>		
Current liabilities	\$ 49,426	\$ 31,369
Long-term liabilities	<u>18,683</u>	<u>30,241</u>
Total liabilities	<u>68,109</u>	<u>61,610</u>
<b>Net position:</b>		
Net investment in capital assets	17,883	24,048
Unrestricted	<u>504,361</u>	<u>312,258</u>
Total net position	<u>522,244</u>	<u>336,306</u>
Total liabilities and net position	<u>\$ 590,353</u>	<u>\$ 397,916</u>

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Changes in Net Position**

The **Office's** change in net position amounted to \$185,938 during the fiscal year ended June 30, 2019. Approximately 99.35% of the **Office's** total revenues were from appropriations of the Puerto Rico Energy Bureau.

**Condensed Statements of Activities  
 For the fiscal years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Revenues:</b>		
Program revenues		
Appropriations from PR Energy Bureau	\$ 580,000	\$ 580,000
Interest	<u>3,802</u>	<u>144</u>
Total revenues	583,802	580,144
<b>Expenses:</b>		
Consumer protection services	<u>397,864</u>	<u>535,755</u>
<b>Change in net position</b>	185,938	44,389
<b>Net position, beginning of year</b>	<u>336,306</u>	<u>291,917</u>
<b>Net position, end of year</b>	<u>\$ 522,244</u>	<u>\$ 336,306</u>

**GENERAL FUND BUDGETARY HIGHLIGHTS**

***Current Year's Budget***

The General Fund's budget for the year ended June 30, 2019 was \$580,000. Actual total revenues amounted to \$583,802 and total expenditures amounted to \$404,541, resulting in an excess of revenues over expenditures of \$179,261.

***Next Year's Budget***

Under Act No. 57 of May 27, 2014, the Puerto Rico Energy Bureau shall appropriate and provide annually \$580,000 to the **Office** for its operations. Accordingly, beginning on fiscal year 2014-2015, PREPA shall remit each year to the **Office** \$290,000 on or before June 1<sup>st</sup> and the remaining balance of \$290,000 shall be remitted on or before December 1<sup>st</sup> of each year. During the fiscal year ended June 30, 2019, the **Office** received funds amounting to \$580,000.

## GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

### *Next Year's Budget (Continued)*

On April 11, 2019 the Government enacted Law No. 17 to create the "Puerto Rico Energy Public Policy Act" for the purposes of establishing the Puerto Rico public policy on energy. Section 6.43 (Budget of the **Office**) of Law No. 17 establish that beginning Fiscal Year 2019-2020, the **Office** shall receive an annual appropriation of one million two hundred thousand dollars (\$1,200,000), which shall originate proportionally from the amount appropriated to the Puerto Rico Energy Bureau, the Puerto Rico Telecommunications Bureau, and the Puerto Rico Transport and other Public Services Bureau.

## CAPITAL ASSETS

The capital assets of the **Office** 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, 2019 amounted to \$17,883. Additional information on the **Office's** capital assets can be found in the **Note 6** 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, 2019, depreciation expense recorded on books amounted to \$7,515, and is presented in the statement of activities.

## LONG-TERM DEBT

Total accrued compensated absences owed by the **Office** amounted to \$20,759 as of June 30, 2019. Additional information on the **Office's** long-term liabilities can be found in the **Note 7** 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 1** and **12** 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:

## ECONOMIC FACTORS (CONTINUED)

- ***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, Offices, 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, Office 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.

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.

## ECONOMIC FACTORS (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 filing 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. 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 Office, the Independent Office of Consumer Protection, the Energy Administration of Puerto Rico and the Energy Office.

### 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 Independent Consumer Protection Office, Hato Rey Center, Suite 524, 268 Ponce de León Avenue, San Juan, Puerto Rico 000918.

	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets:	
Cash	\$ 568,631
Accounts receivable	100
Other current asset	<u>3,739</u>
Total current assets	<u>572,470</u>
Non-current assets:	
Capital assets, net	<u>17,883</u>
Total non-current assets	<u>17,883</u>
<b>Total assets</b>	<u>590,353</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	41,991
Accrued liabilities	5,359
Accrued compensated absences, current portion	<u>2,076</u>
Total current liabilities	<u>49,426</u>
Non-current liabilities:	
Accrued compensated absences, non-current portion	<u>18,683</u>
Total non-current liabilities	<u>18,683</u>
<b>Total liabilities</b>	<u>68,109</u>
<b>Net position</b>	
Net investment in capital assets	17,883
Unrestricted	<u>504,361</u>
<b>Total net position</b>	<u>\$ 522,244</u>

The accompanying notes to basic financial statements  
 are integral part of this statement.

Functions / Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position Governmental Activities
Governmental Activities:			
Consumer Protection Services	<u>\$ 397,864</u>	<u>\$ 580,000</u>	\$ 182,136
General Revenues			
Interest			<u>3,802</u>
Change in net position			185,938
Net position, at beginning of year			<u>336,306</u>
Net position, at end of year			<u>\$ 522,244</u>

The accompanying notes to basic financial statements are integral part of this statement.



	<u>General Fund</u>
<b>ASSETS</b>	
Cash	\$ 568,631
Accounts receivable	100
Other asset	<u>3,739</u>
Total assets	<u><u>572,470</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>	
Liabilities	
Accounts payable	\$ 41,991
Accrued liabilities	<u>5,359</u>
Total liabilities	<u>47,350</u>
Fund balance	
Assigned	
Consumer protection services	<u>525,120</u>
Total fund balance	<u>525,120</u>
Total liabilities and fund balance	<u><u>\$ 572,470</u></u>

The accompanying notes to basic financial statements  
 are integral part of this statement.

Total fund balance per Fund Financial Statements	\$ 525,120
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.	17,883
Liabilities of accrued compensated absences that are not to be paid with current financial resources and, therefore, are not reported in fund financial statements.	<u>(20,759)</u>
Net position of governmental activities	<u>\$ 522,244</u>

The accompanying notes to basic financial statements  
are integral part of this statement.

	<u>General Fund</u>
<b>REVENUES</b>	
Appropriations from PREB	\$ 580,000
Interest	3,802
	<hr/>
Total revenues	583,802
	<hr/>
<b>EXPENDITURES</b>	
Salaries	165,136
Payroll taxes	24,298
Professional services	109,079
Advertising	6,050
Office supplies	1,015
Rent	70,989
Capital outlays	12,680
Other	15,294
	<hr/>
Total expenditures	404,541
	<hr/>
Excess of revenues over expenditures	179,261
	<hr/>
Fund balance, at beginning of period	345,859
	<hr/>
Fund balance, at end of period	<u>\$ 525,120</u>

The accompanying notes to basic financial statements  
 are integral part of this statement.

Excess of revenues over expenditures- total governmental funds	\$ 179,261
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.	(6,165)
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.	<u>12,842</u>
Change in net position of governmental activities	<u>\$ 185,938</u>

The accompanying notes to basic financial statements  
are integral part of this statement.

## Note 1 – Governmental environment

### 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.

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. 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 Office, the Independent Office of Consumer Protection (“the Office”), the Energy Administration of Puerto Rico and the Energy Office.

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 Officers 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 Officers 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.

## Note 1 – Governmental environment

### Organization

Pursuant to the Reorganization Plan of the Puerto Rico Public Service Regulatory Board and Act No. 211-2018, the **Office** is hereby merged with the Public Service Regulatory Board. The personnel designated to the **Office** by virtue of the 'Puerto Rico Energy Transformation and RELIEF Act' shall be transferred to the Public Service Regulatory Board created by virtue of the Reorganization Plan of the Puerto Rico Public Service Regulatory Board. Any transfer of personnel shall be made in accordance with the provisions of Act No. 8-2017, as amended.

The **Office** shall have the administrative support of the Public Service Regulatory Board, and shall operate as an entity independent from PREB, the Authority, any other electric power company certified in Puerto Rico, the Telecommunications Bureau, the Transport and other Public Services Bureau, and any other entity regulated by any of the latter.

On April 11, 2019, the Government enacted Law No. 17 to create the "Puerto Rico Energy Public Policy Act" for the purposes of establishing the Puerto Rico public policy on energy.

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) 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 **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.

**b. Basic 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.

**c. 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.

**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 **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 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 Office will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate 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 **Office'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 **Office's** contributions and proportionate share contributions; and e) the **Office'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 **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 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 **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.

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 **Office** accrues a liability for compensated absences which meet the following criteria:

- The **Office'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 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. Accrued compensated absences as of June 30, 2019 amounted to \$20,759.

**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)**

**I. 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 not contained in the other classifications.

**m. Fund balance flow assumptions**

Sometimes, the **Office** 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 **Office'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.

**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 **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 **Office** maintains a cash balance with a financial institution in excess of the applicable depository insurance limitation of \$250,000. At June 30, 2019, the Office has approximately \$318,631 over the applicable depository insurance limitation.

**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 Bureau pursuant to Article 6.16 (c) of Act No. 57. On April 11, 2019 the Government enacted Law No. 17 to create the "Puerto Rico Energy Public Policy Act" for the purposes of establishing the Puerto Rico public policy on energy. Section 6.43 (Budget of the Office) of Law No. 17 establish that beginning Fiscal Year 2019-2020, the Office shall receive an annual appropriation of one million two hundred thousand dollars (\$1,200,000), which shall originate proportionally from the amount appropriated to the Energy Bureau, the Puerto Rico Telecommunications Bureau, and the Puerto Rico Transport and other Public Services Bureau.

**Note 6 – Capital assets**

Capital assets' activity of the **Office** for the year ended June 30, 2019, consisted of the following:

	<b>Balance as of July 1, 2018</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance as of June 30, 2019</b>
Capital assets been depreciated:				
Office equipment	\$ 22,288	\$ 1,350	\$ -	\$ 23,638
Computer equipment	<u>15,283</u>	<u>-</u>	<u>-</u>	<u>15,283</u>
Total capital assets being, depreciated	<u>37,571</u>	<u>1,350</u>	<u>-</u>	<u>38,921</u>
Less accumulated depreciation:				
Office equipment	(6,336)	(3,327)	-	(9,663)
Computer equipment	<u>(7,187)</u>	<u>(4,188)</u>	<u>-</u>	<u>(11,375)</u>
Total accumulated depreciation	<u>(13,523)</u>	<u>(7,515)</u>	<u>-</u>	<u>(21,038)</u>
Capital assets, net of accumulated depreciation	<u>\$ (24,048)</u>	<u>\$ (6,165)</u>	<u>\$ -</u>	<u>\$ 17,883</u>

**Note 6 – Capital assets (Continued)**

Depreciation expense amounting to \$7,515 was charged to the Consumer Protection Services function in the government-wide statement of activities.

**Note 7 – Long-term liabilities**

Long-term liabilities consists 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, 2019:

	<u>Balance as of June 30, 2018</u>	<u>Net Change</u>	<u>Balance as of June 30, 2019</u>	<u>Due within one year</u>
Governmental Activities:				
Compensated absences	\$ 33,601	\$ (12,842)	\$ 20,759	\$ 2,076
	<u>\$ 33,601</u>	<u>\$ (12,842)</u>	<u>\$ 20,759</u>	<u>\$ 2,076</u>

**Note 8 – Employees' pension plan**

As of June 30, 2019, the **Office** is in the process of evaluating a pension plan for its employees. As of that date, the **Office'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 **Office'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 **Office** has not issued a resolution and/or made a decision in order to establish a pension plan for its employees.

**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 minimum term of five (5) years and can be renewed for additional terms, as provided in each contract. For the period ended June 30, 2019, rent expenditures for the Office amounted to \$70,989 under such operating leases.

The future minimum payments for these leases are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 71,877
2021	72,828
	<u>\$ 144,705</u>

#### Note 10 – Adoption of new accounting pronouncements

Effective July 1, 2018, the **Office** adopted the provisions of the following GASB Statements:

- **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. 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.

#### Note 11 – Future adoption of accounting pronouncements

- **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 11 – Future adoption of accounting pronouncements (Continued)**

- **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.

- **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.

**Note 11 – Future adoption of accounting pronouncements (Continued)**

- **GASB Statement No. 90, “Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61” (Continued):**

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.

- **GASB Statement No. 91, “Conduit Debt Obligations”** - The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers’ conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

**Note 11 – Future adoption of accounting pronouncements (Continued)**

• **GASB Statement No. 92, “Omnibus 2020”**

Effective Date: The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

Earlier application is encouraged and is permitted by topic.

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

**Note 12 – 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.

**Note 12 – Contingencies**

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

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.

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.

**Note 12 – Contingencies (Continued)**

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

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. 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.

**Note 12 – Contingencies (Continued)**

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

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.
- 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.

## Note 12 – Contingencies (Continued)

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

- 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 through 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.

### ***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 filing 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.

**Note 12 – Contingencies (Continued)**

***Filing of Title III of PROMESA for the District of Puerto Rico (Continued)***

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 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.

***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 filing came after nearly three years of restructuring meetings between the PREPA and its creditors.

Actually, the Government of Puerto Rico is in the process of negotiation of a debt restructure agreement with PREPA’s creditors.

***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.

**Note 13 – Subsequent events**

Subsequent events were evaluated through March 12, 2020, 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.



	<u>Budget Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Appropriations from PR Energy Bureau	\$ 580,000	\$ 580,000	\$ 580,000	\$ -
Interest	-	-	3,802	3,802
Total revenues	<u>580,000</u>	<u>580,000</u>	<u>583,802</u>	<u>3,802</u>
Expenditures				
Salaries and fringe benefits	274,000	274,000	165,135	108,865
Professional services	169,000	169,000	109,079	59,921
Insurance	8,000	8,000	-	8,000
Office supplies	10,000	10,000	13,733	(3,733)
Travel	5,000	5,000	-	5,000
Rent	60,000	60,000	70,989	(10,989)
Capital outlays	20,000	20,000	12,680	7,320
Other	<u>34,000</u>	<u>34,000</u>	<u>32,925</u>	<u>1,075</u>
Total expenditures	<u>580,000</u>	<u>580,000</u>	<u>404,541</u>	<u>175,459</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,261</u>	<u>\$ 179,261</u>

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 **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, 2019 is presented below for the General Fund:

**Uses / outflows of resources:**

Actual amounts (budgetary basis) “total charges to appropriation” from the budgetary comparison schedule	\$ 404,541
Encumbrances at end of period	_____ -
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance – governmental funds	<u>\$ 404,541</u>