

Financial Oversight and Management Board for Puerto Rico



Forecasted Statement of Revenues, Expenditures and Changes in Fund Balance For Year Ending June 30, 2018

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD OF PUERTO RICO
FOR THE YEAR ENDING JUNE 30, 2018

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FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

FORECASTED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND FOR THE YEAR ENDING JUNE 30, 2018

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	General Fund
	(In thousands)
REVENUES:	
Contributions from territorial government	\$ 60,000,000
Interest income	9,000
Total revenues	60,009,000
EXPENDITURES:	
Payroll and other related costs	2,969,000
Rent and other office costs	318,000
Purchased services	3,093,000
Transportation and travel costs	540,000
Professional services	52,378,000
Materials and supplies	18,000
Equipment purchases	55,000
Other expenditures	457,000
Total expenditures	59,828,000
EXCESS OF REVENUES OVER EXPENDITURES AND NET CHANGE IN FUND BALANCE	181,000
FUND BALANCE - July 1, 2017	348,000
FUND BALANCE - June 30, 2018	\$ 529,000

The notes to the forecasted financial statement are an integral part of this statement.
This forecasted financial statement has not been audited, reviewed or compiled and
no assurance is provided on it.

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO FORECASTED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND FOR THE YEAR ENDING JUNE 30, 2018

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On June 30, 2016, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) was established by the bipartisan Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") in Public Act 114 - 187 of the 114th Congress to address the economic crisis in Puerto Rico and to provide a method for Puerto Rico as a covered territory to achieve fiscal responsibility and to restore access to the capital markets.

The Oversight Board is tasked with working with the Government of Puerto Rico to create the necessary foundation for economic growth and to restore opportunity to the people of Puerto Rico. The Oversight Board consists of seven members appointed by the President of the United States and an ex-officio member appointed by the Governor of Puerto Rico.

The accompanying forecasted statement of revenues, expenditures and changes in fund balance of the Oversight Board has been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board. This financial forecast presents, to the best of management's knowledge and belief, the Oversight Board's expected results of operations for the forecasted year ending June 30, 2018. Accordingly, this forecast reflects the Oversight Board's judgment as of the date of this forecast, of the expected conditions and course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

NOTE 1 — SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

A. Contributions from Territorial Government

The Oversight Board's revenues are established by PROMESA in Section 107, "Budget and Funding for Operation of Oversight Board", which states that on the 5th day of each month the Governor of Puerto Rico shall transfer or cause to be transferred the greater of \$2,000,000 or such amount as shall be determined by the Oversight Board to an account under the exclusive control of the Oversight Board from a dedicated funding source and without any legislative appropriations of the territorial government. The contributions presented are those estimated by the Oversight Board as sufficient to cover all expenditures for its operations for the forecasted fiscal year using the zero-based budgeting method.

As also established by PROMESA in Section 107, if the Oversight Board determines in its sole discretion that any funds transferred exceed the amounts required for the Oversight Board's operations, any such excess funds shall be periodically remitted to the territorial government.

B. Payroll and Other Related Costs

The Oversight Board has established the need to hire employees for fourteen (14) contracted positions for its two operational offices located in San Juan and New York City. These positions related payroll taxes have been determined following the current applicable regulations in the office in which the position is expected to report to. No employees are will be hired for the Washington, DC office expected to be opened during the fiscal year ending June 30, 2018.

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO FORECASTED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND (CONTINUED) FOR THE YEAR ENDING JUNE 30, 2018

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NOTE 1 — SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONTINUED)

B. Payroll and Other Related Costs (Continued)

Compensated absences have been computed based on the Oversight Board's determination to adopt the minimum vacation and sick leave for new government employees under Act 26 of April 29, 2017, known as the Act to Ensure Compliance with the Fiscal Plan of Puerto Rico. After the third month of employment, the employees who complete will accumulate 10 hours of vacation (15 days per year) and 8 hours of sick leave (12 days per year). No excess vacation and sick leave days will be paid to the Oversight Board. Employees that exceed 15 days because of service needs must exhaust such excess within the first three months of the next calendar year.

The Social Security and Medicare contributions have been estimated based on the Social Security Administration's Fact Sheet for 2017 Social Security Changes. For 2017, it establishes that a rate of 6.20% of Social Security is paid for the first \$127,200 of income per employee, and 1.45% of Medicare on all earnings, where employees with income of over \$200,000 are required to pay an additional 0.90% for Medicare. Such amount is projected to be approximately **\$160,100** payable to the United States Treasury Department.

The Oversight Board is exempt from federal unemployment insurance. Regarding state unemployment insurance, the Oversight Board elected the reimbursement option offered to governmental entities in Puerto Rico, where the entity is not required to issue payments unless benefits are claimed by employees. Therefore, for the purpose of this forecast, the Oversight Board estimates it will not incur in such expenditure for the forecasted period.

For employees reporting to the San Juan office, the Oversight Board's contribution for the PR State Disability Insurance has been computed based on the standard rate of 0.30% for the first \$9,000 of salary paid per employee for a total of **\$486** to be paid to the Puerto Rico Department of Labor and Human Resources. For employees reporting to the New York office, the projected expenditures related to NY State Insurance Fund of **\$74** have been based on an annual insurance premium of \$24.75 per employee, where the lowest premium to be charged is \$60.

Workmen Compensation expenditures has been estimated at approximately **\$40,000** using the rate in the classification code number 9420-353 for state government employees of \$2.05 per \$100 of payroll expense, established in the Puerto Rico State Insurance Fund Corporation's Classification Manual, which is a component unit of the territorial government. Regarding the New York office, workmen compensation will be purchased from a private insurance company to cover such employees.

The Oversight Board established a monthly contribution of \$100 per employee for medical insurance coverage.

No Christmas bonus will be paid to the Oversight Board employees.

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO FORECASTED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND (CONTINUED) FOR THE YEAR ENDING JUNE 30, 2018

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NOTE 1 — SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONTINUED)

C. Rent and Other Office Costs

The Oversight Board entered into a lease contract with the Puerto Rico Infrastructure Financing Authority (PRIFA) for 2,228.05 square feet space at the World Plaza Building, located at 288 Muñoz Rivera Ave. in San Juan, Puerto Rico, for its office in San Juan, Puerto Rico. This space has been leased for one (1) year, from April 1, 2017 to March 31, 2018, at \$3,156.40 per month, including, utilities, basic repairs and maintenance, office cleaning services, HVAC, and general administration and maintenance charges, among others. The contract is extendible in consecutive periods of one (1) year under the same terms and conditions as established in the original contract, including, but not limiting to the lease rates. Insurance must be purchased by the Oversight Board at no expense for PRIFA. Such rent payments amount to approximately **\$38,000**.

For the New York City office, the Oversight Board rented from the US General Service Administration (US GSA) 1,361.04 square feet of office space located in Room 2-128 of the premises known as 26 Federal Plaza in New York, New York. The lease include internet and guess internet, electricity, water, HVAC and general janitorial services. Utilities are covered during normal business hours (7:00 am - 6:00 pm) and any overtime requirement for heating and cooling, when ordered, will be billed at the prevailing hourly rate. Telephone service and insurance must be provided by the Oversight Board at no expense to the US GSA. Therefore, the Oversight Board has allocated within forecast resources to cover for the possible need of heating and cooling in excess to regular business hours. This office space lease agreement is for \$8,193.15 per month for a total of approximately **\$98,000**.

In addition, telephone services have been estimated based on the telephone service contract for the office located in Puerto Rico, and similar initial non-recurring costs and monthly fees has been projected for the New York office.

Under office costs, the Oversight Board has also provided funds for **\$9,600** to cover the costs associated with the web domain and e-mail management, which is acquired from the US GSA.

The Oversight Board forecasted the Washington D.C.'s office expenditures, including estimates for office rental, equipment rental, communication, insurance and utilities expenditures, among other office recurrent costs, based on the New York office expenditures.

D. Purchased Services

Purchased services include the insurance expenditures for premiums associated with the office spaces in San Juan and New York City; as well as the insurance policy for the Oversight Board members and its officials.

The Oversight Board contracts security and related consulting services for its Board members and staff, offices and activities.

The Oversight Board contracted services to manage government relations for communication strategic consulting and outreach. In the forecasted fiscal year, it will also contract another entity to handle such matters in the mainland United States.

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO FORECASTED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND (CONTINUED) FOR THE YEAR ENDING JUNE 30, 2018

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NOTE 1 — SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONTINUED)

D. Purchased Services (Continued)

The Oversight Board has also provided other funds within the purchased services forecast to cover equipment and other office equipment rentals. In addition, other purchased services include funding of **\$60,000** to cover expenditures for administrative services that PRIFA will provide to the Oversight Board, such as procurement for equipment and material purchases.

Moreover, purchased services include contractor's necessary and reasonable reimbursable expenditures directly connected with or pertaining to the Board; such as office supplies, printing and reproduction, telephone calls, and messengers, among other.

E. Transportation and Travel Costs

As mentioned above, Oversight Board has two operating office and expects to open an office in Washington, DC. Moreover, the Oversight Board is required to publicly meet to take care of the matters for which it was created. To perform such duties, it is expected that the Board's members, its officials, and certain contractors, will be required to travel to assist meetings, provide services or comply with other specific requirements of PROMESA. Accordingly, the Oversight Board will pay for and/or reimbursed those travel reimbursable expenditures.

The Oversight Board expects to rent or lease a vehicle for the use of the Executive Director and its staff. Within transportation costs, the Board has allocated funds to cover for the Executive Director's vehicle rental costs.

F. Professional Services

In order to comply with its duties, the Oversight Board requires contracting experts and consulting professional services, specifically to comply with the functions established by PROMESA. In addition, other service providers are required for the administrative areas, such as ethics, accounting, tax, external audit, and information systems. Professional services expenditures have been projected based on existing contracts, except for the new information systems consultant to be awarded.

G. Materials and Supplies

The Oversight Board has allotted funds for monthly expenditures of office supplies and vehicle fuel and lubricants.

H. Equipment Purchases

Equipment purchases include monthly payment for the accounting software license and maintenance costs for which there is a contract. In addition, equipment purchases include office furniture, computers and any other miscellaneous equipment that the staff may require as the Oversight Board continues to hire and complete its operational structure in each location.

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO FORECASTED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND (CONTINUED) FOR THE YEAR ENDING JUNE 30, 2018

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NOTE 1 — SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONTINUED)

I. Other Expenditures

The Oversight Board requires regular meetings for which it rents different locations as deemed necessary. The rent of these spaces is often combined with other services, such as venues, audio-visual equipment rental and broadcasting services, among others. The Oversight Board has estimated for the acquisition of these services based on the experience from the meetings held up-to-date and the projected meetings and similar activities for the following fiscal year.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Financial Statements

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Oversight Board that are reported in the accompanying forecasted financial statements have been classified as governmental funds.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column, except for those governmental nonmajor funds, which management has elected to present separately in the financial statements. The Oversight Board has one major governmental fund:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of contributions from the territorial government.

B. Budgetary Accounting

The Oversight Board's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with US GAAP. Revenue is generally recognized when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. Available contributions from territorial government and encumbrances will lapse the year following the end of the fiscal year when the encumbrances were established. Unencumbered appropriations lapse at year-end. Amounts required for the settlement of claims and judgments against the Oversight Board, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under statutory basis of accounting, the Oversight Board 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 fund, encumbrance accounting is a significant aspect of budgetary control.

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO FORECASTED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND (CONTINUED) FOR THE YEAR ENDING JUNE 30, 2018

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NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Balances

The accompanying forecasted statement of revenues, expenditures and changes in fund balances – governmental fund does not report fund balance amounts that are considered nonspendable, such as fund balance associated with prepaids. Other fund balances are reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, described as follows:

Nonspendable – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long-term balances of loans and notes receivable.

Restricted – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

Committed – Represent resources used for specific purposes, imposed by formal action of the Oversight Board's highest level of decision making authority (US Congress through resolutions and ordinances) and can only be changed by a similar Act, ordinance or resolution, no later than the end of the fiscal year.

Assigned – Represent resources intended to be used by the Oversight Board for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent can be expressed by an official or body to which the Oversight Board delegates authority.

Unassigned – Represent the residual classification for the Oversight Board's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Oversight Board's funds are unassigned unless it executes purchase orders and contracts, which are then recorded as part of the assigned fund balance. The Oversight Board does not have a formal minimum fund balance policy.

D. Intergovernmental Transactions

The Oversight Board intergovernmental transactions use resource flows between the Oversight Board and among governmental entities of the territorial government and the United States. These resource flows and related outstanding balances are reported as if they were external transactions.

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO FORECASTED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND (CONTINUED) FOR THE YEAR ENDING JUNE 30, 2018

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NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the general fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. For US GAAP reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, and assigned US GAAP fund balance classifications and do not constitute expenditures or liabilities on US GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. An unspent balance from the prior year will be carried forward and made available for current spending.

NOTE 3 — CONTINGENCIES

The Oversight Board has been named as a defendant or co-defendant in various pending litigations. The cases to which the Oversight Board is a named defendant have either been stayed pursuant to the commencement of various PROMESA Title III cases or are at the early stages of pleading and discovery. The Oversight Board's management, after consultation with its general counsel, cannot determine at this time the outcome of these cases or the exposure, if any, to the Oversight Board. The Oversight Board intends to vigorously defend each of these cases.