

# **Financial Oversight and Management Board for Puerto Rico**



**Basic Financial Statements and Required  
Supplementary Information  
as of June 30, 2017 and for the  
Period from August 31, 2016  
(Commencement of Operations)  
to June 30, 2017**

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO**

**JUNE 30, 2017**

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**TABLE OF CONTENTS**

	<b>PAGES</b>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)	3 - 10
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet – Governmental Fund	13
Reconciliation of the Balance Sheet – Governmental Fund to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund to the Statement of Activities	16
Notes to Basic Financial Statements	17 – 29



## INDEPENDENT AUDITORS' REPORT

Financial Oversight & Management Board for Puerto Rico  
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities and each major fund of the Financial Oversight & Management Board for Puerto Rico ("Oversight Board"), as of and for the period ended June 30, 2017, which collectively comprise the Oversight Board's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

**Auditor's Responsibility - Cont'd**

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

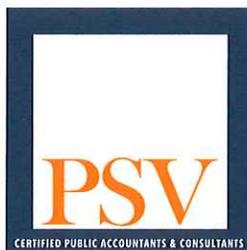
**Auditors' Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and its major fund of the Financial Oversight & Management Board for Puerto Rico as of June 30, 2017 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.

October 31, 2017

Stamp E302842 of the P.R. Society of Certified Public Accountants has been affixed to the file copy of this report.

PSV & Co PSC



# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

3

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The Financial Oversight and Management Board for Puerto Rico (the Oversight Board) provides this Management Discussion and Analysis (MD&A) to the readers of the Oversight Board's basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the Oversight Board as of June 30, 2017 and for the period from August 31, 2016 (commencement of operations) to June 30, 2017. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the Oversight Board's financial activities, and (c) highlight individual fund matters. Since the MD&A is designed to focus on the current period activities, resulting changes and currently known facts, it should be read in conjunction with the Oversight Board's basic financial statements, including the notes thereto.

### Financial Highlights

- The total assets of the Oversight Board, on a government-wide basis, exceeded its total liabilities by **\$1,525,818** at the close of period ended June 30, 2017.
- Total assets of the Oversight Board amounted to **\$16,765,480**. Total liabilities of the Oversight Board amounted to **\$15,239,662**.
- The net position of the Oversight Board increased by **\$1,525,818** as a result of period's operations.

### Going Concern

**Note 2** to the basic financial statements provides information regarding the Oversight Board's financial risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the Oversight Board together with other factors further described in **Note 2** to the financial statements have led the Oversight Board's management to conclude that there is substantial doubt as to the ability of the Oversight Board to continue as a going concern.

Oversight Board's total revenues are transfers from the Government of Puerto Rico (the territorial government) from a dedicated funding source not subject to legislative appropriations, which amounted to **\$31 million** for the period ended June 30, 2017. The Oversight Board's ability to continue receiving similar operational support from the Territorial government is uncertain.

The Territorial government recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Territorial government's ability to continue as a going concern. The significant financial difficulties being experienced by the Territorial government are not likely to have a significant adverse impact on the Oversight Board, even though its reliance on the Territorial government transfers to cover its operations. The Oversight Board shall use its powers with respect to the budget of the covered territory to ensure that sufficient funds are available to cover all expenses of the Oversight Board.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017

4

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## Overview of the Basic Financial Statements

This Management Discussion and Analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Oversight Board. The Oversight Board's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. These components are described below.

The Oversight Board's basic financial statements consist of two kinds of statements, each with a different view of the Oversight Board's finances. The government-wide financial statements provide both long-term and short-term information about the Oversight Board's overall financial status. The fund financial statements focus on major aspects of the Oversight Board's operations, reporting those operations in more detail than the government-wide statements.

**Government-Wide Financial Statements:** The government-wide financial statements are designed to provide users of the basic financial statements with a broad overview of the Oversight Board's finances in a manner similar to the private sector business. These statements present short and long-term information about the Oversight Board's financial position, which assists in assessing the Oversight Board's economic condition at the end of the period.

The statement of net position provides information on the Oversight Board's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the Oversight Board's net position may serve as a useful indicator of whether the financial position of the Oversight Board is improving or deteriorating as a result of the period's operations.

The statement of activities presents information on how the Oversight Board's net position changed during the reporting period. 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, the current period's revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Oversight Board's governmental activities include general and administrative and financial oversight and management.

The Government-Wide Financial Statements of the Oversight Board can be found on **pages 11 to 12** of this report.

**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 Oversight Board, like other state boards, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental funds:** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well on balances of expendable resources available at the end of the fiscal period. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017

5

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## Overview of the Basic Financial Statements (Continued)

By doing so, readers may better understand the long-term impact of the Oversight Board's near-term financing decisions. Both, the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, provide a reconciliation to facilitate this comparison between governmental fund and activities.

The Oversight Board maintains one individual governmental fund and adopts an annual budget for its General Fund.

The Oversight Board's basic governmental fund financial statements can be found on **pages 13 to 16** of this report.

**Notes to Basis Financial Statements:** The notes provide information that is essential to a full understanding of the data provided about the Oversight Board, which is included in the government-wide and fund financial statements. The notes to the basic financial statements can be found on **pages 17 through 29** of this report.

## Government-wide Financial Analysis

### Net Position

The net position serves over time as a useful indicator of the Oversight Board's financial position at the end of the fiscal period. The Oversight Board's net position amounted to **\$1,525,818** at June 30, 2017. The Oversight Board's net position includes investment in capital assets for **\$16,677** and unrestricted net position of **\$1,509,141**.

The following table presents the Condensed Statement of Net Position of the Oversight Board as of June 30, 2017:

Current assets	\$ 16,748,803
Capital assets, net	<u>16,677</u>
<b>Total assets</b>	16,765,480
Current liabilities	<u>15,239,662</u>
<b>Total liabilities</b>	<u>15,239,662</u>
<b>Net position:</b>	
Invested in capital assets	16,677
Unrestricted	<u>1,509,141</u>
<b>Total net position</b>	<u><u>\$ 1,525,818</u></u>

A portion of the Oversight Board's net position reflects its investment in capital assets such as fixtures, furniture and equipment. The Oversight Board uses these capital assets to perform its functions; consequentially, these assets are not available for future spending.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

6

### Government-wide Financial Analysis (Continued)

A positive remaining balance would be used to meet the Oversight Board ongoing obligations for creditors. Internally imposed designations of resources are not presented as restricted net position.

At the end of the current fiscal period, the Oversight Board is able to report positive balance in net position as a whole.

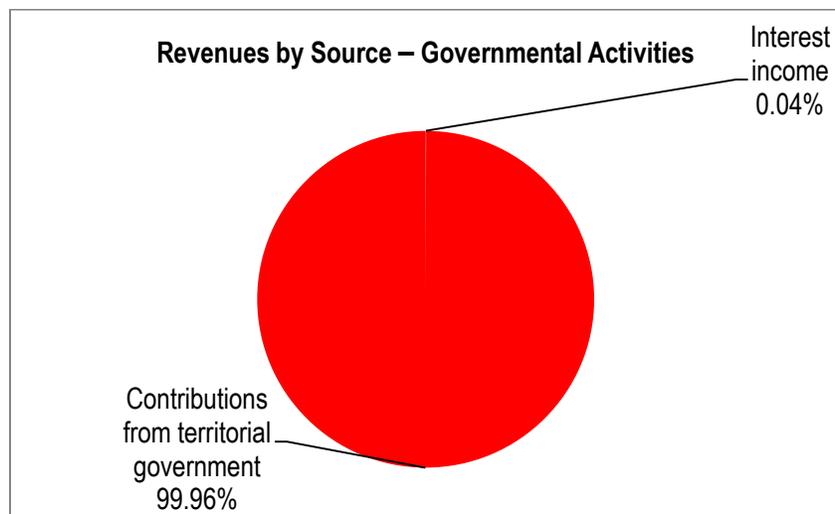
### Changes in Net Position

The Oversight Board's net position increased by **\$1,525,818**. The following table presents the Condensed Statement of Activities that reflects how the Oversight Board's net position changed during the period ended June 30, 2017.

<b>Revenues:</b>	
General revenues:	
Contributions from territorial government	\$ 31,000,000
Other income	13,395
<b>Total revenues</b>	<u>31,013,395</u>
<b>Expenses:</b>	
General and administrative	2,218,071
Fiscal oversight and management	27,269,506
<b>Total expenses</b>	<u>29,487,577</u>
<b>Increase in net position and net position at June 30, 2017</b>	<u><u>\$ 1,525,818</u></u>

### **Governmental Activities**

Approximately **99.96%** of the total governmental activities revenue came from contributions from Territorial government for the period ended June 30, 2017. The following chart presents revenues by source of the governmental activities for the period ended June 30, 2017:



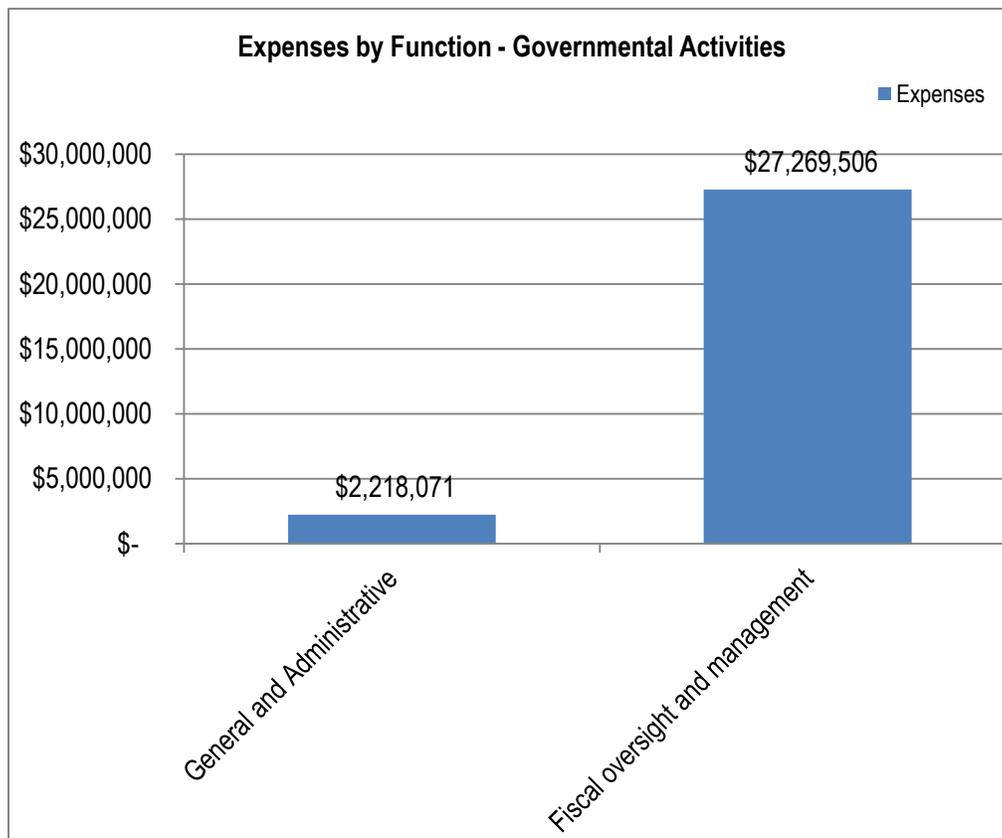
# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017

## Government-wide Financial Analysis (Continued)

### **Governmental Activities (Continued)**

Governmental activities expenses amounted to **\$29,487,577 (95%)**. The following chart presents expenses comparison by function of the governmental activities for the period ended June 30, 2017:



The largest expenses were for the fiscal oversight and management function in 2017.

### Financial Analysis of the Oversight Board's Funds

As noted earlier, the Oversight Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the Oversight Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Oversight Board's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Oversight Board's net resources available for spending at the end of the fiscal period.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

8

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### Financial Analysis of the Oversight Board's Funds (Continued)

As of the end of the period ended June 30, 2017, the Oversight Board's governmental funds reported combined ending fund balances amounting to **\$1,503,315** at the close of period ended June 30, 2017. Total revenues of the governmental funds exceeded total expenditures by **\$1,503,315**.

Approximately **\$417,900** of the fund balances is assigned or designated to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the period ended June 30, 2017.

The general fund is the chief operating fund of the Oversight Board. At the end of the current fiscal period, unassigned, undesignated fund balance of the general fund was **\$1,082,208**, while the total general fund balance was **\$1,503,315**. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned, undesignated fund balance represents **4%** of total general fund expenditures and **72%** of the total fund balance.

The fund balances of the Oversight Board's general fund increased by **\$1,503,315** as a result of the current fiscal period's change in financial position. Key factors causing such increase are as follows:

- Total general fund revenues for the period ended June 30, 2017 were **\$31,013,395**, while total expenditures for the period ended June 30, 2017 were **\$29,510,080**.
- The cash available for the period ended June 30, 2017 was **\$12,703,703**.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

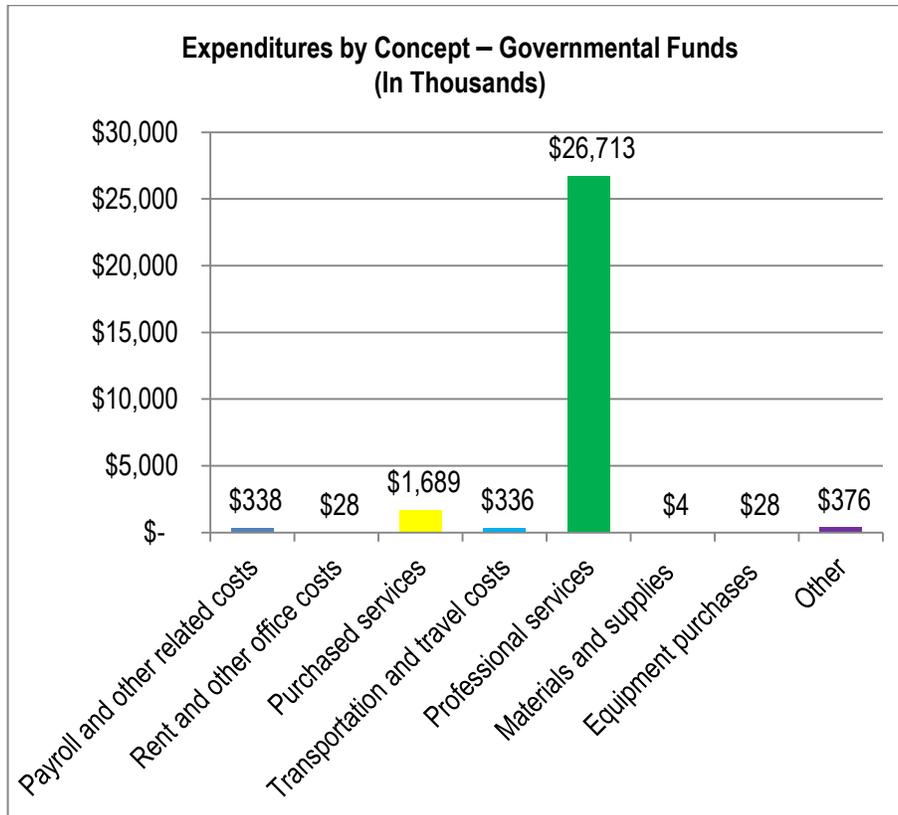
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017

9

## Financial Analysis of the Oversight Board's Funds (Continued)

### Governmental Funds (Continued)

The following illustration presents the Oversight Board's expenditures, using natural classification for the period ended June 30, 2017:



### Capital Assets and Debt Administration

#### Capital Assets

The capital assets of the Oversight Board 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, 2017 amounted to a net book value of **\$16,677**. Actual capitalized assets for the period amounted to **\$17,011**, while depreciation expense for the period totaled **\$334**.

Additional information on the Oversight Board's capital assets can be found in **Note 6** of the basic financial statements.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017

10

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## Capital Assets and Debt Administration (Continued)

### Debt

The Oversight Board's other liabilities increased by **\$30,711**. Such increase resulted from the compensated absences amounting to **\$30,711**.

Additional information on the Oversight Board's other liabilities can be found in **Note 7** of the basic financial statements.

### Economic Factors and Next Year's Budget

The Oversight Board's business activities are conducted in Puerto Rico and New York. Its operating results are fully funded by transfers from the Territorial government. The territory of Puerto Rico uses the US currency and forms part of the US financial system. Factors affecting the US economy usually have a significant impact on the performance of the Puerto Rico economy. These include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the level of oil prices, the rate of inflation, and tourist expenditures, among others.

The Puerto Rico economy has been in a recession since the year 2006, resulting in an overall contraction in sectors of Puerto Rico's economy, mainly manufacturing and construction coupled with declines in retail sales, budget shortfalls and diminished consumer buying power resulting in higher costs of living.

The Territorial government of Puerto Rico has been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations.

The Oversight Board's budget for the fiscal year 2018 amounts to approximately **\$60,009,000**, which was adopted in July 2017. The contributions from Territorial government amount to **\$60,000,000** for the fiscal year 2018.

### Requests for Information

This financial report is designed to provide a general overview of the Oversight Board's finances and to demonstrate the accountability of the funds administered by the Oversight Board. For questions regarding the information provided or additional financial information requests please contact the Executive Director of the Financial Oversight and Management Board for Puerto Rico, PO Box 192018, San Juan, Puerto Rico 00919-2018.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## STATEMENT OF NET POSITION AS OF JUNE 30, 2017

11

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	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash in commercial bank	\$ 12,703,703
Accounts receivable:	
Due from territorial government	4,000,000
Other receivables	1,405
Prepays	36,537
Other assets	7,158
Capital assets, net of accumulated depreciation	16,677
<b>TOTAL ASSETS</b>	<b>16,765,480</b>
<b>LIABILITIES:</b>	
Accounts payable and accrued liabilities	15,153,998
Due to other governmental entities	54,953
Other liabilities	30,711
<b>Total liabilities</b>	<b>15,239,662</b>
<b>NET POSITION:</b>	
Invested in capital assets	16,677
Unrestricted	1,509,141
<b>TOTAL NET POSITION</b>	<b>\$ 1,525,818</b>

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

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## STATEMENT OF ACTIVITIES FOR THE PERIOD FROM AUGUST 31, 2016 (COMMENCEMENT OF OPERATIONS) TO JUNE 30, 2017

<b>Functions</b>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net Revenues (Expenses) and Changes in Net Position (Deficit)</u>
<b>Governmental Activities:</b>			
General and administrative	\$ 2,218,071	\$ -	\$ (2,218,071)
Fiscal oversight and management	<u>27,269,506</u>	<u>-</u>	<u>(27,269,506)</u>
<b>Total</b>	<u>\$ 29,487,577</u>	<u>\$ -</u>	<u>(29,487,577)</u>
<b>General Revenues:</b>			
Contributions not restricted for specific functions			31,000,000
Other income			<u>13,395</u>
<b>Total general revenues</b>			<u>31,013,395</u>
<b>CHANGE IN NET POSITION AND NET POSITION AT JUNE 30, 2017</b>			<u>\$ 1,525,818</u>

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

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## BALANCE SHEET – GOVERNMENTAL FUND AS OF JUNE 30, 2017

13

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	<u>General Fund</u>
<b>ASSETS</b>	
Cash in commercial bank	\$ 12,703,703
Receivables:	
Territorial government	4,000,000
Other receivables	1,405
Other assets	<u>7,158</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 16,712,266</u></u>
<b>LIABILITIES AND FUND BALANCES</b>	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 15,153,998
Other governmental entities	<u>54,953</u>
Total liabilities	<u>15,208,951</u>
FUND BALANCES:	
Nonspendable	3,156
Assigned	417,951
Unassigned	<u>1,082,208</u>
Total fund balances	<u>1,503,315</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 16,712,266</u></u>

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

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION AS OF JUNE 30, 2017

14

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<b>Total fund balances per Balance Sheet - Governmental Fund</b>	\$ 1,503,315
<b>Amounts reported for governmental activities in the Statement of Net Position are different than the amounts reported in the Balance Sheet - Governmental Fund because:</b>	
Prepaid expenses are not reported in governmental activities and therefore not recognized in the balance sheet - governmental fund	36,537
Capital assets used in governmental activities are not financial resources and therefore not recognized in the balance sheet - governmental fund	16,677
Accrued compensated absences are not due and payable in the current period nor with current year budget resources and therefore not recognized in the balance sheet - governmental fund	<u>(30,711)</u>
<b>Total net position of governmental activities</b>	<u><u>\$ 1,525,818</u></u>

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

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUND FOR THE PERIOD FROM AUGUST 31, 2016 (COMMENCEMENT OF OPERATIONS) TO JUNE 30, 2017

15

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	<b>General Fund</b>
<b>REVENUES:</b>	
Contributions from territorial government	\$31,000,000
Interest income	<u>13,395</u>
<b>Total revenues</b>	<u>31,013,395</u>
<b>EXPENDITURES:</b>	
General and administrative	2,236,439
Fiscal oversight and management	<u>27,273,641</u>
<b>Total expenditures</b>	<u>29,510,080</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,503,315</u>
<b>NET CHANGE IN FUND BALANCES AND FUND BALANCES AT JUNE 30, 2017</b>	<u><u>\$ 1,503,315</u></u>

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

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES FOR THE PERIOD FROM AUGUST 31, 2016 (COMMENCEMENT OF OPERATIONS) TO JUNE 30, 2017

16

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<b>Net change in fund balances - governmental fund</b>	<b>\$ 1,503,315</b>
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>	
Governmental fund reports prepaid expenses as expenditures when purchased rather than capitalized as an asset. However, in the statement of activities, these assets are capitalized. This is the amount by which prepaid expenses exceeded expenses in the current period.	36,537
Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	16,677
Some expenses in the statement of activities do not require the use of current financial resources and, therefore are reported as expenditures in governmental fund. This is the amount by which accrued compensated absences increased.	<u>(30,711)</u>
<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 1,525,818</u></u></b>

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

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2017

17

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### NOTE 1 — REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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”) on June 30, 2016 to address the economic crisis in Puerto Rico and to provide a method for a covered territory (Puerto Rico) 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 (the territorial government) 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 on August 31, 2016 and an ex-officio member designated by the Governor of Puerto Rico.

On August 31, 2016, the Oversight Board started operations and held its first public meeting during September 2016. The Oversight Board’s primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets through broad-based powers such as reducing non-debt expenditures and instituting certain hiring freezes. The Oversight Board also has oversight over legislative processes because PROMESA requires the board to review new laws and prevent their enforcement if they are inconsistent with the approved fiscal plans and budgets. The Oversight Board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it adversely affects the approved fiscal plan.

Second, the enactment of PROMESA also imposed until May 1, 2017 as a broad-based stay on litigation, applicable to all entities, with respect to claims related to Puerto Rico’s financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions.

Finally, PROMESA contains two methods to adjust Puerto Rico’s debts under Titles III and VI. The method established in Title VI is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors. This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The method established in Title III is a court-supervised debt-adjustment process. This process includes the so-called “cram-down” power, which may provide the Territorial government with flexibility in debt adjustment, but it also gives the Oversight Board total control over the adjustment process and includes certain provisions designed to protect creditor interests.

The accompanying basic financial statements of the Oversight Board have 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 (GASB). These basic financial statements present the financial position, the results of operations of the Oversight Board and its various funds and fund types. The basic financial statements are presented as of June 30, 2017, and for the period then ended.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

18

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## NOTE 1 — REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Government-Wide and Fund Financial Statements

**Government-wide Financial Statements** – The Statement of Net Position and the Statement of Activities report information on all of the activities of the Oversight Board. The Oversight Board's governmental activities generally are financed through intergovernmental revenues and other no exchange revenues. Following is a description of the Oversight Board's government-wide financial statements. The Statement of Net Position presents the Oversight Board's assets and liabilities, with the difference reported as net position.

Net position is reported in three categories:

- Invested in capital assets consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net position results when constraints placed on assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position consists of assets that do not meet the definition of the two preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

When both restricted and unrestricted resources are available for use, it is the Oversight Board's policy generally to use restricted resources first and then the unrestricted resources as they are needed.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

**Fund Financial Statements** – Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Oversight Board that are reported in the accompanying basic 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 non-major funds being combined into a single column, except for those governmental non-major funds, which management has elected to present separately in the financial statements. The Oversight Board's management has elected to present one major governmental fund.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

19

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## NOTE 1 — REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Measurement Focus, Basis of Accounting and Financial Statements Presentation

#### **Government-wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

#### **Governmental Fund Financial Statements**

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Oversight Board considers revenues to be available if they are collected within sixty (60) days, to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to intergovernmental revenues, there is essentially one type of revenue. For general revenues, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed PROMESA requirements.

These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recognized when the related liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2017, has been reported only in the government-wide financial statements.
- Executory purchase orders and contract are recorded as part of the assigned fund balance.

#### **Fund Accounting**

The Oversight Board reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major individual governmental funds are reported as separate columns in the fund 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 intergovernmental revenue.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

20

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## NOTE 1 — REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

#### Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position of governmental activities as shown on the government-wide statement of net position is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the difference are related to the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

A summary reconciliation of the difference between net change in fund balances as reflected on the governmental funds statement of revenues, expenditure, and changes in fund balances and change in net position of governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

### D. Budgetary Control

Section 107(a) of PROMESA establishes that the Oversight Board shall submit a budget for each fiscal year of operations to the President, the House of Representatives Committee on Natural Resources and the Senate Committee on Energy and Natural Resources, the Governor of Puerto Rico, and the Legislature. In accordance with Article VIII of the Oversight Board Bylaws, as amended, the Chair shall propose for each fiscal year an annual budget for the Oversight Board no later than one month before the beginning of the fiscal year, which upon an affirmative vote of a majority of the members then serving shall be adopted as the annual budget of the Oversight Board, except that the budget for the initial fiscal year shall be proposed and adopted pursuant to a schedule as determined by the Chair.

The Oversight Board shall, from time to time as it deems necessary, notify the Governor of Puerto Rico and the Legislature its funding requirements as set forth in section 107(b) of PROMESA.

Formal budget integration is employed as a management control device during the period ended June 30, 2017 for the general fund. The final budget for the period ended June 30, 2017 was \$31,000,000. The Oversight Board's adopted budget for such period is not subject to legislative appropriations.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For US GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

21

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## NOTE 1 — REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### E. 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. 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 general fund, encumbrance accounting is a significant aspect of budgetary control.

### F. Cash

Cash accounts of the Oversight Board as presented in the Balance Sheet - Governmental Fund are held in a commercial bank. The Federal Deposit Insurance Corporation insures bank balances up to \$250,000. Under the Territorial government's statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Puerto Rico Department of Treasury. At June 30, 2017, commercial bank balance amounted to **\$12,728,933**.

### G. Receivables

Intergovernmental receivables primarily represent amounts owed to the Oversight Board from the Territorial government dedicated funding source to ensure that sufficient funds are available to cover all of its expenditures.

### H. Prepaid Items

Prepaid balances include payments made by the Oversight Board in the current year applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

### I. Capital Assets

Capital assets, which include furniture, equipment, and vehicles, are stated at cost less accumulated depreciation and amortization, and are reported in the governmental activities column in the government-wide financial statements. The Oversight Board defines capital assets as assets that have an initial individual cost of \$500 or more at the date of acquisition and have a useful life of five or more years. Such assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of donation. Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are charged to expense as incurred.

All office spaces, including related improvements, under operating leases by the Oversight Board are charged to expenditures in the governmental fund financial statements and reported as an expense in the government-wide financial statements.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

22

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## NOTE 1 — REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### I. Capital Assets (Continued)

Capital assets utilized in governmental funds are recorded as expenditures in the governmental funds financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Oversight Board are depreciated using the straight-line basis over the estimated useful lives of the depreciable assets. Estimated useful lives are as follows:

	<u>Years</u>
Furniture and equipment	5 - 10
Computer equipment and software	5
Vehicles	5

The Oversight Board follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries – an amendment of GASB Statement No. 34*. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

### J. Other obligations

The other liabilities reported in the government-wide financial statements include the Oversight Board's compensated absences obligations (vacation and sick leave).

### K. Compensated Absences

Compensated absences are accumulated 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 will accumulate 10 hours of vacation (15 days per year) and 8 hours of sick leave (12 days per year) and both are fully vested to the employees from the first day of work. Accrued compensated benefits are accrued when incurred in the government-wide financial statements, when the employee meets such criteria. Such compensated benefits accrual also includes related estimated payroll taxes.

No excess vacation and sick leave days will be paid to the Oversight Board's staff. Employees that exceed 15 days because of service needs must exhaust such excess within the first three months of the next calendar year.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

23

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## NOTE 1 — REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### L. Fund Balances

Pursuant to the provisions of GASB No. 54, the accompanying governmental funds financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as 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.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Oversight Board uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Oversight Board generally spends committed resources first, followed by assigned resources, and then unassigned resources when expended.

The Oversight Board does not have a formal minimum fund balance policy.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

24

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## NOTE 1 — REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### M. 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. An unspent balance from the prior year will be carried forward and made available for current spending.

### N. Risk Management

The Oversight Board carries commercial insurance to cover officers, property and casualty, theft, tort claims and other losses for the Oversight Board. Insurance policies are negotiated by the Oversight Board with authorize insurance companies in Puerto Rico and New York. Insurance premiums paid for the Oversight Board amounted to approximately **\$82,000** for the period ended June 30, 2017. The current insurance policies have not been cancelled or terminated.

For workmen compensation, the State Insurance Fund Corporation, a component unit of the Territorial government, provides workmen compensation insurance to cover all Oversight Board's employees from the San Juan office. The Oversight Board's workmen compensation insurance expenditures amounted to approximately **\$4,800** for the period ended June 30, 2017. During the period ended June 30, 2017, The Oversight Board has not settled claims that exceed insurance coverage.

### O. Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### P. Future Adoption of Accounting Pronouncements

The GASB has issued the following governmental accounting standards that have effective date after June 30, 2017:

- GASB Statement No.87- Leases, which is effective for financial statements for periods beginning after December 15, 2019.

The impact of this statement on the Oversight Board's basic financial statements has not yet been determined. However, adoption of these statements is not expected to have a material impact on the Oversight Board's basic financial statements.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2017

25

### NOTE 2 — GOING CONCERN

The discussion in the following paragraphs regarding the Oversight Board's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Oversight Board's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due. Indicators such as external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation. The Oversight Board faces risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due.

The Oversight Board's revenues are established by PROMESA in Section 107, which states that as initial funding 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 from Territorial government presented are those estimated by the Oversight Board as sufficient to cover all expenditures for its operations for the period ended June 30, 2017, 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.

Even though the Oversight Board had a total net position of approximately **\$1,526,000** as of June 30, 2017, the Oversight Board is highly dependent on the Territorial government transfers to finance its operations. Approximately **99.6%** of the Oversight Board's total revenues are derived from the Territorial government transfers, which amounted to **\$31,000,000** for the period ended June 30, 2017. However, Section 107 (b) of PROMESA states that the Oversight Board shall use its powers with respect to the budget of the covered territory to ensure that sufficient funds are available to cover all of its expenses.

### NOTE 3 — RECEIVABLES

Receivables in the Oversight Board's governmental funds include intergovernmental receivables from the Territorial government of approximately **\$4,000,000** and other miscellaneous.

### NOTE 4 — ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables in the governmental funds include approximately **\$14,827,600** of trade accounts due to suppliers for purchase of merchandise and services rendered at June 30, 2017.

Accrued liabilities in the governmental funds include approximately **\$326,400** of unbilled services rendered at June 30, 2017.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2017

26

### NOTE 5 — INTERGOVERNMENTAL TRANSACTIONS

Due from/to other governmental entities by the Oversight Board at June 30, 2017 consist of:

<u>Receivable Entity/Fund</u>	<u>Payable Entity/Fund</u>	<u>Amount</u>
General Fund	Puerto Rico Treasury Department	\$ 4,000,000
Puerto Rico Treasury Department	General Fund	35,404
State Insurance Fund Corporation	General Fund	62
US General Services Administration	General Fund	8,000
United States Treasury Department	General Fund	18,290
New York State	General Fund	980
		<u>\$ 4,062,736</u>

Expenses in the Oversight Board's basic financial statements include approximately **\$153,400** in contributions made to other governmental entities as follows:

<u>Entity</u>	<u>Amount</u>
US Treasury Department	\$ 20,612
PR Treasury Department	5,000
The Bureau of the Fiscal Service	70,999
US General Services Administration	26,773
Puerto Rico Infrastructure Financing Authority	25,258
State Insurance Fund Corporation	4,726
NY State Disability	60
	<u>\$ 153,428</u>

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2017

27

### NOTE 6 — CAPITAL ASSETS

Capital assets activity of the Oversight Board for the period ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<b>Capital Assets, being depreciated:</b>				
Furniture and equipment	\$ -	\$ 5,005	\$ -	\$ 5,005
Computer equipment	-	12,006	-	12,006
<b>Total capital assets, being depreciated</b>	<u>-</u>	<u>17,011</u>	<u>-</u>	<u>17,011</u>
<b>Less accumulated depreciation for:</b>				
Furniture and equipment	-	103	-	103
Computer equipment	-	231	-	231
<b>Total accumulated depreciation</b>	<u>-</u>	<u>334</u>	<u>-</u>	<u>334</u>
<b>Governmental activities total capital assets, being depreciated, net</b>	<u>\$ -</u>	<u>\$ 16,677</u>	<u>\$ -</u>	<u>\$ 16,677</u>

Depreciation expense was charged to the functions of the Oversight Board for the period ended June 30, 2017 as follows:

<b>Governmental activities:</b>	
General and administrative	\$ 104
Fiscal oversight and management	230
<b>Total depreciation expense - governmental activities</b>	<u>\$ 334</u>

The Oversight Board did not recognize any impairment loss during the period ended June 30, 2017.

### NOTE 7 – OTHER LIABILITIES

Other liabilities activity of the Oversight Board for the period ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Other Net Increases (Decreases)</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Long-term portion</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ -	\$ 30,711	\$ 30,711	\$ 30,711	\$ -
<b>Total</b>	<u>\$ -</u>	<u>\$ 30,711</u>	<u>\$ 30,711</u>	<u>\$ 30,711</u>	<u>\$ -</u>

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2017

28

### NOTE 7 – OTHER LIABILITIES (CONTINUED)

Compensated absences reflect other net increases resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2017.

Compensated absences include approximately \$17,100 and \$13,600 of accrued vacation and sick leave benefits at June 30, 2017, respectively.

### NOTE 8 – COMMITMENTS

The Oversight Board has several operating leases primarily for the Oversight Board's facilities in San Juan and New York City that expire over minimum terms of one year, and can be renewed for additional terms, as provided in each contract. For the period ended June 30, 2017, rent expenditures amounted to approximately \$25,900 under such operating leases. The future minimum lease payments for these leases amount to \$102,141 for the year ending June 30, 2018.

In addition, the Oversight Board leases office equipment over a minimum term of five years. For the period ended June 30, 2017, rent expenditures amounted to approximately \$600 under such operating lease. The future minimum lease payments for this lease are as follows:

Year Ending June 30,	Amount
2018	\$ 3,600
2019	3,600
2020	3,600
2021	3,600
2022	3,000
Total future minimum lease payments	<u>\$ 17,400</u>

### NOTE 9 — 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 various legal counsels, cannot determine at this time the outcome of these cases or the exposure, if any, to the Oversight Board. The Oversight Board will vigorously defend against any adversary proceedings.

# FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

29

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## NOTE 9 — CONTINGENCIES (CONTINUED)

Moreover, the majority of the litigation cases do not involve claims for damages or other relief against the Oversight Board, but rather involved challenges to official actions taken by the Oversight Board, and efforts to obtain court relief to reverse or alter its actions. Under Section 105 of PROMESA and as the Territorial government debtor's representative pursuant to Section 315(b) of PROMESA, the Oversight Board is exempt from liability for any obligation of or claim against the Oversight Board or its members or employees or the Territorial government resulting from actions taken to carry out its functions. However, the Oversight Board's management cannot determine whether PROMESA Section 105 will be held to prohibit any damages being assessed as to the Oversight Board based on the allegations in the adversary complaints in these matters.

## NOTE 10 — SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2017 have been evaluated is October 31, 2017, which is the date the basic financial statements were available to be issued.

On September 7, 2017, the Territorial government was struck by Hurricane Irma affecting most of the northeastern corner of the island, where a state of emergency was declared by the President of the United States of America. On September 20, 2017, the Territorial government was struck again by Hurricane Maria and consequently the whole territory was declared a major disaster zone by the President.

Although too early to provide a damage assessment, a preliminary report from Moody's Analytics suggested it could be approximately \$95 billion, which is roughly 150% of Puerto Rico's annual Gross National Product. Moreover, the Oversight Board believes that Hurricanes Irma and Maria will cause Territorial government and some of its instrumentalities to face severe cash shortfalls from lower revenues, higher costs, and delayed or reduced cost-saving measures that had been required by the Oversight Board's fiscal plans.

The Oversight Board joined the Territorial government in actively seeking Federal Emergency Management Agency (FEMA) funds and any other potential sources of federal funds for the recovery and reconstruction of Puerto Rico. This federal assistance should come in the form of grants and reimbursements to assist Puerto Rico in responding to the catastrophic damage it has suffered, and pursuant to an emergency liquidity program, low-interest loans to assist Puerto Rico in responding to its cash flow deficiencies. Failure to provide the greatest amount of federal aid and the emergency liquidity program will be potentially ruinous.