

# **PUERTO RICO METROPOLITAN BUS AUTHORITY**

**(A Component Unit of the Commonwealth of Puerto Rico)**

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**Financial Statements, Required Supplementary Information  
and Independent Auditors' Report**

**(With Additional Reports and Information Required by  
Government Auditing Standards and the Uniform Guidance)**

**For the year ended June 30, 2017**

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**  
**JUNE 30, 2017**

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**VALDES, GARCIA, MARIN & MARTINEZ, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITORS' REPORT**

Hon. Carlos Contreras, Secretary  
Department of Transportation and Public Works

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Puerto Rico Metropolitan Bus Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Basis for Qualified Opinion*

We, nor the predecessor auditors, observed the taking of the physical inventory (stated at \$4,956,740) as of June 30, 2016 and the Authority's records do not permit adequate retroactive tests of inventory quantities. Consequently, we were unable to determine whether any adjustments were necessary in the statements of revenues, expenditures, and changes in net position, or cash flows. In addition, we were unable to satisfy ourselves by auditing procedures concerning the inventory costs as of June 30, 2017 stated in the accompanying statement of net position at \$4,141,974.

### *Qualified Opinion*

In our opinion, except for the effects of the matters described in the "Basis for Qualification Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of June 30, 2017, and the respective changes in net position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matters*

#### *Uncertainty about Ability to continue as a Going Concern*

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 12 to the financial statements, the Authority has suffered recurring losses, has a net capital deficiency and is highly dependent on the appropriations from the Commonwealth of Puerto Rico (the Commonwealth) to finance its operations. The financial difficulties experienced by the Commonwealth, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt about the Authority's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

#### *Adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*

As discussed in Note 1 to the basic financial statements, the Authority adopted the provisions of the Government Auditing Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2016. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10, the Schedule of the Authority's Proportionate Share of the Net Pension Liability on page 44 and the Schedule of the Authority's Contribution-Pension Plan on page 45 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 consider 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 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 the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and is derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

San Juan, Puerto Rico  
March 1, 2019

*Valdés, Amicia, Marín, & Martínez, LLP*

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affixed to the original

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2017**

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The following Managements' Discussion and Analysis (MD&A) of the financial performance and activity of the Puerto Rico Metropolitan Bus Authority ("the Authority") provides an introduction and understanding of the basic financial statements of the Authority for the fiscal year ended June 30, 2017. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

**Financial Highlights for 2017**

- Net position deficiency totaled \$388 million at June 30, 2017.
- Net position deficiency increased by \$36 million in 2017, as compared to an increase of approximately \$15.6 million in 2016.
- Net capital assets totaled \$22.1 million at June 30, 2017.
- Net capital assets decreased by 9 % at June 30, 2017, when compared with balance at June 30, 2016 of \$24.2 million.

**The Financial Statements**

The basic financial statements provide information about the Authority's business-type activities. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

**Overview of the Financial Statements for Business-Type Activities**

The financial statements consist of the (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to financial statements. The financial statements are prepared on the accrual basis of accounting meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with accounting principles generally accepted in the United States of America.

**Statement of Net Position**

The statement of net position reports all financial and capital resources of the Authority. This statement is presented in the format where assets equal liabilities plus net position. Assets and liabilities are presented in order of liquidity and classified as current (convertible into cash within one year) and non-current. The focus of the statement of net position is to show a picture of the liquidity and health of the Authority's net position as of the end of the year.

The Authority's net position is reported in the following categories:

- Invested in Capital Assets, Net of Related Debt – this component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or the borrowing that are attributable to the acquisition, construction, or improvement of those assets. The resources required to repay this debt must be provided from operations and the operating grants allocated annually by the Commonwealth of Puerto Rico since the capital assets themselves cannot be used to liquidate liabilities.
- Unrestricted – this component includes all net position that do not meet the definition of net position invested in capital assets.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2017**

**Statement of Revenues, Expenses and Changes in Net Position**

The statement of revenues, expenses, and changes in net position includes operating revenues, which consist of passenger and cargo revenues and equipment and property rentals and operating expenses, such as salaries and employees benefits, depreciation on capital assets, repairs and maintenance and other general administrative expenses, and non-operating revenue and expenses, such as the operating grants from the Commonwealth of Puerto Rico, interest and investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss and portrays the results of operations of the Authority for the entire period.

**Statement of Cash flows**

The statement of cash flows discloses net cash provided by or used in operating activities, investing activities, noncapital and related financing activities, and capital and related financial activities. This statement also portrays the health of the Authority in that current cash flows are sufficient to pay current liabilities.

**Notes to Financial Statements**

The notes to financial statements are an integral part of the basic financial statements and provide detailed information about significant accounting policies, related-party transactions, deposits and investments, capital assets, long-term liabilities, defined-benefit pension plans, and commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management's discussion and analysis and the financial statements.

**Financial Analysis of the Authority's Business-Type Activities**

**Statement of Net Position**

The following table reflects a condensed summary of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Authority as of June 30, 2017 and 2016:

	2017	2016 (as restated)	Change	
			Amount	Percent
Current assets	\$ 7,705,961	\$ 12,323,071	\$ (4,617,110)	-37%
Capital assets, net	22,082,577	24,222,341	(2,139,764)	-9%
Total assets	29,788,538	36,545,412	(6,756,874)	-18%
Deferred outflows of resources related to pension	54,990,097	33,015,111	21,974,986	67%
Total assets and deferred outflows of resources	\$ 84,778,635	\$ 69,560,523	\$ 15,218,112	22%

(Continues)



**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2017**

	2017	2016 (as restated)	Change Amount	Percent
Currents liabilities	\$ 137,855,571	\$ 111,666,547	\$ 26,189,024	23%
Non-currents liabilities	308,613,685	297,409,125	11,204,560	4%
Total liabilities	446,469,256	409,075,672	37,393,584	9%
Deferred in flows of resources related to pension	26,250,200	12,328,519	13,921,681	113%
Total liabilities and deferred inflows of resources	472,719,456	421,404,191	51,315,265	12%
Net position (Deficit)				
Net investment in capital assets	22,082,577	24,222,341	(2,139,764)	-9%
Deficit	(410,023,398)	(376,066,009)	(33,957,389)	9%
Total deficit	(387,940,821)	(351,843,668)	(36,097,153)	10%
Total liabilities, deferred inflows of resources and deficit	\$ 84,778,635	\$ 69,560,523	\$ 15,218,112	22%

Current assets decreased by 37% or \$4.6 million. This decrease in current assets was mainly due to the fact that during the year 2017 the Authority increased the allowance for doubtful accounts in connection with an account receivable from the Puerto Rico Department of Transportation and Public Works, that after arriving to a resolution between the Department and the Authority it was agreed to decrease the account receivable balance from \$4,421,885 to \$1,000,000. Also, the Authority cash decreased by \$2,229,953 because the cash from fare revenues in connection with the ATI magnetic ticket was received after the year-end.

Deferred outflows increased significantly by \$22 million at June 30, 2017, compared with the fiscal year 2016, mainly due to the recognition of the amount related with the implementation of GASB No. 68.

Capital assets decreased by 9% to \$22.1 million. This decrease is the net result of the depreciation for the year amounting to \$4.9 million. Capital assets are funded with the proceeds from operations and operating and capital grants from the Commonwealth of Puerto Rico. In addition, the Authority is a recipient of certain funds under Federal program 20.507 "Federal Transit Administration Formula Grants" granted by the U.S. Federal Transit Administration, which is used to finance the acquisition and maintenance of capital assets.

Current liabilities increased by 23% to \$138 million. The main reason for the increase in current liabilities was due to the recognition of an accounts payable of \$13 million to the retirement system administration on the Authority's financial statements as of June 30, 2017. The Authority also recognized interests, fines and penalties of employee's income tax withheld.

Noncurrent liabilities had an increase of \$11 million due to the recognition of the pension liability in accordance with GASB No. 68 in the Authority's financial statements.

Net position deficiency increased by 10% to a net deficiency of \$387.9 million. The increase was the result of an excess of expenses (operating and non-operating) over revenues (operating and non-operating) and capital grants of \$23.1 million. Also there was a prior period adjustment of \$255.6 million to recognize a net pension liability in the Authority's records. The largest portion of the Authority's net position represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2017**

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016:

	Years Ended June 30,		Change	
	2017	2016 (as restated)	Amount	Percent
Operating revenues	\$ 2,602,173	\$ 3,172,867	\$ (570,694)	-18%
Operating expenses	77,355,598	84,896,044	(7,540,446)	-9%
Operating loss	(74,753,425)	(81,723,177)	(6,969,752)	9%
Non-operating revenues (expenses)				
Operating grants	40,249,106	41,319,608	(1,070,502)	-3%
Interest expense, net	(1,592,835)	(883,994)	(708,841)	80%
Total non-operating revenues	38,656,271	40,435,614	(1,779,343)	-4%
Capital contributions	-	3,207,092	(3,207,092)	-100%
Change in net position	(36,097,154)	(38,080,471)	1,983,317	-5%
Net position (deficit) at beginning of year	(96,253,349)	(80,688,116)	(15,565,233)	19%
Prior period adjustment	(255,590,318)	(233,075,080)	(22,515,238)	100%
Net position (deficit) at beginning of year as restated	(351,843,667)	(313,763,196)	(38,080,471)	12%
Net position (deficit) at end of year	\$ (387,940,821)	\$ (351,843,667)	(36,097,154)	10%

Operating revenues which consisted principally of fares for transportation and other services, decreased by 18% to \$2.6 million due to a decrease in patronage during the year. Also, during the year 2017 the Authority as part of a restructuring of the routes, finalized the year operating less routes than in the year 2016.

Operating expenses which consisted principally of salaries and employee benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative decreased by 9% to \$77.4 million mainly due to the net effect of GASB No. 68 implementation and an increase in salaries and employees' benefits, oil and diesel and depreciation. Also, the Authority during the year 2016, as required by the court in a law suit from the Authority employees' union, changed the coverage of the health insurance increasing the annual premium by \$3.7 million. In addition, the Authority incurred in approximately \$2 million in buses maintenance prevention and warranty, write-off of \$4.5 million of the account receivable from the Puerto Rico Department of Transportation and Public Works.

During the current year, the Authority continued with the payments of the voluntary retirement plan that commenced during fiscal year 2011.

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined; including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee salary, as defined. In this early retirement benefit program, the Authority will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2017**

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for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the Commonwealth of Puerto Rico.

The financial impact resulting from the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of approximately \$6.8 million in the statement of net position as of June 30, 2017. At June 30, 2017 unpaid long-term benefits granted on this program were discounted at 2.60%.

Non-operating revenues consisted principally of operating grants from the Commonwealth of Puerto Rico and Federal Government. These operating grants from the Commonwealth of Puerto Rico are annual appropriations from the general fund. The amount appropriated annually depends on the approved budget of the Commonwealth of Puerto Rico.

In addition, the Authority receives operating and capital contributions from the U.S. Federal Transit Administration, which are restricted to the acquisition and repairs of certain capital assets.

During the year ended June 30, 2017, there was a slight decrease in non-operating revenues and expenses of 4.4% to \$38.7 million mainly due to decrease in operating grants received from the Commonwealth of Puerto Rico.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2017, the Authority had invested approximately \$22.1 million in capital assets (net of related depreciation) including transportation equipment, land, building and structures and machinery and equipment used in the operations. At June 30, 2017, the Authority had invested approximately \$2.8 million in capital assets.

Major capital assets events during the year ended June 30, 2017 include the acquisition and repair of transportation equipment, which were funded principally by capital contributions received.

### **Debt Administration**

Effective March 2012, the Authority refinanced the amounts outstanding with a private bank under a line of credit in the amount of \$3 million and a long-term loan in the amount of \$34.5 into a long-term loan with the same bank. This loan was payable in monthly principal installments of \$208,574, plus interest through March 2016 when it matured. Interest on outstanding balance is based on a margin over LIBOR based on the debt rating given to the Commonwealth of Puerto Rico's general obligations by Moody's Corporation and Standard & Poors Financial Services LLC, as defined in the agreement. The note was secured by the assignment of the cigarette tax revenues allocated by the Commonwealth of Puerto Rico.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2017**

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On July 2015, the Authority executed a sixth amendment to its loan facility with the bank whereby the local commercial bank agreed to extend the maturity date of the loan from July 17, 2015 until September 25, 2015. As part of the sixth amendment, the monthly principal amortization payment was increased by \$5,000 per month for the months of August and September 2015.

On October 1, 2015, the Authority executed a seventh amendment to its loan facility with the bank whereby the maturity date was further extended through March 30, 2016. As part of the seventh amendment, the monthly principal amortization payment was increased by \$5,000 per month for the months of October 2015 to March 2016.

Currently, the Authority does not have sufficient liquid financial resources to meet obligations when they come due. Due to this fact, the Authority has not been paying the monthly payments related to this loan since October 2015. Based on the above, the bank has presented a lawsuit against the Authority for collection. The Authority's internal lawyer is working on this lawsuit in order to reach an agreement with the bank.

The outstanding current portion of long-term loan balance is \$28,254,666.

**Contacting the Authority's Financial Management**

This financial report is designed to provide our customers, investors, creditors, and the general public with a general overview of the Authority's finances and to how it uses the economic resources that it receives. If you have questions about this report or need additional financial information, contact the Administration Office at Puerto Rico Metropolitan Bus Authority, 37 de Diego Avenue, San Juan, Puerto Rico.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

Assets	
Current assets:	
Cash and cash equivalents	\$ 427,530
Accounts receivable, net	3,136,457
Inventories	<u>4,141,974</u>
Total current assets	7,705,961
Non-current assets:	
Capital assets, net of accumulated depreciation	22,082,577
Deferred outflows of resources related to pension	<u>54,990,097</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 84,778,635</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	\$ 105,195,325
Voluntary terminations benefits	927,193
Compensated absences	3,478,387
Current portion of long-term debt	<u>28,254,666</u>
Total current liabilities	<u>137,855,571</u>
Non-current liabilities:	
Net pension liability	297,446,426
Compensated absences	2,121,345
Voluntary termination benefits	4,857,884
Other liabilities	<u>4,188,030</u>
Total non-current liabilities	<u>308,613,685</u>
Deferred inflows of resources related to pension	<u>26,250,200</u>
Total Liabilities and Deferred Inflows of Resources	<u>472,719,456</u>
Net Position (Deficit):	
Net investment in capital assets	22,082,577
Deficit	<u>(410,023,398)</u>
Total Net Position (Deficit)	<u>(387,940,821)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	<u>\$ 84,778,635</u>

The accompanying notes are an integral part of these financial statements.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Operating revenues:	
Passenger fares	\$ 1,817,248
Advertising and other	<u>784,925</u>
Total operating revenues	<u>2,602,173</u>
Operating expenses:	
Salaries and employees benefits, including voluntary termination benefits	58,406,047
Diesel, gasoline, oil and lubricants	2,554,325
Depreciation and amortization	4,904,272
Materials, spare parts and repairs and maintenance	4,236,008
Utilities	1,119,920
Professional services	664,504
General and administrative	<u>5,470,522</u>
Total operating expenses	<u>77,355,598</u>
Operating loss	<u>(74,753,425)</u>
Non-operating revenues (expenses)	
Operating grants:	
Commonwealth of Puerto Rico	27,609,000
U.S. Federal Transit Administration	8,769,967
Recovery of diesel expenses	3,870,139
Interest and other financing expenses	(1,594,103)
Interest income	<u>1,268</u>
Total non-operating revenues (expenses), net	<u>38,656,271</u>
Change in net position	(36,097,154)
Net position (deficit) at beginning of year	(96,253,349)
Prior period adjustment	<u>(255,590,318)</u>
Net position (deficit) at beginning of year, as restated	<u>(351,843,667)</u>
Net position (deficit) at end of year	<u><u>\$ (387,940,821)</u></u>

The accompanying notes are an integral part of these financial statements.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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Cash flows from operating activities:	
Cash collected from customers and passengers	\$ 2,643,736
Cash payments to suppliers for goods and services	(1,835,575)
Cash payments to employees for services	<u>(40,178,473)</u>
Net cash used in operating activities	<u>(39,370,312)</u>
Cash flows from non-capital and related financing activities:	
Operating grants received from:	
Commonwealth of Puerto Rico	27,180,067
U.S. Federal Transit Administration	9,164,096
Recovery of diesel	3,870,139
Interest paid	<u>(310,703)</u>
Net cash provided by non-capital and related financing activities	<u>39,903,599</u>
Cash flows from capital and related financing activities:	
Payment for capital assets and net cash used in capital and related financing activities	<u>(2,764,508)</u>
Cash flows from investing activities:	
Interest received and net cash provided by investing activities	<u>1,268</u>
Net decrease in cash	(2,229,953)
Cash at beginning of the year	<u>2,657,483</u>
Cash at end of the year	<u><u>\$ 427,530</u></u>

(Continues)

The accompanying notes are an integral part of these financial statements.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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Reconciliation of operating loss to net cash	
used in operating activities:	
Operating loss	\$ (74,753,425)
Adjustments to reconcile operating loss to net cash	
used in operating activities:	
Depreciation and amortization	4,904,272
Bad debts expense	3,421,882
Changes in operating assets and liabilities:	
Accounts receivable	41,563
Inventories	(1,041,484)
Other assets	13,921,681
Accounts payable and accrued expenses	21,774,974
Other liabilities	<u>(7,639,775)</u>
Net cash used in operating activities	<u>\$ (39,370,312)</u>

The accompanying notes are an integral part of these financial statements.



**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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**1. Organization and Summary of Significant Accounting Policies**

The Puerto Rico Metropolitan Bus Authority (the "Authority") is a public corporation created by Act No. 5 of May 11, 1959, as amended, to provide, develop, manage and maintain a public low-cost transportation system for citizens within the Metropolitan Area of Puerto Rico including the following municipalities: San Juan, Bayamon, Carolina, Guaynabo, Cataño, Loiza, Toa Baja and Trujillo Alto. This service is principally financed by appropriations from the Commonwealth of Puerto Rico (the "Commonwealth"), grants from the Federal Government and by passenger fares. The Authority is a component unit of the Commonwealth, and accordingly is included in its general-purpose financial statements. The powers, normally exercised by a Board of Directors, are vested with the Secretary of the Department of Transportation and Public Works (DTPW). The Authority is exempt from the payment of any taxes on its revenues and properties.

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to government entities. The Authority follows the Governmental Accounting Standard Board ("GASB") under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for States and Local Governments*, in the preparation of its financial statements.

Following is a description of the Authority's most significant accounting policies:

**Measurement Focus and Basis of Accounting**

The operations of the Authority are accounted for as an enterprise fund. Enterprise funds are accounted using the flow of economic resources measurement focus and the accrual basis of accounting. Under this basis, revenue is recorded when earned, and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for those operations for which the pricing policies of the entity establish fees and charges designed to recover its costs, including capital costs such as depreciation and debt service.

**Use of Estimates**

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

In the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates. In particular, they include cash on hand and on deposit and short-term investments with maturities of three months or less.

**Allowance for Doubtful Accounts**

The allowance for doubtful accounts is the amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the existing accounts receivable and related allowance may change in the future.

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**1. Organization and Summary of Significant Accounting Policies (Continued)**

**Inventories**

Inventories, consisting of fuel, spare parts, materials and supplies are valued at the lower of cost (weighted average method) or market.

**Capital Assets**

Capital assets are recorded at historical cost or estimated historical cost, net of accumulated depreciation and amortization. Capital assets are defined by the Authority as assets with an initial cost of more than \$500 and an estimated useful life of more than one year. Depreciation and amortization are computed on a straight-line method over the estimated useful life of the respective asset. Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When property and equipment are disposed of, the cost and applicable accumulated depreciation and amortization are removed from the respective accounts and the resulting gain or loss is charged to the operations.

The estimated useful lives of the capital assets follow:

Buildings and structures	40 years
Transportation equipment	5-12 years
Terminals	20 years
Machinery and equipment	5-10 years

The Authority periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment of capital asset was identified during the year ended June 30, 2017.

**Compensated Absences**

Vacation and sick leave may be accumulated at a maximum of 60 days and 90 days, respectively. Employees earned 30 days of vacation and 18 days of sick leave, annually, until April 28, 2017. Effective April 29, 2017, when Act No. 26 became effective, all employees in each calendar year, will earn up a maximum of 15 and 12 days of vacation and sick leave, respectively.

**Voluntary Termination Benefits**

The Authority recognizes a liability and expense for voluntary termination benefits when the offer is accepted, and the amount can be estimated.

**Accounting for Pension Costs**

The Authority accounts for pension costs under the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*-an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date*- an amendment of GASB Statement No. 68, which was adopted by the Authority effective July 1, 2016. GASB Statement No. 68 replaced the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and requires that employers report a net pension liability and related pension accounts, such as pension expense and deferred outflows/inflows of resources as determined by the Retirement System, as applicable, under the requirements contained in GASB Statement No. 67, *Financial Reporting for Pension Plans* - an amendment of GASB Statement No. 25.

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**1. Organization and Summary of Significant Accounting Policies (Continued)**

**Deferred Outflows/Inflows**

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 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 will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position deferred outflows/inflows of resources arise as result of the transactions recorded as part of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*-an amendment of GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68.

**Net Position**

Net position is classified in the accompanying statement of net position in the following two components:

**Investment in Capital Assets, Net of Related Debt**

This component of net position consists of capital assets net of accumulated depreciation and amortization and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds, at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of this component.

**Unrestricted**

Unrestricted net position consists of net position that do not meet the definition of investment in capital assets, net of related debt.

**Operating Revenues and Expenses**

The Authority distinguishes between operating and non-operating revenues and expenses in its statement of revenues, expenses, and changes in net position. The principal revenues of the Authority are received from patrons of the transportation services provided. The Authority also recognizes as operating revenue-advertising charges to customers and other related transportation services. Operating expenses of the Authority include the cost of operating the transportation facilities, administrative expenses, and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Contributions**

The Authority receives federal funds under grants from the U.S. Federal Transit Administration (FTA) exclusively for acquisition and repairs of certain capital assets with certain matching funds provided by the Commonwealth. Capital grants of the Authority are reported as non-operating revenues rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. Capital funding provided under these grants is considered earned as the related allowable expenditure is incurred.

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**1. Organization and Summary of Significant Accounting Policies (Continued)**

In addition, the Authority receives operating and capital grants from the Commonwealth. These grants, which are subject to annual appropriations, are used to finance the Authority's operations and the acquisition of capital assets. Amounts received under these grants are recorded as revenues in the period stated in the grant.

**Risk Financing**

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the last three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

**Accrual for Legal Claims**

The estimated amount of the liability for legal claims is recorded in the accompanying statement of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such legal claims. The Authority consults with its legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for legal claims may change in the near term.

**Adoption of Accounting Pronouncements:**

In fiscal year 2017, the Authority adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pension – an Amendment of GASB Statement No. 27* (GASB Statement No. 68).

GASB Statement No. 68 establishes standards for accounting and financial reporting, but not funding or budgetary standards, of defined benefit pensions and defined contributions pension provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (pension trusts). This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement. The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions.

Note disclosures and required supplementary information requirements about pension also are addressed. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

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**1. Organization and Summary of Significant Accounting Policies (Continued)**

The major fundamental change is switching from the existing “funding-based” accounting model, where the annual required contribution was compared to the actual payments made and that difference determined the net pension obligation (or Asset) to an “accrual basis” model similar to current Financial Accounting Standards Boards (“FASB”) standards, where the total pension liability (actuarially determined) is compared to the Plan’s fiduciary net position (predominantly assets) and the difference represents the net pension liability. The information to adopt this Statement predominantly was based on the new actuarial report prepared under the new GASB Statement No. 67, *Financing Reporting for Pension Plans* – an Amendment of GASB Statement No. 25.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an Amendment of GASB Statement No. 68 (GASB Statement No. 71).

GASB Statement No. 71 amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

This Statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“OPEB plans”), as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. The scope of this Statement include OPEB plans, defined benefit and defined contribution, administered through trusts that meet the following criteria: contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable, OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms, and OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specific criteria. The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

- GASB Statement No. 77, *Tax Abatement Disclosures*

This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government’s tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. For financial reporting purposes, a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. A transaction’s substance, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement for the purpose of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015.

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**1. Organization and Summary of Significant Accounting Policies (Continued)**

- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans*.

This Statement addresses a practice issue regarding the scope and applicability of Statement No. 68. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plan and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans and that are administered through trusts that meet the criteria in paragraph 4 of that statement. This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pension through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristic described above.

- GASB Statement No. 79, *Certain External Investment Pools Participants* (GASB Statement No. 79)

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in the Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. If an external investment pool does not meet the criteria established by this Statement that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in the external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended. This Statement established additional note disclosures requirement for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. GASB Statement No. 79 establishes specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The Statement also establishes additional note disclosures for qualifying external investment pools.

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**1. Organization and Summary of Significant Accounting Policies (Continued)**

- GASB Statement No. 80, *Blending Requirement for Certain Component Units, an Amendment of GASB Statement No. 14* (GASB Statement No.80),

GASB Statement No. 80, which is effective for periods beginning after June 15, 2016, improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of a component unit of all state and local governments. The additional criterion requires blending of a component unit incorporated as not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provision of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

- GASB Statement No. 82, *Pension Issues-an Amendment of GASB Statement No. 67, No. 68 and No. 73* (GASB Statement No. 82)

GASB Statement No. 82, is effective for periods beginning after June 15, 2016, except for the requirement of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. GASB Statement No. 82 addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, GASB Statement No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of the employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standards of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purpose of GASB Statement No. 67 and as employee contributions for purpose of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pension (for example, as salaries and wages or as fringe benefits).

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1. Organization and Summary of Significant Accounting Policies (Continued)

Future Adoption of Accounting Pronouncements:

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

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* - This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other than Pensions*, as amended, and No. 57, *OPEB. Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity. The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
- GASB Statement No. 81, *Irrevocable Split Interest Agreements* (GASB Statement No. 81) – GASB Statement No. 81 improves accounting and financial reporting for irrevocable split interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split interest agreements can be created through a trust, or other legally enforceable agreements with characteristics that are equivalent to split interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trust, charitable remainder trust, and life- interest in real estate. This Statement requires that a governmental that receives resources pursuant to an irrevocable split- interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interest in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interest. This statement is effective for periods beginning after December 15, 2016.



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1. Organization and Summary of Significant Accounting Policies (Continued)

- GASB Statement No. 83, *Certain Assets Retirement Obligation* - This Statement addresses accounting and financial reporting for certain assets retirement obligation (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital lease. A government that has legal obligation 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 occurs when the liability is both incurred and reasonably estimated. It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcome, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used.

This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement. It requires that current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. It also requires disclosure of information about the nature of a government's AROs, the method and assumptions used for the estimates of liabilities, and the estimated remaining useful life of the associated tangible capital assets. This Statement is effective for periods beginning after June 15, 2018.

- GASB Statement No. 84, *Fiduciary Activities* - The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a Business-Type activity that normally expects to hold custodial assets for three months or less. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. 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.

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**1. Organization and Summary of Significant Accounting Policies (Continued)**

- GASB Statement No. 85, *Omnibus 2017* - The objective of this statement is to address practice issues that have been identified during the implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Specifically this statement addresses the following topics:
  - Blending a component unit in circumstances in which the Primary Government is a Business - Type activity that reports in a single column for financial statements presentation.
  - Reporting amounts previously reported as goodwill and "negative" goodwill.
  - Classifying real estate held by insurance entities.
  - Measuring certain money market investment and participating interest earning investment contracts at amortized cost.
  - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
  - Recognizing on behalf payments for pensions or OPEB in employer financial statements.
  - Presenting payroll related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
  - Classifying employer paid member contributions for OPEB.
  - Simplifying certain aspects of the alternative measurement method for OPEB.
  - Accounting and financial reporting for OPEB provided through certain multiple employer defined benefit OPEB plans.

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

- GASB Statement No. 86, *Certain Debt Extinguishment Issues* - This Statement improves the consistency in accounting and financial reporting for in substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017.
- GASB Statement No.87, *Leases* - The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial reporting for leases 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.

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**1. Organization and Summary of Significant Accounting Policies (Continued)**

- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* - The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities the 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.
- GASB Statement No. 89, *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 GASB 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 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.
- GASB Statement No. 90, *Majority Equity Interest-An Amendment of GASB Statements No. 14 and No. 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 statements 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 a permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Management is evaluating the impact that these statements will have on the Authority's basic financial statements.

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**2. Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2017, consist of cash on hand and on bank deposits.

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department and such deposits are required to be kept in separate accounts in the name of the Authority. Pursuant to the Investment Guidelines of the Commonwealth adopted by the Government Development Bank for Puerto Rico ("GDB"), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, banker acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. The Authority has no investments at June 30, 2017.

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico 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 Treasury of the Commonwealth.

In addition, at June 30, 2017, the Authority maintained cash deposited at the Governmental Development Bank for Puerto Rico (GDB), in the amount \$216,309. This amount is uncollateralized since by law, the governmental banks of the Commonwealth are exempt from the requirement of insuring the deposits of funds of the entities of the Commonwealth.

The Authority's cash and cash equivalents as of June 30, 2017 consist of the following (in thousands):

	Book Balance	Custodial credit risk loss	Book Balance after loss	Depository Bank Balance	Amount uninsured and uncollateralized
Cash deposited in commercial banks	\$ 427,530	\$ -	\$ 427,530	\$ 561,058	\$ -
Cash equivalents:					
Deposit accounts with:					
Governmental Development Bank for PR	216,309	(216,309)	-	216,309	216,309
Total cash equivalents	\$ 643,839	\$ (216,309)	\$ 427,530	\$ 777,367	\$ 216,309

**Accumulated Custodial Credit Risk Loss on Deposits with Governmental Bank**

On October 18, 2016, the Secretary of the Treasury of the Commonwealth (the Secretary) issued its Circular Letter 1300-08-17 confirming that there is substantial doubt that GDB may be able to continue operating as a going concern, and that GDB is currently without financial liquidity. Based on this information, the Secretary recommended to all component units and other entities with deposits at GDB to evaluate the possibility of recognizing a loss as of June 30, 2016, for amounts held at GDB.

As result, as of June 30, 2017 the balance of the accumulated custodial credit risk loss on deposits held with GDB is \$216,309.

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**3. Accounts Receivable**

Accounts receivable at June 30, 2017 consist of:

Operating and capital grants:	
U.S. Federal Transit Administration	\$ 622,382
Commonwealth funds to be transferred by PRHTA	1,508,083
Puerto Rico Highways and Transportation Authority	5,112,016
Other	72,988
	<u>7,315,469</u>
Less: allowance for doubtful accounts	<u>(4,179,012)</u>
Total	<u>\$ 3,136,457</u>

Account receivable from U.S. Federal Transit Administration (FTA) consists principally of operating grants pending to collect at June 30, 2017. The account receivable from the Puerto Rico Highways and Transportation Authority (PRHTA) consists of amounts due under a contract with PRHTA in which the Authority provides transportation services to passengers using the urban train system. Under the terms of the contract, PRHTA will reimburse the Authority certain amounts for each passenger served. The amount outstanding of \$ 5,112,016 represents the net amount billed to PRHTA for services provided as of June 30, 2017.

**4. Inventories**

Inventories at June 30, 2017 consist of:

Spare parts	\$ 3,863,770
Diesel and gasoline	98,843
Supplies	<u>179,361</u>
Total	<u>\$ 4,141,974</u>

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**5. Capital Assets**

The following schedule summarizes the capital assets held by the Authority as of June 30, 2017:

	<u>Balance at June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2017</u>
Assets not being depreciated:				
Land and improvements	<u>\$ 2,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>
Assets being depreciated:				
Building and improvements	21,488,181	1,616,365	-	23,104,546
Terminals	5,631,653	23,778	-	5,655,431
Transportation equipment	61,205,380	627,918	-	61,833,298
Machinery and equipment	<u>24,407,652</u>	<u>497,474</u>	<u>615</u>	<u>24,904,511</u>
Total	112,732,866	2,765,535	615	115,497,786
Less: accumulated depreciation and amortization	<u>91,010,525</u>	<u>4,904,684</u>	<u>-</u>	<u>95,915,209</u>
Capital assets being depreciated, net	<u>21,722,341</u>	<u>(2,139,149)</u>	<u>615</u>	<u>19,582,577</u>
Total capital assets, net	<u>\$ 24,222,341</u>	<u>\$ (2,139,149)</u>	<u>\$ 615</u>	<u>\$ 22,082,577</u>

**6. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses at June 30, 2017 consist of:

Suppliers	\$ 20,299,096
Agencies and public corporations of the Commonwealth	22,709,778
Payroll taxes and withholdings	61,140,821
Others	<u>1,045,630</u>
Total	<u>\$ 105,195,325</u>

Amount due to agencies and public corporations of the Commonwealth consist principally of liabilities for payroll tax withholdings, utilities, workmen's compensation insurance, and other services.

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**7. Long-Term Debt**

Long-term debt at June 30, 2017 consists of:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017	Due within One Year
Note payable to commercial bank	<u>\$ 28,254,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,254,666</u>	<u>\$28,254,666</u>

This loan was payable in monthly principal installments of \$208,574, plus interest through March 2015 when it matured. Interest on the outstanding balance is based on a margin over LIBOR rate based on the debt rating given to the Commonwealth's general obligations by Moody's Corporation and Standard & Poor's Financial Services LLC, as defined in the agreement (4.12% at June 30, 2017). The note was secured by the assignment of the cigarette tax revenues allocated by the Commonwealth. On November 30, 2015, the Governor of the Commonwealth issued Executive Order No. 2015-046, which among other measures, address the economic and fiscal crisis of the Commonwealth, and cancel the transfer of the cigarette tax revenues to the Authority.

On July 2015, the Authority executed a sixth amendment to its loan facility with the bank whereby the local commercial bank agreed to extend the maturity date of the Authority's loan from July 17, 2015 to September 25, 2015. As part of the sixth amendment, the monthly principal amortization payment was increased by \$5,000 per month for the months of August and September 2015.

On October 1, 2015, the Authority executed a seventh amendment to its loan facility with the bank whereby the maturity date was further extended through March 30, 2016. As part of the seventh amendment, the monthly principal amortization payment was increased by \$5,000 per month for the months of October 2015 to March 2016.

Currently, the Authority does not have sufficient liquid financial resources to meet its obligations when they come due. Due to this fact, the Authority has not been paying the monthly payments related to this loan since October 2015. Based on the above, the bank has presented a lawsuit against the Authority for collection of money. The Authority's internal lawyer is working on this lawsuit in order to reach an agreement with the bank.

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**8. Non-current Liabilities**

Changes in non-current liabilities, other than the note payable described above, as of June 30, 2017 are summarized as follows:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017	Current Portion
Compensated absences	\$ 5,455,354	\$ 7,407,882	\$ 7,263,504	\$ 5,599,732	\$ 3,478,387
Accrued legal claims	7,479,119	-	5,551,403	1,927,716	-
Voluntary termination benefits	6,850,023	-	1,064,946	5,785,077	927,193
Other liabilities	2,654,357	3,600	397,643	2,260,314	-
<b>Total</b>	<b>\$ 22,438,853</b>	<b>\$ 7,411,482</b>	<b>\$ 14,277,496</b>	<b>\$ 15,572,839</b>	<b>\$ 4,405,580</b>

**9. Retirement Plan**

**Plan description**

The Authority is a participating employer in a retirement plan administered by the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers employees of certain public corporations not having their own retirement systems, employees of the Fire and Police Departments of Puerto Rico, all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors). Prior to July 1, 2013, the system operated under the following benefits structures:

- *Act No. 447 of May 15, 1951* (Act No. 447) effective on January 1, 1952 for members hired up to March 31, 1990,
- *Act No. 1 of February 16, 1990* (Act No. 1) for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- *Act No. 305 of September 24, 1999* (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000 up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 are participants of a cost-sharing multiple employer defined benefit plan. Act No. 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000 there was a pool of pension assets invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Effective on July 1, 2013, Act No. 3 of 2013 (Act No. 3) amends the provisions of the different benefits structures under the ERS. Act No. 3 moves all participants (employees) under the defined benefit pension plans (Act No. 447 and Act No. 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act No. 447 and Act No. 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year.



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**9. Retirement Plan (Continued)**

**Benefits provided**

Eligibility for retirement. Members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time under the provisions of the applicable law. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Under Act No. 447 and Act No. 1 public officers in high risk positions (state and municipal police, firefighters and custody officials) who were not eligible to retire as of June 30, 2013 and had not attained 30 years of credited service by December 31, 2013, are eligible to retire from active service upon attainment of age 55 with 30 years of credited service, System 2000 employees upon attainment of age 55, and Act No. 3 employees upon reaching 58 years.

After Act No. 3 was approved, members who were not eligible to retire as of June 30, 2013 and had not attained 30 years of credited service by December 31, 2013, are eligible to retire upon attainment following new retirement eligibility requirements: (1) Act No. 447 regular employees upon attaining a range between 59 to 61 years (depending of date of birth) and 10 years of creditable service, (2) Act No. 1 employees upon attaining 65 years with 10 years of creditable service, (3) System 2000 regular employees upon attaining a range between 61 to 65 years (depending of date of birth) and, (4) Act No. 3 employees hired after June 30, 2017 upon reaching 67 years.

Accrued benefits. All members are entitled to a lifetime annuity based on the annualized value of the balance in the hybrid individual contribution account at the time of the retirement calculated based on a factor that will incorporate the individual's life expectancy and a rate of return. For Act No. 447 and Act No. 1 participants will receive a pension at retirement age equivalent to what they have accrued under Act No. 447 and Act No. 1 up to June 30, 2013, plus the lifetime annuity corresponding to contributions made to the individual account on July 1, 2013 and forward. Act No. 447 participants, except police and mayors, may elect to coordinate coverage with Social Security benefits (Coordinated Plan). Under this option participants are subject to a benefit recalculation upon attainment of the Social Security retirement age. For all members, if the balance of the defined contribution individual account is less than \$10,000 the amount shall be paid as a lump sum instead of an annuity.

Compulsory retirement. All Act No. 447 and Act No. 1 public officers in high risk positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Fire Department or supervising authority, as applicable.

**Contributions**

Effective July 1, 2011, the Act No. 3 is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established.

Members. All participants are required to contribute 10% of gross salary. However, Act No. 447 participants who selected the Coordination Plan (only with benefits coordinated with social security benefits, as described above) are required to contribute 10% of gross salary effective July 1, 2015. Members may voluntarily make additional contributions to their defined contribution individual account.

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**9. Retirement Plan (Continued)**

*Payroll-based employer contribution.* The Authority contributed 13.275% of gross salary for fiscal year 2014-2015. Act 3 requires an additional 1% annually for each of the next fiscal year until June 30, 2016. For each of the five years thereafter, employer contributions will increase annually by 1.25% of gross salary reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The Authority required contribution is \$3,535,971 for fiscal year 2016-2017. This amount represented 15.5% of the required contribution for the corresponding year.

*Supplemental contribution.* In accordance with Act No. 3 of 2013, effective July 1, 2013, the ERS will receive a supplemental contribution of \$2,000 (\$800 for the pension plan and \$1,200 to the post-employment healthcare benefits plan) each fiscal year for each pensioner who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by certain public corporations with own treasuries, the Commonwealth's General Fund for former government and certain public corporations without own treasuries, employees or municipalities for their former employees.

*Additional uniform contribution.* Act No. 32 of 2013, provides for an Additional Uniform Contribution (AUC) which will be financed by all participating employers (including the Authority) of the ERS. Beginning with the 2014-2015 until 2032-2033 fiscal year, the AUC will be the uniform contribution certified by the external actuary of the ERS at least 120 days prior to the start of each fiscal year, as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below \$1 billion. The ERS will determine the amount of AUC to be billed and paid by each employer during each fiscal year. Commonwealth laws provide for a subsidy of the AUC obligation, applicable to all participating employers (including the Authority) of the ERS that the Puerto Rico Office of Management and Budget (OMB) determines do not have financial capability to pay the AUC obligation. For fiscal year 2016-2017 the Company's AUC obligation amounted to \$4,141,047. The AUC was eliminated starting in July 2017.

**Net Pension Liability, Pension Expense, Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pension**

On November 2, 2018, the ERS issued an audited report for the year ended June 30, 2016, in accordance with GASB Statement No. 68, providing information about pension amounts by employer and the corresponding employer allocation percentage. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, the balances have been determined in the same basis as they are reported by the ERS. The Authority disclosed the information mentioned below based on this audited data reported by ERS and the ERS June 30, 2016 Actuarial Valuation Report.

At June 30, 2017, the Authority reported a liability of \$297,446,426 for its proportionate share of the net pension liability. The collective net pension liability which amounts to approximately \$38 billion was determined by an actuarial valuation as of July 1, 2015, that was rolled forward to June 30, 2016 and assuming no gains or losses. The Authority's proportion of the net pension liability was based on a projection of the Authority share of contributions to the pension plan relative to the projected contributions of all ERS participants, actuarially determined. At June 30, 2016, the Authority's proportion was .78901%.

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**9. Retirement Plan (Continued)**

For the year ended June 30, 2017, the Authority recognized pension expense of \$7,388,246. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Amortization Period</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	5 years	\$ 243,186	\$ -
Changes in assumptions	5 years	45,369,756	-
Difference between expected and actual experience	6 years	-	4,083,470
Difference between projected and actual earnings on pension plan investments	5 years	-	1,609,435
Total to be amortized		45,612,942	5,692,905
Changes in proportion - employer specific amounts		-	20,557,295
Audited amounts as reported by ERS		45,612,942	26,250,200
Authority's contributions subsequent to measurement date		9,377,155	-
		<u>\$ 54,990,097</u>	<u>\$26,250,200</u>

The \$9,377,155 reported as deferred outflows of resources related to the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in future fiscal years based on the average expected remaining service lives of all plan participants, in the case of projected and actual investment earnings in a 5-year period and for differences between expected and actual experience in a 6-year period.

**Actuarial methods and assumptions**

The actuarial valuation was determined using the following actuarial methods and assumptions:

**Actuarial methods:**

Valuation date	July 1, 2015, projected forward to June 30, 2016
Measurement date	June 30, 2016
Actuarial cost method	Entry age normal
Asset-valuation method	Market value of assets

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**9. Retirement Plan (Continued)**

Actuarial assumptions:

Compensation increases	3.0% per year, no compensation increases are assumed until July 1, 2021 as a result of Act No. 66 and the current general economy
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Inflation rate	2.50%
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Investment rate of return	6.55%, net of investment expenses
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Discount rate	2.85%
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Municipal bond rate	2.85%, based on Bond Buyer General Obligation 20-Bond Municipal Bond Index
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Mortality

Pre-retirement mortality:

For general employees not covered under Act No. 127, RP-2014 Employee Mortality rates for males and females adjusted to reflect Mortality Improvement Scale, MP-2016 from the 2006 base year and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year and projected forward using MP-2016 on generational basis.

As generational tables, they reflect mortality improvements both before and after the measurement date.

For employees covered by Act No. 127 while in active service a 100% of death was assumed to be occupational.

Post-retirement healthy mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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**9. Retirement Plan (Continued)**

Post-retirement disabled mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

**Long-term Rate of Return on Investments**

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the ERS Board during December 2013 and the actuary's capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 50% of the portfolio and have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefit investments of 6.55% as of June 20, 2016 is equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% per annum to 6.55% per year.

The pension plan's policy regarding allocation of invested assets is established and may be amended by the ERS Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the ERS financial condition for the benefits provided through the pension programs. The following was the ERS Board adopted asset allocation policy as of June 30, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected rate of return</u>
Domestic Equity	25%	6.4%
International Equity	10%	6.7%
Fixed Income	64%	6.3%
Cash	1%	3.0%

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**9. Retirement Plan (Continued):**

The long-term expected rate of return on pension benefits was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Discount rate**

The asset basis for the date of depletion is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, less deferred inflows of resources). On this basis, the fiduciary net position became negative in the fiscal year 2015 and accordingly no projection of date of depletion is needed. The plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax-free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 2.85% and 3.80% as of June 30, 2016 and July 1, 2015, respectively. The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

**Sensitivity of the Authority's proportionate share of the net pension asset to changes in the discount rate**

The following presents the Authority's net pension liability (in thousands) as of June 30, 2017, calculated using the discount rate of 2.85%, as well as what the net pension liability would be if it is calculated using a discount rate that is 1-percentage-point lower (1.85%) or 1-percentage-point higher (3.85%) than the current rate:

	At 1% decrease <u>(1.85%)</u>	At current discount rate <u>(2.85%)</u>	At 1% increase <u>(3.85%)</u>
Net pension liability	\$341,159,923	\$297,446,426	\$261,855,771

**Pension Plan fiduciary net position**

Detailed information about the pension plan's fiduciary net position as of June 30, 2016 is available in the separately issued ERS's financial report.

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**10. Commitments and Contingent Liabilities**

**Litigation**

The Authority is involved in litigations arising in the normal course of operations. Management believes that the ultimate liability, if any, in connection with these matters will not have a material effect on the Authority's financial condition and results of operations. Due to uncertainties in the settlement process, it is at least reasonably possible that management's view of the outcome of these claims will change in the near term. Based on advice of legal counsel, management has recorded an estimated litigation and claim loss of approximately \$1.9 million as of June 30, 2017, which is included as part of other liabilities in the accompanying statement of net position.

**Federal Assistance Programs**

The Authority is a sub-recipient of a federal financial assistance grant. This grant is subject to audits in accordance with provisions of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award or to compliance audits by grantor agencies. The amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, not to be significant.

**11. Voluntary Termination Benefits**

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including the employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee salary. In this early retirement benefit program, the Authority will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and the 30 years of credited service in the Retirement System.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credit service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years or credit service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the Commonwealth.

The financial impact resulting from the benefits granted to participants on this program is the recognition in the Authority's financial statements of a liability of approximately \$5.8 million in the statement of net position as of June 30, 2017. At June 30, 2017, unpaid long-term benefits granted on this program were discounted at 2.60%.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
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**12. Going Concern, Uncertainties and Liquidity Risk**

Management believes that there is substantial doubt about the Authority's ability to continue as a going concern. As shown in the accompanying financial statements, the Authority has incurred in accumulated losses after operating and capital contributions in the amount of \$387.9 million. In addition, at June 30, 2017 the Authority has a working capital deficiency of approximately \$130 million making difficult to the Authority the payment of its liabilities in the normal course of business. These facts indicate that the Authority needs the continued support of the Commonwealth in the form of operating grants to continue operating at its present level and to continue as a going concern.

The Commonwealth is currently facing a severe fiscal and liquidity crisis. The last audited financial statements of the Commonwealth as of June 30, 2015 and for the year then ended, whose report thereon, dated June 29, 2018, includes an emphasis of matter paragraph related to the Commonwealth's ability to continue as a going concern. As stated in the Commonwealth's independent auditors' report, the Commonwealth has incurred recurring deficits, has a negative financial position, has experienced further deterioration of its economic condition and has not been able to access the credit markets. Additionally, the Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). Considering that the Authority has a significant financial dependency on the Commonwealth, the financial condition and liquidity of the Authority could be similarly affected.

**Remediation Plan**

Turning the Commonwealth's component units self-sufficient is an aspect encompassed in the remediation plan presented by the Commonwealth to face its fiscal, economic and liquidity crisis.

One of the most significant legacy challenges faced by the Commonwealth consists of the explicit and implicit subsidies provided by the Commonwealth and GDB to certain component units. These subsidies have historically consisted primarily of budgetary appropriations from the General Fund and loans and other forms of financial assistance provided by GDB, which reduces funds available to provide other essential services. The Commonwealth has adopted various measures to turn the Commonwealth's component units into self-sufficient enterprises and address structural problems that threaten the Commonwealth's long-term fiscal stability. In addition to the specific measures that may have been adopted by the individual component units to reduce their reliance on operating and financial subsidies, the Commonwealth's enactment of the Fiscal Operation and Sustainability Act (Act No.66) sought to grant component units with tools to reduce their operating expenditures.

In August of 2014, Act No. 123 was adopted which created the Puerto Rico Integrated Transit Authority (PRITA). Under this legislation, the operations of the Urban Train, the Puerto Rico Maritime Transportation Authority (MTA) and Authority would be consolidated under the newly created PRITA. The consolidation of such operations requires federal approval.

The newly created (PRITA) Authority and its executives commenced operation during February 2015 by performing initial organization process in order to achieve the purposes of this Act. The Authority is in the process of obtaining the required approvals from local and federal authorities to integrate and officialize the merge of the Urban Train, the MTA and the Authority into its operations. Once the requirements of the Act are in effect, the Authority will no longer exist as a separate legal entity.



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**13. Restatement of Net Position**

The following table discloses the change in the net position at beginning of year, as previously reported in the 2016 financial statements. The beginning balance has been restated as follows:

Net position at July 1, 2016, as previously reported	\$ (96,253,349)
Impact of implementation of GASB Statements No. 68 and No. 71:	
Recognition of beginning net pension liability	(282,004,875)
Recognition of deferred outflows of resources for pension contributions made after measurement date	33,015,111
Recognition of deferred inflows of resources related to pension	(12,328,519)
Correction of errors (mainly overstatement of accounts payable and accruals)	<u>5,727,965</u>
Net position at July 1, 2016, as restated	<u>\$ (351,843,667)</u>

**14. Subsequent Events**

The Authority has evaluated all transactions occurring subsequent to the statement of net position as of June 30, 2017 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through March 1, 2019, the date the accompanying financial statements were available to be issued. The following material events occurred:

a. Hurricanes Irma and Maria

During September 2017, Hurricanes Irma and Maria (the "hurricanes"), impacted Puerto Rico, causing extensive damages and disrupting the operations of the Authority.

On September 6, 2017, Hurricane Irma made landfall in the north coast as a Category 4 hurricane on the Saffir-Simpson scale, causing catastrophic winds and water damages to the Island's infrastructure, homes and businesses. Hurricane Irma's winds and resulting flooding also impacted certain municipalities of Puerto Rico, causing the failure of electricity infrastructure in a significant portion of the Island. While hurricane Irma also struck operations of the Authority, two weeks later, on September 20, 2017, Hurricane Maria, made landfall in Puerto Rico as a Category 4 hurricane, causing extensive destruction and flooding throughout Puerto Rico. Following the passage of Hurricane Maria, Puerto Rico was left without electrical power, other basic utility and infrastructure services (such as water, communications, ports and other transportation networks) were severely curtailed and the government imposed a mandatory curfew. These hurricanes caused a significant disruption to the island's economic activity. Most business establishments, including retailers and wholesalers, financial institutions, manufacturing facilities and hotels, were closed for several days.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
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**14. Subsequent Events (Continued)**

The Authority estimated losses of \$55,263 and \$6,068,733 caused by hurricanes Irma and Maria, respectively. At present, management has submitted claims to the Authority's insurance company, and evidence of recovery related costs to the Federal Emergency Management Agency ("FEMA") for reimbursement through public assistance grants. FEMA granted the amount of \$1,419,843.

**b. Commitment**

On June 28, 2018, the Authority entered into a two-year contract with a System Technology Company in the amount of \$3,990,720, for the development of a system for the administration of the routes, bus fleet maintenance, and fuel control.

**c. Impact of Commonwealth and GDB fiscal plans**

The Oversight Board required the covered instrumentalities under PROMESA to revise and submit their already certified and approved fiscal plans because of the effect of Hurricanes Irma and Maria. Fiscal plans from the Commonwealth and GDB have the most significant impact over the Authority's operations and finances as follows:

Commonwealth's Fiscal Plan

The Oversight Board certified the Commonwealth's fiscal plan in March 2017. On October 30, 2017, the Oversight Board required the Commonwealth to revise it because the damages inflicted on Puerto Rico by Hurricane Maria. A revised fiscal plan was certified on April 20, 2018 after intense negotiations. Due to further discussions between the Oversight Board and the Commonwealth, the Oversight Board updated and certified the fiscal plan in June 2018, which served as the basis for 2019 fiscal year budget. On October 23, 2018, a New Fiscal Plan certified by the Oversight Board, incorporated refined healthcare projections based on actuarial estimates, new federal fund estimates, updated revenue and expenditure figures and changes in Government policy to impact overall growth based in two main areas as follows:

- a) Structural Reforms – measures to improve the economy such as (1) Human Capital and Welfare Reforms, (2) Ease of Doing Business Reforms, (3) Power Sector Reforms and (4) Infrastructure Reform and Capital Investment.
- b) Fiscal Reforms – fiscal measures to create a sustainable fiscal future for Puerto Rico by reducing costs while maintaining and improving the quality of important services. The measures include the following: (1) Tax compliance and fees enhancement, (2) Agency efficiencies, (3) Pension reform, (4) Healthcare reform, (5) Office of the CFO, and (6) Reduction of appropriations. The ultimate outcome of the reforms is undeterminable.

Among the several measures to be taken, the following fiscal reforms may have a significant impact on the Authority's operations:

- Enhancing tax compliance and tax law initiatives - The Plan includes a comprehensive tax reform that intends to reduce corporate, individual and sales and use tax rates, eliminates non-revenue generating incentives and subsidies while maintaining revenue neutrality. These measures may have a significant impact on the Authority's revenues.

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**14. Subsequent Events (Continued)**

- Commonwealth's agency efficiencies – The plan includes the government restructuring measures to achieve fiscal savings and to create a more agile and efficient government, by reducing the number of agencies from 118 to 35. On February 14, 2019, the Senate of Puerto Rico presented a bill which enable a reorganization plan for the Department of Transportation and Public Works (the Department) prepared by the Governor of the Commonwealth of Puerto Rico. The proposed reorganization plan provides for the consolidation of the Authority's operations with the Department.
- Comprehensive pension reform - The Plan includes the following measures: (1) freeze the Teachers (TRS) and Judiciary Retirement Systems (JRS) and transition them to a segregated defined contribution plan; (2) institute a 10% average pension reduction applicable to all actual retirees with combined retirement plan and Social Security benefits in excess of the poverty level of \$1,000 per month starting in FY 2020; (3) enroll teachers, police officers and judges under the age of 40 in the Social Security.

Even though the Commonwealth has already taken critical steps towards a comprehensive reform of the ERS, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico, as a result of the ERS's severe fiscal and liquidity crisis. Those critical steps taken by the Commonwealth and applicable to ERS include: (1) switch to a pay-as-you-go model to cover remaining defined benefit obligations, (2) segregate prospective employee contributions into new and separated defined contribution plans, (3) facilitate enrollment in social security for qualifying participants and (4) improve investment alternatives offered to participants. The Commonwealth, the Municipalities and other participants of the ERS, including the Authority, were converted to a pay-as-you-go model and carryforward to the new defined contribution plan starting July 1, 2017. Act No. 106 of August 23, 2017 was enacted to finally provide the necessary legal and operational structure for the pay-as-you-go model and the new defined contribution plan:

Pay-as-you-go model - Effective July 1, 2017, the ERS changed to a pay-as-you go funding, under which the participant employers directly pay pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of pay-as-you-go funding, employers' contributions related to special laws and additional uniform contributions were eliminated.

The ERS will create and maintain, for each participant or actual beneficiary, an individual record including the accrued pension benefits as of June 30, 2017, benefits payments, employment history and accumulated contributions made. After that date, the participants will cease to accrue new benefits. The accrued pension benefits will be funded through: (a) the net proceeds of the sale of ERS's assets, (b) Commonwealth's legislative expenditure appropriations, (c) donations from any public or private entity, (d) 25% of first or periodic payments on public-private partnership contracts (e) other funds determined by the Commonwealth's Legislature, and (f) a PayGo charge to the participant employers, including the Authority.

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**YEAR ENDED JUNE 30, 2017**

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**14. Subsequent Events (Continued)**

This PayGo charge, determined by ERS and billed by the Puerto Rico Department of Treasury (PRDT), represents the amounts necessary for the monthly pension payments for each of their retirees and beneficiaries. Payments will be done by the employers through a government treasury single account (TSA) maintained on a separate trust under the custody of the PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that as the ERS's assets become depleted, the PayGo charge will increase. Participants are no longer able to make direct credit payments to the TSA account or to make additional contributions to the ERS.

New defined contribution plan - Effective July 1, 2017 a new defined contribution plan (DCP) is created covering all active participants of the ERS as of that date and participants enrolled in the public service after that date. It is governed by a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors).

Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 (2011 PR Code). Upon enrollment in the Plan, participants may direct the investment of their contributions into various investment options offered by the Plan.

Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DCP, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code.

The transition to the new DCP has not yet been completed. The new DCP will be maintained in a separate trust under the custody of the Secretary of the PRDT until the Retirement Board contract an Administrative Entity. After that, all funds and participant accounts will be transferred to the separate trust created by the Administrative Entity for maintenance and administration.

GDB's Fiscal Plan

GDB served as a lender to the Commonwealth of Puerto Rico, its instrumentalities and municipalities in anticipation of the issuance of long-term bonds and notes by those entities in the municipal bond market. Loans to the Commonwealth and its instrumentalities constitute a significant portion of GDB's assets. A severe fiscal and liquidity crisis of those entities resulted in operational deficits, lack of access to capital markets and delays in the repayment of loans outstanding with GDB. This in turn left GDB with significant non-performing assets, limited liquidity and the inability to repay its debts as they come due.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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**14. Subsequent Events (Continued)**

Consequently, the Commonwealth issued moratorium acts and executive orders to establish a regulatory framework governing GDB's operations and liquidity and to prohibit loan disbursements and to establish procedures on withdrawals, payments and transfer requests with respect to funds held on deposits by the Commonwealth and its instrumentalities. Later, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) was created pursuant Act No. 21 of 2016 and Act No. 2 of 2017, as an independent public corporation and governmental instrumentality to assume all fiscal agency, financial advisory, and reporting functions of GDB.

GDB's Fiscal Plan establishes financial restructuring and closing of GDB operations that will allow for a smooth transition of GDB's current operations. Consequently, a Restructuring Support Agreement, dated May 15, 2017 (RSA) provides for the restructuring of a significant portion of GDB's liabilities. On June 2017, GDB submitted to the Oversight Board a proposed amended Fiscal Plan that incorporated the structure agreed, which was certified and approved by the Oversight Board on July 12, 2017. GDB's substantial operations ceased in March 2018, after AAFAF announced certain amendments to the RSA which became effective pursuant to its terms on April 6, 2018, after obtaining the signature of the number of holders of GDB's Participating Bond Claims required. The amended RSA contemplates dividing GDB's assets into two separate entities: a New Issuer (GDB Debt Recovery Authority) for the benefit of its financial creditors consisting of bondholders, municipal depositors, and non-government entity depositors and a Public Entity Trust (PET) for the benefit of (a) those non-municipal governmental entities having claims in respect to funds deposited at GDB and (b) those municipalities with federal funds deposited at GDB. GDB's updated Fiscal Plan was approved by the Oversight Board on April 20, 2018. The RSA was finally executed on November 29, 2018.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION**  
**LIABILITY (IN THOUSANDS) (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2017**

	2017	2016	2015	2014
Proportion of the net pension liability	0.78901%	0.84591%	0.83060%	0.8092%
Proportionate share of the net pension liability (c)	\$ 297,446,426	\$ 282,004,875	\$ 250,332,993	\$ 228,399,655
Covered-Payroll (d)	\$ 22,776,260	\$ 23,813,402	\$ 24,945,868	\$ 26,636,174
Proportionate share of the net pension liability as a percentage of its covered - payroll (c)/(d)	1306%	1184%	1004%	857%
Plan's fiduciary net position as a percentage of the total pension liability	(3.47%)	(2.05%)	(0.27%)	2.47%

The accompanying notes are an integral part of this required supplementary information.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS – PENSION PLAN**  
**(IN THOUSANDS) (UNAUDITED)**  
**YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutory required contribution	\$ 3,535,971	\$ 3,439,028	\$ 3,309,897	\$ 3,266,564
Contributions in relation to the statutory required contribution (e)	7,099	2,384,018	3,309,897	2,122,643
Contribution deficiency (excess)	<u>\$ 3,528,872</u>	<u>\$ 1,055,010</u>	<u>\$ -</u>	<u>\$ 1,143,921</u>
Authority's covered - payroll (f)	\$22,776,260	\$23,813,402	\$24,945,868	\$26,636,174
Contributions as a percentage of covered-payroll (e)/(f)	0.031%	10.011%	13.275%	7.969%

The accompanying notes are an integral part of this required supplementary information.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -**  
**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF NET PENSION AND SCHEDULE**  
**OF THE AUTHORITY'S CONTRIBUTIONS – PENSION PLAN**  
**YEAR ENDED JUNE 30, 2017**

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1. The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to the Authority and not the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico.
2. The Schedule of Authority's Contributions provides information about the annual required contributions (ARC) and the extent to which contributions were made to cover the ARC. The ARC is the annual required contribution for the year. It is established by law and calculated in accordance with certain parameters, which include, actuarial methods and assumptions.
3. The data provided in the schedules is based as of the measurement date of the net pension liability, which is as of the prior fiscal year ended June 30<sup>th</sup>.



**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Pass-through to Subrecipients</u>	<u>Federal Expenditures</u>
<b><u>Federal Transit Administration</u></b>				
Direct program:				
Federal Transit Formula Grants	20.507	N/A	\$ -	\$ 8,770,365
<b>Total Expenditures of Federal Awards</b>			<u>\$ -</u>	<u>\$ 8,770,365</u>

The accompanying notes are an integral part of this schedule.

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
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**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

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**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards ("the schedule") includes the federal grant activity of the Puerto Rico Metropolitan Bus Authority ("the Authority"), a component unit of the Commonwealth of Puerto Rico, under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation (CFR Part 200), *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to, and does not present, the financial position and changes in net position of the Authority.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Authority, known as "pass-through awards", should be treated by the Authority as though they were received directly from the federal government. The Uniform Guidance requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C – INDIRECT COST RATE**

The Authority has elected not to use the 10-percent de minimis cost rate allowed under the Uniform Guidance.



**VALDES, GARCIA, MARIN & MARTINEZ, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

Hon. Carlos Contreras, Secretary  
Department of Transportation and Public Works

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Puerto Rico Metropolitan Bus Authority (the Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 1, 2019. In our report on the Authority's financial statements our opinion was qualified, as discussed in the "Basis for Qualified Opinion" paragraph in the report on the financial statements because we did not observe the taking of the physical inventory of the beginning balance and we were unable to satisfy ourselves by other auditing procedures concerning the inventory costs as of June 30, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-003, and 2017-004 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-002, and 2017-003.

### **Puerto Rico Metropolitan Bus Authority's Response to Findings**

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico  
March 1, 2019

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affixed to the original

*Valdes, Amica, Marin, & Martinez, LLP*



**VALDES, GARCIA, MARIN & MARTINEZ, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE  
UNIFORM GUIDANCE**

Hon. Carlos Contreras, Secretary  
Department of Transportation and Public Works

**Report on Compliance for Each Major Federal Program**

We have audited Puerto Rico Metropolitan Bus Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2017. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Puerto Rico Metropolitan Bus Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### **Basis for Qualified Opinion on CFDA 20.507 Federal Transit Administration Formula Grants**

As described in the accompanying schedule of findings and questioned costs, the Authority's did not comply with a requirement regarding CFDA 20.507 Federal Transit Administration Formula Grants as described in finding number 2017-005 for Equipment and Real Property Management. Compliance with such requirement is necessary, in our opinion, for the Authority's to comply with the requirements applicable to that program.

### **Qualified Opinion on CFDA 20.507 Federal Transit Administration Formula Grants**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph the Authority's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Federal Transit Administration Formula Grants for the year ended June 30, 2017.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-006, 2017-007, and 2017-008. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance, that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-005 and 2017-008 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described on the accompanying schedule of findings and questioned costs as items 2017-006 and 2017-007 to be significant deficiencies.

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

San Juan, Puerto Rico  
March 1, 2019

Stamp 373088 was  
Affixed to the original

*Valdés, Amicia, Marín, & Martínez, L.L.P.*

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2017**

**SECTION I - SUMMARY OF ADITORS' RESULTS**

**FISCAL YEAR ENDED JUNE 30, 2017**

**A. Summary of auditors' results:**

**Part I - Financial Statements**

1. Type of audit report issued
- |   |   |
|---|---|
| <input type="checkbox"/> Unmodified opinion | <input checked="" type="checkbox"/> Qualified opinion |
| <input type="checkbox"/> Adverse opinion    | <input type="checkbox"/> Disclaimer of opinion        |

**Internal control over Financial Reporting**

2. Significant deficiencies identified? ☒ Yes ☐ No
3. Significant deficiencies reported as material weaknesses? ☒ Yes ☐ None reported
4. Material noncompliance disclosed? ☒ Yes ☐ No

**Part II - Federal Awards**

**Internal control over Major Programs**

1. Significant deficiencies identified? ☒ Yes ☐ No
2. Significant deficiencies reported as material weaknesses? ☒ Yes ☐ None reported
3. Type of auditors' report on compliance major programs
- |   |   |
|---|---|
| <input type="checkbox"/> Unmodified opinion | <input checked="" type="checkbox"/> Qualified opinion |
| <input type="checkbox"/> Adverse opinion    | <input type="checkbox"/> Disclaimer of opinion        |
4. Audit findings required to be reported under Uniform Guidance ☒ Yes ☐ No

5. Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
20.507	Federal Transit Formula Grants

6. Dollar threshold used to distinguish Type A and Type B programs:

☒ \$750,000

7. Auditee qualified as low-risk auditee?

☐ Yes ☒ No



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**YEAR ENDED JUNE 30, 2017**

---

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**Finding Number:** 2017-001

**Category:** Financial, Internal Control Weakness and Noncompliance

**Criteria**

Act Number 230 of July 23, 1974, known as *Puerto Rico Government Accounting Law*, as amended, states that the accounting system of the instrumentalities of the Commonwealth of Puerto Rico should be designed to reflect or provide complete and clear information related to their financial results of operations.

**Condition**

During the audit of the Authority's basic financial statements for the fiscal year ended June 30, 2017, we noted the following deficiencies related with the accounting system:

1. A formal procedure for the closing of the accounting records has not been established for the monthly and year-end periods and, consequently, no timely recording procedures are performed in the general ledger accounts.
2. The accounting functions and processes are not centralized in the Department of Finance.
3. The financial information is not reviewed, analyzed, and reconciled on a monthly basis by management.

**Effect**

This situation causes delays in the year-end closing procedures affecting the issuance of the financial statements on a timely manner. In addition, the lack of preparation of monthly reconciled financial statements does not allow management to perform the following procedures:

1. Detection of any irregularities or instance of fraud on a timely basis;
2. Preparation of timely comparison between actual expenditures and budget;
3. Discussion of reports with the corresponding personnel and explanations of significant variations from budget;
4. Preparation of reports related to state and federal funding may be misleading for internal management decision making and for the reliability of external financial reporting; and
5. Compliance with corresponding financial reporting required by state and federal regulations.

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**YEAR ENDED JUNE 30, 2017**

---

**Finding Number:** 2017-001 (Continued)

**Cause**

This situation is caused by the lack of adequate procedures for reconciling and analyzing the financial transactions recorded throughout the year and for the financial reporting closing process.

**Prior year audit finding**

2016-002

**Recommendation**

The Authority should develop formal procedures for the monthly and year-end closings to avoid delays in the preparation and issuance of the financial statements. Among the things to be considered in preparing a corrective action plan is the establishment of policies that should be followed by the accounting department as well as any other department that provides financial information required for the preparation of the financial statements. This could be accomplished by establishing deadlines for entry and correction of transactions as well as the periods closing date.

**Management's Response**

Refer to Grantee's Correction Action Plan

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**YEAR ENDED JUNE 30, 2017**

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**Finding Number:** 2017-002

**Category:** Financial, Internal Control Weakness and Noncompliance

**Criteria:**

49 CFR Part 18 Section 32(d)(1),(2),(3),(4) and (5), *Management Requirements*, states that procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken, and the results reconciled with the property records at least once every two years. (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. (4) Adequate maintenance procedures must be developed to keep the property in good condition. (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

2 CFR Part 200 Section 313(d)(1),(2),(3), *Equipment Management Requirements*, establishes procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under Federal award, until disposition takes place will, as a minimum, meet the following requirements: (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the funding for the property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the project costs for the federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken, and the results reconciled with the property records at least once every two years. (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.

The Authority's warehouse ruling number 04-02 is silent about inventory safeguarding procedures.

**Condition**

During our audit procedures over capital assets, we noted the following deficiencies related with the management of the spare parts inventory acquired for the repairs and maintenance of bus fleet:

- Internal control procedures in place were not operating as designed.

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**YEAR ENDED JUNE 30, 2017**

---

**Finding Number:** 2017-002 (Continued)

- Although the Authority maintains a perpetual inventory system for spare parts, it is neither reconciled with the physical interim count performed in March 2017 nor differences were investigated.
- Even though the perpetual records were adjusted for quantities physically counted, the reasons for the differences were not investigated and, consequently, no enforcement procedures were implemented to detect, deter or mitigate them on a timely manner.
- Although both, a representative from the information technology department and from the warehouse, are responsible of properly establishing an inventory item in the system, the inventory stock valuation report as of June 30, 2017 had items valued in a different unit than it was counted and did not reflect the actual cost. In our sample of the inventory pricing test, we found that in several items the unit cost was counted by box but the quantity on hand was recorded by item.

**Effect**

Spare parts inventory has not been properly safeguarded and valued. Even loss, damage, or theft could exist but neither deterred, detected nor investigated on a timely manner. Time lapsed between the physical inventory count and the interim cycle count did not provide for promptly investigation, remediation or enforcement procedures. Furthermore, perpetual inventory records are not accurate as to both actual value and quantities of the spare parts in existence as of June 30, 2017. The lack of proper internal control procedures over spare parts inventory could allow for improper charges to federal programs that could be questioned by the U.S Federal Transit Administration. In addition, the cost of inventory held as of June 30, 2017 was not accurate and correct.

**Cause**

This situation is caused by improper internal control procedures and lack of management's enforcement procedures over them.

**Context**

We selected the sole cycle count performed by the Authority in March 2017.

**Prior year audit finding**

2016-007

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**YEAR ENDED JUNE 30, 2017**

---

**Finding Number:** 2017-002 (Continued)

**Recommendation**

The Authority should perform a proper risk assessment evaluation, design proper internal control procedures to mitigate the risks and ascertain that procedures are effectively operating as designed. Safeguarding procedures should include, among others:

- Proper segregation of duties and monitoring procedures to avoid or deter override of internal control procedures or collusion.
- Enforce proper daily reconciliation procedures of spare parts inventory transactions and immediate investigation and resolution of any difference found.
- Monthly reconciliations of spare parts perpetual inventory and general ledger accounts balances.
- Implementation of periodic inventory counting, reconciliation and difference investigation procedures.
- Proper monitoring and enforcement procedures for instances of overriding of, or noncompliance with, internal control procedures.

**Management's Response**

Refer to Grantee's Correction Action Plan

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**YEAR ENDED JUNE 30, 2017**

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**Finding Number:** 2017-003

**Category:** Financial, Internal Control Weakness and Noncompliance

**Criteria**

Article 1-110 (f) of Act Number 447 May 15, 1951 known as “*Retirement System of the Employees of the Commonwealth of Puerto Rico*”, as amended, provides that contributions to the retirement system must be made concurrently with the payment of compensation to employees participating in the system, and must be paid within 15 days following the end of the period to which said compensation refers.

Section 1062.01 of the Act Number 1 of January 31, 2011, known as “Puerto Rico Internal Revenue Code” (the Code), as amended, provides that every employer making payments of wages shall deduct and withhold income tax from such wages, according to the withholding tables approved by the Secretary. Section 6080.05 of the Code provides that every employer required to deduct and withhold income tax from salaries, shall pay such amounts to the Secretary of the Treasury according to the regulations regarding the form, time and conditions governing the payment and deposit of such withheld taxes. Regulation No. 5924 of February 26, 1999, issued under the provisions of Section 6130 of the Puerto Rico Internal Revenue Code of 1994, as amended, establishes the rules for the deposit of the income tax withheld from salaries and for the determination of the type of depositor. The Code also establishes that employers who fail to comply with the required deposits of income tax withheld may be subject to interest, surcharges, and penalties.

**Condition**

As of June 30, 2017, the Authority owes to other public corporations and agencies of the Commonwealth of Puerto Rico the approximate amount of \$ 84 million. This balance represents amounts due mainly for payroll taxes withholdings, utilities, and other related services.

**Effect**

The Authority is not in compliance with applicable laws and regulations and could be exposed to significant charges of interest, surcharges, and penalties on the accumulated debt.

**Cause**

This situation is caused by the lack of liquidity of the Authority to meet their economic commitments. The Authority’s operational budget has been subjected to adjustments from the Office of Management and Budget of the Commonwealth of Puerto Rico and to the elimination of certain subsidies provided by the Commonwealth of Puerto Rico affecting the Authority's financial capacity to pay its operational expenses.

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**Finding Number:** 2017-003 (Continued)

**Prior year audit finding**

2016-004

**Recommendation**

Management should evaluate financing alternatives to pay these liabilities when due and in accordance with laws and regulations in order to avoid the payment of interest, surcharges, and penalties.

**Management's Response**

Refer to Grantee's Correction Action Plan

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**Finding Number:** 2017-004

**Category:** Financial, Internal Control Weakness

**Criteria**

Act Number 230 of July 23, 1974, known as "*Puerto Rico Government Accounting Law*", as amended, states that the accounting system of the instrumentalities of the Commonwealth of Puerto Rico should be designed to reflect or provide complete and clear information related to their financial results of operations and for the preparation and implementation of the budget, and constitute an effective control over income, disbursements, funds, property and other government assets.

**Condition**

During our audit procedures over revenues area, we noted the following deficiencies:

1. A reconciliation of the amount of passenger fares revenue collected in the buses with a report that details the number of passengers that used the services during the day and the related rates is not performed.
2. The Authority is not recognizing the revenue related to passenger fares using the magnetic card of the program Integrated Transportation Alternative (ATI).

**Effect**

Revenues from passenger fares are subject to errors and could be misstated. In addition, the lack of a reconciliation of the amount of revenue collected from passenger fares does not allow that management to perform the following procedures:

1. Detection of any irregularities or instances of fraud on a timely basis,
2. Preparation of timely comparison between actual revenues and budget,
3. Discussion of reports with the corresponding personnel and explanations of significant variations from budget.

**Cause**

The contract with the company that produced the "Cubic System Report", used to validate the amount collected by each bus, expired during fiscal year 2014, and since then, the Authority is not performing any procedure to validate the correctness and accuracy of the revenues from passenger fares.



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**YEAR ENDED JUNE 30, 2017**

---

**Finding Number:** 2017-004 (Continued)

**Prior year audit finding**

Not applicable

**Recommendation**

Management should evaluate software program alternatives to keep track of the passenger activity during the day in order to have an essential tool to validate the daily amount of revenues from passenger fares.

**Management's Response**

Refer to Grantee's Correction Action Plan

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**YEAR ENDED JUNE 30, 2017**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding Number:** 2017-005

**Agency:** U.S. Department of Transportation

**Federal Program:** Federal Transit Formula Grants

**CFDA:** 20.507

**Grant Number:** PR-90-X253-00; PR-90-X269-00; PR-90-X293-00;  
PR-90-X302-00; PR-90-X348-00;

**Grant Period:** 2009; 2010; 2011; 2012; 2014

**Compliance Requirement:** Equipment and Real Property Management

**Category:** Internal Control Weakness and Noncompliance

**Criteria**

Refer to finding 2017-002

**Condition**

As discussed in Finding 2017-002, during our audit procedures over inventories for the year ended June 30, 2017, we noted the following deficiencies related with the management of the spare parts inventory acquired for the repairs and maintenance of bus fleet:

- Internal control procedures in place were not operating as designed.
- Although the Authority maintains perpetual inventory system for spare parts, it was neither reconciled with the physical interim count performed in March 2017 nor differences were investigated.
- Even though perpetual records were adjusted for quantities physically counted, the reasons for the differences were not investigated and, consequently, no enforcement procedures were implemented to detect, deter or mitigate them on a timely manner.
- Although both, a representative from the information technology department and from the warehouse, are responsible of properly establishing an inventory item in the system, the inventory stock valuation report as of June 30, 2017 had items valued in a different unit than it was counted and did not reflect the actual cost. In our sample of the inventory pricing test, we found that in several items the unit cost was counted by box but the quantity on hand was recorded by item.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**Finding Number:** 2017-005 (Continued)

**Effect**

Refer to Finding 2017-002

**Cause**

Refer to Finding 2017-002

**Prior Year Audit Finding**

2016-007

**Recommendation**

Refer to Finding 2017-002

**Questioned Costs**

None

**Management's Response**

Refer to Grantee's Correction Action Plan

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2017**

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**Finding Number:** 2017-006

**Agency:** U.S. Department of Transportation

**Federal Program:** Federal Transit Formula Grants

**CFDA:** 20.507

**Grant Number:** PR-90-X253-00; PR-90-X269-00; PR-90-X293-00;  
PR-90-X302-00; PR-90-X348-00;

**Grant Period:** 2009; 2010; 2011; 2012; 2014

**Compliance Requirement:** Suspension and Debarment

**Category:** Internal Control Weakness and Noncompliance

**Criteria**

2 CFR Part 200 Section 213, *Suspension and debarment*, states that non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

49 US Code Section 5325(j)(1) and (2), *Awards to Responsible Contractors*, states that (1) In general, federal financial assistance may be provided for contracts only if a recipient awards such contracts to responsible contractors possessing the ability to successfully perform under the terms and conditions of a proposed procurement. (2) *Criteria*. Before making an award to a contractor under paragraph (1), a recipient shall consider: (A) the integrity of the contractor; (B) the contractor's compliance with public policy; (C) the contractor's past performance; and (D) the contractor's financial and technical resources.

FTA Circular 4220.1F Chapter IV, paragraphs 2.a.(2)(b) and (c), *Debarment and Suspension*, (b) *General Services Administration (GSA) Excluded Parties List System*, states that even though the recipient may collect a debarment and suspension certification from the prospective third-party contractor or include a clause in the third-party contract requiring disclosure, FTA strongly recommends that the recipient checks the Excluded Parties List System (EPLS). Now a part of the

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**Finding Number:** 2017-006 (Continued)

System for Awards Management (SAM), the EPLS is an electronic, web-based system that identifies those parties excluded from receiving Federal contracts, certain subcontracts, and certain types of Federal financial and non-financial assistance and benefits. The EPLS keeps its user community aware of administrative and statutory exclusions across the entire government, and individuals barred from entering the United States. Go to [www.sam.gov](http://www.sam.gov) and the Extracts and Data Access area and click on the Public Data Access box to find the individual firm, individual or vessel you may seek. (c) *State Debarment and Suspension Lists*. A recipient may also treat any prospective contractor or subcontractor listed on a centralized State government debarment and suspension list as non-responsible and ineligible for contract award.

48 CFR Subpart 9.4 Section 9.402(a), *Debarment, Suspension, and Ineligibility-Policy*, states that agencies shall solicit offers from, award contracts to, and consent to subcontracts with responsible contractors only.

**Condition**

From a sample of six (6) vendors selected for suspension and debarment test, we found that the Authority does not ascertain whether it is contracting with parties that are not debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities. Also, the Authority contracted with a supplier totaling \$3,054,769 that is not currently registered under the System for Award Management.

**Effect**

The Authority is not complying with suspension and debarment federal regulations and consequently, it is exposed to contract with non-responsible parties which are otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

**Cause**

The Authority has neither designed nor implemented an effective internal control procedure to ascertain compliance with suspension and debarment requirement to restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

**Context**

A sample of six (6) vendors totaling \$5,530,844 was selected for audit test from a population of 114 vendors totaling \$7,201,907. Our sample was a statistically valid sample.

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**Finding Number:** 2017-006 (Continued)

**Prior Year Audit Finding**

Not applicable

**Recommendation**

Federal Transit Administration strongly recommends that a grantee checks the Excluded Parties List System (EPLS) which is currently a part of the System for Awards Management (SAM). SAM is an electronic, web-based system ([www.sam.gov](http://www.sam.gov)) that identifies those parties, across the entire government, excluded from receiving Federal contracts, certain subcontracts, and certain types of Federal financial and non-financial assistance and benefits. As required by 48 CFR 9.402(a), this procedure should be performed when bids or proposals are received and again prior to award, either by contract or subcontract.

**Questioned Costs**

None

**Management's Response**

Refer to Grantee's Correction Action Plan

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**Finding Number:** 2017-007

**Agency:** U.S. Department of Transportation

**Federal Program:** Federal Transit Formula Grants

**CFDA:** 20.507

**Grant Number:** PR-90-X253-00; PR-90-X269-00; PR-90-X293-00;  
PR-90-X302-00; PR-90-X348-00; PR-2016-012

**Grant Period:** 2009; 2010; 2011; 2012; 2014; 2017

**Compliance Requirement:** Reporting

**Category:** Internal Control Weakness and Noncompliance

**Criteria**

49 CFR 18 Section 41(b) Financial Status Report, states (1) Form. Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all non-construction grants and for construction grants when required in accordance with Sec. 18.41(e)(2)(iii). (2) Accounting basis. Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency. If the Federal agency requires accrual information and the grantee's accounting records are not normally kept on the accrual basis, the grantee shall not be required to convert its accounting system but shall develop such accrual information through an analysis of the documentation on hand. (3) Frequency. The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination of grant support. (4) Due date. When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

2 CFR Part 200 Section 327, *Financial reporting*, states that unless otherwise approved by OMB, the Federal awarding agency may solicit only the standard, OMB-approved governmentwide data elements for collection of financial information (at time of publication the Federal Financial Report

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**Finding Number:** 2017-007 (Continued)

or such future collections as may be approved by OMB and listed on the OMB Web site). This information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the Federal award or could significantly affect program outcomes, and preferably in coordination with performance reporting.

2 CFR Part 200 Section 333, *Retention requirements for records*, states that financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. Federal awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities.

**Condition**

The Authority neither retained copies of the quarterly federal financial reports of each grant project nor maintained evidence of the filing date of the reports prepared and submitted during the fiscal year ended June 30, 2017.

**Effect**

Federal Financial Reports and supporting documentation pertinent to a Federal award could not be examined as to its accuracy and timely submission.

**Cause**

The Authority has not implemented adequate internal controls to ascertain that financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency. Also, the Authority has not implemented adequate internal controls to retain proper evidence to support that reports filed were accurate and were filed within the time frame required.

**Prior Year Audit Finding**

Not applicable



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**Finding Number:** 2017-007 (Continued)

**Recommendation**

Proper internal controls should be implemented to ascertain that copies of the reports filed, and related supporting documentation, are retained for at least three years after filing date. Also, internal controls procedures should include proper retention of evidence of date each report was properly submitted to the federal agency.

**Questioned Costs**

None

**Management's Response**

Refer to Grantee's Correction Action Plan

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**Finding Number:** 2017-008  
**Agency:** U.S. Department of Transportation  
**Federal Program:** Federal Transit Formula Grants  
**CFDA:** 20.507  
**Grant Number:** PR-90-X253-00; PR-90-X269-00; PR-90-X293-00; PR-90-X302-00; PR-90-X348-00; PR-2016-012  
**Grant Period:** 2009; 2010; 2011; 2012; 2014; 2017  
**Compliance Requirement:** Reporting  
**Category:** Noncompliance

**Criteria**

2 CFR Part 200.512 – *Report Submission General establishes that* (1) The audit must be completed and the data collection form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

**Condition**

The Data Collection Form and the Reporting Package for the year ended June 30, 2017 were not timely submitted to the federal government.

**Effect**

The Authority is not in compliance with the reporting requirements set forth by federal regulations, which could affect the future of its federal grants.

**Cause**

The Authority has not been able to provide the necessary information for the preparation of the single audit report on a timely basis in order to complete its reporting requirements for the fiscal year 2017.

**Prior Year Audit Finding**

Not applicable

**Recommendation**

We recommend the Authority to establish, before the year-end, an audit team to be in-charge of the single audit process and establish procedures to close and prepare the fiscal year accounting records on a timely manner.

**Questioned Costs**

None

**Management's Response**

Refer to Grantee's Corrective Action Plan

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
**SCHEDULE OF PRIOR YEARS AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2017**

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Reference Number:	2016-001, 007
Audit Finding:	Compliance Requirements: Equipment and Real Property Management
Condition:	The Authority maintains a spare parts perpetual inventory system which is not reconciled periodically with physical counts. Differences are almost identified and processed at the end of fiscal year. Additionally, we were not engaged to continue as auditors of the Authority until after June 30, 2016 and therefore, did not observe the counting of the physical spare parts inventory at the end of the year. We were unable to satisfy ourselves by other auditing procedures concerning the spare parts inventory held at June 30, 2016 which is stated in the balance sheet at \$4,956,740. This condition is similar as in prior year audit.
Status of Corrective Action Plan:	Remains uncorrected. Refer to findings 2017-002 and 2017-005 corrective action plan.
Reference Number:	2016-002
Condition:	The closing process is informal and needs a clear definition of responsibilities and communication among the different departments involved. In certain instances no timely communication or documentation is provided to the accounting department for the proper recording of non-routine transactions. This condition is similar as in prior year audit.
Status of Corrective Action Plan:	Remains uncorrected. Refer to finding 2017-001 and corrective action plan.
Reference Number:	2016-003
Condition:	The Authority records the cost of certain post-employment benefits provided to eligible employees in accordance with collective bargaining agreements when paid, which is a method not accepted by accounting principles generally accepted in the United States of America ("GAAP"). This condition is similar as in prior year audit.
Status of Corrective Action Plan:	Since 2014 all benefits under collective bargains were frozen by the Governor of the Commonwealth through Act No. 66 due to the fiscal situation of the central government. We accrued in our accounting records the fixed amount for the monthly reimbursement of medical plan for five years after retirement before the implementation of Act No. 66. The amount is not material for financial statements purposes and no actuarial valuation is needed.
Reference Number:	2016-004
Condition:	At June 30, 2016 the Authority has amounts outstanding with other public corporations or agencies of the Commonwealth of Puerto Rico amounting to approximately \$66,904,857. This amount represents amounts due for payroll withholdings, utilities and other related services. This condition is similar as in prior year audit.
Status of Corrective Action Plan:	Remain uncorrected. Refer to finding 2017-003 and corrective action plan.
Reference Number:	2016-005
Condition:	The payroll department does not inform correctly the amount that should be paid to the accounting department.
Status of Corrective Action Plan:	Corrective action still in progress
Reference Number:	2016-006
Condition:	The Cubic System report obtained from each bus at the end of the day, which details the number of passengers that used the services during the day and the related rates is not reconciled with the amount of cash delivered to Ranger American for deposit into the bank. This condition is similar as in prior year audit.
Status of Corrective Action Plan:	Remain uncorrected. Refer to finding 2017-004 and corrective action plan.



Department of Transportation and Public Works  
METROPOLITAN BUS AUTHORITY (MBA)  
San Juan, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report Number: Audited Financial Statements and Single Audit of Federal Assistance Program Audit Type: Financial  
Audited Area: MBA Report's Date: March 1, 2019 Audit Scope: Years Ended June 30, 2017

Indicate: ☒ CAP ☐ FRC

Principal Civil Servant or its authorized personnel: Santos M. Delgado Marrero Position: President and General Manager  
I CERTIFY THAT THIS INFORMATION IS COMPLETE AND CORRECT: Principal Civil Servant or its authorized personnel's signature

Ext.: 3003  
Date: April 5, 2019

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
<p><b>Finding: 17-FS-001</b></p> <p><b>Condition:</b> During the audit of the Authority's basic financial statements for the fiscal year ended June 30, 2017, we noted the following deficiencies related with the accounting system:</p> <ol style="list-style-type: none"><li>1. A formal procedure for the closing of the accounting records has not been established for the monthly and year-end periods and, consequently no timely recording procedures are performed in the general ledger accounts.</li><li>2. The accounting functions and processes are not centralized in the Department of Finance.</li></ol>	<p>The Authority should develop a formal procedure for the monthly and year-end closings to avoid delays in the preparation and issuance of the financial statements. Among the things to be considered in preparing a corrective action plan is the establishment of policies that should be followed by the accounting department as well as any other department that provides financial information required for the preparation of financial statements. This could be accomplished by establishing deadlines for entry and correction of transactions as well as the closing date of periods.</p>	<p>The management of the Authority should prepare a Work Plan that includes all departments that in some way affect the accounting books. This Plan includes: the monthly closing procedures and regulations, the dates for tickets and/or corrections of transactions and the date of the monthly closings. A Work Sheet is Also prepared where the management will make the corresponding checks and/or approvals for the monthly closings to be fulfilled according to the Rules and Procedures of the Department of Finance. <b>July 2018</b></p>



Department of Transportation and Public Works  
METROPOLITAN BUSES AUTHORITY (MBA)  
San Juan, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report Number: Audited Financial Statements and Single Audit of Federal Assistance Program      Audit Type: Financial  
Audited Area: MBA      Report's Date: March 1, 2019      Audit Scope: Years Ended June 30, 2017

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
3. The financial information is not reviewed, analyzed and reconciled on a monthly basis by management.  <u>Finding: 17-FS-002</u>  <i>Condition:</i> During our audit procedures over capital assets, we noted the following deficiencies related with the management of the spare parts inventory acquired for the repairs and maintenance of the bus fleet: <ol style="list-style-type: none"><li>1. Internal control procedures in place were not operating as designed.</li><li>2. Although the Authority maintains perpetual inventory system for spare parts, it is neither reconciled with the physical interim count performed in March 2017, nor differences were investigated.</li></ol>	The Authority should perform a proper risk assessment evaluation, design proper internal control procedures to mitigate them and ascertain that procedures are effectively operating as designed. Safeguarding procedures should include, among others: <ol style="list-style-type: none"><li>1. Proper segregation of duties and monitoring procedures to avoid or deter override of internal control procedures or collusion.</li><li>2. Enforce proper daily reconciliation procedures of spare parts inventory transactions and immediate investigation and resolution of any difference found.</li><li>3. Monthly reconciliation between spare parts perpetual inventory and general ledger.</li></ol>	As part of the corrective action will be evaluating the results of the inventory taking to be evaluating each difference (variance) and make the corresponding adjustments. In addition, you will be establishing a table with the dates of taking cyclic inventories with more frequent to avoid these differences in the inventory. Approximately in <u>May 2019</u> , a barcode system will be installed where all the pieces in the Warehouse would be marked; This for the purpose of minimizing time and having the most cyclic inventories during the year.



Department of Transportation and Public Works  
METROPOLITAN BUS AUTHORITY (MBA)  
San Juan, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report Number: Audited Financial Statements and Single Audit of Federal Assistance Program      Audit Type: Financial

Audited Area: MBA      Report's Date: March 1, 2019      Audit Scope: Years Ended June 30, 2017

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
3. Even though perpetual records were adjusted for quantities physically counted, causes for differences were not investigated and consequently, no enforcement procedures were implemented to detect, deter or mitigate them on a timely manner.  4. Although both, a representative from the information technology department and from warehouse, are responsible of properly establishing an inventory item in the system, the inventory stock valuation report as of June 30, 2017 had items valued in a different unit than it was counted and did not reflect the actual cost. In our sample of the inventory pricing test we found that in several items the unit cost is accounted by box but the quantity on hand is recorded by item.	4. Implementation of periodic inventory counting, reconciliation and difference investigation procedures.  5. Proper monitoring and enforcement procedures for instances of overriding of, or noncompliance with, internal control procedures.	



Department of Transportation and Public Works  
METROPOLITAN BUS AUTHORITY (MBA)  
San Juan, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report Number: Audited Financial Statements and Single Audit of Federal Assistance Program      Audit Type: Financial  
Audited Area: MBA      Report's Date: March 1, 2019      Audit Scope: Years Ended June 30, 2017

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
<b>Finding: 17-FS-003</b>  <i>Condition:</i> As of June 30, 2017, the Authority owes to other public corporations and agencies of the Commonwealth of Puerto Rico the approximate amount of \$84 million. This balance represents amounts due mainly for payroll withholdings, utilities and other related services.	Management should evaluate financing alternatives to pay these liabilities when due and in accordance with laws and regulations in order to avoid the payment of interest, surcharges and penalties.	The Authority requests the necessary funds for each financial year through the budget request submitted to the Office of Management and Budget (OMB). The OMB approved a reduction in the allocation of funds needed to cover MBA operating expenses, which has caused our accounts payable to continue to increase over the past few years. The Authority will be making the necessary arrangements in conjunction with the Secretary of DTOP to apply for additional funds to the legislature and to cover these debts. <b>May 2018</b>
<b>Finding: 17-FS-004</b>  <i>Condition:</i> During our audit procedures over revenues area we noted the following deficiencies: 1. A reconciliation of the amount of passenger fares revenue collected in the busses with a report that details the number of passengers that used the services during the day and the related rates is not performed.	Management should evaluate software program alternatives to keep track of the passenger activity during the day order to have an essential tool to validate the daily amounts of the revenues from passenger fares.	At present the AMA are in conjunction with the Department of Transportation and Public Works evaluating the different software that comply with the counting of the users and validate in turn the money received by the service. <b>August 2018</b>



Department of Transportation and Public Works  
METROPOLITAN BUS AUTHORITY (MBA)  
San Juan, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report Number: Audited Financial Statements and Single Audit of Federal Assistance Program Audit Type: Financial

Audited Area: MBA Report's Date: March 1, 2019 Audit Scope: Years Ended June 30, 2017

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
2. The Authority is not recognizing the revenue related to passenger fares using the magnetic card of the program Integrated Transportation Alternative (ATI).		
<u>Finding: 17-005</u>  <i>Condition:</i> As discussed in finding 2017-002, during our audit procedures for the year ended June 30, 2017, we noted the following deficiencies related with the management of the inventory of spare parts acquired for the repairs and maintenance of the bus fleet: 3. Internal control procedures in place were not operating as designed. 4. Although the Authority maintains perpetual inventory system for spare parts, it is neither reconciled with the physical interim count performed in March 2017 nor differences were investigated.	Refer to finding 2017-002	See Corrective Plan 17-FS-02





Department of Transportation and Public Works  
METROPOLITAN BUS AUTHORITY (MBA)  
San Juan, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report Number: Audited Financial Statements and Single Audit of Federal Assistance Program Audit Type: Financial

Audited Area: MBA Report's Date: March 1, 2019 Audit Scope: Years Ended June 30, 2017

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
5. Even though perpetual records were adjusted for quantities physically counted, reasons for differences were not investigated and consequently, no enforcement procedures were implemented to detect, deter or mitigate them on a timely manner.  6. Although both, a representative from the information technology department and from warehouse, are responsible of properly establishing an inventory item in the system, the inventory stock valuation report as of June 30, 2017 had items valued in a different unit than it was counted and does not reflect the actual cost. In our sample of the inventory, pricing test we found that in several items the unit cost is accounted by box but the quantity on hand is recorded by item.		



Department of Transportation and Public Works  
METROPOLITAN BUS AUTHORITY (MBA)  
San Juan, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report Number: Audited Financial Statements and Single Audit of Federal Assistance Program      Audit Type: Financial  
Audited Area: MBA      Report's Date: March 1, 2019      Audit Scope: Years Ended June 30, 2017

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
<p><b>Finding: 17-006</b></p> <p><b>Condition:</b> From a sample of six (6) vendors selected for suspension and debarment test, we found that the Authority does not ascertain whether it is contracting with parties that are not debarred, suspended, or otherwise excluded form or ineligible for participation in Federal assistance programs or activities. Also, the Authority contracted with a supplier totaling \$3,054,769 that is not currently registered under the System for Award Management.</p>	<p>Federal Transit Administration strongly recommends that a grantee check the Excluded Parties List System (EPLS), which is currently a part of the System for Awards Management (SAM). SAM is an electronic, web-based system (<a href="http://www.sam.gov">www.sam.gov</a>) that identifies those parties, across the entire government, excluded from receiving Federal contracts, certain subcontracts, and certain types of Federal financial and non-financial assistance and benefits. As required by 48CFR 9.402(a) this procedure should be performed when bids or proposals are received and again prior to award, either by contract or subcontract.</p>	<p>The General Service Area in conjunction with the Purchasing Office will be implementing a matching Sheet in your Corrective Action Plan. This sheet will include the following:</p> <p>Check If the supplier is registered on the <a href="http://www.sam.gov">www.sam.gov</a> internet page.</p> <ul style="list-style-type: none"><li>• If registered, it will be checked that the supplier has no lawsuits or other problems with the federal government.</li><li>• If you have a situation registered on this page, you cannot consider it to compete.</li><li>• If the supplier is not enrolled, the buyer must guide You to register.</li><li>• Renewal of this registration is annual.</li></ul> <p><b>April 2018</b></p>
<p><b>Finding: 17-007</b></p> <p><b>Condition:</b> The Authority neither retains copies of the quarterly federal financial reports of each grant project nor maintained evidence of the filing date of the reports prepared and submitted during the fiscal year ended June 30, 2017.</p>	<p>Proper internal controls should be implemented to ascertain that copies of the reports filed, and related supporting documentation, are retained for at least three years after filing date. Also, internal controls procedures should include proper retention of evidence of date each report was properly submitted to the federal agency.</p>	<p>All Quarterly reports of financial status were submitted on time, based on the fact that the Federal Transit Administration will not admit any federal report after the 30-day period, the Web site where these reports are sent closes access. After the period mentioned. Failing to submit reports may expose federal funds to a high-risk state. As a Corrective Action Plan, they began printing for Fiscal Year 2018.</p>



Department of Transportation and Public Works  
METROPOLITAN BUS AUTHORITY (MBA)  
San Juan, Puerto Rico

### CORRECTIVE ACTION PLAN

Audit Report Number: Audited Financial Statements and Single Audit of Federal Assistance Program      Audit Type: Financial  
Audited Area: MBA      Report's Date: March 1, 2019      Audit Scope: Years Ended June 30, 2017

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
<p><b><u>Finding: 17-008</u></b></p> <p><i>Condition:</i> The Data Collection Form and the Reporting Package for the year ended June 30, 2017 were not timely submitted to the federal government.</p>	<p>We recommend the Authority to establish, before the year-end, an audit team to be in-charge of the single audit process and establish procedures to close and prepare the fiscal year accounting records on timely manner.</p>	<p>The Authority will be establishing to have the books of accounting per day and so to begin the process of the External Audit in the time required by the State and Federal Accounting Rules. In this way we will be able to submit the Clearinghouse on the required date.</p>