



PUERTO RICO METROPOLITAN BUS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements, Required Supplementary

Information and Independent Auditors' Report

For the year ended June 30, 2020



PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

Hon. Eileen Vélez Vega, Secretary
Department of Transportation and Public Works

Report on the Financial Statements

We have audited the accompanying basic 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, 2020, and the related notes to the basic 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. 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 were unable to satisfy ourselves by auditing procedures concerning the inventory costs as of June 30, 2020 stated in the accompanying statement of net position at \$5,870,476. In addition, the beginning balance of inventory was qualified in prior year audit and consequently, we were unable to determine whether any adjustments were necessary in the statements of revenue, expenditures, and changes in net position, or cash flows.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the net position of the Puerto Rico Metropolitan Bus Authority as of June 30, 2020, 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 Matter

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 2 to the financial statements, the Authority has suffered recurring losses, has a net capital deficiency and is highly dependent on the Commonwealth of Puerto Rico (the Commonwealth) appropriations 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 2. The basic 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.

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 4 through 9, the Schedule of the Authority’s Proportionate Share of the Total Pension Liability and Related Ratios on page 40, the Schedule of the Authority’s Proportionate Share of Total OPEB Liability on page 41, 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.

San Juan, Puerto Rico
February 3, 2022

Valdés, García, Mauné & Martínez, LLP

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PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Management’s Discussion and Analysis (Unaudited)
Year Ended June 30, 2020

The following Management’s Discussion and Analysis (MD&A) provides an introduction and a narrative overview and analysis of the financial activities of the Puerto Rico Metropolitan Bus Authority (“the Authority”) for the fiscal year ended June 30, 2020. 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 2020

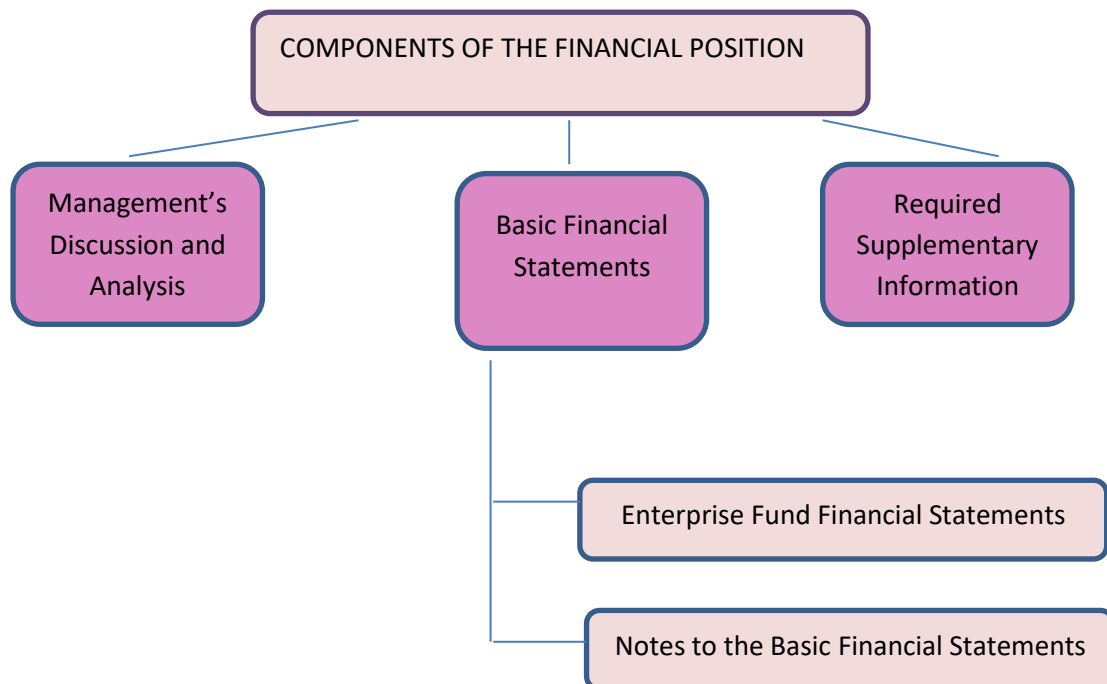
- Net position deficiency totaled approximately \$388 million at June 30, 2020.
- Net position deficiency decreased by approximately \$5.9 million in 2020, as compared to a decrease of approximately \$27 million in 2019.
- Capital assets, net totaled approximately \$20.6 million at June 30, 2020.
- Net investment in capital assets increased by approximately \$1.9 in 2020, as compared to the balance as of June 30, 2019.
- Total operating expenses increased by approximately \$19 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 revenue, expenses, and changes in net position, (3) statement of cash flows, (4) notes to the financial statements, and (5) required supplementary information. 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. The 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:

- Net Investment in Capital Assets – this component of net position consists of all capital assets, reduced by the outstanding balance of any bonds, notes, or borrowings that are attributable to the acquisition, construction, or improvement of those assets. The resources required to repay this debt must be provided annually from operations and from operating grants allocated annually by the Commonwealth of Puerto Rico (the Commonwealth), 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.

Statement of Revenue, Expenses and Changes in Net Position

The statement of revenue, expenses, and changes in net position includes operating revenue, which consists of passenger and cargo revenues and equipment and property rentals, and operating expenses, such as salaries and employees' benefits, depreciation of capital assets, repairs and maintenance and other general administrative expenses, and non-operating revenue and expenses, such as the operating grants from the Commonwealth, interest and investment income, and interest expense. The focus of the statement of revenue, 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 operating period.

Statement of Cash flows

The statement of cash flows discloses net cash provided by or used in operating activities, investing activities, non-capital financing activities, and from 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, pension plan, 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.

Required Supplementary Information

The basic financial statements and notes are followed by the required supplementary information that includes the schedules related to pension and OPEB liabilities as required by GASB No. 73 and GASB No. 75, respectively.

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Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2020

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, 2020, and 2019:

	June 30,		Change	
	2020	2019	In Dollars	Percent
Current assets	\$ 17,295,090	\$ 10,136,683	\$ 7,158,407	71%
Capital assets, net	20,596,311	18,687,429	1,908,882	10%
Total assets	37,891,401	28,824,112	9,067,289	31%
Deferred outflow of resources related to pension and total OPEB	21,479,289	13,555,043	7,924,246	58%
Total assets and deferred outflows of resources	<u>\$ 59,370,690</u>	<u>\$ 42,379,155</u>	<u>\$ 16,991,535</u>	40%
Current liabilities	\$ 180,885,577	\$ 166,178,492	\$ 14,707,085	9%
Non-current liabilities	243,453,476	245,752,309	(2,298,833)	-1%
Total liabilities	424,339,053	411,930,801	12,408,252	3%
Deferred inflows of resources related to pension	22,963,231	24,311,973	(1,348,742)	-6%
Total liabilities and deferred inflows of resources	<u>447,302,284</u>	<u>436,242,774</u>	<u>11,059,510</u>	3%
Net position				
Net investment in capital assets	20,596,311	18,687,429	1,908,882	10%
Deficit	(408,527,905)	(412,551,048)	4,023,143	-1%
Total net position (deficit)	<u>(387,931,594)</u>	<u>(393,863,619)</u>	<u>5,932,025</u>	-2%
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 59,370,690</u>	<u>\$ 42,379,155</u>	<u>\$ 16,991,535</u>	40%

The net increase in current assets of 71% or \$7,158,407, was mainly due to the net result of an increase in accounts receivable from federal government of approximately \$7.8.

Deferred outflows increased by approximately \$7.9 million as of June 30, 2020, when compared with the fiscal year 2019, mainly due to the recognition of the Authority's portion related to pension and total OPEB, as required by the provisions of GASB No. 73 and GASB No. 75.

Net investment in capital assets increased by approximately \$1.9 as of June 30, 2020 when compared with June 30, 2019. During the year 2020, capital additions were approximately \$5.6 million and depreciation expense for the year amounted to approximately \$3.7 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 9% to an amount of approximately \$181 million as of June 30, 2020. Non-current liabilities had a decrease of approximately \$2 million. Both changes are due mainly to the net effect of the recognition of the total pension liability, total OPEB liability and the voluntary termination benefit liability related to the implementation of a program that provides early retirement benefits for voluntary employment termination to eligible employees under Act No. 2011 of 2015.

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Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2020

Deficit decreased 1% to a net deficiency amount of approximately \$409 million as of June 30, 2020. The decrease was the net result of an excess of income (operating and non-operating) over expenses (operating and non-operating), capital grants of approximately \$22 million and Commonwealth's grants received of approximately \$33 million. 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.

The following table reflects a condensed summary of the revenue, expenses, and changes in net position for the years ended June 30, 2020, and 2019:

	For the year ended June 30,		Change	
	2020	2019	In Dollars	Percent
Operating revenue	\$ 2,128,884	\$ 3,065,041	\$ (936,157)	-31%
Operating expenses	(50,899,527)	(31,699,728)	(19,199,799)	61%
Operating loss	(48,770,643)	(28,634,687)	(20,135,956)	70%
Non-operating revenue				
Operating grants, contributions and other revenue	55,996,419	56,633,435	(637,016)	-1%
Interest and other financing expenses	(1,293,751)	(1,273,805)	(19,946)	2%
Total non-operating revenue, net	54,702,668	55,359,630	(656,962)	-1%
Change in position	5,932,025	26,724,943	(20,792,918)	-78%
Net position (deficit) at beginning of year	(393,863,619)	(420,588,562)	26,724,943	-6%
Net position (deficit), at end for year	<u>\$ (387,931,594)</u>	<u>\$ (393,863,619)</u>	<u>\$ 5,932,025</u>	-2%

Operating revenue, which consisted principally of fares for transportation and other services, decreased 31% to an amount of approximately \$2.1 million for the year ended June 30, 2020. Revenue decrease was due to the government closure caused by the COVID-19 pandemic in March 2020 and during such period bus operations were completely suspended.

Operating expenses, which consisted principally of salaries and employee benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative increased 61% to an amount of approximately \$51 million for the year ended June 30, 2020. During current year, the Authority continued with the implementation of the voluntary termination plan that commenced during fiscal year 2011. Another component that increased expenses was the new protocols implemented to prevent COVID-19 spread between the employees and customers of the Authority.

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

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.

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Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2020

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2020, the Authority had invested approximately \$20.6 million in capital assets (net of related depreciation) including transportation equipment, land, building and improvements, and machinery and equipment used in the Authority's operations. During the year ended June 30, 2020, the Authority invested approximately \$5.6 million in capital assets.

The following table presents the components of the capital assets during fiscal years 2020 and 2019:

	June 30,		Change	
	2020	2019	In Dollars	Percent
Assets not being depreciated:				
Land and improvements	\$ 2,500,000	\$ 2,500,000	\$ -	0%
Construction in progress	2,885,000	3,850,149	(965,149)	-25%
	<u>5,385,000</u>	<u>6,350,149</u>	<u>(965,149)</u>	<u>-15%</u>
Assets being depreciated:				
Buidings and improvements	24,414,660	23,545,543	869,117	4%
Terminals	5,655,431	5,655,431	-	0%
Transportation equipment	55,817,468	52,414,257	3,403,211	6%
Machinery and equipment	27,918,230	25,634,549	2,283,681	9%
Total	113,805,789	107,249,780	6,556,009	6%
Less: accumulated depreciation and amortization	<u>98,594,478</u>	<u>94,912,500</u>	<u>3,681,978</u>	<u>4%</u>
Capital assets being depreciated, net	<u>15,211,311</u>	<u>12,337,280</u>	<u>2,874,031</u>	<u>23%</u>
Total capital assets, net	<u>\$ 20,596,311</u>	<u>\$ 18,687,429</u>	<u>1,908,882</u>	<u>10%</u>

Debt Administration

Effective March 2012, the Authority refinanced 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. The loan was payable in monthly principal installments of \$208,574, plus interest through March 2016 when it matured. Interest on outstanding balance was based on a margin over LIBOR 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. The note was secured by the assignment of the cigarette tax revenues allocated by the Commonwealth.

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 same bank whereby the maturity date was further extended through March 30, 2016. As part of the seventh amendment,

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the monthly principal amortization payment was increased by \$5,000 per month for the months from 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 installment 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 for the loan payment to the bank.

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

Current Known Facts

The Authority has many projects for the future years. One of these projects is the acquisition of additional buses to increase the fleet available for the regular routes and the Program "Llame y Viaje". Also, the Authority has many projects related with the maintenance and repairs of its capital assets that are funded with federal grants.

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 Puerto Rico Metropolitan Bus Authority's finances and 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 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, 2020

Assets	
Current assets:	
Cash	\$ 196,891
Accounts receivable, net	11,227,723
Inventory, net	<u>5,870,476</u>
Total current assets	<u>17,295,090</u>
Non-current assets:	
Capital assets, net of accumulated depreciation and amortization	<u>20,596,311</u>
Deferred outflows of resources:	
Pension related	20,809,413
Other post-employment benefits related	<u>669,876</u>
Total deferred outflows of resources	<u>21,479,289</u>
Total assets and deferred outflows of resources	<u><u>\$ 59,370,690</u></u>
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	\$ 18,068,559
Due to:	
Commonwealth	92,221,167
Other governmental entities	17,406,012
Note payable to commercial bank	28,254,666
Compensated absences	1,948,799
Voluntary termination benefits payable	1,507,085
Total pension liability	20,809,413
Total other post-employment benefits liability	<u>669,876</u>
Total current liabilities	180,885,577
Non-current liabilities:	
Compensated absences	457,493
Voluntary termination benefits payable	6,277,894
Legal liability	2,414,865
Total pension liability	224,262,366
Total other post-employment benefits liability	7,490,123
Other liabilities	<u>2,550,735</u>
Total non-current liabilities	243,453,476
Deferred inflows of resources:	
Pension related	<u>22,963,231</u>
Total liabilities and deferred inflows of resources	<u>447,302,284</u>
Net Position	
Net investment in capital assets	20,596,311
Deficit	<u>(408,527,905)</u>
Total net position (deficit)	<u><u>\$ (387,931,594)</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 Revenue, Expenses, and Changes in Net Position
For The Year Ended June 30, 2020

Operating revenue:	
Passenger fares	\$ 1,194,459
Advertising and other	934,425
Total operating revenue	<u>2,128,884</u>
Operating expenses:	
Salaries and employees benefits, including voluntary termination benefits	33,069,582
Pension expense	5,764,761
Other post-employment benefits expense	412,892
Diesel, gasoline, oil and lubricants	1,956,253
Depreciation and amortization	3,681,978
Materials, spare parts and repairs and maintenance	2,363,878
Utilities	907,766
Professional services	519,760
General and administrative	2,222,657
Total operating expenses	<u>50,899,527</u>
Operating loss	<u>(48,770,643)</u>
Non-operating revenue (expenses):	
Operating grants:	
Commonwealth of Puerto Rico	33,483,708
U.S. Federal Transit Administration	21,746,029
Others	766,682
Interest and other financing expenses, net	<u>(1,293,751)</u>
Total non-operating revenue, net	<u>54,702,668</u>
Change in net position	5,932,025
Net position (deficit), at beginning of year	<u>(393,863,619)</u>
Net position (deficit), at of end of year	<u><u>\$ (387,931,594)</u></u>

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

PUERTO RICO METROPOLITAN BUS AUTHORITY
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Statement of Cash Flows

For The Year Ended June 30, 2020

Cash flows from operating activities:	
Cash collected from customers and passengers	\$ 2,100,365
Cash payments to suppliers for goods and services	(8,051,286)
Cash payments to employees for services	<u>(37,863,819)</u>
Net cash used in operating activities	<u>(43,814,740)</u>
Cash flows from non-capital and related financing activities:	
Operating grants received from:	
Commonwealth of Puerto Rico	34,890,844
Federal grants	12,453,532
Others	766,682
Interest paid	<u>(199,407)</u>
Net cash provided by non-capital and related financing activities	<u>47,911,651</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets and net cash used in capital and related financing activities	<u>(5,590,863)</u>
Cash flows from investing activities:	
Interest received and net cash provided by investing activities	<u>2,971</u>
Net decrease in cash	(1,490,981)
Cash at beginning of the year	<u>1,687,872</u>
Cash at end of the year	<u><u>\$ 196,891</u></u>

(Continues)

PUERTO RICO METROPOLITAN BUS AUTHORITY
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Statement of Cash Flows

For The Year Ended June 30, 2020

Reconciliation of operating loss to net cash
used in operating activities:

Operating loss	\$ (48,770,643)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	3,681,978
Changes in operating assets and liabilities:	
Increase in accounts receivable	(28,520)
Increase in inventories	(735,506)
Increase in deferred outflows of resources	(7,924,246)
Increase in accounts payable, accrued expenses and other liabilities	11,310,939
Decrease in deferred inflows of resources	<u>(1,348,742)</u>
Net cash used in operating activities	<u>\$ (43,814,740)</u>

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

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Notes to Financial Statements

Year ended June 30, 2020

Note 1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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 including the following municipalities: San Juan, Bayamon, Carolina, Guaynabo, Cataño, Loiza, Toa Baja and Trujillo Alto. The Authority is governed by the Secretary of the Department of Transportation and Public Works of the Commonwealth of Puerto Rico (the Commonwealth).

The Authority's operations are financed by operating grants from the Commonwealth and Federal Government, transfers of certain gasoline and diesel excise taxes collected by the Commonwealth, and passenger fares. Act 123-2014 created the Puerto Rico Integrated Transit Authority (PRITA) with the purpose of implementing a uniform policy on collective, road and maritime transportation and provided for the integration of the Authority's operations into PRITA. However, as of June 30, 2020, the Authority's operations, assets, rights, obligations and funds had not been transferred to PRITA. The Authority is a component unit of the Commonwealth, and accordingly is included in its general-purpose financial statements.

The basic financial statements include the Authority as well as all the operations of the component units, if any. A component unit is a legally separate entity for which the Authority is financially accountable, or the nature or significance of their relationship with the Authority is such, that their exclusion would cause the Authority's basic financial statements to be misleading or incomplete. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity, or the potential exists for the other entity to (1) provide specific financial benefit to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements to be misleading or incomplete. U.S. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Authority's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Authority's balances and transactions.

Based on the above criteria there are no potential component units which should be included as part of the basic financial statements.

Summary of Significant Accounting Policies

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.

PUERTO RICO METROPOLITAN BUS AUTHORITY
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Notes to Financial Statements
Year ended June 30, 2020

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 follow 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.

Cash

The Authority maintains cash on deposits with high rated financial institutions. The laws of the Commonwealth require from commercial banks to fully collateralize all public funds deposited with them in excess of the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated net of the estimated allowance for uncollectible 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, past collection experience, and current economic conditions. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Inventories

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

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 is 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 operations.

The estimated useful lives of the capital assets follow:

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

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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 assets was identified during the year ended June 30, 2020.

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 thus, 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. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

Compensated Absences

Employees accumulate vacation at a rate of 1.25 days per month up to an annual amount of 15 days. Vacation time is fully vested by the employee from the first day of work up to a maximum of 60 days. Employees accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and a maximum accumulation of 90 days. After the enactment of Act 26-2019, only compensation of accrued vacation leave, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are not liquidated upon employment termination.

Voluntary Termination Benefits

The Authority accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, the Authority recognizes a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated.

Accrual for Legal Claims

The estimated amount of the liability for legal claims is recorded on 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.

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Accounting for Pension Costs

The Authority accounts for pension costs under the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* that requires that employers report a net pension liability and related pension accounts. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pension and pension expense, the balances have been determined on the same basis as reported by the Plan.

Other Post-Employment Benefits

The Authority accounts for other post-employment obligation under the provisions of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. As required by the accounting pronouncement, OPEB transactions should be accounted for based on its proportional share of the collective OPEB liability, OPEB expense, and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring the OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, the balances have been determined on the same basis as the Plan and as reported by the ERS. The Authority's contribution for the OPEB is included in the PayGo charges billed on a monthly basis by the ERS.

Net Position

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

Net Investment in Capital Assets

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 does not meet the definition of net investment in capital assets.

Operating Revenue and Expenses

The Authority distinguishes between operating and non-operating revenue and expenses in its Statement of Revenue, Expenses, and Changes in Net Position. The principal revenue of the Authority is received from patrons for the transportation services provided. The Authority also recognizes as operating revenue advertising charges to customers and other related transportation services. Operating expenses for the Authority include the costs of operating the transportation facilities, administrative expenses, and depreciation and amortization of capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

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Contributions

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 revenue in the period stated in the grant.

In addition, the Authority receives federal funds under grants from the U.S. Federal Transit Administration (FTA) exclusively for the 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 revenue 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 in the period in which all eligibility requirements and/or time and purposes restrictions are met.

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.

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.

Adoption of New Accounting Pronouncement

The provisions of the following Governmental Accounting Standards Board (GASB) Statement were implemented for the year ended June 30, 2020:

- The GASB issued Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance" in May 2020 effective immediately. The objective of this Statement is to provide temporary relief to governments due to the COVID-19 pandemic. This statement extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The adoption of this statement had no effect on previously reported amounts.

Accounting Pronouncements Issued but Not Yet Effective

- 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 statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single

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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 June 15, 2021, as revised by GASB Statement No.95.

- 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 Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as revised by GASB Statement No. 95. Earlier application is encouraged.
- GASB Statement No. 90, *Majority Equity Interests*. 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 components 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as revised by GASB Statement No. 95. Earlier application is encouraged.
- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

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This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as revised by GASB Statement No.95. Earlier application is encouraged.

- *GASB Statement No. 92, Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of *Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and *No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of *Statement No. 84, Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as revised by GASB Statement No. 95. Earlier application is encouraged.
- *GASB Statement No. 93, Replacement of Interbank Offered Rates (IBOR).* The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

This statement achieves its objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.

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- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as revised by GASB Statement No. 95. Earlier application is encouraged. The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR.

- *GASB Statement No. 94, Public Private and Public-Public Partnership and Availability Payment Arrangement.* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- *GASB Statement No. 96, Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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- *GASB Statement No. 97, Certain Component Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

- *GASB Statement No. 98, The Annual Comprehensive Financial Report.* This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

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

Note 2. Going Concern, Uncertainties and Liquidity Risk

Management believes that there is a 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 \$388 million. In

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addition, at June 30, 2020 the Authority has a working capital deficiency of approximately \$164 million making difficult to the Authority to pay its liabilities in the normal course of business. These facts indicate that the Authority needs the support from the Commonwealth in the form of operating grants to continue operating at its present level and to continue as a going concern.

The Commonwealth of Puerto Rico is currently experiencing a severe fiscal and liquidity crisis. The Commonwealth and its instrumentalities face a number of fiscal and economic challenges that, either individually or in the aggregate, could adversely affect their ability to pay debt service and other obligations when due. The Commonwealth is currently considering a number of emergency measures that could affect the rights of creditors. Recipients of this financial statements should be advised that to the extent that the Commonwealth or any entities related to the Commonwealth such as the Authority are unable to materially improve their financial position in the immediate future, such entities and/or the Commonwealth may need to seek relief under existing or potential future laws regarding receivership, insolvency, reorganization, moratorium and/or similar laws affecting creditors' rights, to the extent available.

Remediation Plan

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 and it created the Puerto Rico Integrated Transit Authority (PRITA). Under this legislation, the operations of the Urban Train, the Puerto Rico Maritime Transportation (PRMTA), and the Authority would be consolidated under the newly created PRITA. The consolidation of such operations requires federal approval.

PRITA commenced operations during February 2015 by performing the initial organization process in order to achieve the purposes of Act 123-2014. PRITA is in the process of obtaining the required approvals from local and federal authorities to integrate and officialize the merge of the Urban Train, PRMTA, 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.

The Authority is also working on a series of initiatives for increasing revenue through the lease of spaces in terminals and advertising spots in buses and stops, and reducing administrative expenses.

Note 3. Cash and Cash Equivalents

The Authority's cash and cash equivalents as of June 30, 2020 consist of the following:

	<u>Book Balance</u>	<u>Depository Bank Balance</u>	<u>Amount uninsured and uncollateralized</u>
Cash deposited in commercial bank	\$ 196,891	\$ 238,997	\$ -

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Note 4. Deposits Claim Receivable

On November 29, 2018, the Government Development Bank (the GDB) completed the restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the GDB Qualifying Modification). In addition, pursuant to Act No. 109-2017, also known as the Governmental Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), claims on account of deposits held by the Commonwealth and other public entities, including PRITA, were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the PET).

Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities, and affiliates, (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB, in a Non-Municipal Government Entity's name, against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, including the Authority, received their pro rata share of interests in the PET, which was deemed to be in full satisfaction of any and all claims such Non-Municipal Entity may have had against GDB. The assets of the PET consist of, among other items, a claim filed in the amount of \$580 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case.

The Authority held deposits at GDB of \$216,089. A custodial credit risk loss on these deposits was recorded in prior years for the full balance. As of June 30, 2020, the deposits balance and the custodial credit risk allowance were reclassified to deposits claim receivable from the PET and into an allowance for doubtful accounts, respectively, with a carrying amount of zero. As a result of the GDB Qualifying Modification, the Authority's recovery on this claim will depend upon the recovery ultimately received by the PET on account of its assets.

Note 5. Accounts Receivable

Accounts receivable as of June 30, 2020, consist of:

Operating and capital grants:	
Federal Transit Administration (FTA)	\$11,133,774
Puerto Rico Highways and Transportation Authority	4,214,241
Others	<u>508,558</u>
	15,856,573
Less: Allowance for doubtful accounts	<u>(4,628,850)</u>
Account receivable, net	<u>\$ 11,227,723</u>

Accounts receivable from FTA consist principally of operating grants pending to be received at June 30, 2020. The account receivable from the Puerto Rico Highways and Transportation Authority (PRHTA) consists of amounts due under a certain agreement 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 \$4,214,241 represents the amounts billed to PRHTA for services provided as of June 30, 2020.

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Note 6. Inventory

Inventory as of June 30, 2020 consists of:

Spare parts	\$ 5,696,354
Diesel and gasoline	227,558
Supplies	<u>148,354</u>
	6,072,266
Less: Allowance for obsolete inventory	<u>(201,790)</u>
	<u>\$ 5,870,476</u>

Note 7. Capital Assets

The following schedule summarizes the capital assets held by the Authority as of June 30, 2020:

	<u>Balance at June 30, 2019</u>	<u>Increases/ Reclass</u>	<u>Decreases/ Reclass</u>	<u>Balance at June 30, 2020</u>
Assets not being depreciated:				
Land and improvements	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Construction in progress	<u>3,850,149</u>	<u>-</u>	<u>965,149</u>	<u>2,885,000</u>
	<u>6,350,149</u>	<u>-</u>	<u>965,149</u>	<u>5,385,000</u>
Assets being depreciated:				
Buildings and improvements	23,545,543	869,117	-	24,414,660
Terminals	5,655,431	-	-	5,655,431
Transportation equipment	52,414,256	3,403,212	-	55,817,468
Machinery and equipment	<u>25,634,549</u>	<u>2,283,681</u>	<u>-</u>	<u>27,918,230</u>
Total	107,249,779	6,556,010		113,805,789
Less: accumulated depreciation and amortization	<u>94,912,500</u>	<u>3,681,978</u>	<u>-</u>	<u>98,594,478</u>
Capital assets being depreciated, net	<u>12,337,279</u>	<u>2,874,032</u>	<u>-</u>	<u>15,211,311</u>
Total capital assets, net	<u>\$ 18,687,428</u>	<u>\$ 2,874,032</u>	<u>\$ 965,149</u>	<u>\$ 20,596,311</u>

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Note 8. Due to Commonwealth

Amount due to Commonwealth at June 30, 2020 consists of the following:

Pension withholdings and other related liabilities	\$ 46,522,655
Income tax withholdings of employees and service providers	32,086,329
PayGo charges	12,915,852
Other miscellaneous charges	<u>696,331</u>
Total	<u>\$ 92,221,167</u>

Note 9. Due to Other Governmental Entities

Amount due to governmental entities at June 30, 2020 consists of the following:

State Insurance Fund Corporation	\$ 8,795,320
PR Electric Power Authority	7,830,805
Others	<u>779,887</u>
	<u>\$ 17,406,012</u>

Note 10. Long-Term Debt:

Long-term debt at June 30, 2020 consists of:

	Balance at 2019	Increases	Decreases	Balance at 2020	Current Portion
Note payable to commercial bank	<u>\$ 28,254,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,254,666</u>	<u>\$ 28,254,666</u>

The 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 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, 2020). 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, addressed the economic and fiscal crisis of the Commonwealth, and canceled 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.

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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 from 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 installment 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 for the loan payment to the bank.

Note 11. Other Non-Current Liabilities:

Changes in other non-current liabilities as of June 30, 2020 are summarized as follows:

	Balance at 2019	Net Change	Balance at 2020	Current Portion
Compensated absences	\$ 1,901,634	\$ 504,658	\$ 2,406,292	\$ 1,948,799
Other liabilities	<u>2,550,735</u>	<u>-</u>	<u>2,550,735</u>	<u>-</u>
Total	<u>\$ 4,452,369</u>	<u>\$ 504,658</u>	<u>\$ 4,957,027</u>	<u>\$ 1,948,799</u>

Other liabilities consist mainly of a reserve established by management for possible claims of a federal agency related with certain costs of capital assets disposed of before they were fully depreciated.

Note 12. Retirement Plan

Plan Description

Before July 1, 2017, the Authority was a participating employer in the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS covered employees of certain public corporations not having their own retirement systems (including the Authority), 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.

On August 23, 2017, the Governor signed into law Act No. 106-2017, known as the "Act to Guarantee the Payments to our Pensioners and Establish a New Plan of Defined Contributions for Public Employees" that approved a substantial pension reform for all of the Commonwealth's retirement systems. This reform modified most of the Retirement System's activities, eliminated the employer contribution, created legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct payments to the pensioners and then gets reimbursed for those payments by the applicable employers.

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Act 106-217 also created a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the ERS. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on and after July 1, 2017 will be enrolled in the New Defined Contributions Program. As of June 22, 2020, the accumulated balance on these accounts of the prior pension programs were transferred to the individual member accounts in the New Defined Contribution Plan.

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 employers 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 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.

Benefits provided before July 1, 2017

The following summary of the ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in accordance with the applicable laws and regulations.

(i) Service Retirements

- (a) *Eligibility for Act No. 447 Members:* Act No. 447 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; (3) any age with 30 years of credited service; (4) for Public Officers in High Risk Positions, attainment of age 50 with 25 years of credited service; and (5) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

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Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (b) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 65 with 10 years of credited service; (3) for Public Officers in High-Risk Positions, any age with 30 years of credited service; and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (c) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High-Risk Positions and attainment of age 60.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of the retirement eligibility age shown in the table below.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

- (d) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

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(ii) Service Retirement Annuity Benefits

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was \$10,000 or less, it would have been paid as a lump sum instead of as an annuity.

- (a) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members:* The accrued benefit as of June 30, 2013 was determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Mayors, the highest compensation, as defined, for Act No. 447-1951 members, determined as of June 30, 2013.

If the Act No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447-1951 member had less than 30 years of credited service as of June 30, 2013 and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447-1951, members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service, were considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for the policemen and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for police and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58.

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For Act No. 447-1951, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit was 90% of highest compensation as a Mayor.

- (b) *Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013 is determined based on the average compensation for Act No. 1-1990 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor was determined as of June 30, 2013.

If the Act No. 1-1990 member is a police officer or firefighter member that had at least 30 years of credited service as June 30, 2013, the accrued benefit equaled 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(iii) Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High-Risk Positions were required to 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 PRPOB, the Chief of the Firefighter Corps, or supervising authority as applicable.

(iv) Special Benefits

(a) Minimum Benefits

- i. *Past Ad hoc Increases:* The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits were paid 50% by the Commonwealth and 50% by the ERS.
- ii. *Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013):* The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007).

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- iii. *Coordination Plan Minimum Benefit*: A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

(b) *Cost of Living Adjustments (COLA) to Pension Benefits*

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35-2007).

(c) *Special "Bonus" Benefits*

- i. *Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013)*: An annual bonus of \$200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013.
- ii. *Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013)*: An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. The funding of the special benefits was provided to the ERS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

Total Pension Liability, Pension Expense (Benefit), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

On January 28, 2022, the ERS issued an audited report for the year ended June 30, 2019, in accordance with GASB Statement No. 73, providing information about pension amounts by employer and the corresponding employer allocation percentage. The Authority disclosed the below mentioned information based on this audited data reported by ERS and the ERS Actuarial Valuation Report.

As of June 30, 2020, the Authority reported a liability of \$245,071,779 for its proportionate share of the total pension liability. The collective total pension liability which amounts to approximately \$24.8 billion was determined by an actuarial valuation as of July 1, 2019 that was rolled forward to June 30, 2020 (measurement date as of June 30, 2019). The Authority's proportion of the total pension liability was based on the ratio of the Authority's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. As of June 30, 2020, the Authority's proportionate share was 0.98619%.

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For the year ended June 30, 2020, the Authority recognized pension expense of \$5,764,761. Pension expense (benefit) represents the change in the total pension liability during the measurement period. As of June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Amortization Period	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	5 years	\$ -	\$ 8,308,648
Changes in assumptions	5 years	7,958,088	6,335,762
Changes in proportion	5 years	-	8,318,821
Difference between projected and actual earnings on pension plan investments	5 years	-	-
Audited amount as reported by ERS		7,958,088	22,963,231
Benefits paid subsequent to measurement date	5 years	12,851,325	-
Balance as of June 30, 2020		<u>\$ 20,809,413</u>	<u>\$ 22,963,231</u>

For the fiscal year 2020 there were benefits paid after the measurement date amounting to \$12.9 million reported as deferred outflows of resources, since for fiscal year 2020 the retirement systems operate on a pay-as-you-go basis.

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2020, will be recognized in the pension expense (benefit) as follows:

Year ending June 30,	Amount
2020	\$ (1,671,586)
2021	(1,671,586)
2022	(1,671,586)
2023	(1,671,586)
Total	<u>\$ (6,686,344)</u>

Actuarial methods and assumptions

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

Discount Rate

The discount rate for the fiscal year ended June 30, 2019, 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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Mortality

The mortality tables used in the June 30, 2019, actuarial valuation are as follows:

a) *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-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

b) *Post-retirement Healthy Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the 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-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

c) *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the 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-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2019

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

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Sensitivity of the Authority’s Proportionate Share of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension liability as of June 30, 2020, calculated using the discount rate of 3.50%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1 percent-point level lower (2.50%) or 1 percent-point higher (4.50%) than the current rate:

	1% Decrease	Current	1% Increase
	(2.50%)	discount rate	(4.50%)
	<u> </u>	<u> </u>	<u> </u>
Total net pension liability measured as of June 30, 2019	\$ 278,686,345	\$ 245,071,779	\$ 217,764,229

Additional information on the Plan is provided on its standalone financial statements for the year ended June 30, 2019, a copy of which can be obtained from the Employees’ Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, PR 00940-2004.

Note 13. Other Postemployment Benefits

Plan Description

The Authority participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees’ Retirement System (the “OPEB Plan”). The OPEB Plan is an unfunded defined benefit other postemployment healthcare benefit plan administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB No. 75”). Under the guidance of GASB No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit OPEB Plan.

The OPEB Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The OPEB Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer monthly for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the OPEB plan members that retired after June 30, 2013.

Total OPEB Liability

As of June 30, 2020, the Authority reported a liability of approximately \$8 million for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2020, was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020 (measurement date). As of June 30, 2020, the Authority’s proportionate share was 0.98050%.

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OPEB Expense (Benefit)

For the year ended June 30, 2020, the Authority recognized an OPEB expense of \$412,892.

OPEB Deferred Outflows of Resources and Deferred Inflows of Resources

GASB No. 75 requires to determine deferred outflows of resources and deferred inflows of resources in order to be amortized and recognized in the annual OPEB expense. There are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement date. However, as of June 30, 2020, \$670 thousand reported as deferred outflows of resources related to OPEB, resulting from the benefits paid subsequent to the measurement date, will be recognized as a reduction of total OPEB liability in the year ended June 30, 2020.

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions:

Discount Rate

The discount rate for June 30, 2019 (measurement date) was 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 27.

- a) *Post-retirement Healthy Mortality* — Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the 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-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- b) *Post-retirement Disabled Mortality* — Rates which vary by gender are assumed for disabled retirees based on a study of the 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

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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-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of the Authority's Proportionate Share of Total OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of total OPEB liability calculated using the discount rate of 3.50%, as well as what the Authority's proportionate share of total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current discount rate (in thousands).

	1% Decrease <u>(2.50%)</u>	Discount Rate <u>(3.50%)</u>	1% Increase <u>(4.50%)</u>
Total OPEB liability	<u>\$ 8,949,879</u>	<u>\$8,159,999</u>	<u>\$7,489,076</u>

Note 14. 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 management of the Commonwealth of Puerto Rico.

On December 8, 2015, the Commonwealth enacted another program based on provisions established on Act No. 211. All eligible employees may retire from employment in exchange for an early pension and other benefits. Furthermore, the Act No. 211 provides that eligible employees may retire from employment in exchange for an early pension and other benefits. Act No. 211 only applies to employees with twenty years or more participating in the ERS created pursuant to Act No. 447 of 1951 and have not reached 61 years of age.

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The Act No. 211 provides that the employee will receive an annuity equivalent to 60% of the average compensation, as defined, as of December 31, 2015, and until the participating member attained 61 years old, which is the age the employee will become part of the ERS. The Authority is responsible for the payment of the employer contribution to the Social Security and Medicare, based on the 60% of the average compensation as of December 31, 2015. Also, is responsible for the payment of the related employee and employer contributions to the ERS based on the 100% of average salary as of December 31, 2015, for amounts which guarantees a 50% minimum compensation to eligible employee of its average compensation as of June 30, 2013. The participating employee will also receive the benefits of health insurance for a period not more than two years or the employee reaches 61 years old, whichever comes first.

Voluntary termination benefits, as detailed below, are discounted at a rate of 0.95%:

	<u>Beginning balance</u>	<u>Net change</u>	<u>Ending balance</u>	<u>Current portion</u>
Act No. 70	\$ 3,025,751	\$ (349,821)	\$ 2,675,930	\$ 497,968
Act No. 211	<u>-</u>	<u>5,109,049</u>	<u>5,109,049</u>	<u>1,009,117</u>
	<u>\$ 3,025,751</u>	<u>\$ 4,759,228</u>	<u>\$ 7,784,979</u>	<u>\$ 1,507,085</u>

Note 15. Commitments and Contingent Liabilities

Litigations

The Authority is involved in litigations arising in the normal course of operations. Management believes that its 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 legal liability of \$2,414,865 as of June 30, 2020.

Federal Assistance Programs

The Authority is a subrecipient of a federal financial assistance program. The program 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 Awards 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.

Note 16. COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Vázquez-Garced issued Executive Order (EO) 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of

PUERTO RICO METROPOLITAN BUS AUTHORITY
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Notes to Financial Statements

Year ended June 30, 2020

the citizens of Puerto Rico. The EO authorizes the Secretary of the Department of Treasury and the Executive Director of the Office of Management and Budget to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. Most of the Authority activities, such as the administrative and services provided to customers, have been affected by the lockdown.

As a result of the COVID-19 pandemic, and the state of emergency decreed by the government of Puerto Rico in March 2020 on the island, the Authority faced a series of situations that essentially affected the administrative operations and the transportation services for several months.

Note 17. Subsequent Event

The Authority has evaluated all transactions occurring subsequent to the statement of financial position as of June 30, 2020 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through February 3, 2022, the date the accompanying financial statements were available to be issued. The following event was noted:

- a. On January 2, 2021, the Governor of the Commonwealth, issued Administrative Bulletin No. OE-2021-003 - *Executive Order to Issue Fiscal Responsibility and Expense Control Measures, and to repeal Administrative Bulletin No. OE-2017-001*. The executive order declares a fiscal emergency state in the government of Puerto Rico and requires to all governmental agencies the implementation of the necessary measures to reduce operational expenses, without adversely affecting those services necessary to protect the citizens' health, security and wellness. The control measures cover hiring of personnel, reduction in operational expenses, use of credit cards, travel expenses, use of cellular phones and other technological services, reduction in contract amounts, among other areas.

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE TOTAL PENSION
LIABILITY AND RELATED RATIOS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020

Description	2020*	2019*	2018*
Proportion of Total Pension Liability	0.98619%	0.99154%	1.02985%
Proportionate Share of Total Pension Liability	\$245,071,779	\$242,823,282	\$290,465,865

*The amounts presented have a measurement date of the previous fiscal year end.

*The coverage payroll disclosure is omitted because contributions were eliminated after the enactment of Act No. 106-2017 and are no longer based on payroll.

* No assets are accumulated in a trust for the payments of benefits.

Fiscal year 2019 was the first year that the Authority transitioned from GASB No. 68 to No. GASB 73, as a result of the PayGo system implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

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 PROPORTIONATE SHARE OF TOTAL OPEB
 LIABILITY (UNAUDITED)
 FOR THE YEAR ENDED JUNE 30, 2020

Description	2020*	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.98050%	0.99858%	0.98752%
Proportionate Share of Total Other Post Employment Benefit Liability	\$8,159,999	\$8,409,577	\$9,090,327

*The amounts presented have a measurement date of the previous fiscal year end.

*The coverage payroll disclosure is omitted because contributions were eliminated after the enactment of Act No. 106-2017 and are no longer based on payroll.

*No assets are accumulated in a trust for the payments of benefits.

Fiscal year 2018 was the first year that the new requirements of GASB 75 were implemented by the Authority. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

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

PUERTO RICO METROPOLITAN BUS AUTHORITY
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020

1. As a result of the implementation of the PayGo system, the Pension Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units, including the Authority, are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.
2. The information presented in the schedules relates solely to the Authority and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico, as a whole.
3. The data provided in the schedules is based as of the measurement date of the total pension liability and total other post-employment benefits liability, which is as of the prior fiscal year ended June 30th.