PUERTO RICO METROPOLITAN BUS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)
Basic Financial Statements, Required Supplementary Information and Independent Auditors' Reports
(with Additional Report and Information Required by Government Auditing Standards And the Uniform Guidance)
For the year ended June 30, 2019

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2019

Table of Contents

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 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, 2019, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

We were unable to satisfy ourselves by auditing procedures concerning the inventory costs as of June 30, 2019 stated in the accompanying statement of net position at $5,134,970. 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 Qualification Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the net position of Puerto Rico Metropolitan Bus Authority as of June 30, 2019, 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 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 46, and the Schedule of the Authority's Proportionate Share of Total OPEB Liability on page 47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Valdés, García, Marín & Martínez, LLP

San Juan, Puerto Rico
September 21, 2021

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The following Management's Discussion and Analysis (MD&A) of the financial performance and activity of the Puerto Rico Metropolitan Bus Authority ('the Authority") provides an introduction and understanding of the basic financial statements of the Authority for the fiscal year ended June 30, 2019. 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 2019

- Net position deficiency totalized approximately $394 million at June 30, 2019.
- Net position deficiency decreased by approximately $27 million in 2019, as compared to an increase of approximately $33 million in 2018.
- Capital assets, net totalized approximately $18.7 million at June 30, 2019.
- Net investment in capital assets balance was maintained mainly the same on June 30, 2019, when compared with balance at June 30, 2018 of $18.5 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, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with accounting principles generally accepted in the United States of America.

Statement of Net Position

The statement of net position reports all financial and capital resources of the Authority. 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 the 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, noncapital 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.

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, 2019, and 2018:

			Change	
	2019	2018	Amount	Percent
Current assets	$ 10,136,683	$ 7,595,670	$ 2,541,013	33%
Capital assets, net	18,687,429	18,532,677	154,752	1%
Total assets	28,824,112	26,128,347	2,695,765	10%
Deferred outflow of resources related to pension and total OPEB	13,555,043	68,822,343	(55,267,300)	-80%
Total assets and deferred outflows of resources	$ 42,379,155	$ 94,950,690	$ (52,571,535)	-55%

	2019	2018	Change Amount	Change Percent
Current liabilities:	$ 166,178,492	$ 153,156,071	$ 13,022,421	9%
Non-current liabilities	245,752,309	323,950,512	(78,198,203)	-24%
Total liabilities	411,930,801	477,106,583	(65,175,782)	-14%
Deferred inflows of resources related to pesion	24,311,973	38,432,669	(14,120,696)	-37%
Total liabilities and deferred inflows of resources	$ 436,242,774	$ 515,539,252	$ (79,296,478)	-15%
Net position				
Net investment in capital assets	18,687,429	18,532,677	154,752	1%
Deficit	(412,551,048)	(439,121,239)	26,570,191	-6%
Total net position (deficit)	(393,863,619)	(420,588,562)	26,724,943	-6%
Total liabilities, deferred inflows of resources and net position (deficit)	$ 42,379,155	$ 94,950,690	$ (52,571,535)	-55%

The net increase in current assets of 33% or $2,541,013, was mainly due to the net result of an increase in in accounts receivable of approximately $1.7 million and an increase in inventory of $1 million.

Deferred outflows decreased significantly by approximately $55 million on June 30, 2019, when compared with the fiscal year 2018, 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 capital assets mainly maintained the balance during June 30, 2019 when compared with June 30, 2018. During the year 2019 capital additions of equipment's were approximately $4.8 million, retirements of buses in the amount of approximately $4.3 million and depreciation expenses for the year amounting to approximately $4.5 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 $166 million as of June 30, 2019. Non-current liabilities had a decrease of approximately $78 million. Both changes are due mainly to the recognition of the pension and the total OPEB liabilities in the Authority's financial statements in accordance with the provisions of the GASB No. 73 and GASB No. 75.

Deficit decreased 6% to a net deficiency amount of approximately $412 million as of June 30, 2019. 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 $9 million and Commonwealth's grants received of approximately $12 million. Also, there was an adjustment of approximately $23 million to recognize total OPEB liability and deferred outflows of resources in the Authority's accounting. 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, 2019, and 2018:

	2019	2018	Change Amount	Change Percent
Operating revenue	$ 3,065,041	$ 2,798,962	$ 266,079	10%
Operating expenses	(31,699,728)	(58,918,197)	27,218,469	-46%
Operating loss	(28,634,687)	(56,119,235)	27,484,548	
Non-operating reveunue				
Operating grants, contributions and other revenue	56,633,435	36,193,574	20,439,861	56%
Interest and other financing expenses	(1,273,805)	(1,624,782)	350,977	-22%
Total non-operating revenue, net	55,359,630	34,568,792	20,790,838	60%
Change in position	26,724,943	(21,550,443)	48,275,386	-224%
Net position at beginning of the year	(420,588,562)	(387,940,821)	(32,647,741)	8%
Prior period adjustment	-	(11,097,298)	11,097,298	-100%
Net position (deficit), at beginning of year, as restated	(420,588,562)	(399,038,119)	(21,550,443)	5%
Net position (deficit), at end for year	$ (393,863,619)	$ (420,588,562)	$ 26,724,943	-6%

Operating revenue, which consisted principally of fares for transportation and other services, increased 10% to an amount of approximately $3.1 million for the year ended June 30, 2019 due to an increase in advertising and other revenues during the year.

Operating expenses, which consisted principally of salaries and employee benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative, decreased 46% to an amount of approximately $32 million for the year ended June 30, 2019. The decrease was mainly due to a decrease in employees' benefits as a result of 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.

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

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee salary, as defined. In this early retirement benefit program, the Authority will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of approximately $3 million in the statement of net position as of June 30, 2019. As of June 30, 2019 unpaid long-term benefits granted on this program were discounted at 1.013%.

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.

During the year ended June 30, 2019, there was an increase in net non-operating revenue (expenses) of 60% to an amount of approximately $55 million mainly due to an increase in operating grants received from the Commonwealth and the Federal Transit Administration.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2019, the Authority had invested approximately $18.7 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 on June 30, 2019, the Authority invested approximately $4.8 million in capital assets and disposed of capital assets with cost of approximately $4.3 million.

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. This 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, the monthly principal amortization payment was increased by $5,000 per month for the months of October 2015 to March 2016.

Currently, the Authority does not have sufficient liquid financial resources to meet its obligations when they come due. Due to this fact, the Authority has not been paying the monthly 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.

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 to how it uses the economic resources that it receives. If you have questions about this report or need additional financial information, contact the Administration Office at Puerto Rico Metropolitan Bus Authority, 37 de Diego Avenue, San Juan, Puerto Rico.

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position
June 30, 2019

Assets	
Current assets:	
Cash	$ 1,687,872
Accounts receivable, net	3,313,841
Inventory, net	5,134,970
Total current assets	10,136,683
Non-current assets:	
Capital assets, net of accumulated depreciation and amortization	18,687,429
Deferred outflows of resources:	
Pension related	12,878,873
Other post-employment benefits related	676,170
Total deferred outflows of resources	13,555,043
Total assets and deferred outflows of resources	$ 42,379,155
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	$ 16,830,174
Due to:	
Commonwealth	43,753,065
Other governmental entities	62,106,052
Note payable to commercial bank	28,254,666
Compensated absences	1,120,819
Voluntary termination benefits payable	558,673
Total pension liability	12,878,873
Total other post-employment benefits liability	676,170
Total current liabilities	166,178,492
Non-current liabilities:	
Compensated absences	780,815
Voluntary termination benefits payable	2,467,078
Legal liability	2,275,865
Total pension liability	229,944,409
Total other post-employment benefits liability	7,733,407
Other liabilities	2,550,735
Total non-current liabilities	245,752,309
Deferred inflows of resources:	
Pension related	24,311,973
Total liabilities and deferred inflows of resources	436,242,774
Net Position	
Net investment in capital assets	18,687,429
Deficit	(412,551,048)
Total net position (deficit)	$ (393,863,619)

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, 2019

Operating revenue:	
Passenger fares	$ 1,922,673
Advertising and other	1,142,368
Total operating revenue	3,065,041
Operating expenses:	
Salaries and employees benefits, including voluntary termination benefits	39,986,419
Pension expense	(22,740,658)
Other post-employment benefits	(658,438)
Diesel, gasoline, oil and lubricants	3,255,255
Depreciation and amortization	4,514,201
Materials, spare parts and repairs and maintenance	3,714,870
Utilities	912,116
Professional services	498,650
General and administrative	2,217,313
Total operating expenses	31,699,728
Operating loss	(28,634,687)
Non-operating revenue (expenses):	
Operating grants:	
Commonwealth of Puerto Rico	35,815,601
U.S. Federal Transit Administration	13,740,602
U.S. Federal Emergency Management Agency	5,948
Contributions from PRITA	2,410,208
Recovery of diesel expenses	4,855,654
Loss on disposal of capital assets	(194,578)
Interest and other financing expenses,net	(1,273,805)
Total non-operating revenue, net	55,359,630
Change in net position	26,724,943
Net position (deficit), at beginning of year	(420,588,562)
Net position (deficit), at of end of year	$ (393,863,619)

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

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
For The Year Ended June 30, 2019

Cash flows from operating activities:	
Cash collected from customers and passengers	$ 3,043,507
Cash payments to suppliers for goods and services	(10,649,197)
Cash payments to employees for services	(42,686,436)
Net cash used in operating activities	(50,292,126)
Cash flows from non-capital and related financing activities:	
Operating grants received from:	
Commonwealth of Puerto Rico	35,714,714
Federal grants	12,253,977
Contributions from PRITA	2,410,208
Recovery of diesel and other revenue	4,855,654
Interest paid	(182,212)
Net cash provided by non-capital and related financing activities	55,052,341
Cash flows from capital and related financing activities:	
Acquisition of capital assets and net cash used in capital and related financing activities	(4,863,530)
Cash flows investing activities:	
Interest received and net cash provided by investing activities	5,723
Net decrease in cash	(97,592)
Cash at beginning of the year	1,785,464
Cash at end of the year	$ 1,687,872

(Continues)

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

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
For The Year Ended June 30, 2019

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (28,634,687)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	4,514,201
Changes in operating assets and liabilities:	
Accounts receivable	(21,534)
Inventories	(1,023,611)
Deferred outflows of resources	55,267,300
Accounts payable, accrued expenses and other liabilities	(66,273,099)
Deferred inflows of resources	(14,120,696)
Net cash used in operating activities	$ (50,292,126)

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

Note 1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Puerto Rico Metropolitan Bus Authority (the Authority) is a public corporation created by Act No. 5 of May 11, 1959, as amended, to provide, develop, manage, and maintain a public low-cost transportation system for citizens within the Metropolitan Area 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, 2019, 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 Unites States of America, as applicable to government entities.

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

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, 2019.

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.

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 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.

Contributions

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.

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

Risk Financing

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

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 Pronouncements

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2019:

- 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.* The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2016. Under the guidance of GASB No. 73, the Commonwealth and its component units (including the Authority) are considered to be one employer and are classified for financial reporting purpose as a single employer defined benefit plan. GASB Statement No. 71 requires that a government recognize a deferred outflow of resources for its pension contributions (or pension benefit payments effective July 1, 2017) made subsequent to the measurement date.

Accounting Pronouncements Issued but Not Yet Effective

- GASB Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 but its implementation was postponed for one year by GASB No. 95. Earlier application is encouraged.

- GASB Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

- GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial 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 model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 but its implementation was postponed for one year by GASB No. 95. Earlier application is encouraged.

- 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, 2019. 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. 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.

  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. 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, 2020. 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.
  - 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, 2020. 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. 95, Postponement of the effective dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2019, and later.

  The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

  - *Statement No. 83, Certain Asset Retirement Obligations*
  - *Statement No. 84, Fiduciary Activities*
  - *Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
  - *Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*
  - *Statement No. 90, Majority Equity Interests*
  - *Statement No. 91, Conduit Debt Obligations*
  - *Statement No. 92, Omnibus 2020*

- *Statement No. 93, Replacement of Interbank Offered Rates*
- *Implementation Guide No. 2019-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- *Implementation Guide No. 2019-1, Implementation Guidance Update—2019*
- *Implementation Guide No. 2019-2, Fiduciary Activities.*

The effective dates of the following pronouncements are postponed by 18 months:

- *Statement No. 87, Leases*
- *Implementation Guide No. 2019-3, Leases.*

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

The requirements of this Statement are effective immediately.

- *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.

- *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.*

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 $393 million. In addition, at June 30, 2019 the Authority has a working capital deficiency of approximately $156 million making difficult to the Authority to pay its liabilities in the normal course of business. These facts indicate that the Authority needs the continued 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

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

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

In August of 2014, Act No. 123 was adopted 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 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, 2019 consist of the following (in thousands):

	Book Balance	Accumulated Custodial credit risk loss	Book Balance after accumulated credit risk loss	Depository Bank Balance	Amount uninsured and uncollateralized
Cash deposited in commercial banks	$ 1,687,872	$ -	$ 1,687,872	$ 1,890,996	$ -

Note 4. Deposits Claim Receivable

On November 29, 2018, the Government Development Bank (the GDB) completed a 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, 2019, 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, 2019, consist of:

Operating and capital grants:	
PRITA	$ 1,407,137
FTA	1,841,278
Puerto Rico Highways and Transportation Authority	4,219,250
Others	478,055
	7,945,720
Less: Allowance for doubtful accounts	(4,631,879)
Account Receivable, net	$ 3,313,841

Accounts receivable from PRITA and FTA consist principally of operating grants pending to be received at June 30, 2019. 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 $4,219,250 represents the amounts billed to PRHTA for services provided as of June 30, 2019.

Note 6. Inventory

Inventory as of June 30, 2019 consists of:

Spare parts	$ 5,052,588
Diesel and gasoline	157,982
Supplies	126,190
	5,336,760
Less: Allowance for obsolete inventory	(201,790)
Total inventory, net	$ 5,134,970

Note 7. Capital Assets

The following schedule summarizes the capital assets held by the Authority as of June 30, 2019:

	Balance at June 30, 2018	Increases	Decreases	Balance at June 30, 2019
Assets not being depreciated:				
Land and improvements	$ 2,500,000	$ -	$ -	$ 2,500,000
Construction in progress	269,133	3,853,776	272,760	3,850,149
	2,769,133	3,853,776	272,760	6,350,149
Assets being depreciated:				
Building and improvements	23,113,394	432,149	-	23,545,543
Terminals	5,655,431	-	-	5,655,431
Transportation equipment	56,275,949	155,104	4,016,796	52,414,257
Machinery and equipment	25,223,192	422,501	11,144	25,634,549
Total	110,267,966	1,009,754	4,027,940	107,249,780
Less: accumulated depreciation and amortization	94,504,421	4,514,201	4,106,122	94,912,500
Capital assets being depreciated, net	15,763,545	(3,504,447)	(78,182)	12,337,280
Total capital assets, net	$ 18,532,678	$ 349,329	$ 194,578	$ 18,687,429

Note 8. Due to Commonwealth

Amount due to Commonwealth at June 30, 2019 consists of the following:

Income tax withholdings of employees and service providers	$ 31,275,128
PayGo charges	11,816,130
Other miscellaneous charges	661,807
Total	$ 43,753,065

Note 9. Due to Other Governmental Entities

Amount due to governmental entities at June 30, 2019 consists of the following:

Employees' Retirement System Administration	$ 46,226,360
State Insurance Fund Corporation	8,178,624
PR Electric Power Authority	7,273,220
Others	427,848
Total	$ 62,106,052

Note 10. Long-Term Debt:

Long-term debt at June 30, 2019 consists of:

	Balance at 2018	Increases	Decreases	Balance at 2019	Current Portion
Note payable to commercial bank	$28,254,666	$ -	$ -	$ 28,254,666	$28,254,666

This loan was payable in monthly principal installments of **$**208,574, plus interest through March 2015 when it matured. Interest on 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, 2019). 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 form July 17, 2015 to September 25, 2015. As part of the sixth amendment, the monthly principal amortization payment was increased by $5,000 per month for the months of August and September 2015.

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

Currently, the Authority does not have sufficient liquid financial resources to meet its obligations when they come due. Due to this fact, the Authority has not been paying the monthly 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, 2019 are summarized as follows:

	Balance at 2018	Net Change	Balance at 2019	Current Portion
Compensated absences	$ 1,853,335	$ 48,299	$ 1,901,634	$ 1,120,819
Other liabilities	2,702,814	(152,079)	2,550,735	-
Total	$ 4,556,149	$ (103,780)	$ 4,452,369	$ 1,120,819

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.

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. 447-1951 Members:* Act No. 447-1951 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. 447-1951 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

Act No. 447-1951 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.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
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. 447-1951 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.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
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.

(ii) Service Retirement Annuity Benefits

An annuity 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.

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) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is $10,000 or less.

Benefit: The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

(b) Deferred Retirement

Eligibility: A Member was eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member had not taken a lump sum withdrawal of the accumulated contributions from the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age 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.

(v) Death Benefits

(a) Pre-retirement- Death Benefit

Eligibility: Any current nonretired member was eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members.

(b) High Risk Death Benefit under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro rata among eligible children. The annuity was payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member should each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Postdeath Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three-years.

The cost of these benefits was paid by the Commonwealth.

(c) Postretirement Death Benefit for Members Who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who had not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105, as amended by Act No. 4):

i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan- 30%, prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. See Act No. 105 of 1969, as amended by Act No.158 of 2003.

ii. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than $1,000. Either the Commonwealth for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. ERS pays for the rest. See Article 2-113 of Act No. 447 of 1951, as amended by Act No. 524 of 2004.

(d) Postretirement Death Benefit for Members Who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment must be payable to a beneficiary or the member's estate.

(e) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(vi) Disability Benefits

(a) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity, or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(b) High Risk Disability under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended).

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three-years, the disability benefit was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three-years (Act No. 127-1958, as amended). The cost of these benefits was paid by the Commonwealth.

(c) *Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.*

(vii) 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). The increase in the minimum monthly benefit from $200 per month to $300 per month was paid by the Commonwealth for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from$300 per month to $400 per month was to be paid by ERS for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.

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). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees are to be paid by ERS. All other COLAs granted in 1995 and later were required to be paid by the Commonwealth for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

(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. This benefit is paid from the supplemental contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

(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. This benefit is paid from the Supplemental Contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

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.

(viii) Contributions

Prior to July 1, 2017, the plan contributions requirements were as follows:

(a) *(Article 5-105 of Law447, as amended by Law No. 3of 2013, amended by Act No. 106 of 2017 and amended by Act 71 of 2019):* Effective July 1, 2013 through June 30, 2017, contributions by members consisted of 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions were 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Effective July 1, 2015 for members who selected the Coordination Plan, member contribution increased to 10% of compensation. Members may voluntarily make additional contributions to their Defined Contribution Hybrid Contribution Account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Treasury Department in the individual member accounts under the New Defined Contribution Plan created pursuant to Act 106-2017. Also, as of that date, System's participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to the ERS. However, in the case of members of the Puerto Rico Police Bureau, the mandatory contribution is 2.3% of their compensation. In the case of those members of the Puerto Rico Police Bureau, which have less than 10 years to qualify for retirement as established by Act No. 447, the reduction in the percentage of contribution from the 8.5% level will apply voluntarily.

(b) *Employer Contributions (Article* 2 *116, as Amended by Act No. 116-2010 and Act No. 3-2013):*

Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions were 10.275% of compensation. For the next four fiscal years effective July 1, 2012, employer contributions were increased annually by 1% of compensation. For the next five fiscal years, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.53% of compensation effective July 1, 2020. Under Act 106-2017, all employers' obligations to contribute to the ERS were eliminated.

Act 106-2017 eliminated the employer contributions to the ERS as of July 1, 2017. Instead, participating employers are responsible for the payment of the PayGo fee to the newly created accumulated pension benefits payment account, which is computed based on the amount of actual benefits paid to retirees, disabled and beneficiaries of each participating employer.

(c) *Supplemental Contributions from the Commonwealth, Certain Public Corporations, and Municipalities (Act No. 3-2013):* Effective July 1, 2013, ERS received a supplemental contribution of $2,000 each year for each pensioner (including beneficiaries receiving survivor benefits) that was previously benefitting an Act No. 447-1951 or Act No. 1-1990 member while an active employee. This supplemental contribution was paid by the Commonwealth Fund for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

Act 106 of 2017 eliminated the special benefits contribution requirement to the ERS, instead they will be allocated to the new PayGo System through legislative appropriations, as necessary.

(d) *Additional Uniform Contribution (Act No. 32-2013,* as *Amended):* The additional uniform contribution (AUG) was to be certified by the external actuary of ERS each fiscal year from fiscal year 2015 through 2033 as necessary to avoid the projected gross assets of ERS, falling below $1 billion during any subsequent fiscal year. The AUG was to be paid by the Commonwealth, public corporations with their own treasuries, and municipalities. All employers' contributions, including the additional uniform contribution were eliminated effectively on July 1, 2017 by Act 106-2017.

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

On August 12, 2021, the ERS issued an audited report for the year ended June 30, 2018, 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, 2019, the Authority reported a liability of $242,823,282 for its proportionate share of the total pension liability. The collective total pension liability which amounts to approximately $24.5 billion was determined by an actuarial valuation as of July 1, 2017 that was rolled forward to June 30, 2018 (measurement date as of June 30, 2018). 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, 2018, the Authority's proportionate share was 0.99154%.

For the year ended June 30, 2019, the Authority recognized pension benefit of $22,740,658. Pension expense (benefit) represents the change in the total pension liability during the measurement period. At June 30, 2019, 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	$ -	$ 7,344,227
Changes in assumptions	5 years	-	7,962,687
Changes in proportion	5 years	-	9,005,059
Difference between projected and actual earnings on pension plan investments	5 years	-	
Audited amount as reported by ERS		-	24,311,973
Benefits paid subsequent to measurement date	5 years	12,878,873	-
Balance as of June 30, 2019		$ 12,878,873	$ 24,311,973

For the fiscal year 2019 there were benefits paid after the measurement date amounting to $12.9 million reported as deferred outflow of resources, since for fiscal year 2019 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, 2019, will be recognized in the pension expense (benefit) as follows:

Year ending June 30,	Amount
2019	$ (3,061,384)
2020	(3,061,384)
2021	(3,061,384)
2022	(3,061,384)
2023	(3,061,384)
Total	$ (15,306,920)

Actuarial methods and assumptions

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

Discount Rate

The discount rate for June 30, 2018, was 3.87%. 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

The mortality tables used in the June 30, 2018, actuarial valuation was 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-2018 from the 2006 base year and projected forward using MP-2018 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-2018 from the 2006 base year and projected forward using MP-2018 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-2018 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-2018 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, 2018

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.

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, 2019, calculated using the discount rate of 3.87%, 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 (2.87%) or 1 percent-point higher (4.87%) than the current rate (in thousands):

	1% Decrease (2.87%)	Current discount rate (3.87%)	1% Increase (4.87%)
Total net pension liability measured as of June 30, 2018	$ 276,314	$ 242,823	$ 215,645

Additional information on the Plan is provided on its standalone financial statements for the year ended June 30, 2018, 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, 2019, 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, 2019, was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018 (measurement date). As of June 30, 2019, the Authority's proportionate share was 0.99858%.

OPEB Expense (Benefit)

For the year ended June 30, 2019, the Authority recognized an OPEB benefit of $658,438.

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, 2019, $676 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, 2019.

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions:

Discount Rate

The discount rate for June 30, 2018 (measurement date) was 3.87%. 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-2018 from the 2006 base year and projected forward using MP-2018 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-2018 from the 2006 base year and projected forward using MP-2018 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-2018 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 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-2018 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 3.87%, 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 (2.87%) or 1-percentage-point higher (4.87%) than the current discount rate (in thousands).

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Total OPEB liability	$ 9,224	$8,409	$7,718

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.

Voluntary termination benefits, as detailed below, are discounted at a rate of 2.20%, which is the average of the prevailing annual interest rate over outstanding certificates of deposits as of June 30, 2019:

	Beginning balance	Net change	Ending balance	Current portion
Act No. 70	$ 3,335,120	$ (309,369)	$ 3,025,751	$ 558,673

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 $2,275,865 as of June 30, 2019.

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. Subsequent Events

The Authority has evaluated all transactions occurring subsequent to the statement of financial position as of June 30, 2019 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through September 21, 2021, the date the accompanying financial statements were available to be issued. The following material events were noted:

a. On July 29, 2019, the Authority received the approval for the implementation of a program that provides early retirement benefits for voluntary employment termination to eligible employees under Act No. 211 of December 8, 2015 (the Act No. 211). 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, the Authority 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 the Authority 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 when the employee reaches 61 years old, whichever comes first. A total of 48 employees were accepted in the program.

b. On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to the infrastructure, an island-wide power outage, water shortages and threatening the lives of its people. In order to safeguard the health and public safety of its citizens, the Governor issued Executive Orders (EO) 2020-01 and (EO) 2020-02 declaring a state of emergency to activate the emergency purchasing protocol allowing emergency management agencies to acquire the necessary supplies and essential services to provide a timely and effective response and activating the National Guard to provide support during the emergency management. Puerto Rico continues to experience aftershocks that are not expected to stop any time soon.

c. 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, GovernorVáquez-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 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 lock down.

   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.

d. On June 1, 2020, the Authority received a grant of $21,000,000 from the U.S. Department of Transportation through Section 5307 of the CARES Act for operating assistance to help respond to and recover from the COVID-19 pandemic. The funds were budgeted to be used as follow: $3,000,000 for preventive maintenance and $18,000,000 for emergency relief for operating assistance.

e. On April 23, 2021, the Oversight Board certified its most recent fiscal plan (the Oversight Board Fiscal Plan) for the Commonwealth of Puerto Rico, which includes the following categories of structural reforms and fiscal measures:

   (i) Human Capital and Welfare Reform
   (ii) K-12 Education Reform
   (iii) Ease of Doing Business Reform
   (iv) Power Sector Reform
   (v) Infrastructure and Capital Investment Reform
   (vi) Establishment of the Office of the CFO
   (vii) Agency Efficiency Measures
   (viii) Medical Reform
   (ix) Enhance Tax Compliance and Optimized Taxes and Fees
   (x) Reduction in UPR and Municipality Appropriations
   (xi) Comprehensive Pension Reform

   There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depend on a number of factors and risks, some of which are not wholly within its control.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE TOTAL PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019

Description	**2019***	**2018***
Proportion of Total Pension Liability	0.99154%	1.02985%
Proportionate Share of Total Pension Liability	$ 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 results 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 LIAIBLITY (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019

Description	**2019***	**2018***
Proportion of Total Other Post Employment Benefit Liability	0.99858%	0.98752%
Proportionate Share of Total Other Post Employment Benefit Liability	$ 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.

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.

SINGLE AUDIT SECTION

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-through to Subrecipients	Federal Expenditures
Department of Transportion (Federal Transit Administration)				
Direct programs:				
Federal Transit Cluster:				
Federal Transit-Formula Grants	20.507	N/A	$ -	$ 12,377,882
Bus and Bus Facilities Formula Program	20.526	N/A	-	1,144,690
Total Federal Transit Cluster				13,522,572
Public Transportation Emergency Relief Program	20.527	N/A	-	218,031
Total Expenditures of Federal Awards			$ -	$ 13,740,603

The accompanying notes are an integral part of this schedule.

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Puerto Rico Metropolitan Bus Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR Part 200), *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to, and does not present, the financial position and changes in net position of the Authority.

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

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – INDIRECT COST RATE

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Puerto Rico Metropolitan Bus Authority (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 21, 2021. In our report on the Authority's financial statements our opinion was qualified, as discussed in the "Basis for Qualified Opinion" paragraph in the report on the financial statements, because we were unable to satisfy ourselves by other auditing procedures concerning the inventory costs as of June 30, 2019.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-001, and 2019-002.

Puerto Rico Metropolitan Bus Authority's Response to Findings

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

Purpose of this Report

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

San Juan, Puerto Rico
September 21, 2021

Valdes, Garcia, Marin & Martinez, LLP

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

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

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

Report on Compliance for Each Major Federal Program

We have audited Puerto Rico Metropolitan Bus Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2019. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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Other Matters

The results of our auditing procedures disclosed other instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-004. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

San Juan, Puerto Rico
December 20, 2021

Valdes, Garcia, Marin & Martinez, LLP

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SECTION I - SUMMARY OF AUDITORS' RESULTS

FISCAL YEAR ENDED JUNE 30, 2019

A. Summary of auditors' results:

Part I - Financial Statements

1. Type of audit report issued	☐ Unmodified opinion ☐ Adverse opinion	☒ Qualified opinion ☐ Disclaimer of opinion
Internal control over Financial Reporting		
2. Significant deficiencies identified?	☒ Yes	☐ No
3. Significant deficiencies reported as material weaknesses?	☒ Yes	☐ None reported
4. Material noncompliance disclosed?	☒ Yes	☐ No

Part II - Federal Awards

Internal control over Major Programs		
1. Significant deficiencies identified?	☐ Yes	☒ No
2. Significant deficiencies reported as material weaknesses?	☐ Yes	☒ None reported
3. Type of auditors' report on compliance major programs	☒ Unmodified opinion ☐ Adverse opinion	☐ Qualified opinion ☐ Disclaimer of opinion
4. Audit findings required to be reported under Uniform Guidance	☒ Yes	☐ No

5. Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
	Federal Transit Cluster:
20.507	Federal Transit - Formula Grants
20.526	Bus and Bus Facilities Formula Program

6. Dollar threshold used to distinguish Type A and Type B programs:	☒ $750,000	
7. Auditee qualified as low-risk auditee?	☐ Yes	☒ No

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding Number: 2019-001

Category: Financial, Internal Control Weakness and Noncompliance

Criteria

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

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

Condition

During the audit of the Authority’s basic financial statements for the fiscal year ended June 30, 2019, we noted the following deficiencies related with the accounting system and management of spare parts inventory:

1. A formal procedure for the closing of the accounting records has not been established for the monthly and year-end periods and, consequently, timely recording procedures are not performed in the general ledger accounts.
2. The accounting functions and processes are not centralized in the Department of Finance.
3. The financial information is not reviewed, analyzed, and reconciled on a monthly basis by management.
4. We noted the following deficiencies related with the management of the spare parts inventory acquired for the repairs and maintenance of bus fleet:
   a. Internal control procedures in place were not operating as designed.
   b. Physical interim count was not performed as established.

Finding Number: 2019-001 (Continued)

c. Perpetual records were not adjusted for quantities physically counted, the reasons for the differences were not investigated and, consequently, no adequate and timely procedures were implemented to detect, deter or mitigate them on a timely manner.
d. Several items selected for the inventory counting procedures test did not agree with the final inventory report.

Effect

This situation causes delays in the year-end closing procedures affecting the issuance of the financial statements on a timely manner. In addition, spare parts inventory has not been properly safeguarded and valued. Even loss, damage, or theft could exist but neither deterred, detected nor investigated on a timely manner. Furthermore, perpetual inventory records are not accurate as to both actual value and quantities of the spare parts in existence as of June 30, 2019. The opinion on the financial statements was qualified for the inventory costs. The lack of proper internal control procedures over spare parts inventory could allow for improper charges to federal programs that could be questioned by the U.S Federal Transit Administration.

In addition, the lack of preparation of monthly reconciled financial statements does not allow management to perform the following procedures:

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

Cause

This situation is caused by the lack of adequate procedures for reconciling and analyzing the financial transactions recorded throughout the year and for the financial reporting closing process. Also, this situation is caused by lack of employee's adherence to internal control procedures established and lack of management's enforcement of procedures.

Prior year audit finding

2018-001; 2018-002

Finding Number: 2019-001 (Continued)

Recommendations

The Authority should develop formal procedures for the monthly and year-end closings to avoid delays in the preparation and issuance of the financial statements. The Authority should consider the establishment of new policies to be followed by the accounting department as well as any other department that provides financial information required for the preparation of the financial statements. This could be accomplished by establishing deadlines for entry and correction of transactions as well as for closing both interim and annual financial accounting periods. Also, enforcement procedures for instances of noncompliance with stated deadlines should be implemented.

The Authority should also perform a proper risk assessment evaluation and design adequate internal controls procedures to mitigate the risks associated with improper safeguarding of inventory as well as to ascertain that implemented procedures are operating as designed.

Safeguarding procedures should include, among others:

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

Management's Response

Refer to Grantee's Correction Action Plan

Finding Number: 2019-002

Category: Financial and Noncompliance

Criteria

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

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

On June 27, 2017, the Treasury Department of the Commonwealth of Puerto Rico, issued Circular Letter No.1300-46-17 to convey to central government agencies, public corporations and municipalities the implementation procedures to adopt, effective July 1, 2017, the new "pay as you go" (PayGo) system for the payment of pensions of all the Commonwealth Retirement Systems. On July 1, 2017, employer's contributions, contributions ordered by special laws and additional uniform contributions were all eliminated.

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 provided the legal framework for the Commonwealth to implement the PayGo System.

As of July 1, 2017, the effective date of Act 106-2017, also reformed the ERS in order that active participants would deposit their individual contributions in a new defined contributions plan, similar to a 401(K) plan. The new plan would be managed by a private entity. Act 106-2017 covered employers should pay a monthly PayGo charge to cover their current retirees and beneficiaries, excluding employees recruited after July 1, 2017, which are under a defined contribution plan.

Finding Number: 2019-002 (Continued)

Condition

As of June 30, 2019, the Authority owes to the Commonwealth and other governmental agencies the approximate amount of $106 million. This balance represents amounts due mainly for payroll taxes withholdings, PayGo charges, utilities, and other related services.

Effect

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

Cause

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

Prior year audit finding

2018-003

Recommendations

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

Management’s Response

Refer to Grantee’s Correction Action Plan

Finding Number: 2019-003

Category: Financial, Internal Control Weakness

Criteria

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

Condition

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

1. A reconciliation of the amount of passenger fares collected in buses with underlying accounting data such as a detail of the number of passengers that used the services during the day multiplied by the related fares is not prepared.
2. The Authority is not recognizing the revenue related to passenger fares using the magnetic card of the Integrated Transportation Alternative (ATI) program.

Effect

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

1. Detect any irregularities or instances of fraud on a timely basis,
2. Prepare timely comparison between actual and budgeted revenues as well as detect timely significant fluctuations from budget,
3. Discuss reports with personnel in charge of this process and apply enforcement procedures if considered necessary.

Cause

Formerly, the Authority used an automated system to have control over fares collected and the amount that should have been collected, but it was discontinued in 2014. Currently, the Authority is not implementing any procedure to validate the correctness and accuracy of revenues from passenger transportation.

Finding Number: 2019-003 (Continued)

Prior year audit finding

2018-004

Recommendations

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

Management's Response

Refer to Grantee's Correction Action Plan

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number:	2019-004
Agency:	U.S. Department of Transportation
Federal Program:	Federal Transit Formula Grants
CFDA:	20.507
Grant Number:	PR-90-X253-00; PR-90-X269-00; PR-90-X293-00; PR-90-X302-00; PR-90-X348-00; PR-2016-012 ; PR2018-009 ; PR2018-016-01 ; PR-90-2019-006
Grant Period:	2009; 2010; 2011; 2012; 2014; 2017; 2018; 2019
Compliance Requirement:	Reporting
Category:	Noncompliance

Criteria

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

Condition

The Data Collection Form and the Reporting Package for the year ended June 30, 2019 were not timely submitted to the federal government.

Effect

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

Cause

The Authority has not been able to provide the necessary information for the preparation of the Single Audit report on a timely basis in order to complete its reporting requirements for the fiscal year 2019. The Treasury Department of the Commonwealth of Puerto Rico required that public agencies and corporations submit the financial statement corresponding to fiscal year 2019 with Actuarial Reports related to the Retirement Systems, GASB 73 and GASB 75. The preparation of both reports was affected by COVID-19. GASBs 73 and 75 reports were issued on August 12, 2021.

Prior Year Audit Finding

2018-09

Finding Number: 2019-004 (Continued)

Recommendations

The Authority should establish, before the year-end, an audit team to be in-charge of both the Single Audit and the preparation of the financial statements. The team should adhere to established procedures to close and prepare the fiscal year accounting records on a timely manner.

Questioned Costs

None

Management's Response

Refer to Grantee's Corrective Action Plan

PUERTO RICO METROPOLITAN BUS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Reference Number:	2018-001, 2017-001
Condition:	The closing process is informal and needs a clear definition of responsibilities and communication among the different departments involved. In certain instances no timely communication or documentation is provided to the accounting department for the proper recording of non-routine transactions.
Status of Corrective Action Plan:	Remains uncorrected. Refer to finding 2019-001 and corrective action plan.
Reference Number:	2018-002, 2018-006, 2017-002, 2017-005
Audit Finding:	Compliance Requirements: Equipment and Real Property Management
Condition:	The Authority maintains a spare parts perpetual inventory system which is not reconciled periodically with physical counts. Differences are almost identified and processed at the end of fiscal year.
Status of Corrective Action Plan:	Remains uncorrected. Refer to finding 2019-001 and corrective action plan.
Reference Number:	2018-003, 2017-003
Condition:	At June 30, 2018 the Authority has amounts outstanding with other public corporations or agencies of the Commonwealth of Puerto Rico amounting to approximately $108 million ($84 million in 2017). This amount represents amounts due for payroll withholdings, utilities and other related services.
Status of Corrective Action Plan:	Remain uncorrected. Refer to finding 2019-002 and corrective action plan.
Reference Number:	2018-004, 2017-004
Condition:	During our audit procedures over revenues, we noted the following deficiencies: 1. A reconciliation of the amount of passenger fares collected in buses with underlying accounting data such as a detail of the number of passengers that used the services during the day multiplied by the related rates is not performed. 2. The Authority is not recognizing the revenue related to passenger fares using the magnetic card of the Integrated Transportation Alternative (ATI) program.
Status of Corrective Action Plan:	Remain uncorrected. Refer to finding 2019-003 and corrective action plan.
Reference Number:	2018-005
Audit Finding:	Compliance Requirement: Allowable costs/Cost principles
Condition:	The Authority, in five out of twenty-nine sample items, claimed preventive maintenance costs reimbursement of work incurred by employees whose attendance records showe they were absent. The data used to support the preventive maintenance expense was incorrect and it was not reviewed, analyzed and reconciled by management.
Status of Corrective Action Plan:	Corrected
Reference Number:	2018-007
Audit Finding:	Compliance Requirement: Suspension and Debarment
Condition:	The Authority does not ascertain whether it is contracting with parties that are not debarred, suspended or otherwise, excluded from or ineligible for participation in federal assistance programs or activities.
Status of Corrective Action Plan:	Corrected
Reference Number:	2018-008
Audit Finding:	Compliance Requirement: Reporting
Condition:	The Authority neither retained copies of the quarterly federal financial reports, reconcil underlying accounting data used, nor submitted the report on time.
Status of Corrective Action Plan:	Partially Corrected
Reference Number:	2018-009, 2017-009
Audit Finding:	Compliance Requirement: Reporting
Condition:	The Data Collection Form and the Reporting Package were not timely submitted to the federal government.
Status of Corrective Action Plan:	Remain uncorrected. Refer to finding 2019-004 and corrective action plan.

AUTORIDAD METROPOLITANA DE AUTOBUSES AMA

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

CORRECTIVE ACTION PLAN

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

Audited Area: MBA **Report's Date:** February 17, 2022 **Audit Scope:** Years Ended June 30, 2019 and 2018

Indicate: *[ ] CAP* [ ] **FRC**

Principal Civil Servant or its authorized personnel: Karen Correa Pomales Position: President and General Manager Ext.: 3003

I CERTIFY THAT THIS INFORMATION IS COMPLETE AND CORRECT: Karen Correa Pomales Date: February 17, 2022

Principal Civil Servant or its authorized personnel's signature

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
Finding: 19-FS-001 ***Condition:*** During the audit of the Authority's basic financial statements for the fiscal year ended June 30, 2019, we noted the following deficiencies related with the accounting system and management of spare parts inventory: 1. A formal procedure for the closing of the accounting records has not been established for the monthly and year-end	The Authority should develop formal procedure for the monthly and year-end closings to avoid delays in the preparation and issuance of the financial statements. The Authority should consider the establishment of new policies to be followed by the accounting department as well as any other department that provides financial information required for the preparation of the financial statement. This could be accomplished by establishing deadlines for entry and correction of transactions as well as the closing both interim and annual financial accounting periods. Also, enforcement procedures for instances of	Following the recommendation, the Authority will review current procedures in order to establish and develop formal procedures that will set the process for the monthly and year-end closings. As part of the review of the current procedures, a worksheet was prepared to document the corresponding checks and/or approvals for the monthly closings according to the Rules and Procedures of the Department of Finance. The worksheet will be identified as Table of the Ledger Accounts. **December 2022**

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Initials

AUTORIDAD METROPOLITANA DE AUTOBUSES AMA

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

CORRECTIVE ACTION PLAN

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

Audited Area: MBA **Report's Date:** February 17, 2022 **Audit Scope:** Years Ended June 30, 2019 and 2018

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
periods and, consequently, timely recording procedures are not performed in the general ledger accounts. 2. The accounting functions and processes are not centralized in the Department of Finance. 3. The financial information is not reviewed, analyzed, and reconciled on a monthly basis by management. 4. We noted the following deficiencies related with the management of the spare parts inventory acquired for the repairs and maintenance of bus fleet: a. Internal control procedures in place were not operating as designed. b. Physical interim count was not performed as established.	noncompliance with stated deadlines should be implemented. The Authority should also perform a proper risk assessment evaluation and design adequate internal controls procedures to mitigate the risks associated with improper safeguarding of equipment as well as ascertain that implemented procedures are operating as designed. Safeguarding procedures should include, among others: 1. Proper segregation of duties and monitoring procedures to avoid or deter override of internal control procedures or collusion. 2. Enforce proper daily reconciliation procedures of spare parts inventory transactions and immediate investigation and resolution of any difference found. 3. Monthly reconciliations of spare parts perpetual inventory and general ledger accounts balances. 4. Implementation of periodic inventory counting, reconciliation and investigation of differences noted.	For inventory taking, a staff will be assign to supervise all information required by the auditors. Cyclic inventory takes will be carry out, periodically for the entire Warehouse. Differences will be analyze and reconcile with the finance system, as well as the Perpetual inventory with the General Ledger. As part of internal controls, for Inventory Taking, staff will be assigned to provide information required by auditors; such as: card count, physical part count, etc. Variances in the closing count of each fiscal year will be investigated to determine the cause of differences. **December 2022.**

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Initials

AUTORIDAD METROPOLITANA DE AUTOBUSES AMA

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

CORRECTIVE ACTION PLAN

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

Audited Area: MBA **Report's Date:** February 17, 2022 **Audit Scope:** Years Ended June 30, 2019 and 2018

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
c. Perpetual records were not adjusted for quantities physically, counted, the reasons for the differences were not investigated and, consequently, no adequate and timely procedures were implemented to detect, deter or mitigate them on a timely manner. d. Several items selected for the inventory counting procedures test did not agree with final inventory report.	5. Proper enforcement and monitoring procedures for instances of overriding of, or noncompliance with, internal control procedures.	
Finding: 19-FS-002 ***Condition:*** As of June 30, 2019, the Authority owes to the Commonwealth and other governmental agencies the approximate amount of $106 million. This balance represents amounts due mainly for payroll taxes withholdings, PayGo	Management should evaluate financing alternatives to pay liabilities when due and in accordance with laws and regulations in order to avoid the payment of interest, surcharges, and penalties.	The Authority requests the necessary funds for each financial year through the budget request submitted to the Office of Management and Budget (OMB). The OMB approved a reduction in the allocation of funds needed to cover MBA operating expenses, which has caused our accounts payable to continue to increase over the past

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Initials

AUTORIDAD METROPOLITANA DE AUTOBUSES
AMA

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

CORRECTIVE ACTION PLAN

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

Audited Area: MBA **Report's Date:** February 17, 2022 **Audit Scope:** Years Ended June 30, 2019 and 2018

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
charges, utilities, and other related services.		years. The Authority will be making the necessary arrangements in conjunction with the Secretary of DTOP to request additional funds to the legislature and to cover these debts. **July 2022**
Finding: 19-FS-003 ***Condition:*** During our audit procedures over revenues, we noted the following deficiencies: 1. A reconciliation of the amount of passenger fares collected in the buses with underling accounting data such as a detail of the number of passengers that used the services during the day multiplied by the related fares is not performed. 2. The Authority is not recognizing the revenue related to passenger fares	Management should evaluate software program alternatives to keep track of the passenger activity during the day in order to have an essential tool to validate the daily amount of passenger fares collections.	Currently, The Puerto Rico Integrated Transportation Authority (PRITA) is the leading party of a fare collection project that will integrate AMA, ATM and TU. This major project consist specifically of an update of the Cubic software. This will allow us to comply with the passenger count and the conversion of the ridership to money generated by service. **December 2022.**

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Initials

AUTORIDAD METROPOLITANA DE AUTOBUSES
AMA

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

CORRECTIVE ACTION PLAN

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

Audited Area: MBA **Report's Date:** February 17, 2022 **Audit Scope:** Years Ended June 30, 2019 and 2018

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
using the magnetic card of the Integrated Transportation Alternative (ATI) program.		
Finding: 19-004 ***Condition:*** The Data Collection Form and the Reporting Package for the year ended June 30, 2019 were not timely submitted to the federal government.	The Authority should establish, before the year-end, an audit team to be in-charge of both the Single Audit and the preparation of the financial statements. The team should adhere to established procedures to close and prepare the fiscal year accounting records on a timely manner.	Treasury Department of the Commonwealth, required that the public agencies and corporation summit the Financial Statement corresponding for a fiscal year terminated at June 30, of the corresponding year. In circular letter issued by the Treasure Department, they indicate that for thru presentation on the Audited Financial Statement it is mandatory that the criteria established in GASB 68 and GASB 75 be include. These criteria indicate how to present specific financial information.

Initials

AUTORIDAD METROPOLITANA DE AUTOBUSES
AMA

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

CORRECTIVE ACTION PLAN

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

Audited Area: MBA **Report's Date:** February 17, 2022 **Audit Scope:** Years Ended June 30, 2019 and 2018

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
		The state is responsible for delivering this financial information to public agencies or corporation, with the purpose including in their Audited Financial Statement. Failure to receive this Financial Information in a reasonable time causes the effect to delivering Audited Financial Statement to the corresponding agencies.
Finding: 18-001, 17-001 ***Condition:*** The closing process is informal and needs a clear definition of responsibilities and communication among the different department involved. In certain instances, no timely communication or documentation is provided to the accounting department for the proper recording of non-routine transactions.		See Corrective Plan 19-FS-01

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Initials

AUTORIDAD METROPOLITANA DE AUTOBUSES
AMA

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

CORRECTIVE ACTION PLAN

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

Audited Area: MBA **Report's Date:** February 17, 2022 **Audit Scope:** Years Ended June 30, 2019 and 2018

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
Finding: 18-002, 18-006, 17-002, 17-005 ***Condition:*** The Authority maintains a spare parts perpetual inventory system which is not reconciled periodically with physical counts. Differences are almost identified and processed at the end of fiscal year.		See Corrective Plan 19-FS-01
Finding: 18-003, 17-003 ***Condition:*** At June 30, 2018, the Authority has amounts outstanding with other public corporations or agencies of the Commonwealth of Puerto Rico amounting to approximately $108 million ($84 million in 2017). This amount represents amounts due for payroll withholdings, utilities		See Corrective Plan 19-FS-02

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Initials

AUTORIDAD METROPOLITANA DE AUTOBUSES AMA

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

CORRECTIVE ACTION PLAN

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

Audited Area: MBA **Report's Date:** February 17, 2022 **Audit Scope:** Years Ended June 30, 2019 and 2018

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
and other related services.		
Finding: 18-004, 17-004 ***Condition:*** During our audit procedures over revenues, we noted the following deficiencies: 1. A reconciliation of the amount of passenger fares collected in buses with underlying accounting data such as a detail of the number of passengers that used the services during the day multiplied by the related rates is not performed. 2. The Authority is not recognizing the revenue related to passenger fares using the magnetic card of the Integrated Transportation Alternative (ATI) program.		See Corrective Plan 19-FS-03

Initials

AUTORIDAD METROPOLITANA DE AUTOBUSES
AMA

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

CORRECTIVE ACTION PLAN

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

Audited Area: MBA **Report's Date:** February 17, 2022 **Audit Scope:** Years Ended June 30, 2019 and 2018

FINDING NUMBER	RECOMMENDATION	CORRECTIVE ACTION
Finding: 18-008 ***Condition:*** The Authority neither retained copies of the quarterly federal financial reports, reconciliation underlying accounting data used, nor submitted the report on time.		All Quarterly reports of financial status were submitted on time, based on the fact that the Federal Transit Administration will not admit any federal report after the 30-day period, the Web site where these reports are sent closes access After the period mentioned. Failing to submit reports may expose federal funds to a high-risk state. As a Corrective Action Plan, they began printing for Fiscal Year 2022.
Finding: 18-009, 17-009 ***Condition:*** The Data Collection Form and the Reporting Package were not timely submitted to the federal government.		See Corrective Plan 19-FS-04

Initials

AUTORIDAD METROPOLITANA DE AUTOBUSES AMA

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

CORRECTIVE ACTION PLAN

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

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Initials