

# **PUERTO RICO METROPOLITAN BUS AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEARS ENDED JUNE 30, 2014 AND 2013**

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*(Unaudited)*

The following discussion and analysis 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, 2014. 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 2014**

- Net position deficiency totaled \$64.5 million at June 30, 2014.
- Net position deficiency increased by \$4.1 million in 2014, as compared to an increase of approximately \$29.6 million in 2013.
- Net capital assets totaled \$37.3 million at June 30, 2014.
- Net capital assets decreased by 17% at June 30, 2014, when compared with balance at June 30, 2013 of \$44.7 million.

### **Financial Highlights for 2013**

- Net position deficiency totaled \$42.0 million at June 30, 2013.
- Net position deficiency increased by \$15.4 million in 2013, as compared to an increase of approximately \$3.5 million in 2012.
- Net capital assets totaled \$44.7 million at June 30, 2013.
- Net capital assets decreased by 14.4% at June 30, 2013, when compared with balance at June 30, 2012 of \$52.3 million.

### **The Financial Statements**

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

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

The financial statements consist of the (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to 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.

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*(Unaudited)*

## ***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 are classified as current (convertible into cash within one year) and non-current. The focus of the statement of net position is to show a picture of the liquidity and health of the Authority's net position as of the end of the year.

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

- *Invested in Capital Assets, Net of Related Debt* – this component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations and from the operating grant allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves can not 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 Revenues, Expenses, and Changes in Net Positions***

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

## ***Statement of Cash Flows***

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and from capital and related financing 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 describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, long-term liabilities, defined-benefit pension plans, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management's discussion and analysis and the financial statements.

# PUERTO RICO METROPOLITAN BUS AUTHORITY

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YEARS ENDED JUNE 30, 2014 AND 2013

(Unaudited)

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

### Statements of Net Position

The following table reflects a condensed summary of assets, liabilities, and net position of the Authority as of June 30, 2014 and 2013:

	Years Ended June 30,	
	2014	2013 (As restated)
Current assets	\$ 20,166,465	\$ 13,722,422
Capital assets, net	37,344,197	44,749,193
Other assets	542,071	542,071
Total assets	<u>58,052,733</u>	<u>59,013,686</u>
Current liabilities	103,606,401	68,130,947
Non-current liabilities	18,944,192	51,300,399
Total liabilities	<u>122,550,593</u>	<u>119,431,346</u>
Net position:		
Net invested in capital assets	37,344,197	44,749,193
Unrestricted	<u>(101,842,057)</u>	<u>(105,166,853)</u>
Total net position	<u>(64,497,860)</u>	<u>(60,417,660)</u>
Total liabilities and net position	<u>\$ 58,052,733</u>	<u>\$ 59,013,686</u>

### June 30, 2014

Current assets increase by 47% to \$20.2 million. The change in current assets is primarily due to an increase in cash related to FTA funds received through PRHTA, the official grantee, as a reimbursement of fuel and diesel costs under the Job Access and Reverse Commute, (JARC), section No. 5316.

Capital assets decreased by 17% to \$37.3 million. This decrease is the net result of the depreciation for the year amounting to \$7.3 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 "Urban Mass Transportation Capital and Operating Assistance Formula Grant" granted by the U.S. Federal Transit Administration, which is used to finance the acquisition and maintenance of capital assets.

# **PUERTO RICO METROPOLITAN BUS AUTHORITY**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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*(Unaudited)*

Current liabilities increased by 47% to \$103.6 million. This increase consists principally of an increase in accounts payable and accrued expenses of \$14.5 million related to the recognition of an interest, fines and penalties and charges of an employees income tax withhold from prior years and \$32.0 million of long term debt that become current on March 2015, as per loan agreement with a private bank.

Net position deficiency increased by 7.0% to a net deficiency of \$64.5 million. The increase was the result of an excess of expenses (operating and non-operating) over revenues (operating and non-operating) and capital grants of \$4.1 million. The largest portion of the Authority's net position its represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

## ***June 30, 2013***

Current assets decreased by 21% to \$13.7 million. The change in current assets is primarily due to a decrease in account receivable from Puerto Rico Highway and Transportation Authority. Management decided to write-off \$3.6 million from the accounts receivables of PRHTA, based on a report issued by an external consultant, which reflected that the amount billed for services rendered during the years 2013 and prior, were overstated by a 37%.

Capital assets decreased by 14.4% to \$44.7 million. This decrease is the net result of the depreciation for the year amounting to \$8.2 million net of capital assets additions of \$1.4 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 "Urban Mass Transportation Capital and Operating Assistance Formula Grant" granted by the U.S. Federal Transit Administration, which is used to finance the acquisition and maintenance of capital assets.

Current liabilities increased by 14.1% to \$55.5 million. This increase consists principally of an increase in accounts payable and accrued expenses of \$6.9 million.

Net position deficiency increased by 66% to a net deficiency of \$42 million. This increase was the result of an excess of expenses (operating and non-operating) over revenues (operating and non-operating) and capital grants of \$13.5 million. The largest portion of the Authority's net position its represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

# PUERTO RICO METROPOLITAN BUS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2014 AND 2013

(Unaudited)

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013:

	Years Ended June 30	
	2014	2013 (As restated)
Operating revenues	\$ 4,861,554	\$ 5,760,778
Operating expenses	73,532,157	85,638,614
Operating loss	(68,670,603)	(79,877,836)
Non-operating revenues:		
Operating grants	66,760,034	66,416,615
Interest income (expense), net	(2,169,631)	(1,936,105)
Total non-operating revenues	64,590,403	64,480,510
Change in net position	(4,080,200)	(15,397,326)
Net position deficit at beginning of year	(60,417,660)	(26,577,291)
Prior period adjustment	-	(18,443,043)
Net position deficit at end of year	\$ (64,497,860)	\$ (60,417,660)

### *Year Ended June 30, 2014*

Operating revenues which consisted principally of fares for transportation and other services, decreased by 16.0% to \$4.9 million due to a decrease in patronage during the year.

Operating expenses which consisted principally salaries and employees benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative decreased by 14.0% to \$73.5 million mainly due to a decrease in salaries and employees benefits, oil and diesel, warehouse parts administration contract not renewed and depreciation.

# **PUERTO RICO METROPOLITAN BUS AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2014 AND 2013

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*(Unaudited)*

During the current year ended 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 the 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 \$8.3 million in the statement of net position as of June 30, 2014. At June 30, 2014, unpaid long-term benefits granted on this program were discounted at 2.55%.

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

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

During the year ended June 30, 2014, non-operating revenues remain the same as compared with last year. There was an increased of .17% or \$110 thousands mainly due to a increase of grants received from the Federal Transit Administration.

# **PUERTO RICO METROPOLITAN BUS AUTHORITY**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2014 AND 2013

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*(Unaudited)*

## ***Year Ended June 30, 2013***

Operating revenues which consisted principally of fares for transportation and other services, increased by 7% to \$5.8 million.

Operating expenses consisting mainly of salaries and employees benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative decreased by 15% to \$85.6 million. Additionally, a write-off adjustment in the amount of \$3,574,216 was charged to the account receivable balance due from Puerto Rico Highway and Transportation Authority as of June 30, 2013. The adjustment arose from an analysis performed by an external consulting firm in relation to the riding fees for transportation services under the Magnetic Card Program, as requested by the said Agency. In fiscal year 2012, the Authority had a charge of \$11 million, related to the overhaul, as established by the guidelines from U.S. Federal Transit Authority, which was not required for the current year. Also, a total of \$5 million was recorded as part of salaries and employee benefits in 2012, as the financial impact for benefits granted to participants under the program established by Act #70, while in fiscal year 2013, the financial impact was only \$1 million.

During the current year ended 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 the 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 \$9.1 million in the statement of net position as of June 30, 2013 and a charge of \$1.0 million in the statement of revenues, expenses and changes in net position for the year ended June 30, 2013. At June 30, 2013, unpaid long-term benefits granted on this program were discounted at 2.55%. The impact of \$1.0 million is recorded as salaries and employee benefits in the accompanying financial statements.

# **PUERTO RICO METROPOLITAN BUS AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2014 AND 2013

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*(Unaudited)*

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

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

During the year ended June 30, 2013 non-operating revenues decreased by 21% or \$17.5 million mainly due to a reduction of grants received from the Commonwealth of Puerto Rico. These funds are used to finance the Authority's operating deficit.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2014, the Authority had invested approximately \$37.3 million in capital assets (net of related depreciation) including transportation equipment, land, buildings and structures and machinery and equipment used in the operations. At June 30, 2013, the Authority had invested approximately \$44.7 million in capital assets.

Major capital assets events during the years ended June 30, 2014 and 2013 include the acquisition and repairs of transportation equipment, which were funded principally by capital contributions received.

### **Debt Administration**

Effective March 2012, the Authority refinanced amounts outstanding with a private bank under a line of credit in the amount of \$3 million and a long-term loan in the amount of \$34.5 into a long-term loan with the same bank. The new loan matures in March 2015 and is payable in monthly principal installments of \$209,000, plus interest. Interest on outstanding balance is based on a margin over LIBOR based on the debt rating given to the Commonwealth of Puerto Rico's general obligations by Moody's Corporation and Standard & Poors Financial Services LLC as defined in the agreement (2.62% at June, 2013). The note is secured by the assignment of the diesel tax revenues allocated by the Commonwealth of Puerto Rico. The outstanding current long-term loan balance is \$32.0 million as of June 30, 2014.

## **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 utilizes 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 REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2014

## Assets:

### Current assets:

Cash and cash equivalents	\$	6,943,933
Accounts receivable, net		7,991,190
Inventory		3,876,394
Prepaid expenses		1,354,948
Total current assets		<u>20,166,465</u>

### Capital Assets:

Other capital assets, net of accumulated depreciation		<u>37,344,197</u>
Total capital assets		<u>37,344,197</u>

### Other Assets:

Deposits and others		<u>542,071</u>
Total other assets		<u>542,071</u>

### Total Assets

\$ 58,052,733

## Liabilities:

### Current liabilities:

Accounts payable and accrued expenses	\$	70,548,496
Voluntary termination benefits		1,015,629
Current-portion of long-term debt		<u>32,042,276</u>
Total current liabilities		<u>103,606,401</u>

### Non-current liabilities:

Compensated absences		1,186,284
Voluntary termination benefits		7,268,221
Other liabilities		<u>10,489,687</u>
Total non-current liabilities		<u>18,944,192</u>

### Total Liabilities

122,550,593

## Net Position:

Net invested in capital assets		37,344,197
Unrestricted (deficit)		<u>(101,842,057)</u>

### Total Net Position (Deficit)

(64,497,860)

### Total Liabilities And Net Position (Deficit)

\$ (58,052,733)

The accompanying notes are integral part of the financial statements

**PUERTO RICO METROPOLITAN BUS AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2014

<b>Operating revenues:</b>	
Passenger fares	\$ 3,938,681
Advertising and other	922,873
Total operating revenues	<u>4,861,554</u>
<b>Operating expenses:</b>	
Salaries and employee benefits, including voluntary termination benefits	53,023,383
Diesel, gasoline, oil and lubricants	5,170,582
Depreciation and amortization	7,249,802
Materials, spare parts and repairs and maintenance	2,445,133
Utilities	1,739,968
Professional services	1,292,068
General and administrative	2,611,221
Total operating expenses	<u>73,532,157</u>
<b>Operating loss</b>	<u>(68,670,603)</u>
<b>Non-operating revenues (expenses)</b>	
Gasoline, diesel, petroleum and tax oil revenues	
Operating grants:	9,748,363
Commonwealth of Puerto Rico	42,153,484
Federal Transit Administration	14,857,521
Interest and other financing expenses	(2,169,631)
Interest income	666
Total non-operating revenues	<u>64,590,403</u>
<b>Change in net assets</b>	(4,080,200)
<b>Net position deficiency:</b>	
Beginning of year, as previously reported	(41,974,617)
Prior period adjustments – (Note 14)	(18,443,043)
Beginning of year - as restated	<u>(60,417,660)</u>
End of year	<u>\$ (64,497,860)</u>

The accompanying notes are integral part of the financial statements.

# PUERTO RICO METROPOLITAN BUS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

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## Operating Activities:

Cash received from customers and users	\$ 4,230,840
Cash payments to suppliers for goods and services	(7,089,300)
Cash payments to employees for services	(53,489,072)
Net cash used in operating activities	<u>(56,347,532)</u>

## Non-Capital Financing Activities:

Operating grants received from:	
Commonwealth of Puerto Rico	51,521,678
U.S. Federal Transit Administration	14,218,922
Interest paid	(2,142,911)
Payment of notes payable	(2,502,888)
Net cash provided by non-capital financing activities	<u>61,094,801</u>

## Cash flows from investing activities:

Interest received	<u>666</u>
Net cash provided by investing activities	<u>666</u>

## Net increase in cash and cash equivalents

4,747,935

## Cash and cash equivalents:

Beginning of year	<u>2,195,998</u>
End of year	<u>\$ 6,943,933</u>

The accompanying notes are integral part of the financial statements.

# PUERTO RICO METROPOLITAN BUS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

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

Operating loss	\$	(68,670,603)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		7,249,802
Changes in operating assets and liabilities:		
Accounts receivable		(1,649,482)
Prepaid expenses		312,969
Inventory		(359,595)
Accounts payable and accrued expenses		6,769,377
Net cash used in operating activities	\$	<u>(56,347,532)</u>

The accompanying notes are integral part of the financial statements.

# PUERTO RICO METROPOLITAN BUS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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## 1. Organization and Summary of Significant Accounting Policies

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

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

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No.20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (“GASB 20”). In adopting GASB 20, the Authority elected to apply all Statements and Interpretations of the Financial Accounting Standards Board (“FASB”), Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB statements issued after November 30, 1989.

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

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# **PUERTO RICO METROPOLITAN BUS AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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## **Cash and Cash Equivalents**

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

## **Allowance for Doubtful Accounts**

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses 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 the lower of cost (weighted average method) or market.

## **Capital Assets**

Capital assets are recorded at historical cost or estimated historical cost, net of accumulated depreciation and amortization. Capital asset is 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 estimated useful lives of the related 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 recorded in operations.

The estimated useful lives of the capital assets follow:

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

The Authority periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment of capital asset was identified during the year ended June 30, 2013.

## **PUERTO RICO METROPOLITAN BUS AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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### **Vacation and Sick Leave**

Compensated absences are accrued when earned by the employees. Employees may carry forward their compensated absences as permitted by statute and may settle them in a cash payment from the Authority, if employment has ceased.

### **Net position**

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

#### Invested in Capital Assets, Net of Related Debt

This component of net position consists of capital assets net of accumulated depreciation 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 of net assets. Rather that portion of the debt is included in the same net asset component as the unspent proceeds.

#### Unrestricted

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

### **Operating Revenues and Expenses**

The Authority distinguishes between operating and non-operating revenues and expenses in its Statement of Revenues, Expenses, and Changes in Net Position. The principal revenues of the Authority are received from patrons 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 on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **Contributions**

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

## **PUERTO RICO METROPOLITAN BUS AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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

### **Risk Financing**

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

### **Accrual for legal claims**

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

### **Recently Adopted GASB Statements**

The GASB has issued the following accounting pronouncements that have effective date after June 30, 2014:

In June 2012, the GASB issued Statements No. 67, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25. The objective of this Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefits Pension Plans, and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they related to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trust) that meet certain criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013.

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions Plans amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. The Statement is effective for fiscal years beginning after June 15, 2014.

## **PUERTO RICO METROPOLITAN BUS AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

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In January 2013, the GASB issued Statements No. 69, Government Combinations and Disposals of Government Operations. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statements users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

In April 2013, the GASB issued Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. This Statement requires a government that has issued an obligation guaranteed in a non-exchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity non-exchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend non-exchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive non-exchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. The impact of these statements on the Administration's basic financial statements has not yet been determined.

# **PUERTO RICO METROPOLITAN BUS AUTHORITY**

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NOTES TO FINANCIAL STATEMENTS

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In November 2013, the GASB issued Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

## **2. Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2014, consist of cash on hand and on bank deposit.

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority.

Pursuant to the Investment Guidelines for the Commonwealth adopted by the Government Development Bank for Puerto Rico ("GDB"), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, bankers acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. There are no investments at June 30, 2014.

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico. The bank balance of the Authority's deposit at June 30, 2014, excluding deposits in the Government Development Bank for Puerto Rico described below, amounted to \$3,200,184 of which \$1,969,428 is insured by Federal Deposit Insurance Corporation at June 30, 2014.

In addition, at June 30, 2014, the Authority maintained cash deposited at the Governmental Development Bank for Puerto Rico (GDB), in the amount \$4,187,959. These amounts are uncollateralized since by law, the governmental banks of the Commonwealth of Puerto Rico are exempt of the requirement of insuring the deposits of funds of the entities of the Commonwealth of Puerto Rico.

# PUERTO RICO METROPOLITAN BUS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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## 3. Accounts Receivable

Accounts receivable at June 30, 2014 consists of:

Operating and capital grants:

U.S. Federal Transit Administration	\$	2,442,485
Commonwealth of Puerto Rico		1,600,000
Puerto Rico Highways and Transportation Authority		<b>3,937,792</b>
Other		1,046,580
Total		<u>9,026,857</u>
Less allowance for doubtful accounts		(1,035,667)
Total	\$	<u><u>7,991,190</u></u>

Account receivable from U.S Federal Transit Administration (“FTA”) consists principally of operating grants pending to be received at June 30, 2014.

The account receivable from the Puerto Rico Highways and Transportation Authority (PRHTA) consists of amounts due under a contract with PRHTA in which the Authority provides transportation services to passenger using the urban train system. Under the term of the contract PRHTA will reimburse the Authority certain amounts specified in the contract for each passenger served. The amount outstanding of **\$3,937,792** represents the net amount billed to PRHTA for services performed as June 30, 2014.

## 4. Inventory

Inventory at June 30, 2014 consists of:

Spare parts	\$	3,348,654
Diesel and gasoline		360,229
Supplies		167,511
Total	\$	<u><u>3,876,394</u></u>

## 5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2014 consists of:

Suppliers	\$	5,596,586
Agencies and public corporations of the Commonwealth of Puerto Rico		47,095,782
Compensated absences and other related benefits		5,648,380
Payroll taxes and withholdings		10,336,627
Voluntary termination and other related employee benefits		1,415,862
Accrued interest		118,033
Others		337,226
Total	\$	<u><u>70,548,496</u></u>

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

## PUERTO RICO METROPOLITAN BUS AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

### 6. Capital Assets

The following schedule summarizes the capital assets held by the Authority as of June 30, 2014:

	<b>Balance at June 30, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at June 30, 2014</b>
<b>Assets not being depreciated:</b>				
Land and improvements	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Construction in process	25,963	-	(25,963)	-
Capital assets not being depreciated	<u>2,525,963</u>	<u>-</u>	<u>(25,963)</u>	<u>2,500,000</u>
<b>Assets being depreciated:</b>				
Buildings and improvements	21,767,043	34,782	(329,670)	21,472,155
Terminals	5,594,102	-	-	5,594,102
Transportation equipment	62,796,024	-	-	62,796,024
Machinery and equipment	24,639,346	235,758	-	24,875,104
Total	114,796,515	270,540	(329,670)	114,737,385
Less accumulated depreciation	<u>72,573,285</u>	<u>7,319,903</u>	<u>-</u>	<u>79,893,188</u>
Capital assets being Depreciated, net	<u>42,223,230</u>	<u>(7,049,363)</u>	<u>(329,670)</u>	<u>34,844,197</u>
Total capital assets, net	<u>\$ 44,749,193</u>	<u>\$ (7,049,363)</u>	<u>\$ (355,633)</u>	<u>\$37,344,197</u>

### 7. Current Portion of Long-Term Debt:

Current portion of long-term debt at June 30, 2014 consists of:

	<b>Balance at 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at 2014</b>	<b>Due within One Year</b>
Notes payable	\$34,545,164	\$ -	\$ 2,502,888	\$ 32,042,276	\$ 32,042,276
Total	<u>\$34,545,164</u>	<u>\$ -</u>	<u>\$ 2,502,888</u>	<u>\$ 32,042,276</u>	<u>\$ 32,042,076</u>

Effective March 2012, the Authority refinanced amounts outstanding with a private bank into a long-term loan in the same bank which matures in March 2015. It is payable in monthly principal installments of \$208,574, plus interest. Interest on outstanding balance is based on a margin over LIBOR based on the debt rating given to the Commonwealth of Puerto Rico's general obligations by Moody's Corporation and Standard & Poors Financial Services LLC as defined in the agreement (2.62% at June 30, 2014). The note is secured by the assignment of the diesel tax revenues allocated by the Commonwealth of Puerto Rico. The outstanding current portion of long-term loan balance is \$32,042,276 as of June 30, 2014.

## PUERTO RICO METROPOLITAN BUS AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

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### 8. Non-current Liabilities:

Changes in non-current liabilities, other than the note payable described above, for the year ended June 30, 2014 are summarized as follows:

	<u>Balance at 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 2014</u>	<u>Due within One Year</u>
Compensated absences	\$ 5,501,296	\$ -	\$ 631,210	\$ 4,870,086	\$3,683,802
Accrued legal claims	4,085,509	4,062,759	148,268	8,000,000	-
Voluntary termination benefits	9,070,081	-	786,231	8,283,850	1,015,629
Other liabilities	<u>2,654,357</u>	<u>-</u>	<u>-</u>	<u>2,654,357</u>	<u>164,670</u>
Total	<u>\$21,311,243</u>	<u>\$4,062,759</u>	<u>\$ 1,565,709</u>	<u>\$23,808,293</u>	<u>\$4,864,101</u>

### 9. Retirement Plan:

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. The Retirement System consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program and a defined contribution hybrid program.

#### *(a) Defined Benefit Program*

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Authority hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$300 per month.

## **PUERTO RICO METROPOLITAN BUS AUTHORITY**

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NOTES TO FINANCIAL STATEMENTS

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Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consist principally of an increase in the retirement date from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

### ***(b) System 2000 Program***

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things the System 2000 Program, a new benefit structure, similar to a cash balance plan (defined contribution plan). All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, and became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the system 2000 Program. Investment income is credited to the participant's account semiannually.

Under System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age.

Corresponding employers' contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

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The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

On April 4, 2013, the Legislature the Legislature enacted Act No. 3 which amended the provisions of the different benefit structures under the Retirement System, including the System 2000 Program.

### ***(c) Defined Contribution Hybrid Program***

On April 4, 2013, the Legislature enacted Act. No. 3 which amended Act No. 447, Act No. 1 and Act. No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

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Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

1. Increased the minimum pension for current retirees from \$400 to \$500 per month.
2. The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age 61.
3. The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.
4. Eliminated the “merit annuity” available to participants who joined the retirement System prior to April 1, 1990.
5. The retirement age for new employees was increased to age 67.
6. The employee contribution rate was increased from 8.275% to 10%.
7. For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the Retirement System.
9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
10. Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent (0.25%) is required for the purchase of disability insurance.

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Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than \$10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract.

For the year ended June 30, 2014, the Authority was required to contribute 12.275% of each participant's gross salary under the different benefit structures. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Total employee contributions for the defined benefit pension plan and defined contribution plan during the year ended June 30, 2014, amounted to approximately \$1.4 million and \$1.3 million, respectively. The Authority's contributions (either paid or accrued) during the year ended June 30, 2014 amounted to approximately \$3.3 million. These amounts represented 100% of the required contribution for the corresponding year. Total payroll subjected to retirement contributions amounted to approximately \$26.6 million for the year ended June 30, 2014. Individual information for each option is not available since the allocation is performed by the Retirement System itself. As of June 30, 2014, there are not employees enroll under the defined contribution hybrid program.

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2014, 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.

## **10. Commitments and Contingent Liabilities**

### **Litigation**

The Authority is involved in litigation 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 litigation and claim loss of approximately \$8.0 million as of June 30, 2014, which is included as part of other liabilities in the accompanying statement of net position.

# **PUERTO RICO METROPOLITAN BUS AUTHORITY**

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## **Federal Assistance Programs**

The Authority is a sub recipient of a federal financial assistance program. This program is subject to audits in accordance with the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, not to be significant.

## **11. Voluntary Termination Benefits**

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including 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 the 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 \$8.3 million in the statement of net position as of June 30, 2014. At June 30, 2014, unpaid long-term benefits granted on this program were discounted at 2.55%.

## **12. Other Post-Employment Benefits**

The Authority provides certain post-employment benefits to eligible employees in accordance with collective bargain agreements. These benefits consist principally of medical insurance coverage for a period not to exceed 5 years after retirement and bonus at retirement date based on years of services. The cost of these benefits is recorded in the financial statements when the related benefit is paid.

## **PUERTO RICO METROPOLITAN BUS AUTHORITY**

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### **13. Operating Financial Assistance from the Commonwealth of Puerto Rico**

As shown in the accompanying financial statements, the Authority has incurred in accumulated losses after operating and capital contributions in the amount of \$97.7 million and as of June 30, 2014 the Authority's liabilities exceeded its assets by approximately \$60.3 million. In addition, at June 30, 2014 the Authority has a working capital deficiency of approximately \$85.6 million making it difficult for 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 of Puerto Rico in the form of operating grants to continue to operate at its present level and to continue as a going concern. The Commonwealth of Puerto Rico has experienced budget constrains during the current and prior years which have resulted in reductions in the operating grants provided to the Authority. Management believes that since the transportation service provided by the Authority is an essential service to the people of Puerto Rico, the Commonwealth of Puerto Rico will continue to fund the operational deficits incurred by the Authority. Any significant reduction in these operating grants and financial support will affect the ability of the Authority to provide the transportation services and to continue as a going concern.

### **14. Prior Period Adjustment**

The Beginning balance of net position deficiency was increased by the amount of \$18,443,043 mainly due to the recognition of \$12,926,135 as a past due debt to the Puerto Rico Treasury Department from prior years related to interests, fines/penalties and recharges of unpaid income tax withhold as of June 30, 2014. The Authority owns \$30,474,158 to PR Treasury Department of unpaid income tax withhold as of June 30, 2014.

There was also an overstated in assets and understated in liability for the amount of \$521,936 and \$4,994,972, respectively.

### **15. Subsequent Events**

On August 3, 2014, the Governor of the Commonwealth of Puerto Rico signed a Law No. 123-2014 to create the Integrated Transport Authority of Puerto Rico; to establish their purposes, duties, powers and authorities; authorize the Highway and Transportation Authority to transfer the Authority's operations, assets, rights, obligations assets and funds of "Tren Urbano" and related programs and mass transit that operates the Highways and Transportation Authority; to authorize the transfer of assets and funds; to allocate funds; to authorize the merger of the Metropolitan Bus Authority and the Puerto Rico and Municipal Islands Maritime Transport Authority.

According to this Act, all rights, funds, allowances, privileges, powers and franchises and all property, movable and immovable, and all claims for any concept including claimable rights or property belonging to the Puerto Rico Metropolitan Bus Authority shall pass to the Authority.

This Act entered into force on July 1, 2014. The necessary actions to accomplish the purpose of this Law, shall begin within ninety (90) calendar days of the effective date of the Act. Once the requirements of the Act are in effect, the Authority will no longer exist as a separate legal entity.

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<b>Federal Grantor/Pass-Trough Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>Federal Transit Administration</b>		
Direct		
Federal Transit Administration Capital and Operating Assistance Formula Grants	20.507	<u>\$ 14,857,521</u>
Total expenditures of federal awards		<u>\$ 14,857,521</u>

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## **PUERTO RICO METROPOLITAN BUS AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

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### **General**

The accompanying schedule of expenditures of federal awards presents the activity of federal awards programs of the Puerto Rico Metropolitan Bus Authority (“the Authority”), a component unit of the Commonwealth of Puerto Rico. The Authority reporting entity is defined in Note 1 to the Authority’s basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other governmental agencies are included in the schedule of expenditures of federal awards.

### **Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the Authority’s basic financial statements. Expenditures are determined using the cost accounting principles and procedures set forth in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*.

### **Reconciliation to Financial Statements**

Information reported in the accompanying schedule of expenditures of federal awards has been reconciled and agrees to the information reported in the Authority’s basic financial statements.