PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR REPORT

Hon. Miguel Torres Diaz, P.E.
Secretary Department of Transportation and public Work

Report on the Financial Statements

We have audited the accompanying statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, of the Puerto Rico Municipal Islands Maritime Transport Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Puerto Rico Municipal Islands Maritime Transport Authority basic financial statements. We did not audit the financial statements of the Authority as of and for the year ended June 30, 2012. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion is based solely on the reports of the other auditors.

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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor consider 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 opinions.

Basis for Qualified Opinions

The Authority did not provide and actuarial valuation report to record the liability and current year cost of the certain post-employment benefits described in Note 11 to the financial statements as required by accounting principles generally accepted in the United States of America ("GAAP"). The cost of these benefits are recorded in the financial statements when paid which is method not accepted by GAAP.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the net position of the Puerto Rico Municipal Islands Maritime Transport Authority as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the Unites States of America require that the management's discussion and analysis on pages 4 to 11 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.

Ramón L. Marrero
Certified Public Accountants
December 27, 2013

Stamp # 02695102 was affixed to the original of this report.

(*Unaudited)*

The following discussion and analysis of the financial performance and activity of the Puerto Rico and Municipal Islands Maritime Transport Authority ("the Authority") provides an introduction and understanding of the basic financial statements of the Authority for the fiscal year ended June 30, 2013. 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 2013

- Net position deficiency totaled $28.5 million at June 20, 2013.
- Net position deficiency increased by $17.8 million in 2013, as compared to an increase of approximately $2.5 million in 2012.
- Net capital assets totaled $69.6 million at June 30, 2013.
- Net capital assets increased by 15.42% at June 30, 2013, when compared with the balance at June 30, 2012 of $60.3 million.

Financial Highlights for 2012

- Net position deficiency totaled $10.7 million at June 20, 2012.
- Net position deficiency increased by $2.5 million in 2012, as compared to a decrease of approximately $18.4 million in 2011.
- Net capital assets totaled $60.3 million at June 30, 2012.
- Net capital assets increased by 13.84% at June 30, 2012, when compared with the balance at June 30, 2011 of $52.9 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.

(*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 assets. Assets and liabilities are presented in order if 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 financial position as of the end of the year.

The Authority's net assets are reported in the following categories:

- *Assets Invested in Capital Assets, Net of Related Debt* – this component of net assets 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 cannot be used to liquidate liabilities.

- Unrestricted Net Assets – this component includes all net assets that do not meet the definition of net assets invested in capital assets.

Statement of Revenues, Expenses, and Changes in Net Assets
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 revenues 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 assets is the change in net assets. 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.

(*Unaudited)*

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.

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, 2013 and 2012:

	2013	2012
Assets:		
Cash and cash equivalents	$ 296,458	$ 462,240
Accounts receivable	435,487	673,462
Inventory	128,925	62,582
Prepaid expenses	2,018,962	5,365,361
Capital Assets:		
Other capital assets, net of accumulated depreciation	69,575,889	60,282,068
Total Capital Assets	69,575,889	60,282,068
Total Assets	$ 72,455,721	$ 66,845,713
Liabilities:		
Accounts and accrued expenses payable	$ 24,426,231	$ 18,891,420
Long term liabilities:		
Due within 1 year	788,051	608,087
Due in more than 1 year	68,508,346	50,695,557
Total liabilities	93,722,628	70,195,064
Deferred inflows of resources:		
Deferred revenues	7,223,065	7,305,741
Total deferred inflow of resources	7,223,065	7,305,741
Net Position		
Net invested in capital assets	69,575,889	56,976,740
Unrestricted (deficit)	(98,065,861)	(67,631,832)
Total net position (Deficit)	$ (28,489,972)	$ (10,655,092)

(*Unaudited)*

June 30, 2013

Current assets decreased by 56.12% to $2.9 million. Due to the fact that in last year (2012), management recorded advance payments for vessels parts as prepaid expenses as part of a rentals contract with private company. The change in current assets is primarily due to the amortization of the prepaid expenses related to this contract.

Capital assets increased by 15.42% to $69.6 million due to the acquisition and improvements of maritime transportation equipment, piers and terminals structures. 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 sub recipient from the Puerto Rico Ports Authority (Ports Authority) of certain funds under Federal program 20.507 "Urban Mass Transportation Capital and Operating Assistance Formula Grant" granted by the Federal Transit Administration which is used to finance the capital improvement program. Total capital grants received from the Federal Transit Administration and the Commonwealth of Puerto Rico during fiscal year end 2013 amounted to approximately $7.7 million.

Current liabilities increased by 21% to $32.4 million. This increase consists principally of an increase of $5.8 million accounts and accrued expenses payable.

Non-current liabilities consist principally of amounts due to Puerto Rico Highway and Transportation Authority (PRHTA) and Puerto Rico Ports Authority (PRPA) and the long-term portion of compensated absences and voluntary termination benefits. The main increase in these liabilities during fiscal year 2013 is due to funds provided by both agencies. These funds were used to pay certain operating expenses as approved by PRHTA and PRPA. During the year ended June 30, 2013 PRHTA and PRPA paid expenses on behalf of the Authority in the amount of approximately $13.0 and $5.5 million, respectively.

In addition, during the year ended June 30, 2013, the Commonwealth of Puerto Rico paid $1 million of the amounts due to the Puerto Rico Highways and Transportation Authority.

Other changes in non-current liabilities consists of net increase in voluntary termination benefits due to the implementation of Law 70 of the Commonwealth of Puerto Rico as explained below.

Deficiency in net position increased 167% to $28.5 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 $17.8 million. The largest portion of the Authority's net assets represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

June 30, 2012

Current assets increased by 28.37% to $6.6 million. The change in current assets was primarily due to an increase in expenses prepaid related to a contract to rent certain vessels to provide transportation services.

Capital assets increased by 13.84% to $60.2 million due to the acquisition and improvements of maritime transportation equipment, piers and terminals structures. 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 sub recipient from the Puerto Rico Ports Authority (Ports Authority) of certain funds under Federal program 20.507 "Urban Mass Transportation Capital and Operating Assistance Formula Grant" granted by the Federal Transit Administration which is used to finance the capital improvement program. Total capital grants received from the Federal Transit Administration and the Commonwealth of Puerto Rico during fiscal year 2012 amounted to approximately $8.4 million.

Current liabilities increased by 6.98% to $26.8 million. This increase consists principally of an increase of $2.6 million accounts and accrued expenses payable.

Non-current liabilities consist principally of amounts due to Puerto Rico Ports Authority (PRPA), Puerto Rico Highways and Transportation Authority (PRPHA), and the long-term portion of compensated absences and voluntary termination benefits. The increase in these liabilities during fiscal year 2012 was due to funds provided by PRPHA under an agreement in which PRPHA will advance the Authority up to $24 million. These advances should be used to pay certain operating expenses as approved by PRPHA. During the year ended June 30, 2012 PRPHA paid expenses on behalf of the Authority in the amount of approximately $10.4 million.

In addition, during the year ended June 30, 2012, the Commonwealth of Puerto Rico paid $2.9 of the amounts due to the Puerto Rico Ports Authority.

Other changes in non-current liabilities consists of net increase in voluntary termination benefits due to the implementation of Law 70 of the Commonwealth of Puerto Rico.

Deficiency in net position increased 31.41% to $10.7 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 $2.5 million. The largest portion of the Authority's net assets represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

(*Unaudited)*

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for the years ended June 30, 2013 and 2012:

	Years Ended June 30,	
	2013	**2012**
Operating revenues	$ 5,859,338	$ 4,730,444
Operating expenses	55,051,770	44,374,214
Operating loss	(49,192,432)	(39,643,770)
Non-operating revenues:		
Operating grants	23,738,117	28,715,687
Interest income (expense), net	(116,497)	(58,228)
Total non-operating revenues	23,621,620	28,657,459
Loss before capital contributions	(25,570,812)	(10,986,311)
Capital contributions	7,742,043	8,439,251
Change in net assets	(17,828,769)	(2,547,060)
Net assets deficit at beginning of year	(10,655,092)	(8,108,032)
Net assets deficit at end of year	$ (28,483,861)	$ (10,655,092)

Year Ended June 30, 2013

Operating revenues consisted of passenger, cargo and rental charges, increased by 23.86% to $5.9 million mainly due to an increase in patronage during the year.

Operating expenses consisted principally of salaries and employees benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative increased 23.42% to $55 million. This increase is due mainly to the payments of rent of certain vessel of 4.53% or $12.9 million when compared with last year based on the agreement entered by the Authority with private company in 2012.

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 is the recognition within the Authority's financial statements of a liability of $4.1 million in the statement of net position as of June 30, 2013 and a charge of $370,364 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 are discounted at 2.90%.

Non-operating revenues consisted principally of operating grants from the Commonwealth of Puerto Rico and Federal Transit Administration. Operating grants from the Commonwealth of Puerto Rico are annual appropriations from the general fund of the Commonwealth of Puerto Rico. The amount appropriated annually depends on the approved budget of the Commonwealth of Puerto Rico. Operating grants from FTA are restricted to maintenance activities of certain capital assets.

Capital contributions represent amounts received as sub recipient from the Puerto Rico Ports Authority under grants from Federal Transit Administration and from the Commonwealth of Puerto Rico, which are restricted to the acquisition and repairs of certain capital assets.

Year Ended June 30, 2012

Operating revenues consisted of passenger, cargo and rental charges decreased by 11.1% to $4.7 million mainly due to an increase in patronage during the year.

Operating expenses consisted principally of salaries and employees benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative increased 6.73% to $44.3 million. This increase was due mainly to the impact to the adoption of a voluntary retirement benefit plan as explained below.

(*Unaudited)*

The financial impact resulting for the benefits granted to participants under 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 was the recognition within the Authority's financial statements of a liability of $4 million in the statement of net position as of June 30, 2012 and a charge of $2.1 million in the statement of revenues, expenses and changes in net position for the year ended June 30, 2012. At June 30, 2012, 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 Transit Administration. Operating grants from the Commonwealth of Puerto Rico are annual appropriations from the general fund of the Commonwealth of Puerto Rico. The amount appropriated annually depends on the approved budget of the Commonwealth of Puerto Rico. Operating grants from Federal Transit Administration are restricted to maintenance activities of certain capital assets.

Capital contributions represent amounts received as sub recipient from the Puerto Rico Ports Authority under grants from Federal Transit Administration and from the Commonwealth of Puerto Rico, which are restricted to the acquisition and repairs of certain capital assets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the Authority had invested approximately $69.6 million in capital assets (net of related depreciation) including maritime transportation equipment, improvements to piers and other structures used in the operations and construction in progress. At June 30, 2012, the Authority had invested approximately $60.2 million in capital assets.

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

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patrons, and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico and Municipal Islands Maritime Transport Authority, Finance Area, P.O. Box 4306, Puerto Real, Puerto Rico 00740.

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
Assets:		
Cash and cash equivalents	$ 296,458	$ 462,240
Accounts receivable	435,487	673,462
Inventory	128,925	62,582
Prepaid expenses	2,018,962	5,365,361
Capital Assets:		
Other capital assets, net of accumulated depreciation	69,575,889	60,282,068
Total Capital Assets	69,575,889	60,282,068
Total Assets	$ 72,455,721	$ 66,845,713
Liabilities:		
Accounts and accrued expenses payable	$ 24,420,120	$ 18,891,420
Long term liabilities:		
Due within 1 year	788,051	608,087
Due in more than 1 year	68,508,346	50,695,557
Total liabilities	93,716,517	70,195,064
Deferred inflows of resources:		
Deferred revenues	7,223,065	7,305,741
Total deferred inflow of resources	7,223,065	7,305,741
Net Position		
Net invested in capital assets	69,575,889	56,976,740
Unrestricted (deficit)	(98,059,750)	(67,631,832)
Total net position (Deficit)	$ (28,483,861)	$ (10,655,092)

The accompanying notes are integral part of the financial statements.

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating revenues:		
Passenger and cargo revenues	$ 5,702,811	$ 4,544,083
Equipment and property rentals	156,527	186,361
Total operating revenues	5,859,338	4,730,444
Operating expenses:		
Salaries and employee benefits, including voluntary termination benefits	19,797,224	21,049,438
Depreciation and amortization	3,874,689	3,357,137
Repairs and maintenance	3,084,924	4,368,441
Insurance	2,972,207	2,689,031
Professional Services	3,195,686	2,882,323
Diesel	7,734,501	5,723,523
Vessels rentals	12,869,581	2,845,214
General and administrative	1,522,958	1,459,107
Total operating expenses	55,051,770	44,374,214
Operating loss	(49,192,432)	(39,643,770)
Non-operating revenues (expenses)		
Operating grants:		
Commonwealth of Puerto Rico	23,526,673	27,554,000
Federal Transit Administration	211,444	1,161,687
Interest and other financing expenses, net	(116,497)	(58,228)
Total non-operating revenues	23,621,620	28,657,459
Loss before capital contributions	(25,570,812)	(10,986,311)
Capital contributions	7,742,043	8,439,251
Change in net assets	(17,828,769)	(2,547,060)
Net position deficiency		
Beginning of year:	(10,655,092)	(8,108,032)
End of year	$ (28,483,861)	$ (10,655,092)

The accompanying notes are integral part of the financial statements.

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Activities:		
Cash received from customers and users	$ 4,887,296	$ 4,510,712
Cash payments to suppliers for goods and services	(4,069,899)	(10,366,712)
Cash payments to employees for services	(20,789,637)	(18,909,377)
Net cash used in operating activities	(19,972,240)	(24,765,377)
Non-Capital Financing Activities:		
Operating grants:		
Commonwealth of Puerto Rico	23,526,673	24,604,000
U.S. Federal Transit Administration	211,444	1,161,687
Net change in checks issued over bank balance	306,167	(982,722)
Interest paid	(116,497)	(72,574)
Net cash provided by non-capital financing activities	23,927,787	24,710,391
Capital and Related Financing Activities:		
Acquisition of capital assets	(11,737,169)	(11,048,282)
Capital contributions	7,742,043	11,053,549
Net cash provided by (used in) capital and related financing activities	(3,995,126)	5,267
Financing Activities		
Payments or Proceeds from line of credit from other governmental entities	(126,203)	221,434
Net increase in cash and cash equivalents	(165,782)	171,715
Cash and cash equivalents:		
Beginning of year	462,240	290,525
End of year	$ 296,458	$ 462,240

The accompanying notes are integral part of the financial statements.

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

	2013	2012
Reconciliation of operating loss to net cash used in by operating activities:		
Operating loss	$(49,192,432)	$ (39,643,770)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	3,874,689	3,357,137
Operation expenses paid by Puerto Rico Highways Transportation Authority	13,002,531	10,331,941
Operation expenses paid by Puerto Rico Ports Authority	5,506,960	
Decrease in capital assets	-	303,028
Changes in operating assets and liabilities:		
Accounts receivable	(101,068)	(219,732)
Prepaid expenses	3,346,399	(3,590,648)
Accounts and accrued expenses payable	3,590,681	4,696,667
Net cash used in operating activities	$ (19,972,240)	(24,765,377)
Non-Cash Transactions:		
Accounts payable incurred in the acquisition of capital assets	$ -	$ 3,305,528
Operating expenses paid by Puerto Rico Highways and Transportation Authority and Puerto Rico Ports Authority on behalf of the Authority	$ 18,509,491	$ 10,331,941
Payment by Commonwealth of Puerto Rico of amounts due to Puerto Rico Highway Transportation Authority	$ 1,000,000	$ 2,950,000

The accompanying notes are integral part of the financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Puerto Rico and Municipal Islands Maritime Transport Authority ("the Authority") is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No.1 approved on January 1, 2000, as amended, to administer and operate the maritime transportation services between Hato Rey and San Juan and Fajardo, Vieques and Culebra. 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.

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.

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 amount 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.

Receivables

Receivables include amounts due from tenants for the use of facilities under rental and concession agreements. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectable. Allowances are reported when accounts are proven to be uncollectible.

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, materials and supplies are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, net of accumulated depreciation and amortization. Contribution of assets from lessees is recorded at fair market value at the date donated. 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 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 evidence of impairment is evident as a result of such review.

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 assets

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

Invested in Capital Assets, Net of Related Debt

This component of net assets 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 in included in the same net asset component as the unspent proceeds.

Unrestricted

Unrestricted net assets consist of net assets 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 maritime transportation services provided. The Authority also recognizes as operating revenue the rental fees received from concessionaries from operating leases on concession property. Operating expenses for the Authority include the costs of operating the maritime facilities and related rental spaces, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as no operating revenues and expenses.

Contributions

The Authority is a sub recipient of federal funds received by the Puerto Rico Ports Authority under grants with Federal Transit Administration (FTA) for the exclusive purpose of acquisition and repairs of certain assets. 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*.

In addition, the Authority receives capital and operating grants from the Commonwealth of Puerto Rico. These grants, are subjected to annual appropriations, are used to finance the Authority's operations or acquisition of capital assets.

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 past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth of Puerto Rico.

Recently Adopted GASB Statements

The GASB has issued the following accounting pronouncements that have effective date after June 30, 2013:

In March 2012 the GASB issued Statement No. 65, Items previously as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outlaws of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition, this Statement amends or supersedes requirements for the determination of major funds and addresses other statement of net position and government funds balance sheet presentation issues. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.

In March 2012 the GASB issued Statement No. 66, Technical Corrections 2012 an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.

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 27 and 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.

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 includes 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 Nonexchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange 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 nonexchange 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 nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange 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.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, at June 30, 2013, consist of cash on hands and on 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, 2013.

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, 2013, excluding deposits in the Government Development Bank for Puerto Rico described below, amounted to $198,889, respectively, which is insured by Federal Deposit Insurance Corporation at June 30, 2013.

In addition, at June 30, 2013, the Authority maintained cash deposited at the Governmental Development Bank for Puerto Rico (GDB), in the amount of $27,546. This amount is 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.

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013:

Agencies, public corporations and municipalities of the Commonwealth of Puerto Rico	$ 421,375
Customers and other	266,544
Total	687,919
Less allowance for doubtful accounts	(252,432)
Accounts receivable net	$ 435,487

During the year 2013, the operating funds granted from Federal Transit Administration (FTA) were held back due to prior years findings included on the auditor report. Instead, all the expenses incurred by the Authority were paid by Puerto Rico Ports Authority which amounted to $5,506,960 until the action plan is in placed to correct those findings and approve by FTA for reimbursement.

4. CAPITAL ASSETS

The following schedule summarizes the capital assets held by the Authority as of June 30, 2013:

	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013
Assets not being depreciated:				
Land and improvements	$ 93,323	$ -	$ -	$ 93,323
Construction in progress	26,101,078	6,864,786	7,383,621	25,582,243
Total	26,194,401	6,864,786	7,383,621	25,675,566
Assets being depreciated:				
Buildings and piers	4,308,018	1,950,175	-	6,258,193
Maritime and other transportation equipment	59,764,490	11,639,814	-	71,404,304
Motor vehicles	341,980	-	-	341,980
Furniture and equipment	2,625,490	97,355	-	2,722,845
Total	67,039,978	13,687,344	-	80,727,322
Accumulated depreciation	32,952,311	3,874,687	-	36,826,998
Capital assets being depreciated, net	34,087,667	9,812,657	-	43,900,324
Total capital assets, net	$60,282,068	$16,677,443	$7,383,621	$69,575,890

5. BORROWINGS UNDER LINE OF CREDIT

During fiscal year 2008, the Government Development Bank ("GDB") approved an unsecured line of credit in which the Authority may borrow up to $1,500,000 which was due effective June 30, 2008. Outstanding borrowings bear interest at the three months LIBOR plus 125 base points.

A summary of the activity in the line of credit during the years ended June 30, 2013 follows:

	Balance at 2012	**Increases**	**Decreases**	**Balance at 2013**	**Current Portion**
Borrowings under line of credit	$ 126,203	$ -	$(126,203)	$ -	$ -
	$ 126,203	$ -	$(126,203)	$ -	$ -

6. ACCOUNTS AND ACCRUED EXPENSES PAYABLE

Accounts and accrued expenses payable at June 30, 2013 consist of:

Trade payable	$ 14,986,440
Agencies and public corporations of the Commonwealth of Puerto Rico	6,792,239
Compensated absences	1,287,886
Voluntary termination benefits	348,731
Accrued legal claims	395,343
Other accrued expenses	609,482
Total	$ 24,420,121

Amounts due to agencies and public corporations of the Commonwealth of Puerto Rico represents liabilities for payroll taxes withholdings, workmen's compensation insurance, utilities and other related services.

7. DUE TO OTHER GOVERNMENT OR INSTRUMENTALITIES

Due to other governmental instrumentalities classified as long-term liabilities at June 30, 2013 consist of:

	Balance at 2012	**Increases**	**Decreases**	**Balance at 2013**	**Current Portion**
Puerto Rico Ports Authority	$ 32,654,754	$ 4,913,695	$ -	$37,568,449	$ -
Puerto Rico Highways and Transportation Authority	14,142,099	14,002,531	1,000,000	27,144,630	-
Total	$ 46,796,853	$18,916,226	$1,000,000	$ 64,713,079	$ -

Amount due to the Puerto Rico Ports Authority consist of advances for the payment of operating expenses. This amount bears no interest and has no formal repayment terms. The amount outstanding will be paid as cash becomes available, principally from operating grants from the Commonwealth of Puerto Rico.

During the year ended June 30, 2012, the Authority made an agreement with the Puerto Rico Highways and Transportation Authority ("PRHTA") in which PRHTA will advance funds to be used for different purposes. The agreement requires that the use of the money be approved and supervised by PRHTA. The advances will be used principally for operational purposes including, among others, repairs of vessels, rent of vessels, payment of insurance policies and professional services. The amount advanced bears no interest and have no formal repayment plan. The amount outstanding will be paid as cash becomes available, principally from operating grants from the Commonwealth of Puerto Rico. During the year ended June 30, 2013, the Commonwealth of Puerto Rico paid $1 million of the amount due by the Authority.

8. Deferred Revenues

Deferred revenues at June 30, 2013, consist principally of federal funds requested to finance the acquisition of a ferry boat which was already financed with funds from the Commonwealth of Puerto Rico as explained below and other federal grants questioned costs.

During July 2007, the Legislature of the Commonwealth of Puerto Rico approved Resolution No 116 which authorized the Secretary of the Treasury of the Commonwealth of Puerto Rico to transfer $9 million to the Authority for the sole purpose of financing the acquisition of ferry boats. Management used these funds to finance a ferryboat of 600 passengers with a total cost approximately $10.6 million.

During the year ended June 30, 2009 and 2010 management requested federal assistance to the Federal Transit Administration (FTA) through the Puerto Rico Ports Authority, the grantee, to finance the same 600 passenger boat. Approval from FTA was obtained and the Authority received $6.8 million in federal assistance. The excess funds received between the federal funds and the funds received under Resolution No. 116 were used for operational purpose, which is not an authorized used under the federal award or Resolution No. 116. Management is in conversation with FTA to determine the course of action to correct this situation. The amount of the funds received and improperly used has been recorded as deferred revenue in the accompanying statements of net assets.

9. NON-CURRENT LIABILITIES

Changes in noncurrent liabilities, other than the amounts due to governmental entities described above, for the year ended June 30, 2013 are summarized as follows:

	Balance at 2012	Increases	Decreases	Balance at 2013	Due Within One Year
Compensated absences	$ 1,450,154	$ 720,210	$ 882,478	$ 1,287,886	$1,287,886
Voluntary termination benefits	4,036,145	378,830	270,977	4,143,998	348,731
Total	$ 5,486,299	$1,099,040	$ 1,153,455	$ 5,431,884	$1,636,617

10. RETIREMENT PLAN

Defined Benefit Plan

The Government of Puerto Rico Employees Retirement System (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth of Puerto Rico ("the Commonwealth"). All regular employees of the Authority under the age of 55 at the date of employment become members of the ERS as a consequence of their employment.

The ERS provides retirement, death, and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, which became effective on January 1, 1952. Disability retirement benefits for occupational and non-occupational disabilities are available to members enrolled in the plan before January 1, 2000. Benefits vest after ten years of plan participation.

The amount of the annuity shall be one and one half percent (1.5%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case shall the annuity be less than $200 per month.

Participants who have completed at least thirty years of creditable service are entitled to receive a Merit Annuity. Such participants who have not attained fifty-five years of age will receive 65% of the average compensation or if they have attained fifty-five years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten years of service. No benefits are payable if participants receive a refund of their accumulated contributions.

Commonwealth legislation requires that employees hired before April 1, 1990 contribute 5.775% of the first $550 of their monthly gross salary and 8.275% of their gross monthly salary in excess of $550. Employees hired after April 1, 1990 contribute 8.275% of their gross monthly salary. The Authority's contributions are 10.275% of the gross monthly salary. Total employer contributions during years ended June 30, 2013 under this plan amounted to approximately $506,966 which represented 100% of required contributions.

Defined Contribution Plan
On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted for the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the ERS as of December 31, 1999 had the option to stay in the defined benefit plan or transfer to System 2000. Employees joining the Authority on or after January 1, 2000 are only allowed to become members of System 2000.

System 2000 is a defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age are not guaranteed by the Commonwealth. The annuity is based on a formula that assumes that each year the employee's contribution (with a minimum of 8.275%) of the employee's salary up to a maximum of (10%) is invested in an account, which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the ERS on or after April 1, 1990. Disability pensions are not granted under System 2000.

Total Authority's contributions during the fiscal year ended June 30, 2013 under this plan amounted to approximately $435,210, which represented 100% of required contributions.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2013 a copy of which can be obtained from the Administrator of the Retirement System: P.O. Box 42003, San Juan, Puerto Rico 00940.

11. 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.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Leases
The Authority has various non-cancelable operating leases for office space and pier facilities, which expire through July 2025. Most of these leases are with the Puerto Rico Ports Authority, a component unit of the Commonwealth of Puerto Rico. The rental expense for the year ended June 30, 2013 was approximately $83,500. Future rental payments as of June 30, 2013 under these leases are as follows:

Year Ending June 30,	Amount
2014	$ 60,600
2015	60,600
2016	31,400
2017	31,400
2018	31,400
2019-2023	158,600
2024-2025	65,100
Total	$ 439,100

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 $395,343 as of June 30, 2013.

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.

Construction
At June 30, 2013 the Authority has outstanding construction commitment for the construction and improvements of piers and terminals in the amount of approximately $4.8 million.

Vessels Rentals
The Authority has entered into an agreement with a private entity for the rental of two vessels to provide transportation services. This contract is due on June 2014 and the total amount paid during the current year related to this contract amounted to $602,000 and charged to the statement of revenues, expenses and changes in net assets.

13. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 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 $4.1 million in the statement of net assets as of June 30, 2013 and a charge of $370 thousand in the statement of activities for the year ended June 30, 2013. At June 30, 2013, unpaid long-term benefits granted on this program were discounted at 2.90%.

14. 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 $28.5 million and as of June 30, 2013 the Authority's liabilities exceeded its assets by approximately $28.1. In addition, at June 30, 2013 the Authority has a working capital deficiency of approximately $29.6 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 maritime service provided by the Authority to the residents of Vieques and Culebra is an essential service, 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 maritime services and to continue as a going concern.

SECTION 2 - FINDINGS RELATING TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Findings 13-FS-01 (Material Weakness)

Condition:

The authority has a parts inventory stored in a warehouse located at in the pier facilities in Fajardo and San Juan.

- The Authority does not maintain an appropriate perpetual inventory record and consequently periodically physical counts are unreliable.
- Inventory has never been recorded in the Authority's financial statements.
- There could be obsolete parts stored in the warehouse but an assessment of obsolescence has not being performed.
- Inventory cards are kept manually, but are never reconciled with general ledger or other records.
- Inventory is not valued using any of the acceptable valuation methods allowed by accounting principles generally accepted in the United States of America (i.e.; FIFO, LIFO or Average). Instead parts are valued using the cost per the last vendor invoice.

This condition is similar as in prior year audit.

Criteria:

Proper internal control procedures should exist to safeguard the parts inventory and to properly reflect such inventory in the Authority's financial statements as required by accounting principles generally accepted in United States of America.

Cause of condition:

Parts inventory is not properly safeguarded and therefore is subject to loss from intentional or unintentional errors. In addition, such inventory is not reflected in the Authority's financial statements as required by accounting principles generally accepted in United States of America.

Effect of condition:

The Authority could be incurring losses for improper handling of parts inventory such as unauthorized use, acquisition of parts over the required levels or for acquisition of parts not needed for current operations, among others. In addition, the Authority's financial statements could be materially misstated.

Recommendation:

Management should establish procedures to properly safeguard its parts inventory and to properly reflect such inventory in the Authority's financial statements. This could be accomplished by the establishment of a perpetual inventory system and formal inventory counting procedures. In addition, to assure that perpetual records present an accurate reflection of quantities on hand, a formal program of cycle counting procedures should be instituted. These procedures should include the following:

- Formal scheduling of items to be counted and periodic management review to assure adherence to the schedule.
- Reconciliation of perpetual records and actual counts.
- Adjustment of perpetual records to actual quantities resulting from known differences and documentation of the reasons for such adjustments.
- Follow-up to determine the causes for differences so that procedural weaknesses may be remedied.
- Periodic reporting to appropriate Authority personnel of the results of the cycle counting procedures.

Auditee Response:

Management accepted the condition and is working over a Corrective Action Plan.

Finding 13-FS-02

Condition:

During our disbursement test, we observed in various files that the required information was incomplete. From 76 selected for examination the following deficiencies were detected:

- 16 files did not included the payment stamps.
- 17 files did not included chief signature and date.
- 8 files did nor included Executive Director date.
- 2 files did not included sign and date in the breakdown.
- 9 files did not included posted stamped.
- 1 files did not included Executive Director signature.
- 8 files did not included requested date.
- 1 files did not included firm requested.

Criteria:

Proper internal control procedures require that supplier invoices be properly intervened to avoid improper payments. In additions invoices should stamped as paid or cancelled to avoid double payment.

Cause of Condition:

No proper implementation of internal control procedures.

Effect of condition:

No implementation of internal control procedures that require the pre-intervention of the disbursement package for all disbursement could expose the Authority to losses due to improper payments, double payments or for the payment of goods and services not received by the Authority.

Recommendation:

Internal control procedures that require the pre-intervention of all disbursement should be established and enforced at all times.

Auditee Response:

Management is aware of the importance of the pre-intervention process and during 2013 created a position and assigned personnel in charge of the intervention duties.

Finding 13-FS-03 (Material Non Compliance)

Condition:

At June 30, 2013 the Authority has amounts outstanding with other public corporations or agencies of the Commonwealth of Puerto Rico amounting to approximately $ 6,792,239. This amount represents amounts due for payroll withholdings, utilities, workmen's compensation insurance and other related services. This condition is similar as in prior year audit. This condition is similar as in prior year audit.

Criteria:

Laws and regulations require that amounts due to other entities of the Commonwealth of Puerto Rico be settled in the normal course of business.

Cause of Condition:

Cash flows problem has precluded the Authority from making payments to reduce such liabilities. The cash flows problem results principally operating losses incurred.

Effect of Condition:

The Authority is not in compliance with applicable laws and regulations. In addition, the Authority could incur in interest, and penalties on the accumulated debt.

Recommendation:

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

Auditee Response:

Management accepted the condition and is working over a Corrective Action Plan.

Finding 13-FS-04

At June 30, 2013 the Authority has accounts receivable outstanding in the amount of approximately $664,296 of which $544,086 is overdue or more than 90 days old. Some of the invoices that overdue dates back to various years ago. Of the total accounts receivable outstanding, approximately $421,375 is due by public corporations or agencies of the Commonwealth of Puerto Rico. Of such balance approximately $379,581 is overdue. This condition is similar as in prior year audit.

Criteria:

In order to improve the Authority's cash flows prompt follow up should be performed on all accounts receivable.

Cause of condition:

No prompt follow up is performed on accounts receivable, especially balances considered overdue. For example no collection letters or statements of accounts are sent on a recurring basis.

Effect of condition:

Failure to collect receivable promptly creates hidden expenses and result in reductions in the Authority's cash flows. Also the older a balance gets, the more difficult is to collect.

Recommendation:

To improve accounts receivable collections, we recommend that the following steps be considered:

1. Institute a credit policy that includes a specific credit limit for each customer.
2. Periodically review the aged trial balance and send letter to customers with balances over 90 days old. Follow up with a phone call if payment is not received after specified period after the letter is sent and attempt to determine the cause for non-payment and take corrective action accordingly.

Auditee Response:

Management accepted the condition and is working over a Corrective Action Plan.

Finding 13-FS-05 (Material Weakness)

Condition:

The Authority records the cost of certain post employment benefits provided to eligible employees in accordance with collective bargaining agreements when paid which is a method not accepted by accounting principles generally accepted in the United States of America ("GAAP"). This condition is similar as in prior year audit.

Criteria:

GAAP requires that the cost and the liability for post employment benefits be determined using an actuarial valuation perform at least every two years. In addition GAAP requires that the cost of post employment benefits be recorded using the accrual basis of accounting.

Cause of condition:

Management was unable to hire an actuary to perform the evaluation required by GAAP.

Effect of condition:

The Authority's financial statements are not in accordance with GAAP and could be materially misstated.

Recommendation:

Management should hire an actuary to perform the evaluation required by GAAP. Financial statements should be adjusted accordingly.

Auditee Response:

Management accepted the condition and is working over a Corrective Action Plan.

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PRIOR AUDIT FINDING
YEAR ENDED JUNE 30, 2013

Findings 12-FS-01 (Material Weakness)

Condition:

During the audit a number of adjusting entries were made. Some of these entries were to adjust unrecorded liabilities, accrued expenses, depreciation and amortization among others.

Recommendation:

In order to ensure that all accounting procedures are performed on a timely basis, management should establish policies to document the month and year end procedures that should be followed by the accounting department and well as any other department that provide financial information required for the preparation of financial statements. This could be accomplished by developing a comprehensive checklist to cover all procedures that the Authority determines need to be performed on a periodic basis including, but not limited to, month end procedures such as bank reconciliations, and general ledger account analysis, etc.

Current Status:
Corrected

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PRIOR AUDIT FINDING
YEAR ENDED JUNE 30, 2013

Finding 12-FS-02 (Material Weakness)

Condition:

The authority has a parts inventory stored in a warehouse located at in the pier facilities in Fajardo and San Juan. When we inquiry about the parts inventory, management disclosed the following to us:

- During July and August 2013 the Authority performed a physical count of inventory parts but a of the date of this report the Authority has been unable to determine the cost of the parts inventory.
- Inventory has never been recorded in the Authority's financial statements.
- There could be obsolete parts stored in the warehouse but an assessment of obsolescence has not being performed.
- Inventory cards are kept manually, but are never reconciled with general ledger or other records.
- Inventory is not valued using any of the acceptable valuation methods allowed by accounting principles generally accepted in the United States of America (i.e.; FIFO, LIFO or Average). Instead parts are valued using the cost per the last vendor invoice.

Recommendation:

Management should establish procedures to properly safeguard its parts inventory and to properly reflect such inventory in the Authority's financial statements. This could be accomplished by the establishment of a perpetual inventory system and formal inventory counting procedures. In addition, to assure that perpetual records present an accurate reflection of quantities on hand, a formal program of cycle counting procedures should be instituted. These procedures should include the following:

- Formal scheduling of items to be counted and periodic management review to assure adherence to the schedule.
- Reconciliation of perpetual records and actual counts.
- Adjustment of perpetual records to actual quantities resulting from known differences and documentation of the reasons for such adjustments.
- Follow-up to determine the causes for differences so that procedural weaknesses may be remedied.
- Periodic reporting to appropriate Authority personnel of the results of the cycle counting procedures.

Current Status:
Condition still prevail. No action taken by Management
See finding 13-FS-01

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PRIOR AUDIT FINDING
YEAR ENDED JUNE 30, 2013

Finding 12-FS-03 (Material Weakness)

Condition:

Cash receipts are not being deposited on a daily basis. Instead daily cash receipts are accumulated and used for the payment of expenses, and exchange fund.

Recommendation:

We recommend that deposits be made on a daily basis both to improve cash flow and to reduce the risk of loss.

Current Status:
Corrected

Finding 12-FS-04

Condition:

During our disbursement test, in certain instances we noted the following:

- The supplier invoice and the disbursement voucher were not stamped as paid or cancelled.
- Disbursement was done with a copy of the invoice instead of the original invoice.
- No receiving report was available for our examination.
- Certain approvals were missing from the disbursement package.
- Suppliers required certifications are missing.

Recommendation:

Internal control procedures that require the pre-intervention of all disbursement should be established and enforced at all times.

Current Status:
Condition still prevail. No action taken by Management.
See finding 13-FS-02

Finding 12-FS-05 (Material Non Compliance)

Condition:

At June 30, 2013 the Authority has amounts outstanding with other public corporations or agencies of the Commonwealth of Puerto Rico amounting to approximately $6,792,239. This amount represents amounts due for payroll withholdings, utilities, workmen's compensation insurance and other related services.

Recommendation:

Current Status:
Condition still prevail. No action taken by Management.
See finding 13-FS-03

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

Finding 12-FS-06

Condition:

At June 30, 2013 the Authority has accounts receivable outstanding in the amount of approximately $657,000 of which $510,000 is overdue or more than 90 days old. Some of the invoices that overdue dates back to various years ago. Of the total accounts receivable outstanding, approximately $403,000 is due by public corporations or agencies of the Commonwealth of Puerto Rico. Of such balance approximately $334,000 is overdue.

Recommendation:

To improve accounts receivable collections, we recommend that the following steps be considered:

3. Institute a credit policy that includes a specific credit limit for each customer.
4. Periodically review the aged trial balance and send letter to customers with balances over 90 days old. Follow up with a phone call if payment is not received after specified period after the letter is sent and attempt to determine the cause for non-payment and take corrective action accordingly.

Current Status:
Condition still prevail. No action taken by Management.
See finding 13-FS-04

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY
(A component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PRIOR AUDIT FINDING
YEAR ENDED JUNE 30, 2013

Finding 12-FS-07 (Material Weakness)

Condition:

The Authority records the cost of certain post employment benefits provided to eligible employees in accordance with collective bargaining agreements when paid which is a method not accepted by accounting principles generally accepted in the United States of America ("GAAP").

Recommendation:

Management should hire an actuary to perform the evaluation required by GAAP. Financial statements should be adjusted accordingly.

Current Status:
Condition still prevail. No action taken by Management.
See finding 13-FS-05.