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

AUDITED FINANCIAL STATEMENTS AND SINGLE AUDIT
OF FEDERAL FINANCIAL ASSISTANCE PROGRAM
FOR THE YEAR ENDED JUNE 30, 2015
TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

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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, 2015, and the related notes to the financial statements, which collectively comprise the Puerto Rico Municipal Islands Maritime Transport Authority basic financial statements.

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 Opinion

As more fully disclosed in note 13 to the financial statements, we were not allowed access to the management and the auditors of Employees Retirement System of the Commonwealth of Puerto Rico audited information used to determine the proportional share of the deferred outflows/inflows of resources, and net pension liability attribute to employees services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as deferred outflows/inflows of resources, liabilities and expenses as employees earn the rights to the pension plan benefits of the governmental activities. As result, we were unable to determine whether any adjustments, were necessary related to the Puerto Rico Municipal Islands Maritime Transport Authority deferred outflows/inflows of resources, liabilities, net position, and expenses of the financial statements referred to above.

Qualified Opinion

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, 2015, 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 5 to 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Puerto Rico Municipal Islands Maritime Transport Authority basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2016 on our consideration of the Puerto Rico Municipal Islands Maritime Transport Authority internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Puerto Rico Municipal Islands Maritime Transport Authority internal control over financial reporting and compliance.

Ramón L. Marrero
Certified Public Accountants
March 29, 2016

Stamp # 2726992 was affixed to the original of this report.

RAMÓN L. MARRERO ROSADO
PUERTO RICO
CONTADOR PUBLICO AUTORIZADO

(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, 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 2015

- Net position deficiency totaled $31.5 million at June 30, 2015.
- Net position deficiency increased by $1.1 million in 2015, as compared to an increase of approximately $8.9 million in 2014.
- Net capital assets totaled $62.6 million at June 30, 2015.
- Net capital assets decreased by 7% at June 30, 2015, when compared with the balance at June 30, 2014 of $67.3 million.

Financial Highlights for 2014

- Net position deficiency totaled $30.4 million at June 30, 2014.
- Net position deficiency increased by $8.9 million in 2014, as compared to an increase of approximately $10.8 million in 2013.
- Net capital assets totaled $67.3 million at June 30, 2014.
- Net capital assets decreased by 3% at June 30, 2014, when compared with the balance at June 30, 2013 of $69.6 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 position. 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 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 cannot be used to liquidate liabilities.

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

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position includes operating revenues, which consist of passenger and cargo revenues and equipment and property rentals and operating expenses, such as salaries and employees benefits, depreciation on capital assets, repairs and maintenance and other general administrative expenses; and non-operating 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 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.

(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, 2015 and 2014:

	Years Ended June 30, 2015	2014
Current assets	$ 4,104,575	$ 4,072,687
Capital assets, net	62,638,945	67,314,397
Total assets	$ 66,743,520	$ 71,387,084
Current liabilities	20,821,091	26,843,559
Non-current liabilities	77,421,221	74,940,099
Total liabilities	98,233,312	101,783,658
Net position:		
Net invested in capital assets	62,638,945	67,314,397
Unrestricted	(94,128,737)	(97,710,971)
Total net position	(31,489,792)	(30,396,574)
Total liabilities and net position	$ 66,743,520	$ 71,387,084

(Unaudited)

June 30, 2015

Current assets increased by 1% to $4.1 million due to federal funds received from FTA for preventive service to vessels repairs. During the year 2015, the operating funds from Federal Transit Administration (FTA) were received after receiving the final disposition of prior year findings. The cash balance increased by $2.4 million when compared with last year. Also, the prepaid insurance decreased as compared with last year by $2.3 million because the Authority management has decided to be coverage thru June 30, 2015. Therefore, there was not prepaid insurance amount to be amortized after year end.

Capital assets decreased by 7% to $62.6 million due to the depreciation expenses charged to the capital assets. 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 are used to finance the capital improvement program. Total capital grants received from the Commonwealth of Puerto Rico during fiscal year end 2015 amounted to approximately $2.6 million.

Current liabilities decreased by 22% to $20.8 million due to payments made to suppliers in order satisfied past due payables from prior years. Also, there was a reduction of employees benefit such as accrued bonuses and others because of the Act No. 66 – Government of the Commonwealth of Puerto Rico Special Fiscal and Sustainability Act.

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 decrease in these liabilities during fiscal year 2015 is due to the payments issued to PRHTA. During fiscal year 2015, there were not payments received neither from PRHTA nor from PRPA to paid expenses on behalf of the Authority.

In addition, during the year ended June 30, 2015, 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 4% to $31.5 million. This increase was principally the result of an excess of revenues (operating and non-operating). The largest portion of the Authority's net position represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

June 30, 2014

Current assets increased by 41% to $4.1 million due to additional Commonwealth funds received to vessels repairs during the months of May and June 2014, but not disbursed when the fiscal year ended on June 30, 2014. The cash balance increased by $1.1 million when compared with last year.

Capital assets decreased by 3% to $2.2 million due to the depreciation expenses charged to the capital assets. 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 are used to finance the capital improvement program. Total capital grants received from the Commonwealth of Puerto Rico during fiscal year end 2014 amounted to approximately $11.4 million.

Current liabilities increased by 7.7% to $26.8 million due to an increase in accounts payable and accrued expenses, as of June 30, 2014.

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 2014 is due to funds provided by PRHTA. These funds were used to pay certain operating expenses as approved by PRHTA. During the year ended June 30, 2014, PRHTA paid expenses on behalf of the Authority in the amount of approximately $8.6 million.

In addition, during the year ended June 30, 2014, the Commonwealth of Puerto Rico paid $4.1 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 41.7% to $30.4 million. This increase was principally the result of an excess of revenues (operating and non-operating), and capital grant of $11.4 million. The largest portion of the Authority's net position represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

(Unaudited)

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for the years ended June 30, 2015 and 2014:

	Years Ended June 30,	
	2015	**2014**
Operating revenues	$ 5,376,770	$ 5,200,223
Operating expenses	(40,579,170)	(51,367,145)
Operating loss	(35,202,400)	(46,166,922)
Non-operating revenues	31,467,309	25,808,315
Capital contributions	2,641,873	11,413,998
Change in net position	(1,093,218)	(8,944,609)
Net position at beginning	(30,396,574)	(21,451,925)
Net position at end	$ (31,489,792)	$ (30,396,574)

Year Ended June 30, 2015

Operating revenues consisted of passenger, cargo and rental charges, increased by 4% to $5.4 million mainly due to a 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 decreased 21% to $40.6 million. This decrease is due mainly to the reduction vessel rental payments and diesel of 68% or $9.5 million when compared with last year.

(Unaudited)

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 $3.8 million in the statement of net position as of June 30, 2015 and a charge of $147,366 in the statement of revenues, expenses and changes in net position for the year ended June 30, 2015. At June 30, 2015, unpaid long-term benefits granted on this program are discounted at 2.40%.

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, 2014

Operating revenues consisted of passenger, cargo and rental charges, decreased by 11% to $5.2 million mainly due to a decrease 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 decrease 6.7% to $51.4 million. This decrease is due mainly to the reduction of vessel rental payments of 47% or $6.0 million when compared with last year based on the agreement entered by the Authority with a 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 $3.9 million in the statement of net position as of June 30, 2014 and a charge of $73,755 in the statement o0f revenues, expenses and changes in net position for the year ended June 30, 2014. At June 30, 2014, unpaid long-term benefits granted on this program are discounted at 2.95%.

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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Authority had invested approximately $62.6 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, 2014, the Authority had invested approximately $67.3 million in capital assets.

Major capital assets events during the years ended June 30, 2015 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, 2015

		2015
Assets:		
Current assets:		
Cash and cash equivalents	$	3,795,787
Accounts receivable, net		196,445
Inventory		96,312
Prepaid expenses		16,031
Total current assets		4,104,575
Capital Assets:		
Other capital assets, net of accumulated depreciation		62,638,945
Total capital assets		62,638,945
Total Assets	$	66,743,520
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$	19,435,454
Checks issued over bank balance		548,724
Post-retirement benefits		487,160
Voluntary termination benefits		340,753
Total current liabilities		20,812,091
Non-current liabilities:		
Due to other governmental instrumentalities		69,037,490
Compensated absences		1,400,511
Post-retirement benefits		3,290,092
Voluntary termination benefits		3,478,269
Other liabilities		214,859
Total non-current liabilities		77,421,221
Total Liabilities		98,233,312
Net Position:		
Net invested in capital assets		62,638,945
Unrestricted (deficit)		(94,128,737)
Total Net Position (Deficit)		(31,489,792)
Total Liabilities And Net Position (Deficit)	$ (	66,743,520)

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, 2015

	2015
Operating revenues:	
Passenger and cargo revenues	$ 5,209,664
Equipment and property rentals	167,106
Total operating revenues	5,376,770
Operating expenses:	
Salaries and employee benefits, including voluntary termination and post-retirement benefits	22,720,973
Depreciation and amortization	4,379,414
Repairs and maintenance	4,266,749
Insurance	2,399,964
Professional services	2,038,158
Diesel	4,482,513
General and administrative	291,399
Total operating expenses	40,579,170
Operating loss	(35,202,400)
Non-operating revenues (expenses)	
Operating grants:	
Commonwealth of Puerto Rico	28,584,395
Federal Transit Administration	3,044,465
Interest and other financing expenses, net	(161,551)
Total non-operating revenues	31,467,309
Income before capital contributions	(3,735,091)
Capital contributions	2,641,873
Change in net assets	(1,093,218)
Net position deficiency:	
Beginning of year	(30,396,574)
End of year	$ (31,489,792)

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, 2015

	2015
Operating Activities:	
Cash received from customers and users	$ 5,536,249
Cash payments to suppliers for goods and services	(18,629,584)
Cash payments to employees for services	(18,911,734)
Net cash used in operating activities	(32,005,069)
Non-Capital Financing Activities:	
Operating grants:	
Commonwealth of Puerto Rico	28,584,395
U.S. Federal Transit Administration	3,044,465
Net change in checks issued over bank balance	22,414
Interest paid	(161,551)
Net cash provided by non-capital financing activities	31,489,723
Capital and Related Financing Activities:	
Capital assets	296,038
Capital contributions	2,641,873
Net cash provided by capital and related financing activities	2,937,911
Net increase in cash and cash equivalents	2,422,565
Cash and cash equivalents:	
Beginning of year	1,373,222
End of year	$ 3,795,787

The accompanying notes are integral part of the financial statements.

RECONCILIATION STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

		2015
Reconciliation of operating loss to net cash used in by operating activities:		
Operating loss	$	(35,202,400)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		4,379,414
Operation expenses paid by Puerto Rico Highways Transportation Authority		
Operation expenses paid by Puerto Rico Ports Authority		
Changes in operating assets and liabilities:		
Accounts receivable		159,479
Prepaid expenses		2,268,454
Inventory		(37,256)
Accounts payable and accrued expenses		(6,031,468)
Other liabilities		2,458,708
Net cash used in operating activities	$	(32,005,069)

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. 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 position

Net position is 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 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 in included in the same net position component as the unspent proceeds.

Unrestricted

Unrestricted net position 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, 2015

• GASB 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.

• GASB 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.

• 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 combination 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.

• GASB 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.

• GASB 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 nonemployer 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.

• GASB Statement No. 72, Fair Value Measurement and Application. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches; the market approach, the cost approach, or the income approach. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the assets or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumptions of the default rate among underlying mortgages of a mortgage-backed security. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015.

• GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions of this Statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the provisions of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The provisions of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

- GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:] Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.] OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms. OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity. The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

- GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015.

- GASB Statement No. 77, Tax Abatement Disclosures. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. For financial reporting purposes, a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. A transaction's substance, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement for the purpose of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015.

- GASB No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans. This Statement addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement is not effective until fiscal year 2016.

• GASB No. 79, Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement is not effective until fiscal year 2016, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are not effective until fiscal year 2017.

Management is evaluating the impact that these Statements will have on the Authority financial statements.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, at June 30, 2015, 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, 2015.

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, 2015, excluding deposits in the Government Development Bank for Puerto Rico described below, amounted to $1,980,629, respectively, of which $500,000 is insured by Federal Deposit Insurance Corporation at June 30, 2015.

In addition, at June 30, 2015, the Authority maintained cash deposited at the Governmental Development Bank for Puerto Rico (GDB), in the amount of $2,291,597. 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, 2015:

Agencies, public corporations and municipalities of the Commonwealth of Puerto Rico	$ 249,992
Customers and other	69,805
Total	319,797
Less allowance for doubtful accounts	(123,352)
Accounts receivable net	$ 196,445

During the year 2015, the operating funds from Federal Transit Administration (FTA) were received after receiving the final disposition of prior year findings. The amount of $3,044,465 represents federal funds granted by FTA during fiscal year ended June 30, 2015.

4. CAPITAL ASSETS

The following schedule summarizes the capital assets held by the Authority as of June 30, 2015:

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015
Assets not being depreciated:				
Land and improvements	$ 93,323	$ -	$ -	$ 93,323
Construction in progress	975,645	167,221	1,142,866	-
Total	1,068,968	167,221	1,142,866	93,323
Assets being depreciated:				
Buildings and piers	32,823,808	1,142,866	558,108	33,408,566
Maritime and other transportation equipment	71,404,304	-	-	71,404,304
Motor vehicles	341,980	351	-	342,331
Furniture and equipment	2,805,898	94,498	-	2,900,396
Total	107,375,990	1,237,715	558,108	108,055,597
Accumulated depreciation	41,130,561	4,379,414	-	45,509,975
Capital assets being depreciated, net	66,245,429	(3,141,699)	558,108	62,545,622
Total capital assets, net	$67,314,397	$ (2,974,478)	$ 1,700,974	$62,638,945

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts and accrued expenses payable at June 30, 2015 consist of:

Trade payable	$ 8,218,264
Agencies and public corporations of the Commonwealth of Puerto Rico	9,677,686
Compensated absences	1,081,010
Accrued Christmas bonus	123,000
Accrued legal claims	307,000
Other accrued expenses	28,494
Total	$ 19,435,454

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.

6. DUE TO OTHER GOVERNMENTAL INSTRUMENTALITIES

Due to other governmental instrumentalities classified as long-term liabilities at June 30, 2015 consists of:

	Balance at 2014	Increases	Decreases	Balance at 2015
Puerto Rico Ports Authority	$ 38,454,959	$ -	$ 738,078	$ 37,716,881
Puerto Rico Highways and Transportation Authority	31,620,609	-	300,000	31,320,609
Total	$ 70,075,568	$ -	$1,038,078	$ 69,037,490

Amount due to the Puerto Rico Ports Authority consists 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.

7. NON-CURRENT LIABILITIES

Changes in noncurrent liabilities, other than the amounts due to governmental entities described above, for the year ended June 30, 2015 are summarized as follows:

	Balance at 2014	Increases	Decreases	Balance at 2015	Due Within One Year
Compensated absences	$ 2,265,689	$1,377,083	$1,161,251	$ 2,481,521	$1,081,965
Post-Retirement benefits	-	3,777,252	-	3,777,252	487,160
Voluntary termination benefits	3,942,633	-	123,611	3,819,022	340,753
Total	$ 6,208,322	$ 5,154,335	$ 123,611	$10,077,795	$1,909,878

8. OTHER LIABILITIES

At June 30, 2015 other liabilities consists principally of federal funds requested during fiscal 2010 for the acquisition of certain spare parts to be used in repairs and maintenance of the ferries. However, when the funds were received, they were used for payments other than the acquisition of spare parts.

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.

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.

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.

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.

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, 2015, 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 contribution hybrid program during the year ended June 30, 2015, amounted to approximately $1.0 million. The Authority's contributions (either paid or accrued) during the year ended June 30, 2015 amounted to approximately $1.4 million. These amounts represented 100% of the required contribution for the corresponding year. Total payroll subjected to retirement contributions amounted to approximately $22.7 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.

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2012, 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. OTHER POST EMPLOYMENT BENEFITS

The Authority has implemented GASB Statements No. 27 and No. 45, *Accounting and Financial Reporting for Employer for Postemployment Benefit Other Than Pensions* (GASB 27 & 45). These Statements established the standards for the measurement, recognition, and display of Other Postemployment Benefit (OPEB) expense/expenditures and related liabilities (assets), note disclosure, and, if applicable required supplementary information (RSI) in the financial reports of state and local governmental employers.

Post employment benefits are part of an exchange of salaries and benefits for employee services rendered. GASB's 27 & 45 require state and local government's financial report to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' year of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and what extent progress is being made in funding the plan.

As the result of the implementation of GASB's 27 & 45, the actuarial determined an accrued liability for benefits amounted to $3.8 million, all of which was unfunded as of June 30, 2015. The coverage payroll (annual payroll of active employees covered by the plan) was approximately $22.7 million. Unpaid long-term benefits granted on these programs were discounted at 6.50%.

11. 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, 2015 was approximately $77,190. Future rental payments as of June 30, 2015 under these leases are as follows:

Year Ending June 30,	Amount
2016	$ 69,390
2017	69,390
2018	69,390
2019	69,390
2020	69,390
2021-2025	346,950
Total	$ 693,900

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 $307,000 as of June 30, 2015, which is included as part of accounts payable and accrued expenses in the accompanying statement of net position.

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.

12. 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 $3.8 million in the statement of net position as of June 30, 2015 and a charge of $147,366 in the statement of revenues, expenses and changes in net position for the year ended June 30, 2015. At June 30, 2015, unpaid long-term benefits granted on this program were discounted at 2.28%.

13. Accounting and Financial Reporting for Pensions

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 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decisions useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

Accounting and Financial Reporting for Pensions

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditor of employers, non-employer contributing entities and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identified the methods and assumptions that should be used to project benefit payments discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

We were not allowed access to the management and the auditors of Employees Retirement System of the Commonwealth of Puerto Rico audited information used to determine the proportional share of the deferred outflows/inflows of resources, and net pension liability attribute to employees services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as deferred outflows/inflows of resources, liabilities and expenses as employees earn the rights to the pension plan benefits of the governmental activities. As result, we were unable to determine whether any adjustments, were necessary related to the Puerto Rico and Municipal Islands Maritime Transport Authority deferred outflows/inflows of resources, liabilities, net position, and expenses of the financial statements referred to above.

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 $1.1 million and as of June 30, 2015 the Authority's liabilities exceeded its assets by approximately $31.5. In addition, at June 30, 2015 the Authority has a working capital deficiency of approximately $16.7 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 Viequez 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.

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

15. SUBSEQUENT EVENTS

FASB ASC 855, "Subsequent Events", requires disclosure of the date at which the entity has evaluated events and the base date, if it's the date of the statement of financial condition issued or was available to be issued.

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.

SUBSEQUENT EVENTS (CONTINUED)

The Authority and its executives commenced operation during February 2015 by performing initial organization process in order to achieve the purposes of this ACT. The Authority is in the process of obtaining the required approvals from local and federal authorities to integrate and officialize the merge of "Tren Urbano", MBA and PRMTA into its operations.

Once the requirements of the Act are in effect, the Authority will no longer exist as a separate legal entity.

The Authority has evaluated events and transactions occurring subsequent to the statement of financial position as of June 30, 2015 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through March 29, 2016, the date the accompanying financial statements were available to be issued. No such material events or transactions were noted to have occurred requiring disclosure.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR JUNE 30, 2015

Federal Grantor/Pass-Trough Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Federal Transit Administration		
Direct		
Federal Transit Administration Capital and Operating Assistance Formula Grants	20.507	$ 2,641,873
ARRA-Federal Transit Administration Capital and Operating Assistance Formula Grants	20.507	3,044,465
Total expenditures of federal awards		$ 5,686,338

General

The accompanying schedule of expenditures of federal awards presents the activity of federal awards programs of the Puerto Rico and Municipal Islands Maritime Transport 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.

Ramón L. Marrero Rosado
Certified Public Accountants & Consultants
P.O. Box 50764 Toa Baja, PR 00950-0764 Tel. (787)-269-6911 Fax: (787)-269-6915

INDEPENDENT AUDITOR'S REPORT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS FOR PUERTO RICO MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY

Hon. Miguel Torres Díaz, P.E.
Secretary Department of Transportation and Public Work

We have audited 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, the financial statements of the Puerto Rico Municipal Islands Maritime Transport Authority as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Puerto Rico Municipal Islands Maritime Transport Authority basic financial statements, and have issued our report thereon dated March 29, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses 15-FS-01 and 15-SA-01.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies 15-FS-02, 15-FS-03 and 15-SA-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Puerto Rico Municipal Islands Maritime Transport Authority financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective or our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 15-FS-02 and 15-FS-03.

Puerto Rico Municipal Islands Maritime Transport Authority Response to Findings

Puerto Rico Municipal Islands Maritime Transport Authority response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Puerto Rico Municipal Islands Maritime Transport Authority response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Ramón L. Marrero
Certified Public Accountants
March 29, 2016

RAMÓN L. MARRERO ROSADO
CONTADOR PÚBLICO AUTORIZADO
PUERTO RICO

Stamp # 2726993 was affixed to the original of this report.

Ramón L. Marrero Rosado
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P.O. Box 50764 Toa Baja, PR 00950-0764 Tel. (787)-269-6911 Fax: (787)-269-6915

INDEPENDENT AUDITOR'S REPORT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Hon. Miguel Torres Diaz, P.E.
Secretary Department of Transportation and Public Works

Report on Compliance for Each Major federal Program
We have audited the Puerto Rico Municipal Islands Maritime Transport Authority (the Authority) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2015. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirement of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United states of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Puerto Rico Municipal Islands Maritime Transport Authority compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Federal Transit Administration Capital and Operating Assistance Formula Grants
As described in the accompanying schedule of findings and questioned costs, Authority's did not comply with requirements regarding Equipment and Real Property. Compliance with such requirements is necessary, in our opinion, for Authority's to comply with the requirements applicable to that program.

Qualified Opinion on Identified Major Federal Program
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Authority's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Federal Transit Administration Capital and Operating Assistance Formula Grants for the year ended June 30, 2015.

Other Matters
The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are describe in the accompanying schedule of findings and questioned costs as items 15-FS-02, 15-FS-03 and 15-SA-02.

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

Report on Internal Control Over Compliance
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 15-FS-01 and 15-SA-01.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 15-FS-02, 15-FS-03 and 15-SA-02.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditure of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Puerto Rico Municipal Islands Maritime Transport Authority as of and for the year ended June 30, 2015, and have issued our report thereon dated March 29, 2016, which contained a qualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ramón L. Marrero
Certified Public Accountants
March 29, 2016

RAMÓN L. MARRERO ROSADO

Stamp # 2726994 was affixed to original of this report.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

Section 1 – Summary of Auditor's Report

1. The type of opinion issued in the financial statements	Qualified
2. The independent accountant's report on internal control over financial reporting described:	
a. Significant deficiencies noted considered material weaknesses	Yes
b. Significant deficiency noted that is not considered to be a material weakness	Yes
3. Noncompliance considered material to the financial statements was disclosed by the audit	Yes
4. The independent accountant's report on internal control over compliance with requirements applicable to major Federal awards described:	
a. Significant deficiency noted considered to be a material weakness	Yes
b. Significant deficiency noted that is not considered to be a material weaknesses	No
5. The opinion expressed in the independent accountant's report on compliance with requirements applicable to major Federal awards	Qualified
6. The audit disclosed findings to be reported in accordance with Section .510 (a) of OMB Circular A-133	Yes
7. The Authority's major program was:	
Name of Federal Program or Cluster	**CFDA No**
Federal Transit Administration Formula Grants	20.507
ARRA-Federal Transit Administration Formula Grants	20.507
8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133	$300,000

Auditee qualified as low-risk auditee? **_yes** **_x_ no**

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

Findings 15-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 years audits.

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 presented the following comment, which is been reported in the Corrective Action Plan.

The company Elitbco has been contracted to integrate the accounting, financial, and inventory systems. Obsolete parts assessment to be performed by ATM personnel. Once physical inventory has been completed and certified, manual card will be eliminated and information automatically reconciled with general ledger or other records. The system will provide an acceptable valuation method. The Inventory of The Maintenance Base Warehouse (San Juan) was already finished and adjusted in books. For the facilities in Fajardo we expect to finish in 6-30-2016.

Finding 15-FS-02 (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 $9,677,686. This amount represents amounts due for payroll withholdings, utilities, workmen's compensation insurance and other related services. This condition is similar as in prior years' audits.

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 presented the following comment, which is been reported in the Corrective Action Plan.

Usually, the Authority only has problems with the payments to the Retirement Agency and as of January 22, 2016 we are up to date with employee withholding. For the 2016 budget, more money was requested to cover these expenses and eliminate the debt.

Finding 15-FS-03

At June 30, 2015 the Authority has accounts receivable outstanding in the amount of approximately $317,357 of which $217,473 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 $249,992 is due by public corporations or agencies of the Commonwealth of Puerto Rico. Of such balance approximately $216,827 is overdue. This condition is similar as in prior years' audits.

During current year 2015, the Authority charged-off $279,416 from the existing allowance for doubtful accounts balance. This amount, most of which was due from corporations or governmental agencies, was identified uncollectible by management.

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 presented the following comment, which is been reported in the Corrective Action Plan.

Currently, an accountant is working with accounts receivables aging to make sure that all invoices are correct and then sending them to agencies in debt to lower the deficit.

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 15-SA-01 (Material Weakness)

Federal Program:

20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:

Federal Transit Administration

Pass Through Entity:

Puerto Rico Ports Authority

Compliance Requirement:

Equipment and real property management

Reporting Requirement:

Material non-compliance in relation to a compliance requirement

Condition:

There is no physical inventory of equipment acquired with federal funds

Criteria:

Federal laws and regulations require that proper records should be maintained for all equipment acquired with federal funds. In addition a physical inventory of the equipment acquired with federal funds should be taken at least once every two years and the count is reconciled with the equipment records. This condition is similar as in prior years audits.

Cause of Condition:

Management is in the process of implementing a capital ledger record system and as part of this process will perform the physical inventory count.

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Effect of Condition:

The Authority is not in compliance with program laws and regulations.

Recommendation:

Proper controls and procedures should be established in order to assure compliance with program laws and regulations at all time.

Auditee Response:

Management accepted the condition and presented the following comment, been reported in its Corrective Action Plan.

Once the physical inventory has been complete, a joint effort between the purchase department and the finances office will be made to begin a segregation system to identify items purchased with federal and local funds.

Finding 15-SA-02

Federal Program:

20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:

Federal Transit Administration

Pass Through Entity:

Puerto Rico Ports Authority

Compliance Requirements:

N/A

Reporting Requirement:

Significant deficiencies in internal control over major Federal program

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

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 years audits.

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.

Findings 14-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 years audits.

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.

Current Status:
Condition still prevail. No action taken by Management.
See finding 15-FS-01

Finding 14-FS-02

Condition:

During our disbursement test, we observed in various files that the required information was incomplete. From 62 selected for examination the following deficiencies were detected:

- 7 files did not included the Pre-Intervention Official signature.
- 2 files did nor included Pre-Intervention Chief signature.
- 2 files did not included Executive Director signature.
- 7 files did not included posted stamp.
- 7 files did not included Examiner signature.
- 7 files did not included the Certification that the provider is in compliance with the Law 84 of June 18, 2002-Code of Ethics of Contractors.
- 6 files did not included the Approval signature
- 1 file did not included the certification signature.

This condition is similar as in prior years audits.

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. However, the condition still prevail.

Current Status:
Condition still prevail. No action taken by Management.

Finding 14-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 $ 7,651,542. This amount represents amounts due for payroll withholdings, utilities, workmen's compensation insurance and other related services. This condition is similar as in prior years audits.

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.

Current Status:
Condition still prevail. No action taken by Management.
See finding 15-FS-02

Finding 14-FS-04

At June 30, 2014 the Authority has accounts receivable outstanding in the amount of approximately $671,187 of which $574,616 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 $537,540 is due by public corporations or agencies of the Commonwealth of Puerto Rico. Of such balance approximately $521,638 is overdue. This condition is similar as in prior years audits.

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:

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.

Auditee Response:

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

Current Status:
Condition still prevail. No action taken by management.
See finding 15-FS-03

SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

Finding 14-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 years audits.

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.

Current Status:
Corrected

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 14-SA-01 (Material Weakness)

Federal Program:

20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:

Federal Transit Administration

Pass Through Entity:

Puerto Rico Ports Authority

Compliance Requirement:

Equipment and real property management

Reporting Requirement:

Material non-compliance in relation to a compliance requirement

Condition:

There is no physical inventory of equipment acquired with federal funds

Criteria:

Federal laws and regulations require that proper records should be maintained for all equipment acquired with federal funds. In addition a physical inventory of the equipment acquired with federal funds should be taken at least once every two years and the count is reconciled with the equipment records. This condition is similar as in prior years audits.

Cause of Condition:

Management is in the process of implementing a capital ledger record system and as part of this process will perform the physical inventory count.

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Effect of Condition:

The Authority is not in compliance with program laws and regulations.

Recommendation:

Proper controls and procedures should be established in order to assure compliance with program laws and regulations at all time.

Auditee Response:

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

Current Status:
Condition still prevail. No action taken by Management.
See finding 15-SA-01

Finding 14-SA-02

Federal Program:

20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:

Federal Transit Administration

Pass Through Entity:

Puerto Rico Ports Authority

Compliance Requirements:

N/A

Reporting Requirement:

Significant deficiencies in internal control over major Federal program

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

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 years audits.

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.

Current Status:
Condition still prevail. No action taken by Management.
See finding 15-SA-02

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.

Current Status:
Condition still prevail. No action taken by Management.
See finding 15-FS-01

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 Pre-Intervention 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 stamp.
- 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.

Current Status:
Condition still prevail. No action taken by Management.

SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

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.

Current Status:
Condition still prevail. No action taken by Management.
See finding 15-FS-02

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:

5. Institute a credit policy that includes a specific credit limit for each customer.
6. 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.

Current Status:
Condition still prevail. No action taken by Management.
See finding 15-FS-03

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.

Current Status:
Corrected

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 13-SA-01 (Material Weakness)

Federal Program:

20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:

Federal Transit Administration

Pass Through Entity:

Puerto Rico Ports Authority

Compliance Requirement:

Equipment and real property management

Reporting Requirement:

Material non-compliance in relation to a compliance requirement

Condition:

There is no physical inventory of equipment acquired with federal funds

Criteria:

Federal laws and regulations require that proper records should be maintained for all equipment acquired with federal funds. In addition a physical inventory of the equipment acquired with federal funds should be taken at least once every two years and the count is reconciled with the equipment records. This condition is similar as in prior year audit.

Cause of Condition:

Management is in the process of implementing a capital ledger record system and as part of this process will perform the physical inventory count.

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Effect of Condition:

The Authority is not in compliance with program laws and regulations.

Recommendation:

Proper controls and procedures should be established in order to assure compliance with program laws and regulations at all time.

Auditee Response:

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

Current Status:
Condition still prevail. No action taken by Management.
See finding 15-SA-01

Finding 13-SA-02

Federal Program:

20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:

Federal Transit Administration

Pass Through Entity:

Puerto Rico Ports Authority

Compliance Requirements:

N/A

Reporting Requirement:

Significant deficiencies in internal control over major Federal program

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

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.

Current Status:
Condition still prevail. No action taken by Management.
See finding 15-SA-02

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 15-FS-01

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.

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 15-FS-02

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:

7. Institute a credit policy that includes a specific credit limit for each customer.
8. 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 15-FS-03

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

SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

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:
Corrected

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 12-SA-01

Federal Program:

20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:

Federal Transit Administration

Pass Through Entity:

Puerto Rico Ports Authority

Compliance Requirement:

Equipment and real property management

Reporting Requirement:

Material non-compliance in relation to a compliance requirement

Condition:

There is no physical inventory of equipment acquired with federal funds

Recommendation:

Proper controls and procedures should be established in order to assure compliance with program laws and regulations at all time.

Current Status:

Condition still prevail

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 12-SA-02

Federal Program:

20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:

Federal Transit Administration

Pass Through Entity:

Puerto Rico Ports Authority

Compliance Requirements:

N/A

Reporting Requirement:

Significant deficiencies in internal control over major Federal program

Condition:

See Finding 12-FS-02. This finding relates to a material weakness in internal control over a major Federal program that is required to be reported under OMB Circular A-133.

Current Status:
Condition still prevail

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 11-SA-01

Federal Program:
20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:
Federal Transit Administration

Pass Through Entity:
Puerto Rico Ports Authority

Condition:

During the year ended June 30, 2012 the Authority issued a check in the amount of $320,353 to a supplier for the acquisition of certain spare parts. However as of the date of this report the spare parts have not being received.

Questioned costs:

As originally stated	*Actual*
$ 320,353	*$ 113,586*

Recommendation:

Controls and procedures should be established that prohibit the use of federal funds to pay for goods or services that has not being received at the time of the payment. In addition management should prepare the list of the spare parts to be ordered in order to receive such parts in the near future.

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 11-SA-01 (Continued)

Status of Corrective Action:

- During 2013, after communications with the spare parts supplier, management received $206,767 in spare parts which were assigned to the repair and maintenance of the ferries originally identified. Still prevail a remaining balance of $113,586.

- During 2015, upon a review of the whole transaction documents, management determined that the Total Questioned Cost should be $419,123 instead of $320,353 as originally stated and adjusted the related book accounts. Management presented this evidence for our examination. After an additional $2,503 audit adjustment, the book balance, presented as other liability in the Statement of Net Position, remains as follows:

  Questioned Cost:

As originally stated	$320,353
Adjustments:	
2013 – Decrease	(206,767)
2015 – Increase	101,273
Actual balance	$ 214,859

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS
Finding 11-SA-01 and 10-SA-05

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:
- Last physical count was performed in fiscal year 2002.
- Inventory has never been recorded in the Authority's financial statements.
- Inventory is stored in the warehouse, but some parts are not well organized.
- 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.

Status of Corrective Action:

Resolved _FTA December 11, 2015 Communication

Finding partially corrected. During the year the Authority performed a physical count of the spare parts during the months of July and August 2012. However the Authority has been unable to determine the cost of the spare parts in accordance with accounting principle generally accepted in the United States of America. Therefore a similar finding was reported during this year. See finding 15-SA-02.

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 10-SA-01

Federal Program:

20.507 Federal Transit Administration Capital and Operating Assistance Formula Grants

Federal Grantor:

Federal Transit Administration

Pass Through Entity:

Puerto Rico Ports Authority

Condition:

During the year ended June 30, 2010, the Authority requested federal funds for the acquisition of certain spare parts to be used in repairs and maintenance of the ferries. Then when the funds were received, they were used for the payment of a debt related to the acquisition of a ferry and not for the purchase of the spare part as approved.

Recommendation:

Controls and procedures should be established to assure that federal funds are used as approved and federal program compliance requirements is always adhered to.

Questioned Costs:

As originally stated	*Actual*
$ 320,353	*$ 113,586*

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 10-SA-01 (Continued)

Status of Corrective Action:

Management position is that although the funds were not used for the approved purpose it was used in allowable activity. Therefore management is in the process of discussing this finding with US Department of Transportation (US DOT) and is waiting for his final determination.

- During 2013, after communications with the spare parts supplier, management received $206,767 in spare parts which were assigned to the repair and maintenance of the ferries originally identified. Still prevail a remaining balance of $113,586.

- During 2015, upon a review of the whole transaction documents, management determined that the Total Questioned Cost should be $419,123 instead of $320,353 as originally stated and adjusted the related book accounts. Management presented this evidence for our examination. After an additional $2,503 audit adjustment, the book balance, presented as other liability in the Statement of Net Position, remains as follows:

  Questioned Cost:

As originally stated	$ 320,353
Adjustments:	
2013 – Decrease	(206,767)
2015 – Increase	101,273

Actual balance	$ 214,859