

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE MANATÍ
AUDITORÍA 2014-2015
30 DE JUNIO DE 2015**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SINGLE AUDIT REPORT
JUNE 30, 2015
(INDEPENDENT AUDITOR'S REPORT)**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SINGLE AUDIT REPORT
JUNE 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And Municipal Legislature
Municipality of Manatí
Manatí, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Manatí of the Commonwealth of Puerto Rico ("the Municipality") as of end for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the 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 to the preparation and fair presentation of financial statements that are free from material misstatements, 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 considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion in the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Municipality of Manatí, of the Commonwealth of Puerto Rico, as of June 30, 2015, and the respective changes in financial position 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 United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-11 and 47-48 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 considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 I obtained during my audit of the basic financial statements. I 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.

Also the U.S. Department of Housing and Urban Development, Real State Assessment Center (REAC) is presented (separate report) for purposes of additional analysis 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Municipality's basic financial statements. *The combining and individual non-major fund financial statements and schedule of expenditures of federal awards, as required by office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations and the other information, such as the introductory and statistical section* are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis and budgetary comparison information it's the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In my opinion, the *management's discussion and analysis and budgetary comparison information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The combining and individual non-major fund financial statements and schedule of expenditures of federal awards has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

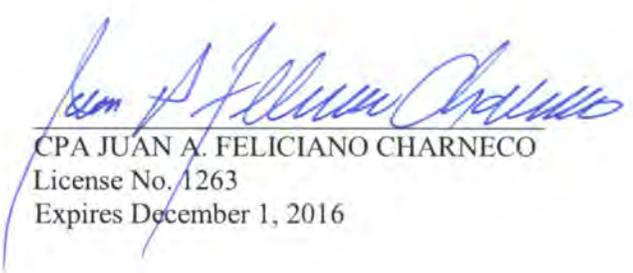
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016 on our consideration of the Municipality's internal control over financial reporting and on my 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 my 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 Municipality's internal control over financial reporting and compliance.

Arecibo, Puerto Rico
March 31, 2016

The stamp number E 189 134
was affixed to the record
original report.




CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

My Management's Discussion and Analysis (MD&A) of the Commonwealth of Puerto Rico Municipality of Manatí (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2015. The MD&A should be read in conjunction with the transmittal letter on page 14 and the Municipality's financial statements, which begin on page 15. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended June 30, 2015. This MD&A is prepared in order to comply with such pronouncement and to provide the financial statements users with major information.

This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of GASB 34, and it has been designed accordingly with the following goals:

- a. Assist the reader in focusing on significant financial issued,
- b. Provide an overview of the Municipality's financial activity,
- c. Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d. Identify any material deviations from the financial plan (the approved budget), and
- e. Identify individual fund issues or concerns.

Management of the Municipality's, provides these MD&A for the reader of the Municipality's basic financial statements. This narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015, and is intended to provide an easily readable explanation of the information provided in the attached basic financial statement. We encourage readers to consider this information with the Municipality's basic financial statements that follow.

The Commonwealth of Puerto Rico during the last five years presents a stagflation, together with an increasing in the unemployment rate and stagnant in business activity. Continuous increase in the price of good and cost living affects all municipalities of Puerto Rico.

In spite of the difficult economic situation during fiscal year 2014-2015 and the budgetary deficit that the island of Puerto Rico has run through, our administration has continued offering quality services to citizens of the Municipality thanks to the Atenas Tax (Sales Tax) which has been crucial support to our economy and our managerial decisions. With the Atenas tax revenues we have been able to continue or services to the communities and performed new improvements to the Solid Waste Disposal Services, to the Senior Center, to the Community Center, electrical Work and others.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL HIGHLIGHTS

- The Net position of the Municipality Government exceeded its liabilities at the close of the current fiscal year by \$48 million net position.
- Revenues were \$9.5 million less than last year, while expenses were \$10.9 more than last year as reported in the Statements of Activities.
- The actual revenues were \$3.3 million under and expenditures were \$2.3 less creating an excess of \$967,895 of expenditures over the revenues in the Budgetary Schedule mainly due to favorable variances in revenues reflected in Volume of Business Taxes and Excise tax.
- As June 30, 2015 the Municipality's General Fund (the primary operating fund) reported a fund balance (deficit) of 49.4 million creating a decrease by \$580,405 when compare to prior year.
- Loans principal payments were \$3 million during fiscal year 2014-15.
- The Municipality government fund reported combined ending fund balances by \$10.9 million in the accompanying statement of revenues, expenditures and changes in fund balances.
- The Municipality has reported unassigned fund balance deficit for the general fund amounting \$9.4 million.

New Requirements for the Financial Reporting

The new approach on the preparation of the Municipality's financial statements emphasizes on a government wide (consolidated) view of its financial operations. Nevertheless major individual funds are presented and evaluated in all of its details. Simultaneous implementation of both of these perspectives allows user to address relevant questions about the municipality's performance and provides a basis for comparisons and evaluation of services quality.

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior year data. However, in future years, comparisons will be more meaningful and will provide a better understanding of the municipality's financial position and results of its operations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Statements Components

The basic financial statement consist of government wide financial statements, the major individual funds financial statement, and notes to the financial statements that provides more details.

Governmental-wide financial statements - The government-wide financial statements which begin on page 15 of this report are designed to provide users with a broad overview of the Municipality's finances, in a manner similar to a private-sector business. The government wide statements provide short and long term information about the municipality's status as a whole.

The Statement of Net Position reports information of the municipality as a whole. Increase or decrease of net position may serve as an indicator of whether the municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of Activities is focused on both the gross and net cost of various activities, which are supported by the Municipality's property tax, municipal licenses tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including police, public works, solid waste disposal, community services, and general administration. Property tax, municipal license tax, state and federal appropriations finance most of the services.

The Statement of Net Position and the Statement of Activities, on page 16, report the Municipality net position and changes in them. One can analyze of the Municipality's net position, as the difference between assets, liabilities and deferred inflows of resources, as one way to measure the Municipality's financial position. Over time increase or decreases in the Municipality's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered, such as changes in the Municipality's property tax base, and the condition of roads, total assess present the overall health of the Municipality of Manatí.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Major Governmental Funds presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental funds statement provides a detailed short-term view of the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement.

Notes to the Basic Financial Statements - The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Required Supplementary Information – The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

Infrastructure Assets

The Municipality implemented the major model portions of GASB statement 34 during the prior years. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statement. The new statement required that these assets be valued and reported within the Governmental column of the Governmental Wide Statement.

Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets management system, which periodically, by category, measures and demonstrate its maintenance system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

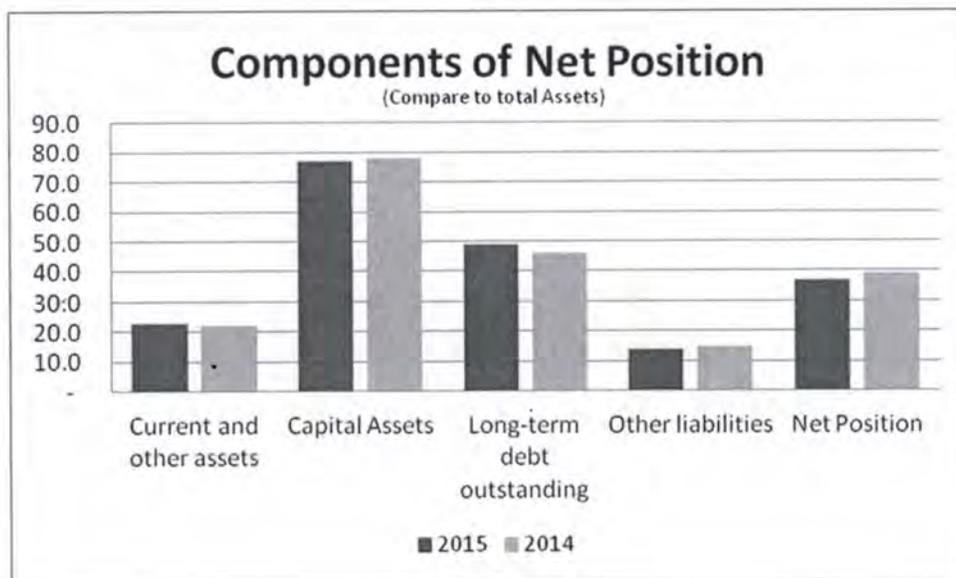
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Government-Wide Financial Analysis
Statements of Net Position*

The Statement of Net Position reports information of the municipality as a whole. Increase or decrease of net position may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$48 million at the close of the recent fiscal year compared to \$46.2 at end of previous year, as restated and showed in the following the condensed Statement of Net Position of the Primary Government.

**Statements of Net Position
As of June 30, 2015 and 2014**

	2015	2014	Changes	%
Current and other assets	\$ 28,168,646	\$ 28,066,352	\$ 102,294	0%
Capital assets net	100,357,828	91,877,696	2,728,114	3%
Total assets	128,526,474	119,944,048	2,830,408	2%
Current and other liabilities	7,090,205	8,658,437	(1,568,232)	-18%
Long-term liabilities	62,697,905	55,291,929	7,405,976	13%
Total liabilities	69,788,110	63,950,366	5,837,744	9%
Deferred inflows of resources	10,671,299	9,765,641	905,658	9%
Net position:				
Invested in capital assets,	45,543,414	53,353,066	(7,809,652)	-15%
Restricted for debt service	2,893,246	3,557,529	(664,283)	-19%
Other purposes	17,520,201	9,495,163	8,025,038	85%
Unrestricted (deficit)	(17,889,796)	(20,177,717)	2,287,921	-11%
Total net position	\$ 48,067,065	\$ 46,228,041	\$ 1,839,024	



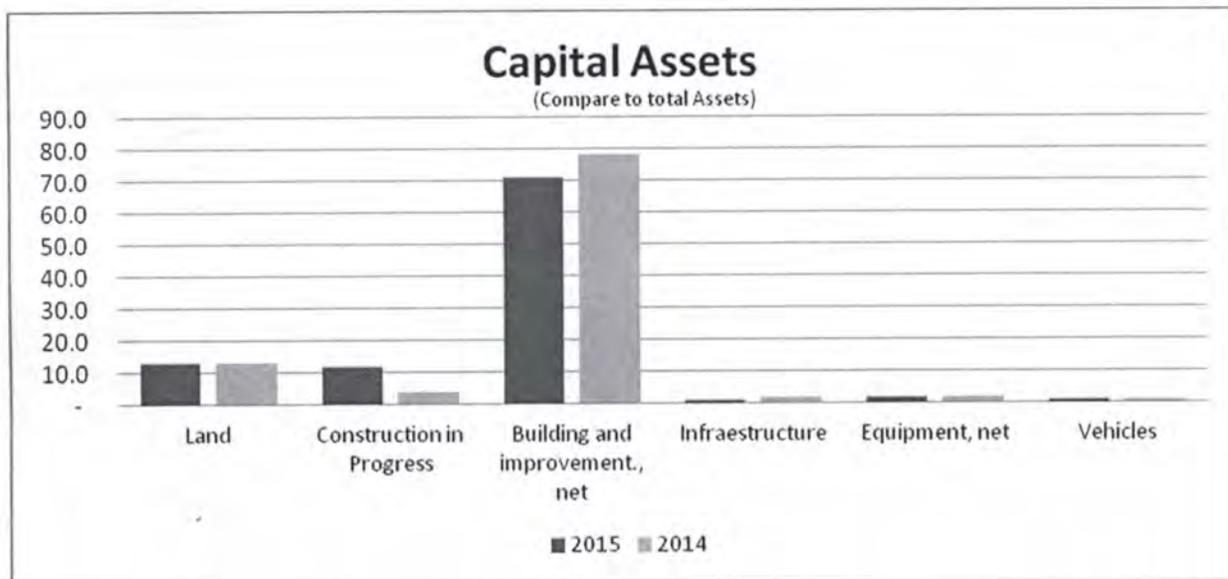
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The increase of \$1.8 million in current net position was mainly due to increase in capital net asset with fiscal agent by \$2.7 million. Capital assets increased by \$8.2 million principally for Construction in progress.

Current liabilities decrease by \$1.5 million caused by an increase of due to special revenue funds. Long-term liabilities increase by \$7.4.

Increase- (Decrease) Net in Capital Assets was as follows:

	June 30, 2015	%	June 30, 2014	%	Change
Land	\$ 12,425,200	13%	\$ 12,425,200	13%	\$ -
Construction in progress	12,149,738	12%	3,897,560	4%	8,252,178
Building and improvements, net	70,878,744	71%	70,306,100	78%	572,644
Infrastructure	1,402,110	1%	1,602,447	2%	(200,337)
Equipment, net	2,264,387	2%	2,206,467	2%	57,920
Vehicles	1,237,649	1%	1,349,922	1%	(112,273)
Total Net Capital Asset	\$ 100,357,828		\$ 91,787,696		\$ 8,570,132



The net building improvements represent 55 percent and 70 percent of total assets and net capital asset respectively. Construction in progress represents 3 percent of total assets and 4 percent of net capital assets. The construction in progress \$8.2 million when compared to prior year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following reflects the condensed Statements of Activities of the Primary Government:

**Statements of Activities
For the year ended June 30, 2014 and 2015
Changes in Net Position**

	2015	2014	Changes	%
General Revenues	\$ 44,424,060	\$ 34,883,131	\$ 9,540,929	27%
Program Revenues	14,495,474	9,998,455	4,497,019	45%
Total Revenues	58,919,534	44,881,586	14,037,948	31%
Expenses				
Governmental activities	(57,080,509)	(46,127,477)	(10,953,032)	24%
Changes in net position	\$ 1,839,025	\$ (1,245,891)	\$ 3,084,916	-248%

The Statement of Activities reflects for fiscal year 2015, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to an increase of \$3 million in the Municipality's net position, due to a increased in program revenues of \$10 million that was compensated by a increase in expenditures of \$10.9 million. Approximately 38% percent of the Municipality's total revenues came from taxes, while 24 percent resulted from Federal grants and 32 percent resulted from Intergovernmental Revenues. The Municipality's expenses cover a range of services like health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and improvements. The largest expenses were for general government, public works, education and training and culture and recreation besides capital outlays of \$11.4 million. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

A brief review of the Statements of Activities of the Municipality at June 30, 2015, shows total expenses incurred to afford the cost of all functions and programs amounted to \$57.1 million. Upon examining the sources of revenues for the financing of the programs, the Statement reflects that the following; \$9.6 million from operating grants and contributions; and \$4.5 million from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$44.4 million. There was a change in net position \$3. Expenses increased by \$10 million or 19 percent when compared to prior year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

The following reflects the condensed Balance Sheets of the Governmental Funds:

**Governmental Funds
Balance Sheets
June 30, 2015 and 2014**

	2015	2014	Changes	%
Assets:				
Cash	\$ 9,408,294	\$ 8,102,990	\$ 1,305,304	16%
Restricted cash	16,006,752	17,575,053	(1,568,301)	-9%
Accounts receivable	7,982,588	7,929,955	52,633	1%
Total Assets	\$ 33,397,634	\$ 33,607,998	\$ (210,364)	-1%
Liabilities and fund balance				
Liabilities:				
Accounts payable and due to other funds	\$ 11,801,593	\$ 13,862,653	(2,061,060)	-15%
Deferred inflows of resources	10,671,299	9,765,641	905,658	9%
Total Liabilities	22,472,892	23,628,294	\$ (1,155,402)	-5%
Fund balances	10,924,742	9,979,704	945,038	9%
Total liabilities and fund balances	\$ 33,397,634	\$ 33,607,998	\$ (210,364)	-1%

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality's most significant funds and is particularly related to the local government only instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities.

During 2015 the Municipality had \$16 million for cash restricted and accounts receivable increase by \$ 52,623 when compared to prior year. Accounts payable decreased by \$2 million. Deferred inflows of resources increased by \$905,658.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2015 and 2014**

	2015	2014	Changes	%
Revenues:				
Property taxes	\$ 10,372,030	\$ 10,818,879	\$ (446,849)	-4%
Volume of business tax	10,505,384	9,489,785	1,015,599	11%
Intergovernmental revenue	19,112,003	9,152,184	9,959,819	109%
Federal grants	14,495,474	9,998,455	4,497,019	45%
Sales tax	1,637,764	2,002,409	(364,645)	-18%
Other	2,853,833	2,023,278	830,555	41%
Total Revenues	\$ 58,976,488	\$ 43,484,990	\$ 15,491,498	36%
Expenditures:				
General government	\$ 31,748,684	\$ 17,515,047	\$ 14,233,637	81%
Public works	2,062,318	4,435,002	(2,372,684)	-53%
Public safety	5,313,911	4,970,782	343,129	7%
Health	2,570,837	2,630,101	(59,264)	-2%
Capital outlays	11,435,775	4,689,089	6,746,686	144%
Bonds, principal and interest	5,809,001	5,693,512	115,489	2%
Education and training	7,322,625	4,204,232	3,118,393	74%
Other expenditures	2,438,301	7,118,766	(4,680,465)	-66%
Total Expenditures	\$ 68,701,452	\$ 51,256,531	\$ 17,444,921	34%
Excess of revenues (expenditures)				
Over expenditures (revenues)	\$ (9,724,964)	\$ (7,771,541)	\$ (1,953,423)	25%
Fund Balance, ending	\$ 10,942,964	\$ 11,044,012	\$ (101,048)	-1%

The most significant changes of this statement were as follows:

- Revenues from property tax decreased by \$446,849 due to decrease in property tax in the amount collected relate to property tax. The increase in Intergovernmental revenue of \$9.9 million was the result of the received funds in prior year from Central Government of Puerto Rico. Revenue from volume of business tax declaration increased by \$1 million.
- Total expenditures increase by approximately \$17.4 million when compare to prior year. The Capital outlays expense increased 6.7 million when compared to prior year. General Government expense increased by 14.2 million. All other expenses decreased by \$4.6.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have established a limitation for the issuance of general obligation municipal bonds and note for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable laws and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption fund and the annual amounts collected with respect to such municipality's Special Additional Tax, as projected by the Government Development Bank of Puerto Rico, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable laws and regulations to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central governmental of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative, which has 13 members, exercises legislative power.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Economic Factors and Next Year Budget

The Municipality provides a full range of services including public works, education Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

The municipality has an industrial base, large pharmaceuticals, wholesalers, retail stores, financial institutions, restaurants, hospitals and hotels among others. In the past month of January 2015 was held the laying of the foundation stone of the company Romark laboratories. The company is dedicated to the development of drugs and pharmaceuticals products. An estimated investment of 60 million will be necessary for the project that will generate 660 new direct employees and 540 indirect employees. We continue investigating of new infrastructure to stimulate the investment of new business.

A school of Fine Arts will be built, with an estimated cost of \$480,000. It will consist of multipurpose halls, which will be used for drawing workshops, computer, exhibitions and civic activities. The central space will serve as a hall and a library, in addition will have an outdoor patio for activities.

Improvements will be made to the most important water system of the municipality. The project has all required legal permits. The investment of the project is \$500,000. Investment to Canto Marino at a cost of \$198,000.

The Municipality has future projects in development that include the following:

Contacting the Municipality's Financial Management

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Finance Director.

Finance Director, Address: 10 Calle Quiñones, Manatí, Puerto Rico 00674
Telephone (787) 854-2024, Ext. 4012/4013 Fax: (787) 854-1600
E-mail arandomiranda12@gmail.com

MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENT OF NET POSITION
JUNE 30, 2015

<u>ASSETS</u>	Governmental Activities	Atenas Community Health Center, Inc
Cash and investments	\$ 9,408,294	\$ 150,431
Cash with fiscal agent and other	16,006,752	-
Accounts receivable from federal government	1,034,566	-
Accounts receivable other (municipal sales tax)	529,144	-
Accounts receivable government	1,170,751	-
Accounts receivable other	-	650,876
Inventory	-	193,447
Other asset	19,140	-
Capital Assets, net of accumulated depreciation	100,357,828	82,508
Total assets	\$ 128,526,474	\$ 1,077,262
 <u>LIABILITIES, DEFERRETED INFLOWS OF RESOURCES AND NET POSITION</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 984,795	\$ 517,144
Accrued interest	1,474,194	-
Due to government entity	1,398,375	984,957
Noncurrent liabilities:		
Due within one year	3,232,841	-
Due in more than one year	62,697,905	-
Total liabilities	69,788,110	1,502,101
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
<i>Unavailable Revenue-Tax Volume of Business</i>	9,370,197	-
<i>Unavailable Revenue- Federal funds</i>	1,301,102	-
	<u>10,671,299</u>	<u>-</u>
 <u>NET POSITION</u>		
Invested in capital	45,543,414	-
Restricted for:		
Debt service	2,893,246	-
Capital project activity	17,520,201	-
	-	-
Unrestricted (deficit)	(17,889,796)	(424,839)
Total Net Position	48,067,065	(424,839)
Total liabilities and Net Position	\$ 128,526,474	\$ 1,077,262

See notes to financial statements.

**MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (expense) revenue and change in Net Assets	
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Atenas Community Health Center, Inc
<u>EXPENDITURES:</u>						
General government	\$ 32,339,810	\$ (56,954)	\$ (4,527,704)	\$ (1,004,670)	\$ 26,750,482	
Public works	7,202,567	-	-	-	7,202,567	
Public safety	2,351,972	-	-	-	2,351,972	
Health	2,632,905	-	-	-	2,632,905	
Culture and recreation	2,562,437	-	-	-	2,562,437	
Education and training	7,322,625	-	-	(8,963,100)	(1,640,475)	
Interest and fiscal charges	2,725,147	-	-	-	\$ 2,725,147	
Total governmental activities	\$ 57,137,463	\$ (56,954)	\$ (4,527,704)	\$ (9,967,770)	\$ 42,585,035	\$ -
Component Units:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Atenas Community Health Center, Inc	12,898,888	(10,266,301)	-	(2,066,386)	-	(566,201)
Total Component Activities	\$ 12,898,888	\$ (10,266,301)	\$ -	\$ -	\$ -	\$ (566,201)
<u>GENERAL REVENUES:</u>						
Property taxes					\$ 10,372,030	\$ -
Municipal licenses tax					10,505,384	-
Licenses, permits and fines					1,724,715	-
Intergovernmental revenues					19,112,003	-
Rent of properties					141,700	-
Interests income					617,286	-
Municipal sales tax					1,637,764	-
Other Revenues					313,177	-
Total general revenues					44,424,060	-
Changes in net assets					1,839,024	(566,201)
Net assets at beginning of year					46,413,528	(825,671)
Prior period adjustment (Note 18)					(185,487)	967,033
Beginning balance restated					46,228,041	141,362
Net assets at end of year					\$ 48,067,065	\$ (424,839)

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS							
Cash and investments	\$ 3,513,804	\$ -	\$ 596,095	\$ 248,205	\$ -	\$ 5,050,190	\$ 9,408,294
Cash with fiscal agent and other	-	8,924,071	-	-	7,082,681	-	16,006,752
Accounts receivable from federal government	-	-	268,496	669,273	-	96,797	1,034,566
Accounts receivable from government	1,170,751	-	-	-	-	-	1,170,751
Accounts receivable (municipal sales tax)	529,144	-	-	-	-	-	529,144
Due from other funds	717,226	2,402	-	341,274	-	4,168,086	5,228,988
Other asset	-	-	5,981	4,649	-	8,510	19,140
Total assets and other debits	\$ 5,930,924	\$ 8,926,473	\$ 870,572	\$ 1,263,401	\$ 7,082,681	\$ 9,323,583	\$ 33,397,634
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 558,480	\$ 26,025	\$ 51,104	\$ 344,023	\$ -	\$ 5,163	\$ 984,795
Due to special revenue funds	4,092,577	359,211	370,807	139,514	-	266,879	5,228,988
Due to government entities	1,398,375	-	-	-	-	-	1,398,375
Bond, notes and interest	-	-	-	-	4,189,435	-	4,189,435
Total liabilities	6,049,432	385,236	421,911	483,537	4,189,435	272,042	11,801,593
Deferred inflows or Resources							
Unavailable Revenue - Volume of Business Tax	9,370,197	-	-	-	-	-	9,370,197
Federal Funds	-	-	335,065	779,381	-	186,656	1,301,102
Total deferred Inflows of Resources	9,370,197	-	335,065	779,381	-	186,656	10,671,299
Fund balances							
Restricted for:							
Debt Services	\$ -	\$ -	\$ -	\$ -	\$ 2,893,246	\$ -	2,893,246
Capital project activity or other purposes	-	8,541,237	113,596	483	-	8,864,885	17,520,201
Unassigned	(9,488,705)	-	-	-	-	-	(9,488,705)
Total fund balances	(9,488,705)	8,541,237	113,596	483	2,893,246	8,864,885	10,924,742
Total liabilities and fund balance	\$ 5,930,924	\$ 8,926,473	\$ 870,572	\$ 1,263,401	\$ 7,082,681	\$ 9,323,583	\$ 33,397,634
	\$ 0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET NET ASSETS:

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ 10,924,742
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	100,357,828
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Legal cases	\$ 107,600
Accrued compensated absences	2,571,583
Bonds payable	60,643,922
Total long-term liabilities	\$ 63,215,505
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 48,067,065

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:							
Property taxes	\$ 7,301,507	\$ -	\$ -	\$ -	\$ 3,070,523	\$ -	\$ 10,372,030
Municipal license tax	10,505,384	-	-	-	-	-	10,505,384
Licenses, permits, fines and sales tax	368,760	-	-	-	-	1,355,955	1,724,715
Intergovernmental revenues	5,666,415	38,463	-	810	-	13,406,315	19,112,003
Rent of properties	98,548	2,726	-	-	-	40,426	141,700
Interest income	608,083	-	-	-	8,373	830	617,286
Other revenues	274,995	-	-	18,053	-	77,083	370,131
Municipal sales Tax	670,274	-	-	-	967,490	-	1,637,764
Federal financial award	-	-	4,527,704	8,963,100	-	1,004,670	14,495,474
Total revenues	25,493,967	41,189	4,527,704	8,981,963	4,046,386	15,885,279	58,976,488
EXPENDITURES:							
Current:							
General government	12,586,228	157,004	2,659,339	1,658,855	-	14,687,255	31,748,681
Public safety	2,062,319	-	-	-	-	-	2,062,319
Public works	3,494,631	-	1,327,134	-	-	492,146	5,313,911
Health	2,570,837	-	-	-	-	-	2,570,837
Capital outlays	750,281	10,685,494	-	-	-	-	11,435,775
Culture and recreation	2,350,935	-	-	-	-	87,365	2,438,300
Education and training	-	-	-	7,322,625	-	-	7,322,625
Debt service:							
Principal retirement	-	-	-	-	3,083,854	-	3,083,854
Interest and fiscal charges	-	-	-	-	2,725,147	-	2,725,147
Total expenditures	23,815,231	10,842,498	3,986,473	8,981,480	5,809,001	15,266,766	68,701,449
Excess of revenues over (under) expenditures	1,678,735	(10,801,309)	541,231	483	(1,762,615)	618,513	(9,724,962)
Other financing sources (uses):							
Transfer in (out) from other fund	(1,102,161)	-	(559,553)	-	1,661,714	-	-
Transfer in (out) from other fund	3,831	-	-	-	(3,831)	-	-
Net proceeds from issued debt	-	10,670,000	-	-	-	-	10,670,000
Total other financing sources (uses)	(1,098,330)	10,670,000	(559,553)	-	1,657,883	-	10,670,000
Excess of revenues and other sources over (under) expenditures and other uses	580,405	(131,309)	(18,322)	483	(104,732)	618,513	945,038
Net change in fund balance	580,405	(131,309)	(18,322)	483	(104,732)	618,513	945,038
Fund balance June 30, 2014 (deficit)	(10,681,227)	8,672,546	131,918	79,908	3,557,529	9,283,337	11,044,011
Prior period adjustment (Note 18)	612,117	-	-	(79,908)	(559,551)	(1,036,965)	(1,064,307)
Beginning balance restated	(10,069,110)	8,672,546	131,918	-	2,997,978	8,246,372	9,979,704
Fund balance June 30, 2015 deficit)	\$ (9,488,705)	\$ 8,541,237	\$ 113,596	\$ 483	\$ 2,893,246	\$ 8,864,885	\$ 10,924,742

See notes to financial statements.

MUNICIPALITY OF MANATI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Net change in fund balance - total governmental funds \$ 945,038

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities the cost of those assets is allocated
over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	11,435,775	
Less: current year depreciation	<u>(2,955,643)</u>	8,480,132

The issuance of long-term debt (e.g., bonds, leases) provides current
financial resources to governmental funds, while the repayment of the
principal of long-term debt consumes the current financial resources
of governmental funds. Neither transaction, however, has any effect
on net assets.

Principal payments	<u>3,083,854</u>	3,083,854
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Revenues and expense for wide financial statements purpose only:

Accrued expense	
Other financing sources (Other sources)	<u>(10,670,000)</u>
Change in net assets of governmental activities	<u><u>\$ 1,839,024</u></u>

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Property taxes	\$ 953,255	\$ 953,255	\$ 953,255	\$ 0
Municipal license tax	11,162,000	\$ 11,162,000	10,309,192	(852,808)
Intergovernmental revenues	5,717,533	\$ 5,717,533	5,666,415	(51,118)
Licenses, permits and fines	1,365,000	\$ 1,365,000	368,760	(996,240)
Rent of properties	147,200	\$ 147,200	98,548	(48,652)
Interest income	650,000	\$ 650,000	611,914	(38,086)
Municipal Sales Tax	450,000	\$ 450,000	-	(450,000)
Other	1,165,000	\$ 1,165,000	274,995	(890,005)
Other financial source	6,072,001	\$ 6,072,001	6,072,001	-
Total revenues	\$ 27,681,989	\$ 27,681,989	\$ 24,355,081	\$ (3,326,908)
EXPENDITURES:				
Current:				
General government	\$ 13,022,623	\$ 14,090,587	\$ 12,684,508	\$ 1,406,079
Public safety	2,647,774	2,428,774	2,278,089	150,685
Public Works	4,549,971	3,843,720	3,608,027	235,693
Health	2,755,110	2,722,110	2,580,863	141,247
Culture and recreation	3,022,023	2,774,843	2,627,143	147,700
Other Expenditures	581,488	718,955	442,185	276,770
Transfer to debt service	1,103,000	1,103,000	1,102,161	839
Total expenditures	\$ 27,681,989	\$ 27,681,989	\$ 25,322,976	\$ 2,359,013
Excess of revenues over (under) expenditures			\$ (967,895)	(967,895)
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 24,355,081
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				1,489,894
Revenues reported for budget purpose only				(351,308)
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				<u>\$ 25,493,667</u>
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 25,322,976
Differences - budget to GAAP:				
Non budgeted expenditures				(405,584)
Other expenditures not for financial reporting				- 1,102,161
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				<u>\$ 23,815,231</u>

See notes to budgetary comparison schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. The **Municipality of Manatí (The Municipality)** was founded in 1881. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of thirteen (13) assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of the **Municipality** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations), constitute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted for the fiscal year ended June 30, 2003. In addition to this Statement, GASB Statement NO. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

The Municipality adopted the provisions of GASB Statement NO. 55, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement NO.56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes accounting principles-related party transactions, going concern considerations, and subsequent events.

In fiscal year 2012, the Municipality adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The implementation of this statement had no impact on the total fund balances for the Municipality's governmental funds.

The GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

In the fiscal year 2013, the Municipality adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, establishing a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Municipality's financial statements was the remaining of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b. Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of the **Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 61, - *The Financial Reporting Entity (Omnibus and amendment of GASB statement No. 14 and 34)*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government under certain circumstances. The basic, but not the only criterion for including a potential component unit within the reporting entity is if a primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the Municipality does not have a component unit to include within its reporting entity.

The reporting entity is composed of the primary government and its component unit, which is included to ensure the financial statements, is not misleading.

The Municipality's management has concluded that, based on the aforementioned criteria, the Atenas Community Health Center, Inc. is a legally separate entity that should be reported as component unit of the Municipality for the fiscal year ended June 30, 2015.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Discretely Presented Component Units

The following discretely presented component unit is in basic financial statement because the nature of the services they provide and the Municipality's ability to impose its will.

Atenas Community Health Center (ACHH), Inc. was incorporated under the laws of the Commonwealth of Puerto Rico in 2009 as a non-profit corporation. It was constituted by the Autonomous Municipality of Manatí for which its main role is to establish the public primary health cover services to its citizen and neighborhood area. It is a comprehensive primary care ambulatory, supplemental and environmental health services to the medically underserved residents in the Municipality of Manatí, Puerto Rico. The PRHD Health reform revenues consist of capitation revenues received through an HMO based on the number of portions who select the institution as their primary care center.

Basis of accounting- The financial statements of the Institution have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of presentation – Financial statements presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standard Code (ASC 958-210 (formerly Statement of Financial Accounting Standards (SBAS) No. 117), Financial Statements of Non-for-Profit Organizations. Under FASB ASC 958-210, the institution is required to report information regarding its financial position and activities.

Financial Statement Presentation- Financial statements presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standard Code (ASC 958-210 (formerly Statement of Financial Accounting Standards (SBAS) No. 117), Financial Statements of Non-for-Profit Organizations. Under FASB ASC 958-210, the institution is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that should be maintained permanently by the Institution. Generally, the donors of such assets permit the institution to use all or part of the income earned on the assets.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may be fulfilled by actions of the Institutions pursuant to those stipulations or that expire by the passage of time.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. Revenues from sources other than contribution are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purposes has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Net patient service revenue – ACHC has agreements with third-party payers that provide for payments to ACHC at different amounts from its established rates. Payment arrangements include different amounts from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursement cost, discounted charges and per diem payments. Net patient services revenues are reported at the estimated net realizable amount from patients, third-party payers and others for services provided and are recognized in the period in which ACHC is obligated to provide services to members.

Health Care services provided to Medicare beneficiaries through Home Care Program are paid at prospectively determined rates per discharge. These rates vary according to the patient system classification that is based on health condition and care needs.

Health Care Cost Recognition - ACHC contracts with various healthcare providers for certain medical care services provided to its members. Operating expenses include all amounts incurred by ACHC under the aforementioned contracts. The cost of other health care services provided or contracted for are accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported (IBNR) to ACHC.

Incurred But Not Reported Claims (IBNR) - In regard to prepaid health care contract, medical services and medicine cost are recognized as they occur and not as they are reported to the HMO's. Because of this basis recognition, unpaid claims are reported as incurred but not recorded by the HMO's. On the other hand, reported claims are those incurred and paid by the HMO's.

The incurred but not reported (IBNR) claims are those medical costs that have been provided but have not been yet paid. Unpaid claims are estimated based on historic data, trends and other statistical information. The Health Department is the single state agency designated to administer medical assistance in Puerto Rico under Title XIX of the Social Security Act of 1935, an amended, and is charged with ensuring the appropriate delivery of health care services under Medicaid and the Children's Health Insurance Program ("CHIP") in Puerto Rico. The Puerto Rico Health Insurance Administration ("ASES") manages these programs pursuant a 1993 interagency collaborative agreement. Triple-S and PMC Medicare Choice, LLC ("MMM") assign ACHC a capitation based on a per member per month basis.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

The capitation is then allocated by the managed care organizations amongst different “Funds.” Each “Fund” represents a particular scope of covered medical services. ACHC provider contracts with Triple-S and MMM provides that each fund will be reconciled by the managed care organization on a monthly basis. And, “[i]f the reconciliation results in a deficit it will be offset from the Primary Care Fund, because federal Medicaid law specifies the way they are to be reimbursed and sets a floor for payment. As of June 30, 2015, the IBNR balance of the reserve activity was estimated in \$3,158,461 was eliminated against the revenue recorded, because ACHC administrations do not recognize the liability based on 100% reimbursement provided by Medicaid Law.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrued Expenses:

The Institution accrued the following expenses:

Compensated absences and other benefits	105,671
Rent Payable Municipality of Manati	840,000
Total Accrued Expense	\$ 945,671

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax:

The organization is exempt from Puerto Rico Income Taxes under the provisions of Section 1101.01(a)(2) of the Puerto Rico Internal Revenue Code of 2011, as amended. The Organization receipt approval of exemption from United States income taxes under section 501(c)(3) was approved on November 21, 2014. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. If applicable, income from unrelated business activities would be taxable; however, no such income was earned by the Organizations during the year ended June 30, 2015.

In – kind contributions:

In-kind contributions from the Autonomous Municipality of Manatí are reflected as contributions at their estimated fair market value at the date of receipt.

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Vacations and Sick Leave:

Employees are entitled to 15 days of vacation and 12 days of sick leave annually. Sick leave is not accrued because it does not vest; employees are not paid for any sick leave balance at termination of employment or any other time. At June 30, 2015 the accrued vacations of \$63,854, were included as accrued payroll taxes and benefits in the statement of financial position.

(13) Legal Claims:

The Institutions is a party to litigation and other claims in the ordinary course of business. In the opinion of management, appropriate provision has been made for such claims and the ultimate resolution of these matters will not have a significant effect on financial statements of the Institution.

c. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates de degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying GFFS:

General Fund – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Bonds Issue Fund – is a major governmental used to account for and report the proceeds of bonds and notes that are legally restricted or committed to expenditure to specified purposes and for the capital projects.

HUD Programs Fund – is a major governmental fund used to account for and report the proceeds of specific revenue sources related with federal grants from the Department of Housing and Urban Development. These grants are legally restricted for expenditure for specified purposes.

Health Start Program – is a major governmental fund used to account for an report the proceeds of specific revenue sources related with federal grants from the Department of Health and Human Services. These grants are legally restricted for expenditure for specified purposes.

Debt Service Fund – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

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1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying statement of net position. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Other Funds (non major funds) – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements, which are not financed by other funds. The other governmental fund of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

4. The notes to the financial statements provide information that is essential to a users understanding of the basic financial statements.
5. Required Supplementary Information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund
7. Supplementary information such as the Schedule of Expenditures of Federal Awards

d. Financial reporting presentation

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government has established the following fund categories, fund types, account group and discrete presentation of enterprise fund:

Governmental Fund Types

General Fund – Is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for revenues derived from local funds, state and federal grants or other restricted revenues sources. The users and limitations of each special revenue fund are specified by Municipality ordinances and resolution of federal and state statutes.

Capital projects Funds – Capital Projects Fund are used to account for financial resources used for the acquisition or construction or major capital facilities.

Debt Service Fund – Debt Service Fund are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination or major funds.

Major and Non-major Funds

Under the provisions of GASB 34, the Municipality is required to segregate funds among major and non-major categories within the fund financial statements. Major individual governmental funds are reported as separate columns in the accompanying fund financial statements, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type. At minimum a fund is considered major if: (1) it is the primary operating fund of the Municipality (i.e. the general fund) or; (2) meets both of the following criteria:

- a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b) Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

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In addition funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The Municipality reports the following major funds on **Fund Financial Statements**:

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality's** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

e. Measurement focus, basis of accounting and financial presentation

Government –wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place.

In exchange transactions, each party to the transactions receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, and permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

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In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred such as municipal license tax and sales and use tax.

In the case of imposed non-exchange revenue transactions (such as property taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose of project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2015. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

According to GASB No. 34 all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Position. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relations between the GWFS and the GFFS.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government Fund Financial Statements – The accompanying GFFS are reported using the current financial resources measurements focus and the modified-accrual basis of accounting. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interest on deposits, intergovernmental grants and contributions and certain charges for services) to be available is collected within ninety (90) days after June 30, 2015. At June 30, 2015, all revenues sources met this availability criterion.

f. Fund Balances

- a. **Nonspendable**- includes amounts that inherently cannot be spent either because it is not spendable form (i.e., prepaid, inventories, long-term portions of loans receivable, etc.) or because of legal or contractual requirements (i.e., principal of an endowment, etc.).
- b. **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent resource providers.
- c. **Committed** – Represent resources used for specific purposes, imposed by formal action of the Municipal’s highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- d. **Assigned** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Major or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended in governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- e. **Unassigned** – Represent the residual classification for the Municipality’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

- f. **Encumbrance** – Encumbrances should not be displayed as a separate classification or fund balance on the face of the balance sheet. For Governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and non-major funds in the aggregate in conjunction with required disclosures about other significant commitments.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2015.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

4. **Net position** – has been reported pursuant to the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Net Position represents the difference between all assets plus deferred outflows of resources and all liabilities plus deferred inflows or resources. The Net Position consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other government, etc.), or net position for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restriction if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIE

A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net position identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resources providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation or resources, including earmarking, are not reported as restricted net position. This designation consists of management's plans for they use of resources, which are subject to change at the discretion of the Municipal Legislature.

In the government-wide statements, net position is segregated into three categories:

- a. ***Net Investment in capital assets:*** Represent the component of the net position that consist of capital asset balances net of accumulated depreciation and amortization reduce by the outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds).
- b. ***Restricted net position:*** Represents the component of the net position that is subject to restriction beyond the Municipals control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. ***Unrestricted net position:*** Represents the component of the net position that do not meet the definition of net position invested in capital assets or restricted. Unrestricted assets are often designated to indicate that Management does not consider them to be available for general operations. These types of constraints are internal and Management can remove or modify them. Designations are not reported on the face of the Statement of Net position.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5. **Accounting for Pension Costs** – the provisions of GASBS No. 50, Pension Disclosure, which amended GASBS No. 27, Accounting for Pensions by State and Local Government Employers, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, the state government of the Government of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government of Puerto Rico.

The Government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the sustainability of **the Municipality** as an entity and the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the sources and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

e. Budgetary Control

The Municipality follows the following procedures, which are in accordance with the municipal law; in establishing the annual budget as reflected in the basic financial statements.

- (1) On or prior to may 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances, as described below:

The actual results of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year. During the fiscal year, the Municipality do not increased its original budget of the General Fund Balance.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as commitments of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

The Municipality has not legally adopted a budget for the Head Start special revenue and capital projects funds. Accordingly, it has not presented an annual comparison of budget and actual for these major funds.

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budge indicating: 1) interest, amortization and retirement public debt, 2) statutory obligations, 3) judicial claims payments, 4) any amount to cover prior years deficit, 5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtain of additional special property tax (municipal) collections.

The Municipality's management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for debt service fund.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

f. Deposits

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

The carrying amounts (book balance) and the bank balance of deposits and investments with financial institutions of the Municipality at June 30, 2015 consist of the following:

	Carrying amount	Bank balance
Deposits in commercial banks	\$ 9,227,094	\$ 9,712,171
Deposits in governmental bank	16,187,952	16,187,952
TOTAL	\$ 25,415,046	\$ 25,900,123

g. Inventories

The general fund purchases are for office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

h. Capital Assets

Fund Financial Statements

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

Government Wide Financial Statements

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value at the time they are received by **the Municipality** and are capitalized in the Statement of Net position. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

i. Interfund transactions

The Municipality has the types of transactions:

- a. Operating Transfers – Legally required transfers that are reported when incurred as “Operating transfer-in” by the recipient fund and as “Operating transfer-out” by the disbursing fund.

j. Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation leave may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31, of prior year. Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, is accounted for in the Statement of Net Position.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

k. Insurance

The **Municipality** has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. Also, principal officials of **the Municipality** are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance coverage for **the Municipality**.

l. Restricted Assets

Investments and Certificates

Certain proceeds of the Municipality revenue bonds as well as certain resources set aside for their repayment are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account".

Cash with fiscal agent

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund. In debt service fund are unsecured and collateralized, as no collateral is required by governmental banks.

m. Fund Balance

During year ended June 30, 2015, **the Municipality** implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Type Definitions ("GASB 54"). The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The implementation of this statement had no impact on the total fund balances for **the Municipality's** governmental funds.

MUNICIPALITY OF MANATÍ
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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

n. Claims and Judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net Position.

o. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

p. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

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 statement 67 and 68	After June 15, 2015
No. 76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	After June 15, 2015
No. 79	Certain External Investment Pools and Pool Participant	After June 15, 2015

The impact of these statements on the Municipality's financial statement has not yet been determined.

r. Totals Column (Memorandum Only) Governmental Funds Statement

The total data under this column is presented only to facilitate financial analysis. Data in this column do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have not been made.

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2. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality of Manati** and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed. The CRIM is required by law to prepare a liquidation statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to verification by its Independent Auditors. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30; however, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

The tax rate per annum is 9.58% for real property and 7.58% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.5% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.3% represents the ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service which is accounted for through the debt service fund (See note 11). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax exemption is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer becomes the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

**COMMONWEALTH OF PUERTO RICO
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The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded in the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$291,818 during 2015.

The following is a summary of the property tax advances that resulted in an Account Payable, for the year ended June 30, 2015. The resulting payable presented as a current asset in both financial statements, Government Wide and Fund Financial Statements.

Amortization through collections of property taxes by the CRIM	
07-01-14 - 06-30-15	\$ 10,219,439
Advance of property taxes by the CRIM	(9,943,188)
Accounts Payable	\$ 276,251

**The modified accrual basis of accounting allows the use of 90 days of collection of Property Taxes after June 30, 2015 to be used to pay liabilities of the current period, as revenue of the period.

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COMMONWEALTH OF PUERTO RICO
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4. CONCENTRATION OF CREDIT RISK

The Municipality maintains its cash account in local commercial banks, whose accounts are warranty by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits in excess of \$250,000 are collateralized by the bank securities to property safeguard such funds. Nevertheless, management believes that concentration of credit risk is limited because balances are deposited with high standing financial institutions.

Custodial Credit Risk

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2015:

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico*. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2015 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt of equity securities were made during the fiscal year ended June 30, 2015. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

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COMMONWEALTH OF PUERTO RICO
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Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the *Government Development Bank for Puerto Rico* (the adopted policy of the Municipality). At June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

Custodial credit risk — In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB are uninsured and **uncollateralized**. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

Therefore, the Municipality's management has concluded that at June 30, 2015, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015.

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COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

5. MUNICIPAL LICENSE TAXES

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declarations by April 15 of each year.

The tax rates are as follow:

- 1% for financial institutions
- for all other organizations 0.5%

Taxes are payable in two equal semiannual installments on July 1 and January 1 following the levy date. If they are paid before their maturity, the taxpayer is granted certain discounts.

The Municipality recognized as account receivable the amount estimated to be collected based on the volume business tax declaration during the next year that pertaining to this year. (Net of allowance for uncollectible). The deferred inflows of resources the general fund correspond to the business tax levied received from the next fiscal year.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, 2015 but pertaining to the next fiscal year is recorded as deferred inflows of resources.

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**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2015**

6. INTERFUND TRANSACTIONS

Due From/To Other Funds (Fund Financial Statement)

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balances are as follows:

Funds	Due From	Due To
General	\$ 717,226	\$ 4,092,577
Bond issued fund	2,402	359,211
HUD Programs	-	370,807
Head Start Programs	341,274	139,514
Other Funds	4,168,086	266,879
TOTAL	\$ 5,228,988	\$ 5,228,988

For the most part, the effect of interfund activity has been removed from the Statement of Net Position (Government Wide Financial Statement).

7. INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and in "lieu of tax" payments from certain "quasipublic" corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

8. DUE TO GOVERNMENTAL ENTITIES

As of June 30, 2015 balances due to governmental entities of the general fund consists of the following:

Governmental Entities	Due to
Puerto Rico Water System	\$ 880,125
Puerto Rico Department of Labor	7,721
Other agencies	510,979
Total	\$ 1,398,825

**COMMONWEALTH OF PUERTO RICO
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9. CAPITAL ASSETS

Include those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation.

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance 6/30/2014	Additions	Retirements and transfers dispositions	Balance 6/30/2015
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,425,200	\$ -	\$ -	\$ 12,425,200
Construction in progress	3,897,560	8,252,178		12,149,738
Total capital assets not being depreciated	16,322,760	8,252,178		24,574,938
Capital assets, being depreciated				
Buildings and building improvements	90,275,073	2,426,679	-	92,701,752
Infrastructure	17,985,850	9,587	-	17,995,437
Equipment	9,476,039	564,307		10,040,346
Vehicles	9,546,225	183,024		9,729,249
Total capital assets being depreciated	127,283,187	3,183,597	-	130,466,784
Less accumulated depreciation for:				
Buildings and building improvements	19,968,973	1,854,035		21,823,008
Infrastructure	16,293,403	299,924		16,593,327
Equipment	7,269,572	506,387		7,775,959
Vehicles	8,196,303	295,297		8,491,600
Total accumulated depreciation	51,728,251	2,955,643	-	54,683,894
Total capital assets being depreciated, net	75,554,936	6,139,240	-	75,782,890
Governmental activities capital assets, net	\$ 91,877,696	\$ 14,391,418	\$ -	\$ 100,357,828

Depreciation expense was charged to functions-programs of the Municipality as follows:

Governmental activities:	
General government	\$ 591,129
Public safety	289,653
Public works	1,888,656
Culture and recreation	124,137
Health	62,069
Total depreciation expense governmental activities	\$ 2,955,644

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
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JUNE 30, 2015**

9. CAPITAL ASSETS

Government Wide Financial Statements

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the use full life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

Vehicles, Heavy Equipment	4-10	\$300
Furniture and Fixture	10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	50	\$ 1
Infrastructure	60	\$ 1
Improvements	20-40	\$ 1

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

Fund Financial Statements

The Municipality charged costs of capital outlays as expenditures categories in the Governmental Fund Financial Statements.

10. CHANGES IN GENERAL LONG-TERM DEBT

General in General Long- Term Debt

The principal long-term obligation of the Municipality is obligation bonds issue to finance permanent improvements and purchases of equipment. The Municipality's long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund.

The following is a summary of bonds of the Municipality of Manatí for year ended June 30, 2015.

Description	Payable at July 1, 2014	Additions	Reductios	Balance June 30, 2015
General Obligations Bonds	\$ 55,719,511	\$ 10,670,000	\$ (2,860,348)	\$ 63,529,163

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

11. GENERAL IN LONG-TERM DEBT (Continuation)

The annual requirements to amortize all bonded debt outstanding as of June 30, 2015 follow:

Description	Balance June 30, 2015	Due within One Year
Serie 2000, \$125,000 payable in annual installments of \$5,000 to \$5,000 until 2024; with interest ranging from 2.7% to 7.81%	\$ 50,000	\$ 5,000
Serie 2001, \$1,160,000 payable in annual installments of \$15,000 to \$100,000 until 2026; with interest ranging from 2.7% to 5.6%	825,000	45,000
Serie 1996, \$1,500,000 payable in annual installments of \$44,000 to \$117,000 until 2020; with interest of 5.25%	528,000	95,000
Serie 2005, \$4,370,000 payable in annual installments of \$90,000 to \$300,000 until 2030; with interest ranging from 4.17% to 5.31%	3,365,000	140,000
Serie 2006, \$1,075,000 payable in annual installments of \$15,000 to \$85,000 until 2030; with interest ranging from 1.53% to 6.62%	865,000	30,000
Serie 2006, \$275,000 payable in annual installments of \$5,000 to \$20,000 until 2030; with interest ranging from 1.53% to 6.62%	225,000	10,000
Serie 1998 \$2,850,000 payable in annual installments of \$40,000 to \$240,000 until 2022; with interest ranging from 4.87% to 6.71%	1,500,000	145,000
Serie 2000, \$1,150,000 payable in annual installments of \$20,000 to \$105,000 until 2020; with interest ranging from 2.7% to 7.81%	535,000	75,000
Serie 2007, \$3,020,000 payable in annual installments of \$45,000 to \$250,000 until 2032; with interest ranging from 1.53% to 7.25%	2,620,000	75,000
Serie 2001, \$920,000 payable in annual installments of \$45,000 to \$65,000 until 2021; with interest ranging from 2.7% to 5.39%	335,000	45,000
Serie 2002, \$2,515,000 payable in annual installments of \$45,000 to \$180,000 until 2026; with interest ranging from 2.7% to 5.6%	1,620,000	100,000
Serie 2002, \$2,010,000 payable in annual installments of \$10,000 to \$165,000 until 2026; with interest ranging from 1.28% to 7%	1,370,000	75,000
Serie 2004, \$320,000 payable in annual installments of \$5,000 to \$30,000 until 2028; with interest ranging from 4.17% to 5.31%	235,000	10,000
SUB-TOTAL	\$ 14,073,000	\$ 850,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

11. GENERAL IN LONG-TERM DEBT (Continuation)

Description	Balance June 30, 2015	Due within One Year
Serie 2005, \$318,000 payable in annual installments of \$5,826 to \$9,594 until 2025; with interest of 2%	\$ 174,863	\$ 15,962
Serie 2005, \$625,000 payable in annual installments of \$30,000 to \$60,000 until 2019; with interest ranging from 3.28% to 4.73%	260,000	45,000
Serie 2005, \$645,000 payable in annual installments of \$10,000 to \$45,000 until 2029; with interest ranging from 4.17% to 5.31%	480,000	20,000
Serie 2005, \$1,000,000 payable in annual installments of \$30,000 to \$72,000 until 2025; with interest 4.5%	590,000	48,000
Serie 2007, \$280,000 payable in annual installments of \$5,000 to \$25,000 until 2031; with interest ranging from 1.53% to 7.5%	240,000	10,000
Serie 2007, \$1,135,000 payable in annual installments of \$15,000 to \$95,000 until 2031; with interest ranging from 1.53% to 7.25%	955,000	30,000
Serie 2007, \$630,000 payable in annual installments of \$10,000 to \$55,000 until 2031; with interest ranging from 1.53% to 7.25%	530,000	15,000
Serie 2008, \$560,000 payable in annual installments of \$13,000 to \$37,000 until 2032; with interest 4.13%	440,000	18,000
Serie 2009, \$8,532,000 payable in annual installments of \$182,000 to \$654,000 until 2033; with interest rate of 6%	7,737,000	229,000
Serie 2011, \$353,000 payable in annual installments of \$50,000 to \$73,000 until 2016; with interest ranging from 6% to 7.50%	138,000	65,000
Serie 2011, 1,410,000 payable in annual installments of \$20,000 to \$125,000 until 2036; with interest ranging from 6% to 7.5%	1,345,000	25,000
Serie 2011, \$385,000 payable in annual installments of \$40,000 to \$70,000 until 2018; with interest ranging from 6% to 7.5%	250,000	55,000
Serie 2012, \$5,020,000 payable in annual installments of \$280,000 to \$595,000 until 2023; with interest ranging from 6% to 7%	4,120,000	345,000
Serie 2011, \$5,025,000 payable in annual installments of \$15,000 to \$510,000 until 2033; with interest of 6% to 7%	4,980,000	15,000
Serie 2013, \$1,600,000 payable in annual installments of \$25,000 to \$130,000 until 2037; with interest ranging from 6% to 7%	1,550,000	30,000
Serie 2014, \$4,645,000 payable in annual installments of \$10,000 with interest ranging from 6% to 7%	4,645,000	70,000
Rent bond \$6,025,000 Ord #20-2011-2012; with required interest ranging from 6% to 7%	6,025,000	-
Serie 2013, \$3,900,000 payable in annual installments of \$150,000 to \$410,000 until 2027; with interest ranging from 6% to 7%	3,590,000	175,000
SUB-TOTAL	38,049,863	1,210,962
Total General and Operational Bonds	\$ 52,122,863	\$ 2,060,962

**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2015**

11. GENERAL IN LONG-TERM DEBT (Continuation)

Description	Balance June 30, 2015	Due within One Year
Serie 2008, \$6,638,000 payable in annual installments of \$101,000 to \$553,000 until 2032; with interest of 1.53% to 7.25%	5,909,300	165,300
Serie 2011, \$1,249,000 payable in annual installments of \$19,000 to \$104,000 until 2032; with interest of 1.53% to 7.25%	1,112,000	33,000
Serie 2011, \$3,020,000 payable in annual installments of \$70,000 to \$265,000 until 2031; with interest of 6% to 7%	2,785,000	90,000
SUB-TOTAL Sales Tax Bond	9,806,300	288,300
Serie 1998 \$8,915,000 payable in annual installments of \$445,000 to \$540,000 until 2017; with interest of 6.62% (B-95-MC72-0016)	1,610,000	535,000
SUB-TOTAL 108 HUD Loan	1,610,000	535,000
TOTAL	\$ 63,539,163	\$ 2,884,262

The annual debt service requirements for the bonded debt outstanding as June 30, 2015 are as follows:

Year Ending	Principal	Interest	Total
2016	2,876,231	2,961,267	5,837,498
2017	3,056,283	3,818,329	6,874,612
2018	3,286,611	3,689,750	6,976,361
2019	2,920,944	3,506,800	6,427,744
2020	3,031,284	3,319,652	6,350,936
Subsequent years	48,367,810	26,006,388	74,374,198
TOTAL	\$ 63,539,163	\$ 43,302,186	\$ 106,841,349

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the **Municipality**, for bonds to be repaid with the proceeds of property tax restricted for debt services. Other obligations include compensated absences; LIMS refinance debt, claims and judgments.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

12. DEBT SERVICE FUND

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM. The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. Interest income is for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the general obligations bonds and notes.

Principal and interest on these obligations are paid by the Government Development Bank for Puerto Rico from funds obtained from the following:

Property taxes	\$ 3,070,522
General funds	1,102,161
Hud programs and others	544,909
Municipal sales tax	967,490
TOTAL	\$ 5,685,082

Expenditures for the year 2014-2015 were as follows:

Principal	\$ 3,083,854
Interest	2,725,147
TOTAL	\$ 5,809,001

13. RETIREMENT PLAN

Plan Description

Regular full time employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, "Retirement Pensions, Disability and Death Benefits", as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P.O. Box 42005, San Juan Puerto Rico. 00940.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

13. RETIREMENT PLAN (Continuation)

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

OLD PLAN (LAW 447)

Eligibility

Pension Benefits

Age 55 and 30 years
Of service

75% of average highest compensation
during any years of credited service

Under 55 and 30 years

65% of average highest compensation of service
during any 3 years of credit service

Participants in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

No benefit is payable if the participant receives a refund of his accumulated contributions.

Additional information of ERS is provided in its financial statements for the year ended June 30, 2014 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

NEW PLAN (REFORMA 2000)

Eligibility

Pension Benefits

Age 65 with 10 years
of service

1.5% of average compensation during
the final 5 years of credited services
multiplies by the numbers of years
credited service

For both plans, the employees are vested when attaining ten years of plan participation. Disability and death benefits are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2015

13. RETIREMENT PLAN (Continuation)

Reform 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under Reforma 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known.

Contribution Requirements

The Municipality's total payroll for the fiscal year 2015 amounted to approximately \$18.8 million. The Puerto Rico Commonwealth legislation requires employees to contribute 5.775% of gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600. The Municipality is required to contribute 9.275% of gross salary annually during year 2015. The Municipality is required and actual contribution under Act 447 and Reform 2000 during year ended on June 30, 2015 was \$1,146,972.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
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JUNE 30, 2015**

Actuarial Valuation

As of June 30, 2014, the Municipality has an unfunded accrual liability of approximately \$53 million, representing a 17% of funding ratio. This information is not available by each participating government agency or municipalities.

Net position of the system consists principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

- | | |
|------------------------------------|--|
| a) Interest rate | 6.0% a year |
| b) Salary increases | 3.20% year |
| c) Pre-retirement Mortality | For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date 100% of deaths while in active service are assumed to be occupational for members covered under Act 127. For other members, 25% of deaths while in active service are assumed to be occupational and 75% are assumed to be non-occupational. |
| Post-retirement Health Mortality | Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. |
| Post-retirement Disabled Mortality | Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 10.5% of the rates from the UP-1994 Mortality Table for Males and 11.5% of the rates from the UP-1994 Mortality for Females. No provision was made for future mortality improvements for disabled retirees. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

d) Termination Withdrawal rates vary by employee category.

The annual rate of termination is as follows:

For general employees	2.0%
For police and fire	1.6%
For mayors	3.0%

e) Disability Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, adjusted as set forth in the table below. Rates of disability cease to apply once a member is eligible for the 65% or 75% of Highest Salary maximum benefit.

Adjustment to 1987 CGDT		
Act	Members Converged under Act 127	Other Members
447	100%	75%
1	100%	75%
2000	100% if more than 10 years from retirement eligibility. 300% if at or past retirement eligibility. Interpolated from 100% to 300% in the 10 years leading up to retirement eligibility.	75%

100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127. For other members, 90% of disabilities occurring while in active service are assumed to be occupational and 10% are assumed to be non-occupational.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

f) Retirement

Rates of retirement vary by employment category, Act, and by age and years of Creditable Service.

Act 447 General Employees (Eligible to retire as of June 30, 2013 or attained 30 years of creditable service by December 31, 2013)			
Age	Service Condition		
	10 years	25 years	30 years
45 to 49			10.0%
50 to 53			15.0
54			20.0
55 to 57		10.0%	20.0
58	5.0%	10.0	20.0
59 to 64	10.0	15.0	20.0
65 to 69	15.0	15.0	20.0
70	100.0	100.0	100.0

Act 1 General Employees (Eligible to Retire as of June 30, 2013)		
Age	Service Condition	
	10 years	25 years
55 to 57		4.5%
58		4.5
59		8.0
60		9.0
61		10.0
62		13.0
63-64		14.0
65	15.0%	50.0
66	15.0	15.0
67	100.0	100.0

System 2000 General Employees		
Age	Eligible to retire as of June 30, 2013	Not Eligible retire as of June 30, 2013
60	15%	-
61-64	15%	10%
65	15%	40%
66	15%	20%
67	100%	100%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

Act 447 (Police officer in high risk positions who were eligible to retire as of June 30,2013)			
Age	Service Condition		
	10 years	25 years	30 years
45 to 48			10.0%
49			15.0
50		7.0%	15.0
51 to 56		15.0	20.0
57		20.0	30.0
58	2.5%	20.0	100.0
59 to 64	10.0	25.0	100.0
65 to 69	10.0	30.0	100.0
70	100.0	100.0	100.0

System 2000 (Public officers in high risk positions)	
Age	Any Service
55	25.0%
56 to 64	20.0%
64 to 66	25.0%
67	100.0%

Act 447 and Act 1 Mayors			
Age	Service Condition		
	8 years	25 years	30 years
45 to 49			10.0%
50 to 53	5.0%		15.0
54	10.0		20.0
55 to 56	10.0	10.0%	20.0
57 to 58	15.0	15.0	20.0
59 to 69	20.0	20.0	20.0
70	100.0	100.0	100.0

System 2000 Mayors	
Age	Any Service
60 to 66	15.0%
67	100.0%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

13. RETIREMENT PLAN (Continuation)

- | | |
|--|---|
| g) Marriage | 70% of current active members are assumed to be married at retirement with males 4 years older than females. 100% of current active members covered under Act 127 who die service or become disabled are assumed to have qualifying beneficiaries, which are approximately by a spouse with males 4 years older than females. |
| h) Number of employees electing Higher contributions | 15% of retiring employees assumed to pay retroactive contributions at retirement. |
| i) Cost-of-living adjustments | 3% every third year |

Accordingly, the pension expense for fiscal year 2015 was approximately \$911,813 that represented 100% of the contributions required by funding policies of the Plan.

14. NEW REQUIREMENTS

During the fiscal year ended June 30, 2015 the employer's contributions paid by the Municipality to both retirement systems amounted to \$931,175. On August 12, 2000, Act No. 174 was approved to allow certain participants of the ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001.

Those who elected early retirement under this law will receive monthly benefits of 75 percent (if 25 or more years of service and age 55, or 30 or more years of services and age 50) or benefits of 65 percent (if 25 years of service by less than age 55) of their average compensation, which is computed based on the highest 36 months of compensation recognized by the System. In these cases, the employer (including the Municipality) is responsible for contributing to the System the amount needed to cover the benefit payments and employer contribution with respect to the participants covered until the participants reach the normal retirement age.

Historically, the Commonwealth has reported the System as a single-employer plan (as relates only to the financial reporting entity of the Commonwealth) in its comprehensive annual financial report. Accordingly, the Commonwealth will assume any actuarial deficiency that may exist or arise related to the Municipality's participating employees since the System does not allocate any actuarial deficiencies pertaining to municipal employees participating in the System. The Municipality is only required by law to make statutory contributions in the rates mentioned above. As a result, no net pension obligation nor net pension asset that may be allocable to the Municipality's participating employees, if any, has been recorded in the accompanying basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

15. 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.

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.

I were not allowed access to the management and the auditors of Employees Retirement System of the Commonwealth of Puerto Rico 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, I were unable to determine whether any adjustments, were necessary related to the Municipality of Manati's deferred outflows/inflows of resources, liabilities, net position, and expenses of the governmental activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

16. LONG TERM LIABILITIES

Compensated Absences

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The changes in Compensated absences for the year ended June 30, 2015 are as follows:

Governmental activity	June 30, 2014	Net decrease	June 30, 2015	Due within One year
Compensated Absences	\$ 2,623,285	\$51,780	\$2,571,505	\$410,000

17. LEASES

Operating Leases

The Municipality has several short-term operating lease agreements covering some of **the Municipality's** premises and equipment. Most of the agreements are renewed annually. Total rental expenditures for the year ended June 30, 2015, were approximately \$75,000 included in all funds.

18. CLAIMS AND CONTINGENCIES

Contingencies

As pr Act No. 72 of September 7, 1993, "Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. During this year the Municipality paid \$1,318,763 to ASES.

On July 1, 1997, there was an amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 will be earned on the additional lottery games.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Federal Programs

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse the grantor agency. Accordingly, the Administration's compliance with applicable grant requirements will be established at some future date. Nevertheless, **the Municipality's** management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, to be immaterial.

Comptroller's Office Audits

The Municipality of Manatí, Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office issued a final report related to the financial operations of the Municipality before the period of the single audit. These audit report do not cover any findings subsequently disclosed to Municipality operations by the Comptroller's Office.

Judgments against the Municipality

The **Municipality** is a defendant in a number of lawsuits arising principally from claims against the **Municipality** for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are by the amount of \$107,600 at June 30, 2015, the financial condition of the **Municipality** adjusted for that amount.

19. MUNICIPAL SALES TAX

Pursuant to the provisions of the Law number 80 of July 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

20. RESTATEMENT OF 2014 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2015 **the Municipality** notes that certain liabilities had been overstated or understated as well as other differences related with adjustments to capital assets and reclassification of certain fund balances. As a result the funds at June 30, 2014, were restated as follows:

	General	Head	Beht	Other	Net	
	Fund	Start	Service	Funds	Position	total
Beginning balance at						
June 30, 2014	\$ (10,681,227)	\$ 79,908	\$ 3,557,529	\$ 9,283,337	\$ 46,413,528	\$ 39,289,830
Reclassification balance						\$ -
						\$ -
from prior year	840,000					\$ 840,000
Accounts payable	-227,883	-79,908	(559,551)	-1,036,965	185,487	\$ (601,947)
Beginning balance, as						
restated June 30, 2014	\$ (10,069,110)	\$ -	\$ 2,997,978	\$ 8,246,372	\$ 46,599,015	\$ 39,527,883

21. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality evaluated events and transactions that occurred after the financial statements date for potential recognition or disclosure through March, 31 2015, the date on which the financial statements were issued.

MUNICIPALITY OF MANATI, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<u>Direct Program:</u>			
Department of Housing and Urban Development Public and Indian Housing			
* Section 8 - Housing Choice Voucher	14.871	RQ46-VO-54-001	\$ 1,040,134
HOPWA	14.241	N/A	40,902
* Community Planning and Development	14.218	B-09 to 20	1,327,134
<u>Passed-through Commonwealth of P.R.</u>			
Department of families Emergency Solutions Grant Program	14.231	S100-C72001	21,113
<u>Passed-through Commonwealth of P.R. Governor's office of Public Housing Administration of P.R.</u>			
* Public and Indian Housing - Los Murales, Campo Alegre and Zorrilla Public Housing	14.850	PR-5104	<u>2,116,743</u>
Total U.S. Department of Housing and Urban Development			<u>4,546,026</u>
<u>U.S. Department of Transportation:</u>			
<u>Direct Program:</u>			
Federal Transit Administration Federal Transit Capital Improvement Grant	20.500	PR90-X275-00	<u>8,988</u>
Total U.S. Department of Transportation			8,988
<u>U.S. Department of Health and Human Services:</u>			
<u>Passed-through Commonwealth of P.R. Governors Office for the Care and Integral Development of Children:</u>			
Department of Families of P.R.			
* Head Start (IPA-22)	93.600	02CH-0483-36-102	7,968,993
* Early Head Start	93.600	N/A	787,860
Special Program for the Aging Title III B and C	93.045	Supportive Services	177,212
Grant for Supportie Services and Seniors Centers	93.44		47,415
Total U.S. Department of Health and Human Services			<u>8,981,480</u>
<u>U.S. Department of Agriculture</u>			
<u>Passed-through Commonwealth of P.R. Governors Office for the Care and Integral Development of Children:</u>			
* Child and Adult Care Food Program	10.558	CCC-007-M	<u>243,284</u>
Total U.S. Department of Agriculture			<u>243,284</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 13,779,778</u>
* Major programs			

See notes to the schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO THE SCHEDULE
OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2015**

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Manatí, Puerto Rico and is presented on the accrual basis of accounting. The reporting entity is defined in Note 1 to the financial statements of the Municipality. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) MAJOR FEDERAL AWARDS

CFDA Numbers	Name of Federal Program or Cluster
14.871	Section 8 Housing Choice Voucher
14.218	Community Planning and Development
14.850	Public and Indian Housing
93.600	Head Start (IPA-22)
10.558	Child and Adult Care Food Program
93.600	Early Head Start

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

Pass-Through Grantor's Number

State or local government and private entities includes within their federal proposal award the related amount of federal awards granted to SIM, also known as "pass-through awards". SIM should consider these federal funds as though they were received directly from the federal government. OMB Circular A-133 requires that the schedule should include the name and the identifying number assigned for federal awards received as sub recipient Numbers identified as N/A are not applicable or available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO THE SCHEDULE
OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2015**

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Manatí, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follow:

Description	Hud Programs	Head Start Programs	Other funds	Total
Federal Programs Expenditures	\$ 4,546,026	\$ 8,981,480	\$ 252,272	\$ 13,779,778
State & Municipal Expenditures	-	-	1,487,314	1,487,314
TOTAL	\$ 4,546,026	\$ 8,981,480	\$ 1,739,586	\$ 15,267,092

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**INDEPENDENT AUDITOR'S 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**

To the Honorable Mayor
And Municipal Legislature
Municipality of Manatí
Manatí, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Manatí, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality of Manatí basic financial statements and have issued our report thereon dated March 30, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Municipality of Manatí 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 expression an opinion on the effectiveness of the Municipality of Manatí internal control. Accordingly we do not express an opinion on the effectiveness of the Municipality of Manatí internal control.

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. 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.

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

COMPLIANCE AND OTHER MATTERS

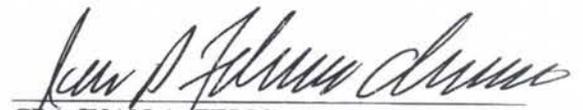
As part of obtaining reasonable assurance about whether the Municipality of Manatí financial statements are free from material misstatements, we performed test of its compliance with certain provisions of laws, regulations contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2015-001 and 2015-002.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is no suitable for any other purpose.

Arecibo, Puerto Rico
March 31, 2016

The stamp number E189113
was affixed to the record
original report.


CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2016



JUAN A. FELICIANO CHARNECO
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A- 133**

To the Honorable Mayor
And Municipal Legislature
Municipality of Manatí
Manatí, Puerto Rico

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the Municipality of Manatí compliance with the types of compliance requirements described in the OMB Circular A -133 Compliance Supplemental that could have a direct and material effect on each of the Municipality of Manatí major federal programs for the year ended June 30, 2015. Municipality of Manatí 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 requirements 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 Municipality of Manatí 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 Municipality of Manatí 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 Municipality of Manatí compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Municipality of Manatí complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015 .

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Municipality of Manatí 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 Municipality of Manatí internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 of the effectiveness of Municipality of Manatí internal control over compliance.

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

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

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

Arecibo, Puerto Rico
March 31, 2016

The stamp number E 189135
was affixed to the record
original report.



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2016

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

A. Summary of Audit results
Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness (es) identified? _____ yes X no

Significant deficiency (s) identified not considered
to be material weaknesses? _____ yes X no

none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness (es) identified? _____ yes X no

Significant deficiency (s) identified not
Considered to be material weaknesses? _____ yes X no

Type of auditor's report issued on compliance
for major programs: Unmodified

Any audit findings disclosed that are required to be
Reported in accordance with Circular A-133,
Section .510(a) are reported on _____ yes X no

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Identification of Major Programs

CFDA Numbers	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grant – Entitlement Grant
14.850	Public and Indian Housing – Los Murales, Campo Alegre and Zorrilla Public Housing
14.871	Section 8 – Housing Choice Voucher
93.600	Head Start
93.600	Early Head Start

Dollar threshold used to distinguish
Between type A and type B programs

\$413,393

Audited qualified as low-risk auditee

___ yes X no

B – Financial Statements Findings

No matters were reported regarding reportable conditions, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of Governmental Auditing Standards.

C - Federal Award Findings and Questioned Cost

Federal Program Information

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

**Program: Accounting and Finance Department
General Fund – Deficit
Year ended June 30, 2015**

Ref. No.	Finding / Noncompliance	Questioned Cost
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2015-01	<p><u>Statement of Condition and Criteria</u> It was noted in my test of balance of accounts that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems for Regulations for Municipal Administration; and with GASB codifications 1700, with requirements stated in OMB Circular A-133.</p> <p><u>Cause</u> The Municipality has significant deficiencies in its accounting and financial management systems and financial reporting practices as related to budgets for the General Fund.</p> <p><u>Effect</u> The lack of budget results does not permit the Municipality: a) To provide services to citizens without affecting them. b) To determine compliance with finance – related legal and contractual provisions.</p> <p><u>Auditor’s Recommendation</u> The Municipality should revised and evaluate in a monthly basis revenues and disbursements to adjust disbursements to the revenues receipt to comply with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended. Implement measure to reduce the Municipal deficit. Evaluate the impact in the revenues of the change in construction tax and the increase of the real and personal taxes. Evaluate the impact in the disbursement to reduce hours of services of employees, evaluate and revised transitory contracts with employees, approve only necessary professional services, reduce confidence employees salary and consolidate services.</p> <p><u>Municipality Response</u> We concur with auditor’s recommendations. The Municipality will evaluate the actual administrative procedures being followed. The Municipality management took serious and radical measure to minimize the impact of this condition and expect to correct in the near future.</p>	-0-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Financial Statements Findings

Ref. No.	Finding / Noncompliance	Questioned Cost
2015-02	Financial Reporting – Accounting Records	-0-

During our examination of the Municipality’s implemented a new accounting system, we noted that the Municipality’s accounting record for Local, State and Federal funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce government wide financial statements. Manual system maintained by finance department personnel do not provide adequate and effective financial information to generate the basic financial statements since the accounts balances were affected by accounting errors in the first year of the system operations,

Therefore, the Municipality’s hires the professional service of local accounting firms to perform the required adjustment entries to convert its accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and Law No. 81.

Criteria

Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991 as amended, states that the Municipality should maintain an effective and updated accounting system.

Cause of Condition

The Municipality did not produce accounting reports over the transactions recorded on its accounting records. Also the accounting data is not summarized in the form of a double-entry General Ledger record.

Effect of Condition

The Municipality’s accounting system did not provide monthly financial information that presents the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.

Recommendation

We recommend to the Municipality’s Management to implement the appropriate modifications in order to maintain a double entry accounting system that contains accurate information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, and provide the financial statements required by Governmental Accounting Standard Board and Law Number 81.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

2014-Finding No. 1: Accounting and Finance Department
General Fund – Budget Deficit
Year ended June 30, 2014
Finding reported again.

2014-Finding No. 2: U.S. Department of Health and Human Services
CFDA No. 93.600
Head Start Program
Year ended June 30, 2014
Finding not repoted

2014-Finding No. 3: U.S. Department of Health and Human Services
CFDA No. 93.600
Head Start Program
Year ended June 30, 2014
Finding not repoted

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2015**

Ref. No. <u>Finding /Corrective Action</u> 2015-01 <u>Planned/Person Responsible:</u>	<u>Statement of Condition:</u> The General Fund is not complying with budget balances and criteria established by the Standards of Financial Management System for Regulations for Municipal Administration, with GASB codification 1700, with requirements stated in OMB Circular A-133 and with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended. <u>Corrective Action Planned:</u> The Finance Director will establish adequate procedure to permit the preparation of reliable budget and comply with all standards, requirements and laws that apply. <u>Person Responsible:</u> Mr. Armando Miranda Bracero Finance Director	<u>Anticipated Completion Date</u> On or before end of 2015-16 fiscal year
Ref. No. <u>Finding /Corrective Action</u> 2015-02 <u>Planned/Person Responsible:</u>	<u>Statement of Condition:</u> To implement the double-entry accounting required by the Governmental Accounting Standard Board and Law Number 81, as amended. <u>Corrective Action Planned:</u> The Finance Director will implement the appropriate computer programs to procedure the accounting reports. <u>Person Responsible:</u> Mr. Armando Miranda Bracero Finance Director	<u>Anticipated Completion Date</u> On or before end of 2015-16 fiscal year