

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE MANATI**

**AUDITORIA 2000-01**

**30 DE JUNIO DE 2001**

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**MUNICIPALITY OF MANATI, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2001  
(INDEPENDENT AUDITOR'S REPORT)**

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**MUNICIPALITY OF MANATI, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2001**

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**INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE  
FINANCIAL STATEMENTS**

**Mayor of the Municipality of Manatí  
Manatí, Puerto Rico**

I have audited the general purpose financial statements of the Municipality of Manatí, Puerto Rico, as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Municipality of Manatí, Puerto Rico Management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

Except as discussed in the following paragraph, I have conducted my audit in accordance with 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 I plan and perform the audit to obtain reasonable assurance about whether the general purpose the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described more fully in Note 6, the Municipality has not maintained complete and adequate records of its general fixed assets and, accordingly, I was unable to satisfy my shelves as to the beginning balance of fixed assets, balance included in the account group amounting to \$95,958,787.

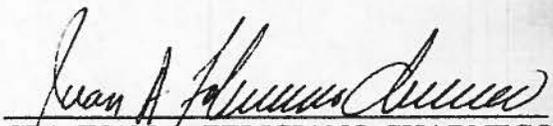
In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary as discussed in the preceding paragraph and the report of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Manatí, Puerto Rico, as of June 30, 2001, and the results of its operations and the changes in fund balances for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated December 20, 2001 on my consideration of Municipality of Manatí, Puerto Rico internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Municipality of Manatí, Puerto Rico taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in my opinion, is fairly stated in all material respects, in relation the by general purpose financial statement a taken as whole.

San Juan, Puerto Rico  
December 20, 2001

The stamp number 1768475  
was affixed to the  
original of this report.

  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2004



**MUNICIPALITY OF MANATI, PUERTO RICO**  
**COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNTS GROUPS**  
**JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				ACCOUNTS GROUPS		TOTALS
	General	Debt Service	Capital Projects	Special Revenues Funds	General Fixed Assets	General Long-Term Debt	(Memorandum Only Year Ended) 2001
<b>ASSETS</b>							
Cash and investments (Note 2)	\$ 11,018,015	\$ -	\$ 9,849,144	\$ 1,489,322	\$ -	\$ -	\$ 22,356,481
Cash with fiscal agent and other (Note 7 & 8)	-	3,560,025	-	-	-	-	3,560,025
Receivable volume business (Note 4)	1,011,382	-	-	-	-	-	1,011,382
Accounts receivable other (Note 7)	1,730,978	-	60,710	358,634	-	-	2,150,322
Due to general fund and other funds	282,912	-	3,426,802	1,560,315	-	-	5,270,029
Property, plant and equipment (Note 6)	-	-	-	-	95,958,787	-	95,958,787
Amount to be provided for taxes advances (Note 3)	-	-	-	-	-	246,284	246,284
Amount available in debt Service Fund	-	-	-	-	-	3,560,025	3,560,025
Amount to be provided for retirement of general long-term debt (Note 7)	-	-	-	-	-	20,289,260	20,289,260
Amount to be provided for payment of accrued compensated absences (Note 1 F)	-	-	-	-	-	2,113,498	2,113,498
Amount to be provided for health insurance (Note 11)	-	-	-	-	-	2,502,173	2,502,173
Amount to be provided for leases payable	-	-	-	-	-	188,991	188,991
<b>Total assets and other debits</b>	<b>\$ 14,043,287</b>	<b>\$ 3,560,025</b>	<b>\$ 13,336,656</b>	<b>\$ 3,408,271</b>	<b>\$ 95,958,787</b>	<b>\$ 28,900,231</b>	<b>\$ 159,207,257</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 842,389	\$ -	\$ 2,343,608	\$ 555,236	\$ -	\$ -	\$ 3,741,233
Due to special revenue funds and other	4,987,117	-	-	-	-	-	4,987,117
General obligations bonds payable (Note 7)	-	-	-	-	-	23,849,285	23,849,285
Due to government entity	419,646	-	-	-	-	-	419,646
Vested compensated absences (Note 1 F)	-	-	-	-	-	2,113,498	2,113,498
Deferred revenue (Note 12)	7,655,455	-	-	93,099	-	-	7,748,554
Estimated health insurance obligation (Note 12)	-	-	-	-	-	2,502,173	2,502,173
Lease obligation payable (Note 1J)	-	-	-	-	-	188,991	188,991
Estimated property tax advances (Note 3)	-	-	-	-	-	246,284	246,284
<b>Total liabilities</b>	<b>13,904,607</b>	<b>-</b>	<b>2,343,608</b>	<b>648,335</b>	<b>-</b>	<b>28,900,231</b>	<b>45,796,781</b>
<b>Fund Equity:</b>							
Investment in general fixed assets (Note 6)	-	-	-	-	95,958,787	-	95,958,787
<b>Fund balances:</b>							
<b>Unreserved</b>							
Designated for debt service (7 & 8)	-	3,560,025	-	-	-	-	3,560,025
Designated for future years	-	-	10,993,048	2,759,936	-	-	13,752,984
Undesignated	138,680	-	-	-	-	-	138,680
<b>Total Fund Equity</b>	<b>138,680</b>	<b>3,560,025</b>	<b>10,993,048</b>	<b>2,759,936</b>	<b>95,958,787</b>	<b>-</b>	<b>113,410,476</b>
<b>Total Liabilities, Fund Equity &amp; Other Credits</b>	<b>\$ 14,043,287</b>	<b>\$ 3,560,025</b>	<b>\$ 13,336,656</b>	<b>\$ 3,408,271</b>	<b>\$ 95,958,787</b>	<b>\$ 28,900,231</b>	<b>\$ 159,207,257</b>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-**  
**BUDGET (GAAP BASIS) AND ACTUAL - GENERAL AND DEBT SERVICE FUND**  
**FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				TOTALS (Memorandum)
	General	Debt Service	Capital Projects	Special Revenues Funds	Only Year Ended 2001
<b>Revenues:</b>					
Property taxes (Note 3)	\$ 1,701,777	\$ 1,496,152	\$ -	\$ -	\$ 3,197,929
Local taxes (Note 4)	8,735,843	-	-	-	8,735,843
Intergovernmental Revenues (Note 5)	2,556,492	-	1,565,800	-	4,122,292
Rent of properties (Note 7)	142,941	-	-	1,558,749	1,701,690
Other revenues (Note 5a)	3,430,242	-	-	-	3,430,242
Federal financial award	-	-	2,420,854	3,651,277	6,072,131
<b>Total Revenues</b>	<b>16,567,295</b>	<b>1,496,152</b>	<b>3,986,654</b>	<b>5,210,026</b>	<b>27,260,127</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Municipal Council	114,238	-	-	-	114,238
Administration	9,182,111	-	1,568,621	8,113,515	18,864,247
Public Safety	5,675,550	-	3,149,641	-	8,825,191
Health	4,351,366	-	-	-	4,351,366
Capital Projects	26,595	-	-	-	26,595
Other Expenditures	452,115	-	-	-	452,115
<b>Debt Service:</b>					
Principal Retirement	-	1,788,183	-	-	1,788,183
Interest and Fiscal Charges	-	1,565,767	-	-	1,565,767
<b>Total Expenditures</b>	<b>19,801,975</b>	<b>3,353,950</b>	<b>4,718,262</b>	<b>8,113,515</b>	<b>35,987,702</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>(3,234,680)</b>	<b>(1,857,798)</b>	<b>(731,608)</b>	<b>(2,903,489)</b>	<b>(8,727,575)</b>
<b>Other Financing Source (Uses):</b>					
Net Advance of Property Taxes (Note 3)	4,753,314	-	-	-	4,753,314
Transfer in (out) to debt service fund	(675,664)	675,664	-	-	-
Net Bond Issued	-	-	1,220,000	-	1,220,000
Transfer from special revenue fund (Note 8)	-	1,025,725	(1,025,725)	-	-
<b>Total Other Financing Sources (Uses):</b>	<b>4,077,650</b>	<b>1,701,389</b>	<b>194,275</b>	<b>-</b>	<b>5,973,314</b>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>842,970</b>	<b>(156,409)</b>	<b>(537,333)</b>	<b>(2,903,489)</b>	<b>(2,754,261)</b>
Fund balance June 30, 2000	113,927	3,538,126	10,712,164	5,663,425	20,027,642
Prior period adjustment (See note 13)	(818,217)	178,308	818,217	-	178,308
<b>Fund balance June 30, 2001</b>	<b>\$ 138,680</b>	<b>\$ 3,560,025</b>	<b>\$ 10,993,048</b>	<b>\$ 2,759,936</b>	<b>\$ 17,451,689</b>

See notes to general purpose financial statements.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	GENERAL FUNDS			DEBT SERVICE FUND			TOTALS
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	(Memorandum Only Year ended) 2001
<b>REVENUES</b>							
Property taxes	\$ 953,255	\$ 953,255	\$ -	\$ 1,664,352	\$ 1,496,152	\$ (168,200)	\$ 2,449,407
Local taxes	7,927,320	8,190,596	263,276	-	-	-	8,190,596
Intergovernmental revenues	2,402,382	2,322,187	(80,195)	-	-	-	2,322,187
Rent of properties	140,000	142,941	2,941	-	-	-	142,941
Other revenues	4,150,713	3,430,242	(720,471)	-	-	-	3,430,242
<b>Total revenues</b>	<b>15,573,670</b>	<b>15,039,221</b>	<b>(534,449)</b>	<b>1,664,352</b>	<b>1,496,152</b>	<b>(168,200)</b>	<b>16,535,373</b>
<b>EXPENDITURES:</b>							
Current:							
Municipal council	118,255	114,238	4,017	-	-	-	114,238
Administration	9,152,103	9,182,111	(30,008)	-	-	-	9,182,111
Public safety	5,490,479	5,675,550	(185,071)	-	-	-	5,675,550
Health	4,280,626	4,351,366	(70,740)	-	-	-	4,351,366
Capital Project	30,615	26,595	4,020	-	-	-	26,595
Other expenditures	579,243	452,115	127,128	-	-	-	452,115
Debt service:							
Principal retirement	-	-	-	1,752,394	1,788,183	(35,789)	1,788,183
Interest and fiscal charges	-	-	-	1,327,683	1,565,767	(238,084)	1,565,767
<b>Total expenditures</b>	<b>19,651,321</b>	<b>19,801,975</b>	<b>(150,654)</b>	<b>3,080,077</b>	<b>3,353,950</b>	<b>(273,873)</b>	<b>23,155,925</b>
Excess of revenues over (under) expenditures	(4,077,651)	(4,762,754)	(685,103)	(1,415,725)	(1,857,798)	(442,073)	(6,620,552)
Other financing source (uses):							
Net advance of property taxes	4,753,314	4,753,314	-	740,061	-	285,664	4,753,314
Transfer from special revenue fund	-	-	-	-	1,025,725	-	1,025,725
Operating transfer (out) in to debt service	(675,663)	(675,664)	1	675,664	675,664	-	-
<b>Total other financing source (uses)</b>	<b>4,077,651</b>	<b>4,077,650</b>	<b>1</b>	<b>1,415,725</b>	<b>1,701,389</b>	<b>285,664</b>	<b>5,779,039</b>
Excess (deficiency) of revenues and other sources over expenditures	-	(685,104)	(685,104)	-	(156,409)	(156,409)	(841,513)
Adjustments required under GAAP:							
Other GAAP adjustment to revenues	-	1,528,074	1,528,074	-	-	-	1,528,074
Fund balance at beginning of year	-	113,927	113,927	-	3,538,126	3,538,126	3,652,053
Prior period adjustment	-	(818,217)	(818,217)	-	178,308	178,308	(639,909)
<b>Fund balance June 30, 2001</b>	<b>\$ 138,680</b>	<b>\$ 138,680</b>	<b>\$ 138,680</b>	<b>\$ 3,560,025</b>	<b>\$ 3,560,025</b>	<b>\$ 3,560,025</b>	<b>\$ 3,698,705</b>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**1) Organization, Operations and Summary of Significant Accounting Policies**

The accounting policies of the Municipality of Manatí, Puerto Rico conform to generally accept accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

**Financial Reporting Entity**

The Municipality of Manatí was established in the year 1881, as a governmental unit operates under the Law No. 81 of August 30, 1991 known as "Municipal Autonomy Law" of the Commonwealth of Puerto Rico. 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 fourteen councilmen also elected in the general elections of Puerto Rico for a four years period.

The Municipality provides services such as: health, public works, human services, sanitation, welfare, education, public safety, housing and urban development, culture and recreation, and other general and administrative services. The general purposes financial statements of the Municipality have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental Units. The Governmental Accounting Standards Board (GASB), is the standard setting body for governmental accounting and financial reporting. The GASB periodically updates its a codification of the existing Governmental Accounting and financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The general purpose financial statements presents the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the Municipality. This includes the organizational units governed by the Executive Officers and Members of the Municipal Assembly of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units, which may or may not fall within the Municipality's financial statements. The basic criterion for including a component unit within the Municipality's reporting applying the provisions made entity of statement No. 14 of the Governmental Accounting Standard Board (GASB), the oversight responsibility is by Manatí Municipality Assembly.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

The basic criteria under GASB, but not the only one, is the level of accountability that exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately selected governing board, a governing board appointed by another government or a jointly appointed board that is fiscally dependent on the primary government. Other criteria used to evaluate a potential component unit is the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. My specific evaluations of the criteria applicable to the Municipality indicates that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

**(A) Basis of Presentation – Fund Accounting**

The accounts of the Municipality are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditure expenses. The various funds are summarized by type in the financial statements. The Municipality uses the following fund types and accounts groups:

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**JUNE 30, 2001**

**(continued)**

**Governmental Fund Types**

Governmental funds are those through which most governmental functions of the Municipality are financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The following are the Municipality's governmental fund types:

**General Fund-** The general fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are derived from local taxes, property taxes, intergovernmental.

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

**Capital Projects Funds -** The capital project funds are used to account for the financial resources for the acquisition or construction of major improvements or equipment acquisition, except projects to be financed through the special revenue funds. Revenues and financing resources intergovernmental are derived primarily from the issuance of bonds and receipts of grants.

**Special Revenue Funds -** Special Revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds include all major federal and state grants.

**Account Groups -** Account groups are not funds and are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

General fixed assets and general long-term liabilities - The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets.

Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems have been capitalized. Such assets are normally immovable and of value only to the City.

All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General long-term Debt Account Group, not in the governmental funds.

The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations. Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-term Debt Account Group.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(B) Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, which is recorded, when due, are recorded when the liability is incurred, is measurable.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however especial two types of these revenues. In one, money must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other, money is virtually unrestricted as to purpose of expenditure and is usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, charges for services, fines and fogies, sale of property and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation and sick leave pay and (2) principal and interest on general long-term debt, which is recognized when due. Investment earnings (interest) are recorded as earned since they are measurable and available.

All fiduciary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(C) Budgetary Data**

The Municipality follows these procedures, which are in accordance with the Municipal Autonomy Law of August 30, 1991 in establishing the budgetary data reflected in the general purpose financial statements.

- (1) Prior to May 31, the Mayor submits to the Municipal Council a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Council.
- (3) Prior to June 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) The Major is required by the Municipal Autonomous Law to present before October 15 the results of operations of the preceding year.
- (5) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- (6) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Council has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

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

The most significant difference between the budgetary and accounting bases is that encumbrances are recorded as expenditures under the accounting basis.

The budget prepared for each of the special revenue funds is based in a program period, which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary basis.

All unencumbered appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary basis.

The special funds of the special revenue fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Assistance Programs included in the capital projects and special revenue funds in based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

**(D) Inventories**

The general fund purchases office and printing supplies, gasoline, and oil and other items. The cost of purchases is recorded as expenditure and the inventory is not recorded in the general purpose financial statements.

**(E) Inter-fund Transactions**

The general fund provides services at cost to the special revenue funds. The amounts charged to these funds for these services are treated as a reduction of expenditures in the general fund and as current expenditures in the other federal funds.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(F) Compensated Absences**

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations 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 part of the sick leave terminates all rights for compensation, except for employees with ten or more year of service who are entitled to sick leave pay 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 of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrues a liability for compensated absences, which meet the following criteria.

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences are attributable to employees services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASB Number 16, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resources, is included in the general long-term debt account group. The estimated total cost of compensated absences that will require the use of current expendable resources is not included as an accrued liability in the general fund. Employees' maximum allowed accumulated vacations and sick leave are accounted for in the general long-term debt account group.

<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u> <u>Balance</u>
\$1,888,553	\$746,360	\$521,415	\$2,113,498

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(G) Insurance**

The Municipality has insurance coverage for its public facilities, primarily to provided protection from catastrophic 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 agent commissioned to place all of the Municipality's insurance coverage's.

**(H) Total Columns on Combined Statements-Overview**

Total columns on the Combined Statements-Overview are captioned memorandums only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data on comparable to a consolidation. Under-fund elimination has not been made in the aggregation of this data.

**(I) Encumbrances**

Encumbrances accounting are employed in the governmental fund types. Under the encumbrance system all purchases orders, contracts and other commitments issued for goods and services not received at year-end are recorded in order to reserve that portion of the applicable appropriation. The Municipality will honor where the appropriations lapse at year-end these. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and the do not constitute expenditures or liabilities since the commitments will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

**(J) Leases (Lease Purchase)**

Capital lease with Bank Popular, pay semiannual rental payments of \$108,071 on January 27, and July 27, guarantee with equipment. Due on January 27, 2002, interest at 7%.

<u>Beginning Balance</u>	<u>Payments</u>	<u>Ending Balance</u>
\$382,925	\$193,934	\$188,991

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(J) Leases (Lease Purchase)**

The capital lease should be recorded at the present value of the minimum lease payments, but the amount cannot exceed the fair value of the leased property.

The following is a schedule of the future minimum lease payments under capital leases:

<u>Year ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$188,991	\$ 31,323	\$ 220,314

**(K) Operating Leases**

The Municipality leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are calculable at the Municipality's option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2001 amounted to approximately \$118,800.

**(L) 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 above estimates.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(2) Cash and Investment**

The Municipality is authorized to deposit only in institutions approved by the Department of the

Treasury of the Commonwealth of Puerto Rico (Department of the Treasury), and such deposits should be kept in separate bank accounts in the name of the Municipality. All cash at June 30, 2001 is maintained in institutions approved by the Department of the Treasury.

The Municipality follows the practice of pooling cash of all funds, except from restricted funds held by the Municipal Revenue Collection Center for repayment of principal and interests on general long-term obligations, and federal financial assistance. Deposits were with the contracted depository bank in interest bearing accounts, which were secured at balance sheet date by Federal Deposit Insurance Corporation (FDIC) coverage, up to maximum of \$100,000. Deposits in excess of \$100,000 are collateral by bank securities to properly safeguard such funds.

Issued by	Certificate Number	Amount	Interest Rate	Due Date
Government Development Bank	Investment Commercial Paper	\$ 880,000	3.9643	07-17-01
Government Development Bank	Investment Commercial Paper	8,402,000	3.883	07-12-01
Government Development Bank	022	143,116	4.033	07-17-01
Government Development Bank	250-90191	1,170,510	3.38	07-31-01
Total in the general fund		\$10,595,626	4.03	07-31-01
*Government Development Bank	12526	\$ 7,326,246	4.90	07-03-01

\*The certificate is included in the capital project fund.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(Continued)**

**(3) 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 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 value of real property is 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.

The tax rate per annum is .0668 for real property and .0468 for personal property of which .0453 and .0215, respectively, belong to the Commonwealth of Puerto Rico and 2.42% of both belongs to the Municipality. From the portion belonging to the Municipality, 2% represents the Municipality's basic tax rate which is appropriate for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to the Municipality of .85% represents the ad valorem tax withheld by the Municipal Revenue Collection Center (CRIM) and restricted for debt service which is accounted for through the debt service funds. 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 exoneration 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. The Municipal Revenue Collection Center (CRIM) instead of the property tax payer becomes the source of payment in these cases. Complete exemption from personal property taxes up an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

The Municipal Revenue Collection Center (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 advance to the municipality during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the Municipal Revenue Collection Center (CRIM) of the basic tax from the tax payers.

The basic tax advance by the Municipal Revenue Collection Center (CRIM) is recorded in the general fund as other financing sources. As this tax is collected and reported by the Municipal Revenue Collection Center (CRIM), it is recorded in the general fund as revenue and as an expenditure in the general long-term debt account group. The property tax received from the Municipal Revenue Collection Center (CRIM) which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

The following is a summary of the movement in property tax advances for the year ended June 30, 2001:

Advances received	\$ 4,753,314
Amortization through collection of taxes by The Municipal Revenue Collection Center (CRIM)	(5,555,778)
Income from Lottery	(1,049,610)
Property tax exempt	(953,255)
Net CRIM adjustments	2,056,807
Unamortized advances at June 30, 2001	(748,522)
Balance from prior year	281,467
Payment to prior year	35,183
Total	\$ 246,284

The account payable arising from the settlements of the actual property tax collections versus property tax advances was report by CRIM in a preliminary basis. The unamortized advance from June 30, 2000 (prior year), is discount by the Municipal Revenue Collection Center for a monthly amount of \$2,932. The balance was included in the long-term debt group of account.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(4) Volume of Business Tax**

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 tax payers are required to file their declarations by April 15 of each year.

Tax rates are as follow:

1% for financial institutions  
for all other organizations 0.3%  
that volume is less than \$1,000,000.  
Volume more than \$1,000,000 .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 accounts receivable the amount estimated to be collected based on the volume business tax declaration during the next year that pertaining to this year and prior years, included interest receivable. (Net of allowance for uncollectable). The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

**(5) Intergovernmental Revenues**

Sources of intergovernmental revenues consists primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi public corporations, such as the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements.

All of these intergovernmental revenues are accounted for through the general fund except for those directly related to capital improvement, which are accounted for through the special revenue and the capital project funds. Federal Financial assistance is recorded in the special revenue fund.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(6) Property, Plant and Equipment**

The Municipality's fixed assets records are not being kept following the procedures and practices prescribed by Generally Accepted Accounting Principles, therefore they are not adequate to determine the correctness of the amount invested in general fixed assets relate to the initial valuation of real property. The Municipality is planning to organize its property records to determine the amounts invested in general fixed assets. This process requires the identification of all real and personal property through physical inventories and its subsequent valuation. Once this process is completed, the Municipality will be able to determine its real investment in general fixed assets for record-keeping in the accounts and for inclusion in the combined financial statements. Depreciation is not practicable to computed.

	Beginning Balance	Additions	Retirements	Balance 2001
Beginning balance	\$79,780,555	\$	\$	\$79,780,555
Land & building	5,929,094			5,929,094
Automobiles	3,717,559			3,717,559
Machinery and Equipment	797,841			797,841
Office Equipment	1,373,037	884,109		2,257,146
*Inventory	68,770	72,661	68,770	72,661
Sub-Total	91,666,856	956,770	68,770	92,554,856
Construction in Progress	4,291,931	1,649,641	68,770	4,291,931
Total	<u>\$95,958,787</u>	<u>\$2,606,411</u>	<u>\$ 68,770</u>	<u>\$98,496,428</u>

- Inventory from Diagnostic and Treatment Center was estimated.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(7) Long-Term Debt:**

The following is a summary of bonds of the Municipality of Manati for the year ended June 30, 2001.

	Payable at July 1, 2000	Additions	Reductions	Balance June 30, 2001
General Obligations Bonds	\$24,346,679	\$1,255,000	\$1,752,394	\$23,849,285

The annual requirements to amortize all bonded debt outstanding as of June 30, 2001 follows:

Description	Original Amount	Interest Rate	Balance At 06-30-01	Due Date
General obligation Bonds (Series 1983)	\$ 500,000	11.37%	290,000	01-01-2008
General obligation Bonds (Series 1991)	5,100,000	9.995%	2,800,000	07-01-2006
Special loan from Lottery fund	333,000	10%	12,695	01-01-2005
Special loan from Lottery fund	479,438	10%	95,590	07-01-2005
Special obligation	375,000	9.75%	169,000	07-01-2006
Special obligation	400,000	12%	176,000	07-01-2005
Operational loan	7,500,000	9.64%	2,250,000	07-01-2006
Special obligation	3,600,000	12%	2,245,000	07-01-2007
General obligation Bond (Series 2000)	125,000	7.29%	120,000	07-01-2024
General obligation Bond (Serie 2000)	315,000	7.29%	260,000	07-01-2004
General obligation Bonds (Series 94-95)	1,005,000	6.5%	845,000	07-01-2014
General obligation Bond (Series 94-95)	300,000	6.8%	260,000	01-01-2012
General obligation Bonds (Series 95-96)	1,500,000	5.25%	1,456,000	01-01-2022

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

Guaranteed loans funds (by Secretary of Housing and Urban Development) (97-98)	8,915,000	6.10% to 7.13%	8,470,000	08-01-2017
General obligation Bonds (Series 97-98)	2,850,000	7.10%	2,715,000	07-04-2022
General obligation Bond (Series 94-95)	605,000	5.25%	460,000	07-01-2005
General obligation Bonds (Series 99-00)	105,000	4.75%	105,000	07-01-2010
General obligation Bonds (Series 99-02)	1,150,000	4.75%	1,150,000	07-01-2013
			<b>\$23,849,285</b>	

Year Ending June 30	Principal	Interest	Total
2002	\$ 1,865,983	\$ 1,472,537	\$ 3,338,520
2003	1,955,883	1,416,526	3,372,409
2004	2,044,183	1,267,706	3,311,889
2005	2,135,563	1,127,449	3,263,012
2006	2,033,746	849,329	2,883,075
Remaining balance	13,813,927	7,924,374	21,738,301
	<b>\$ 23,849,285</b>	<b>\$ 14,057,921</b>	<b>\$ 37,907,206</b>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(8) Debt Service Funds**

Revenues of debt service fund consist primarily of the ad-valorem property taxes which are recognized as revenues when they are collected by Municipal Revenue Collection Center (CRIM). The Municipal Revenue Collection Center (CRIM) withholds these collections for debt service requirements of the public improvements notes issued by the Municipality. Interest from CAE are received by Municipality.

Principal and interest on these obligations are paid to the Governmental Development Bank from funds obtained from the following:

Property Taxes (CAE)	\$ 1,496,152
Municipal General Funds	675,664
*Special Revenue Funds	1,025,725
CAE Prior Balance	156,409
	<u>\$ 3,353,950</u>

Payments at June 30, 2001 were as follows:

Principal	\$ 1,788,183
Interest	1,565,767
	<u>\$ 3,353,950</u>

\*The special revenue funds provide for payment of interest, the Programs are Community Development Block Grant 2000 and Section 108 loan guarantee.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(9) Employees Retirement Plan**

**a. Plan description**

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employees' 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 retirement 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, 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.

**b. Funding policy**

The Act 447, as amended, is the authority under which obligations to contribute to the plan by the plan numbers, employer's and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary. The Municipality's actual contribution for the year ended June 30, 2001 was \$423,348 which is equal to the required contribution.

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 or more years of service are as follows:

Years of Service	Participant's Age	Pension Benefits
-----	-----	-----
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	55 or more	75% of the average of the three years of highest salary during the employee's service period.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

**(10) Health Insurance**

According to Law 29 as of July 1, 1998 The Municipality contributes to the Administration of Insurance of Health (ASES), the amount of \$86,299 during the year. A monthly contribution of \$1,039,588 was deducted from the amount received from the Municipal Collection Center. This contribution represented 6% of the prior year budget.

Beginning Balance	Increase	Payments	Balance
-----	-----	-----	-----
\$2,946,010	\$1,035,593	\$1,479,430	\$2,502,173
=====	=====	=====	=====

\*These balance correspond to prior year debt from April 1, 1995 to June 30, 1997. The amount will be paid from the Electronic Lottery fund according to Law 29 of July 1, 1997, paid the amount of \$443,837.

**(11) Contingencies**

**A. Litigation**

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying general purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

**B. Federal Financial Assistance**

The Municipality receives financial assistance from the Federal Government in the form of grants or entitlements. All grants are subject to financial and compliance audits by the grantor agencies which could result in requests for reimbursement by the grantor agencies for expenditures which are disallowed under the terms of the grants. These amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Municipality's administration believes that such disallowance, if any, will not have a material adverse effect on the financial position of the Municipality.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

(12) Deferred Revenue

The deferred revenue of the general fund correspond to the business tax received from the next fiscal year. Deferred revenues of special revenue funds are federal awards funds received in advance for the next fiscal year.

(13) Prior Period Adjustment

Represent adjustment to balance accounts receivable from CRIM from prior year be used accounts as general fund and recorded as special revenue funds later.

(14) Other Revenues

The Municipality of Manatí as other revenues include the Center Diagnostic and Treatment of Manatí, know as independent practice Association number 4. The Municipality of Manatí operates and manage the Center. It provide medical services to Arecibo, Barceloneta, Camuy, Ciales, Florida, Hatillo, Lares, Morovis, Quebradillas, Utuado and Vega Baja. Total services (revenues) for this year was \$1,869,067.

(15) Accounts receivable other

Repreented by receivable from the Municipal Revenue Collection Center (CRIM).

(16) Stewardship, Compliance and Accountability

As of June 30, 2001 the actual income were less than income budget, the excess occurred primary due intergovernmental. The interest received and eventual income were less that the amount budget. The expenditures due to health expense and public work expense was more that the amount budget.

(17) The Municipality use the landfill of the Municipality of Vega Baja.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(continued)**

(18) GASB - 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 (Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments). GASB - 34 will significantly change the way in which the Municipality reports its finance.

GASB - 34 established two bases for reporting financial information: government wide financial statements and fund presentation. The government wide financial statements method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business type activities. The basis for preparing fund financial statements is similar to conventional governmental financial statements except the focus for presentation is on major funds rather than fund types. Capital assets and depreciation charges are reported on the entity wide perspective financial statements. The management's discussion and analysis information precedes the basic financial statements but is considered required supplementary information. Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information.

GASB - 34 will begin to take effect for the Municipality in fiscal year beginning after June 15, 2003.

**MUNICIPALITY OF MANATI , PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<b>Direct Program:</b>			
<b>Department of Housing and Urban Development Public and Indian Housing</b>			
Section 8 - Existing	14-857	RQ46-EO-54-001	\$ 20,116
Section 8 - Voucher	14-855	RQ46-VO-54-001	702,823
<b>Community Planning and Development</b>			
Community Development Block Grant	14-218	B-00-MC-72-0016	1,409,907
	14-218	B-99-MC-72-0016	712,862
	14-218	B-98-MC-72-0016	19,107
	14-218	B-97-MC-72-0016	797
	14-218	B-96-MC-72-0016	7
Section 108 loan guarantees	14-248	B-95-MC-72-0016	1,054,238
UDAG (Program Income)			226,874
Atenas Internet (Program Income CEDG)			132,750
<b><u>U.S. Department of Transportation:</u></b>			
<b>Direct Program:</b>			
<b>Federal Transit Administration</b>			
<b>Federal Transit Capital Improvement Grant</b>			
Mini Buses - Buses Purchase	20-500	PR-90-X073	179
Public Car - Terminal Improvements	20-500	PR-90-X090	2,596
<b><u>U.S. Department of Justice:</u></b>			
<b>Office of Community Oriented Policing Services</b>			
Troops to C.O.P.S	16-711	96-UM-MX-0223	95,504
<b><u>U.S. Department of Health and Human Services:</u></b>			
<b>Passed-through Governors Office for Human Development:</b>			
<b>Administration for Children and Families</b>			
Head Start (IPA-22)	93-600	02CH-0483-34-102	2,212,121
Child Care	93-575	CCC-007-M	195,114
<b>Administration on Aging</b>			
Special Program for the Aging Title III B and C	93-044	Supportive Services	165,738
<b><u>U.S. Department of Agriculture:</u></b>			
<b>Passed-through Governors Office for Rural Housing Service:</b>			
Rural Development	10-760		250,000
<b><u>U.S. Department of Justice:</u></b>			
<b>Passed-through Office of Juvenile Justice and Delinquency</b>			
<b>Prevention State Governor's Office</b>			
Delinquency Prevention Title V	16-548	97-JP-FX-0072	1,736
<b><u>U.S. Federal Emergency Management Agency:</u></b>			
<b>Passed-through Emergency Management State and Local Assistance</b>			
FEMA	83-534	1247	96,714
<b><u>U.S. Department of Labor:</u></b>			
<b>Passed-through Commonwealth of PR Department of Education</b>			
<b>Employment Service and Job Training - Pilot and Demonstration Program</b>			
(School to Work)	17-249		11,698
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>\$ 7,310,881</b>

**MUNICIPALITY OF MANATI, PUERTO RICO  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2001**

**(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 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**

The Community Development Block grants, Housing Assistance Payments Programs, Health and Human Services Programs and Federal Emergency Management Agency represents the major federal financial awards of the Municipality. Major federal awards represent 87% of total expenditures.

**(3) FEDERAL CFDA NUMBER**

The CFDA numbers included in this schedule were determined based on the program name by the March 2000 catalog of Federal Domestic Assistance Agency Program Index.

**(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:

<u>Description</u>	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Total</u>
Federal Programs Expenditures .....	\$3,887,089	\$3,423,792	\$ 7,310,881
State & Municipal Expenditures .....	4,226,426	1,294,740	5,520,896
<b>TOTAL EXPENDITURES</b>	<b><u><u>\$8,113,515</u></u></b>	<b><u><u>\$4,718,262</u></u></b>	<b><u><u>\$12,831,777</u></u></b>

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

To the Mayor and Municipal Council  
Municipality of Manatí, Puerto Rico

I have audited the general purpose financial statements of the Municipality of Manatí, Puerto Rico, as of and for the year ended June 30, 2001, and have issued a qualified (for its general fixed assets) report thereon dated December 20, 2001. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Municipality of Manatí financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance, which I have reported to management of Municipality of Manatí in a separate letter dated December 20, 2001.

**Internal Control Over Financial Reporting**

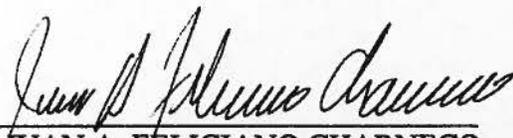
In planning and performing my audit, I considered Municipality of Manatí, Puerto Rico, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purposes financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Municipality of Manatí, in a separate dated December 20, 2001.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico  
December 20, 2001

The stamp number 1768476  
was affixed to the  
original of this report.



CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2004



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

**Mayor of the Municipality of Manatí  
Manatí, Puerto Rico**

**Compliance**

I have audited the compliance of the Municipality of Manatí, Puerto Rico, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Manatí Management. My responsibility is to express an opinion on Municipality of Manatí compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, 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 and Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I require that I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Manatí compliance with those requirements.

In my opinion, Municipality of Manatí, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items

Internal Control Over Compliance

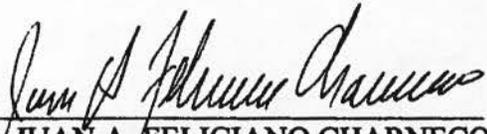
The management of the Municipality of Manatí, Puerto Rico, is responsible for establishing and maintaining internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality of Manatí internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico  
December 20, 2001

The stamp number 1768477  
was affixed to the  
original of this report.

  
CPA JUAN A. FELICIANO CHARNECO  
License No. 1263  
Expires December 1, 2004



**MUNICIPALITY OF MANATI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2001**

**A. Summary of Audit results**

**Financial Statements**

Type of auditor's issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_yes \_\_\_X\_\_\_no

Reportable condition(s) identified not considered to be material weaknesses? \_\_\_yes \_\_\_X\_\_\_none reported

Noncompliance material to financial statements noted? \_\_\_yes \_\_\_X\_\_\_no

**Federal Awards**

Internal control over mayor programs:

Material weakness(es) identified? \_\_\_yes \_\_\_X\_\_\_no

Reportable condition(s) identified not Considered to be material weaknesses? \_\_\_yes \_\_\_X\_\_\_none reported

Type of auditors report issued on compliance considered For mayor programs: Unqualified

Any audit findings disclosed that are required to be Reported in accordance with Circular A-133, Section .510(a) are reported on part C, of this schedule \_\_\_X\_\_\_yes \_\_\_no

**Identification of Mayor Programs**

CFDA Numbers S)	Name of federal Program or Cluster
14-218	Community Development Block Grant
14-855	Section 8 – Voucher
93-600	Head Start
14-248	Section 108 Loan Guarantee
93-575	Child Care

Dollar threshold used to distinguish Between type A and type B programs \$300,000

Auditee qualified as low-risk auditee \_\_\_X\_\_\_yes \_\_\_no

**MUNICIPALITY OF MANATI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2001**

**B - Financial Statements Findings**

No matters were reported regarding reportable conditions, material weaknesses, and instances on 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

**MUNICIPALITY OF MANATI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2001**

**U.S. Department of Health and Human Services  
Head Start (PA 22)  
Pass-through Office of Children and Families Administration  
CFDA No. 93-600  
Grant No.. 02-CH-483-34-102  
Year ended June 30, 2001**

Ref.  
No.    Finding/Noncompliance

**2001-1 Statement of Condition and Criteria:**

It was noted in my test of compliance that is the Municipality is not complying with the criteria established by Treasury Circular letter 1075. The Municipality financial management system.

To established procedures to minimize the time elapsing between the Transfer of funds from the Office of the Administration for Children and Families and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause

The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.

Effect

The Municipality does not maintained an adequate procedures for the Administration of cash that determine properly their needs.

Auditors Recommendation

The Municipality establishes adequate procedures in order to control In a more effective manner the need of the federal funds used.

Municipality Response

We concur with auditors recommendations. The Municipality evaluate The actual administrative procedures followed to establish a procedure To minimize the time between the funds received and the disbursements.

**MUNICIPALITY OF MANATI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2001**

**U.S. Department of Health and Human Services Child Care  
Passed-through Office of Children and Families Administration  
CFDA No. 97-575  
Grant – CCC-07-M  
Year ended June 30, 2001**

**Ref.**

**No.     Finding / Noncompliance**

**2001-2   Statement of Condition and Criteria:**

It was noted in my test of compliance that is the Municipality is not Complying with the criteria established by Treasury Circular letter 1075. The Municipality 's financial management system.

To established procedures to minimize the time elapsing between the Transfer of funds from the Office of the Administration on Aging and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

**Cause:**

The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.

**Effect:**

The Municipality does not maintained and adequate procedures for The administration of cash that determine properly their use needed.

**Auditor's Recommendation:**

The Municipality establishes adequate procedures in order to control In a more effective manner the need of the federal funds used.

**Municipality Response:**

We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds revenue and the expenditures.

**MUNICIPALITY OF MANATI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2001**  
**(continued)**

**Department of Health and Human Services**  
**Administration for Children and Families**  
**Passed-through Governor Office for Human Development**  
**Special Programs for the Aging**  
**CFDA No. 93-044**  
**Grant – Title III**  
**Year Ended June 30, 2001**

Ref.

No.     Finding / Noncompliance

**2001-3 Statement of Condition and Criteria:**

It was noted in my test of compliance is not complying with the criteria established by Treasury Circular letter 1075. The Municipality financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of Children and Families Administration and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause:

The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.

Effect:

The Municipality does not maintained an adequate procedures for the Administration of cash that determine properly their use needed.

Auditors Recommendation:

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluate the actual administrative procedures followed to establish procedures to minimize the time between the funds revenue and the expenditure.

**MUNICIPALITY OF MANATI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2001**  
**(continued)**

**U.S. Department of Housing Development**  
**Passed-through Governors**  
**Office for Housing and Urban Development**  
**Community Development**  
**Block Grant**  
**CDBG 2001**  
**Year ended June 30, 2001**

**Ref.**  
**No.     Finding / Noncompliance**

2001-4   Statement of Condition and Criteria:

It was noted in my test of compliance is not complying with the criteria established by Treasury Circular letter 1075. The Municipalities financial management system.

To established procedures to minimize the time elapsing between the Transfer of funds from the Office of the Administration on Aging and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause:

The Municipality does not comply with the Circular 1075 of the Department of Treasury of the United States.

Effect:

The Municipality does not maintained an adequate procedures for the Administration of cash that determine properly their use needed.

Auditors Recommendation:

The Municipality establishes adequate procedures in order to control in a More effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluate the Actual administrative procedures followed to establish a procedure to minimize the time between the funds revenue and the expenditure.

**MUNICIPALITY OF MANATI  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2001**

**2000-Finding No. 1: U.S. Department of Health and Human Services  
Head Start (PA 22)  
CFDA No. 93-600  
Year ended June 30, 2000**

**Condition:**

It was noted in my test of compliance that is the Municipality is not complying with the criteria established by Treasury Circular letter 1075. The Municipalities financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Administration for Children and Families and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

**Recommendation:**

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

**Current Status:**

Finding reported again.

**MUNICIPALITY OF MANATI  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2001**

**2000-Finding No. 2: Department of Health and Human Services  
Child Care  
CFDA No. 93-575  
Year ended June 30, 2000**

**Condition:**

It was noted in my test of compliance that is the Municipality is not complying with the criteria established by Treasury Circular letter 1075. The Municipalities inancial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Community Planning and Development and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

**Recommendation:**

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

**Current Status:**

Finding reported again.

**MUNICIPALITY OF MANATI  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2001**

**2000-Finding No. 3: Department of Health and Human Services  
Administration for Children and Families  
Special Program for the Aging  
CFDA No. 93-044  
Year ended June 30, 2000**

**Condition:**

It was noted in my test of compliance that is not complying with the criteria established by Treasury Circular letter 1075. The Municipalities financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Administration for Children and Families and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

**Recommendation:**

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

**Current Status:**

Finding reported again.

**MUNICIPALITY OF MANATI  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2001**

**2000-Finding No. 4: U.S. Department of Justice  
Office of Community Oriented Policing Service  
CFDA No.16-711  
Year ended June 30, 2000**

**Condition:**

It was noted in my test of compliance that is the Municipality is not complying with the criteria established by Treasury Circular letter 1075. The Municipalities financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Administration for Children and Families and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

**Recommendation:**

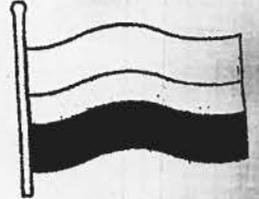
The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

**Current Status:**

Finding reported again.



*Gobierno Municipal de Manatí*  
*Ciudad Metropolitana*  
*Departamento de Finanzas*



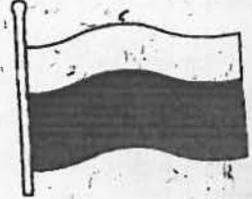
*Sandra M. Ocasio Vázquez*  
*Directora de Finanzas*

**CORRECTIVE ACTION PLAN**  
**YEAR ENDED JUNE 30, 2001**  
**(continued)**

<b>REF: FINDING/CORRECTIVE ACTION PLANNED/PERSON RESPONSIBLE:</b>	<b>Anticipated Completion Date</b>
<p>2001- 1 <u>Statement of Condition:</u></p> <p>The Head Start Program cash balance over \$5,000 for periods longer than 3 days</p> <p><u>Corrective Action Planned:</u></p> <p>The Head Start Administration will evaluate And implement adequate procedures to control and use in a effective manner, federal funds.</p> <p><u>Person responsible:</u></p> <p>Sandra Ocasio, Vázquez, Finance Director</p>	<p>On or before end of 2001-02 fiscal year</p>
<p>2001- 2 <u>Statement of Condition:</u></p> <p>The Child Care Program , cash balance over \$5,000 for periods longer than 3 days</p> <p><u>Corrective Action Planned:</u></p> <p>The Municipality established adequate procedures, To control and use in a effective manner, federal funds.</p> <p><u>Person responsible:</u></p> <p>Sandra Ocasio, Vázquez, Finance Director</p>	<p>On or before end of 2001-02 fiscal year</p>



*Gobierno Municipal de Manatí*  
*Ciudad Metropolitana*  
*Departamento de Finanzas*



*Sandra M. Ocasio-Vázquez*  
*Directora de Finanzas*

**CORRECTIVE ACTION PLAN**  
**YEAR ENDED JUNE 30, 2001**  
**(continued)**

**REF: FINDING/CORRECTIVE ACTION  
PLANNED/PERSON RESPONSIBLE:**

**Anticipated  
Completion  
Date**

**2001- 3 Statement of Condition:**

The Special Program for the Aging,  
Title III cash balance over \$5,000 for periods  
longer than 3 days

On or before  
end of 2001-02  
fiscal year

**Corrective Action Planned:**

The Municipality established adequate procedures,  
To control and use in a effective manner, Federal funds.

**Person responsible:**

Sandra Ocasio, Vázquez, Finance Director

**2001- 4 Statement of Condition:**

The Office of Housing and Urban Development  
CDBG Program, cash balance over \$5,000  
for periods longer than 3 days.

On or before  
end of 2001-02  
Fiscal year

**Corrective Action Planned:**

The Municipality established adequate procedures,  
to control and use in a effective manner, federal funds.

**Person responsible:**

*Sandra M. Ocasio-Vázquez*  
Sandra Ocasio, Vázquez, Finance Director