

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE MANATI

AUDITORIA 2001-02

30 DE JUNIO DE 2002

1606-209/2002

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**MUNICIPALITY OF MANATI, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2002
(INDEPENDENT AUDITOR'S REPORT)**

**MUNICIPALITY OF MANATI, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2002**

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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, 2002, 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 \$99,391,012.

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, 2002, 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 October 2002 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
October 31, 2002

The stamp number 1855768
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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, 2002

	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) 2002
ASSETS							
Cash and investments (Note 2)	\$ 10,654,854		\$14,951,982	\$1,314,867			\$26,921,703
Cash with fiscal agent and other (Note 7 & 8)		4,413,533					4,413,533
Receivable volume business (Note 4)	841,138						841,138
Accounts receivable other (Note 7)	547,707						547,707
Accounts receivable government	334,990		412,742	77,268			825,000
Due to general fund and other funds	393,562			4,550,432			4,943,994
Property, plant and equipment (Note 6)					99,391,012		99,391,012
Amount to be provided for taxes advances (Note 3)						3,560,025	3,560,025
Amount available in debt Service Fund						4,413,533	4,413,533
Amount to be provided for retirement of general long-term debt (Note 7)						25,108,778	25,108,778
Amount to be provided for payment of accrued compensated absences (Note 1 F)						2,515,770	2,515,770
Amount to be provided for health insurance (Note 11)							
Amount to be provided for leases payable							
Total assets and other debits	\$ 12,772,251	\$ 4,413,533	\$ 15,364,724	\$ 5,942,567	\$ 99,391,012	\$ 35,598,106	\$ 173,482,193
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$979,519		\$673,418	\$1,184,884			\$2,837,821
Due to special revenue funds and other	4,550,432						4,550,432
General obligations bonds payable (Note 7)					29,522,311		29,522,311
Due to government entity	338,190						338,190
Vested compensated absences (Note 1 F)					2,515,770		2,515,770
Deferred revenue (Note 12)	6,720,547			7,891			6,728,438
Estimated health insurance obligation (Note 12)							0
Lease obligation payable (Note 1J)							0
Estimated property tax advances (Note 3)						3,560,025	3,560,025
Total liabilities	12,588,688		673,418	1,192,775		35,598,106	50,052,987
Fund Equity:							
Investment in general fixed assets (Note 6)					99,391,012		99,391,012
Reserved for encumbrance	12,456						12,456
Fund balances:							
Unreserved							
Designated for debt service (7 & 8)		4,413,533					4,413,533
Designated for future years			14,691,306	4,749,792			19,441,098
Undesignated	171,107						171,107
Total Fund Equity	12,772,251	4,413,533	14,691,306	4,749,792	99,391,012		123,429,206
Total Liabilities, Fund Equity & Other Credits	\$12,772,251	\$4,413,533	\$15,364,724	\$5,942,567	\$99,391,012	\$35,598,106	\$173,482,193

See notes to general purpose financial statements.

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, 2002

	GOVERNMENTAL FUND TYPES				TOTALS (Memorandum)
	General	Debt Service	Capital Projects	Special Revenues Funds	Only Year Ended 2002
Revenues:					
Property taxes (Note 3)	\$ 953,255	\$2,682,606			\$3,635,861
Local taxes (Note 4)	9,474,851				9,474,851
Intergovernmental Revenues (Note 5)	2,912,501			3,099,095	6,011,596
Rent of properties (Note 7)	128,383	56,383			184,766
Interest income	486,814				486,814
Other revenues (Note 5a)	3,136,623				3,136,623
Federal financial award			2,256,316	6,220,086	8,476,402
Total Revenues	17,092,427	2,738,989	2,256,316	9,319,181	31,406,913
Expenditures:					
Current:					
Municipal Council	113,304				113,304
Administration	8,883,977		1,203,305	9,022,120	19,109,402
Public Safety	5,512,762				5,512,762
Health	3,867,900				3,867,900
Capital Projects	22,232		2,904,851		2,927,083
Other Expenditures	3,003,169				3,003,169
Debt Service:					
Principal Retirement		1,886,974			1,886,974
Interest and Fiscal Charges		1,584,773			1,584,773
Total Expenditures	21,403,344	3,471,747	4,108,156	9,022,120	38,005,367
Excess of Revenues over (under) Expenditures	(4,310,916)	(732,758)	(1,851,840)	297,061	(6,598,453)
Other Financing Source (Uses):					
Net Advance of Property Taxes (Note 3)	5,666,980				5,666,980
Transfer in (out) to debt service fund	(687,953)	687,953			-
Net Bond Issued			7,496,682		7,496,682
Transfer from special revenue fund (Note 8)		898,313	(898,313)		-
Transfer to special revenue fund	(644,571)			644,571	-
Total Other Financing Sources (Uses):	4,334,456	1,586,266	6,598,369	644,571	13,163,662
Excess of revenues and other sources over (under) expenditures and other uses	23,539	853,508	4,746,529	941,632	6,565,209
Fund balance June 30, 2001	138,680	3,560,025	9,944,777	3,808,160	17,451,642
Prior period adjustment (See note 13)	21,344				21,344
Fund balance June 30, 2002	\$ 183,563	\$ 4,413,533	\$ 14,691,306	\$ 4,749,792	\$ 24,038,195

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, 2002

	GENERAL FUNDS			DEBT SERVICE FUND			TOTALS
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	(Memorandum Only Year ended) 2002
REVENUES							
Property taxes	\$ 900,000	\$ 953,255	\$ 53,255	\$ 1,865,820	\$ 2,682,606	816,786	3,635,861
Local taxes	11,241,445	9,474,851	(1,766,594)				9,474,851
Intergovernmental revenues	2,416,487	3,094,712	678,225				3,094,712
Rent of properties	49,200	128,383	79,183				128,383
Interest income	500,000	486,814	(13,186)		56,383	56,383	543,197
Other revenues	1,760,437	1,634,171	(126,266)				1,634,171
Total revenues	16,867,569	15,772,186	(1,095,383)	1,865,820	2,738,989	873,169	18,511,175
EXPENDITURES:							
Current:							
Municipal council	118,241	113,304	4,937				113,304
Administration	9,985,982	8,883,977	1,102,005				8,883,977
Public safety	5,685,982	5,596,215	89,767				5,596,215
Health	3,884,225	3,867,900	16,325				3,867,900
Capital Project	22,383	22,232	151				22,232
Other expenditures	1,513,295	1,500,717	12,578				1,500,717
Debt service:							
Principal retirement				1,076,178	1,886,974	(810,796)	1,886,974
Interest and fiscal charges				789,642	1,584,773	(795,131)	1,584,773
Total expenditures	21,210,108	19,984,345	1,225,763	1,865,820	3,471,747	(1,605,927)	23,456,092
Excess of revenues over (under) expenditures	(4,342,539)	(4,212,158)	130,380	-	(732,758)	(732,758)	(4,944,917)
Other financing source (uses):							
Net advance of property taxes	5,666,980	5,666,980					5,666,980
Transfer from special revenue fund				998,313	898,313	(100,000)	898,313
Operating transfer (out) in to debt service	(663,289)	(687,953)	24,664	663,289	687,953	24,664	-
Total other financing source (uses)	(644,571)	(644,571)	24,664	1,661,602	1,586,266	(75,336)	(644,571)
Excess (deficiency) of revenues and other sources over expenditures	16,581	122,297	105,716	1,661,602	853,508	(808,094)	975,805
Adjustments required under GAAP:							
Other GAAP adjustment to revenues		1,320,241	1,320,241				1,320,241
Other GAAP adjustment to expenditures	138,680	(1,418,999)	(1,418,999)				(1,418,999)
Fund balance at beginning of year		138,680		3,560,025	3,560,025		3,698,705
Prior period adjustment		21,344	21,344				21,344
Fund balance June 30, 2002	\$155,261	\$183,563	\$28,302	\$5,221,627	\$4,413,533	-\$808,094	\$4,597,096

See notes to general purpose financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

1) Organization, Operations and Summary of Significant Accounting Policies

The accounting policies of the Municipality of Manatí, Puerto Rico conform to accounting principles generally accepted in the United States of America 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 present 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, 2002
(continued)

In evaluating the Municipality as a reporting entity, management has addressed all potential component units, which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statement. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

- Selection of Governing Authority
- Designation of Management
- Ability to Influence Operations Significantly

Accountability for Fiscal Matters

- Budget Authority
- Surplus/Deficit
- Responsibility for Debt
- Fiscal Management
- Revenue Characteristics

Factors other than oversight, which may significantly influence the entity relationship, are:

Scope of Public Service
Special Financing Relationships

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to be Municipality of Manatí indicate 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, 2002
(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, 2002
(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, 2002
(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.

Interest income is recognized and accrued in the accounting period in which they are earned.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(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, 2002
(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) Interfund 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, 2002
(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.

Beginning Balance	Additions	Payments	Ending Balance
\$2,113,498	\$875,384	\$473,112	\$2,515,770

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(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>
\$188,991	\$188,991	\$ 0

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(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, 2002 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, 2002
(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, 2002 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	\$ 874,714	1.6875	09-19-02
Government Development Bank	Investment Commercial Paper	4,378,959	1.7500	07-08-02
Government Development Bank	Investment Commercial Paper	4,300,000		07-12-01
Government Development Bank	022	146,375	1.639	07-17-02
Total in the general fund		9,700,048		
Government Development Bank	250-90191	250,039	1.09	07-31-02
*Government Development Bank	12526	5,758,565	1.91	08-05-02
		6,008,604		

*The certificate is included in the capital project fund.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)

(3) Property Taxes

The Collection Center of Municipal Revenues (CRIM) is responsible for the assessment of all real and personal property located within the Municipality of Manatí. Law number 81, approved on August 30, 1991 named Autonomous Municipalities of the Municipality of Puerto Rico Act of 1991, authorizes the municipalities of Puerto Rico to levy a tax contribution over all properties within the territorial limits of the Municipality. Nevertheless, CRIM is responsible for the administration and collection of the corresponding tax contribution, during such fiscal year.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

Law Number 83, approved on August 30, 1991, named Municipal Property Tax Law of 1991, Article 2.01, authorizes the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a basic property tax contribution of up to 4% annually, over the assessed value of all real and non – exonerated property within the municipality, in addition to other contributions imposed based on laws in force. Also, law Number 83, in Article 2.02, authorize the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a special contribution of up to 1.03% annually, over the assessed value of all real, personal and non-exonerated property within the Municipality, to be applied to the amortization of general long-term obligations. This special contribution is also in addition to other contributions imposed based on laws in force.

Based on Articles 2.01 and 2.02 of law number 83, the Municipality of Manatí, Puerto Rico, imposed property tax rates over the assessed value of all real personal property within the Municipality. The tax rates are detailed as follows:

	<u>Personal Property</u>	<u>Real Property</u>
Basic Contribution	4.00%	6.00%
Additional Special State Contribution	1.03	1.03
Additional Special Municipal Contribution	<u>1.25</u>	<u>1.25</u>
	6.28	8.28
Discount Granted by Central Government	(.20)	(.20)
Effective Tax Rates Applicable to Taxpayers	<u>6.08%</u>	<u>8.28%</u>

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

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.

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 taxpayers.

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 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 CRIM sends to the Municipality of Manatí, on monthly payments, 100% of the estimate, made at beginning of fiscal year, of the contribution assessed over property to be collected for the municipality. Within ninety (90) days after fiscal year end, CRIM will prepare a final analysis of funds distributed to the municipality, and the actual funds collected. If fewer funds were distributed, than the actual amount collected by CRIM, they, through the Government Development Bank of Puerto Rico (GDB), will send to the Municipality the remaining balance. If funds were distributed in excess of amounts that actually correspond to the Municipality, CRIM informs to the GDB, in order to retain from future monthly payments, the amounts send in excess.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

The following is a summary of the movement in property tax advances for the year ended June 30, 2002:

Net advances received	\$ 2,210,956
Amortization through collection of taxes by The Municipal Revenue Collection Center (CRIM)	(8,054,140)
Income from Lottery and other	1,325,487
Property tax exempt	953,255
Net CRIM Discounts	3,296,886
Adjustments	79,570
Amount debt to Municipality	\$ (187,986)

(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 taxpayers 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 un-collectable). The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(5) Intergovernmental Revenues

Sources of intergovernmental revenues consist 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 is accounted for through the special revenue and the capital project funds. Federal Financial assistance is recorded in the special revenue fund.

Intergovernmental revenues and federal awards received from the federal government are recorded following the applicable legal and contractual requirements. Essentially, there are two types of revenues; (1) revenues recognize based upon the expenditures recorded. This occurs when money must be expended on the specific purpose of project before any amounts will be paid to municipality. Similarly, if cost sharing or matching requirements exist, revenue recognition depends upon compliance with these requirements; and (2) resources reflected as revenues at the time of receipt or earlier. If susceptible to accrual. This applies to moneys virtually unrestricted as to purpose of expenditures and is usually revocable only for failure to comply with prescribed compliance requirements.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(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 2002
Beginning balance	79,780,555	\$ 0	\$ 0	\$79,780,555
Land & building	5,929,094	4,810,950	0	10,740,044
Automobiles	3,717,559	0	0	3,717,559
Machinery and Equipment	797,841	0	0	797,841
Office Equipment	2,257,146	299,968	0	2,557,114
*Inventory	72,661	0	0	72,661
Sub-Total	92,554,856	5,110,918	0	97,665,774
Construction in Progress	5,941,572	594,616	4,810,950	1,725,238
Total	98,496,428	\$5,705,534	\$4,810,950	\$ 99,391,012

- Inventory from Diagnostic and Treatment Center was estimated.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(7) Long-term Debt:

The following is a summary of bonds of the Municipality of Manatí for the year ended June 30, 2002.

Description	Payable at July 1, 2001	Additions	Reductions	Balance June 30, 2002
General Obligations Bonds	\$23,879,285	\$7,530,000	\$1,868,060	\$29,541,225

The annual requirements to amortize all bonded debt outstanding as of June 30, 2002 follow:

Description	Original Amount	Interest Rate	Balance At 06-30-02	Due Date
General obligation Bonds (Series 1983)	\$ 500,000	11.37%	\$ 262,000	01-01-2008
General obligation Bonds (Series 1991)	5,100,000	9.995%	2,425,000	07-01-2006
Special loan from Lottery fund	333,000	10%	9,708	01-01-2005
Special loan from Lottery fund	479,438	10%	70,294	07-01-2005
Special obligation	375,000	9.75%	142,000	07-01-2006
Special obligation	400,000	12%	142,400	07-01-2005
Operational loan	7,500,000	9.64%	1,875,000	07-01-2006
Special obligation	3,600,000	12%	2,000,000	07-01-2007
General obligation Bond (Series 2000)	125,000	7.29%	115,000	07-01-2024
General obligation Bond (Series 2000)	315,000	7.29%	200,000	07-01-2004
General obligation Bonds (Series 94-95)	1,005,000	6.5%	810,000	07-01-2014
General obligation Bond (Series 94-95)	300,000	6.8%	250,000	01-01-2012
General obligation Bonds (Series 95-96)	1,500,000	5.25%	1,410,000	01-01-2022
Sub-total			9,711,402	

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

Guaranteed loans funds (by Secretary of Housing and Urban Development) (97-98)	\$ 8,915,000	6.10% to 7.13%	\$8,025,000	08-01-2017
General obligation Bonds (Series 97-98)	2,850,000	7.10%	2,665,000	07-04-2022
General obligation Bond (Series 94-95)	605,000	5.25%	380,000	07-01-2005
General obligation Bonds (Series 99-00)	105,000	4.75%	95,000	07-01-2010
General obligation Bonds (Series 99-00)	1,150,000	4.75%	1,130,000	07-01-2025
General obligation Bonds (Series 01-02)	920,000	4.75%	915,909	07-01-2021
General obligation Bonds (Series 01-02)	1,200,000	4.75%	1,200,000	07-01-2026
General obligation Bonds (Series 01-02)	270,000	4.75%	270,000	01-01-2007
General obligation Bonds (Series 01-02)	130,000	4.75%	130,000	01-01-2006
General obligation Bonds (Series 01-02)	2,515,000	4.75%	2,515,000	01-01-2026
General obligation Bonds (Series 01-02)	485,000	4.75%	485,000	01-01-2008
General obligation Bonds (Series 01-02)	2,010,000	4.75%	2,000,000	07-01-2026
			\$29,522,311	

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

Year ending June 30	Principal	Interest	Total
2003	\$ 2,222,961	\$ 2,056,197	\$ 4,279,158
2004	2,335,260	1,905,269	4,240,529
2005	2,463,667	1,748,594	4,212,261
2006	2,453,247	1,588,882	4,042,129
2007	2,386,500	1,443,716	3,830,216
Subsequent years	17,660,676	11,861,634	29,522,310
TOTAL	\$ 29,522,311	\$20,604,292	\$ 50,126,603

(8) Debt Service Funds

Revenues of debt service fund consist primarily of the advalorem property taxes, which are recognized as revenues when Municipal Revenue Collection Center (CRIM) collects them. The Municipal Revenue Collection Center (CRIM) withholds these collections for debt service requirements of the public improvements notes issued by the Municipality. Municipality receives interest from CAE.

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

Property Taxes (CAE)	\$ 2,752,796
Municipal General Funds	618,730
*Special Revenue Funds	998,313
	\$ 4,369,839

Payments at June 30, 2002 were as follows:

Principal	\$ 1,886,974
Interest	1,584,773
	\$3,471,747

*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, 2002
(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 Instrumentality's (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, employers 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, 2002 was \$561,325, 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, 2002
(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 \$1,159,619 during the year. A monthly contribution of \$96,635 was deducted from the amount received from the Municipal Collection Center. This contribution represented 6% of the prior year budget.

(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.

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 dated February 12, 2002. The report covers municipal operations from July 1, 1997 through December 31, 2000. Such report includes findings regarding to certain alleged irregularities in the operations and administration of the Municipality of Manatí, Puerto Rico, during the stated period. The Comptroller's opinion in the report stated that the operations of the Municipality were conducted substantially in accordance with laws and regulations, except for some findings disclosed in specific municipal operations.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(12) Deferred Revenue

The deferred revenue of the general fund corresponds 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 capital 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 manages the Center. It provide medical services to Arccibo, Barceloneta, Camuy, Ciales, Florida, Hatillo, Lares, Morovis, Quebradillas, Utuado and Vega Baja. Total services (revenues) for this year was \$2,023,182

(15) Accounts receivable other

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

(16) Stewardship, Compliance and Accountability

As of June 30, 2002 the actual income were less than income budget, the excess occurred primary due intergovernmental. The interest received and eventual income was less that the amount budget. The expenditures due to health expense and public work expense was more that the amount budget.

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

(18) Claims and Contingencies

Contingency

As per 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. As of June 30, 2002 the amount billed by HIA to the Municipality amounted to \$2,208,990. The Municipality alleged that the HIA never discussed the amount to be contributed by the Municipality and is determined unilaterally. The Municipality's management decided not to record the liability on the financial statements.

On July 7, 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 would be earned on the additional lottery games.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(continued)

(19) 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.

Under the new reporting model, general-purpose governments must present the following basic financial statements and required supplementary information (RSI) to be in accordance with generally accepted accounting principles:

- a. Management's discussion and analysis.
- b. Government-wide financial statements.
- c. Fund financial statements.
- d. Notes to the financial statements.
- e. RSI, including budgetary comparison schedules, infrastructure condition data, and other required by previous GASB pronouncements, if applicable.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2002

(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 defining in Note 1 to the general purpose 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

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 of Federal Domestic Assistance review of grant contract information and the Office of Management and Budget Catalogue.

(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	\$6,438,145	\$1,817,243	\$8,255,388
State & Municipal Expenditures	2,583,975	2,290,913	4,874,888
Total Expenditures	\$9,022,120	\$4,108,156	\$13,130,276

**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, 2002, and have issued a qualified (for its general fixed assets) report thereon dated October 31, 2002. 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 October 31, 2002.

Internal Control Over Financial Reporting

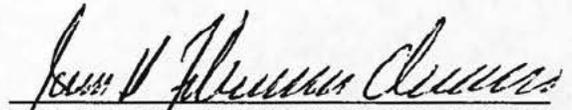
In planning and performing my audit, I considered Municipality of Manatí, Puerto Rico, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over 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 October 31, 2002.

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
October 31, 2002

The stamp number 1855769
was affixed to the
original of this report.


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



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, 2002. 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, 2002. 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 2002-01, 2002-02, 2002-03, 2002-04 and 2002-05.

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
October 31, 2002

The stamp number 1855770
was affixed to the
original of this report.

Juan A. Feliciano Charneco
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, 2002**

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	Name of Federal Program or Cluster
14-218	Community Development Block Grant
14-855	Section 8 – Voucher
93-600	Head Start

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, 2002**

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, 2002**

**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, 2002**

Ref.

No. Finding/Noncompliance

2002-1 Statement of Condition and Criteria:

It was noted in my test of compliance that 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 auditor's recommendations. The Municipality will 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, 2002**

**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, 2002**

Ref.

No. Finding / Noncompliance

Questioned
Cost

2002-2 Statement of Condition and Criteria:

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

-0-

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 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 will evaluate 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, 2002
(continued)

Department of Health and Human Services
Administration On Aging
Passed-through Governor Office for Human Development
Special Programs for the Aging
CFDA No. 93-044
Grant – Title III
Year Ended June 30, 2002

Ref.

No. Finding / Noncompliance

Questioned
Cost

2002-3 Statement of Condition and Criteria:

-0-

It was noted in my test of compliance that 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 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 maintain 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 will 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, 2002
(continued)**

**Department of Health and Human Services Administration On Aging
Passed-through Governor Office for Human Development
Special Programs for the Aging
CFDA No. 93-044
Grant – Title III
Year Ended June 30, 2002**

Ref.

No. Finding / Noncompliance

Questioned
Cost

2002-4 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 Standards of Financial Management Systems, Sub-part C, Section 21,b.

-0-

1. Accurate, current and complete disclosure of the financial results of federally sponsored projects of programs.
2. Records that identify adequately the source and application of funds. The records shall contain information pertaining to federal awards, authorization, obligations, un-obligated balances, assets, outlays, income and interest.
3. Effective controls and accountability for funds, property and other assets.
4. Comparisons of outlays with budget amount for award.
7. Accounting records including cost accounting records that are supported by source documentation.

To established procedures to comply with Financial and Program Management System Standards of funds from the Office of the Administration on Aging. It was noted during my audit that Municipality does not comply with program management system .

Cause

The Municipality does not comply with the Financial and Program Management System, Standards.

Effect

The Municipality does not maintain an adequate procedures for the Administration of Special Program for the Aging, Title III, Program.

Auditors Recommendation

The Municipality must establish adequate procedures in order to control in a more effective manner the standards of financial management.

Municipality Response:

We concur with auditor's recommendations. The Municipality will evaluate the actual administrative procedures followed to establish a procedure to comply with financial and program management standards.

MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002
(continued)

U.S. Department of Housing Development
Passed-through Governors
Office for Housing and Urban Development
Community Development
Block Grant
CDBG 2002
Year ended June 30, 2002

Ref.

No. Finding / Noncompliance

Questioned
Cost

2002-5 Statement of Condition and Criteria:

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

-0-

To established procedures to minimize the time elapsing between the Transfer of funds from the Office of the Housing and Urban Development 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 maintain 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 will 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, 2002**

**2001-Finding No. 1: U.S. Department of Health and Human Services
Head Start (PA 22)
CFDA No. 93-600
Year ended June 30, 2001**

Condition:

It was noted in my test of compliance that is the Municipality does Treasury Circular letter 1075 establish not complying with the criteria. 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, 2002**

**2001-Finding No. 2: Department of Health and Human Services
Child Care
CFDA No. 93-575
Year ended June 30, 2001**

Condition:

It was noted in my test of compliance that is the Municipality does Treasury Circular letter 1075 establish not complying with the criteria. The Municipalities financial 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, 2002**

**2001-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, 2001**

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, 2002**

**2001-Finding No. 4: U.S. Department of Housing Development
SBGP-2001
CFDA No.14-218
Year ended June 30, 2001**

Condition:

It was noted in my test of compliance that is the Municipality does Treasury Circular letter 1075 establish not complying with the criteria. 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, 2002
 (continued)

REF: FINDING/CORRECTIVE ACTION PLANNED/PERSON RESPONSIBLE:	Anticipated Completion Date

<p>2002- 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 an effective manner, federal funds.</p> <p><u>Person responsible:</u></p> <p>Sandra Ocasio Vázquez, Finance Director</p>	<p>On or before end of 2002-03 fiscal year</p>
<p>2002- 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 an effective manner, federal funds.</p> <p><u>Person responsible:</u></p> <p>Sandra Ocasio Vázquez, Finance Director</p>	<p>On or before end of 2002-03 fiscal year</p>

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2002
(continued)**

REF: FINDING/CORRECTIVE ACTION PLANNED/PERSON RESPONSIBLE:	Anticipated Completion Date -----
<p>2002- 3 <u>Statement of Condition:</u></p> <p>The Special Program for the Aging, Title III 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 an effective manner, Federal funds.</p> <p><u>Person responsible:</u></p> <p>Sandra Ocasio Vázquez, Finance Director</p>	<p>On or before end of 2002-02 fiscal year</p>
<p>2002- 4 <u>Statement of Condition:</u></p> <p>The Office of Administration for Children and Families Program, Recipients Financial Management Systems Standards for special Program for the aging title III.</p> <p><u>Corrective Action Planned:</u></p> <p>The Municipality established adequate procedures, to control and use in an effective manner, federal funds.</p> <p><u>Person responsible:</u></p> <p>Sandra Ocasio Vázquez, Finance Director</p>	<p>On or before end of 2002-02 Fiscal year</p>

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2002
(continued)**

2002- 5 Statement of Condition:

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

On or before
end of 2002-03
Fiscal year

Corrective Action Planned:

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

Person responsible:

Sandra Ocasio Vázquez, Finance Director