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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE MANATI
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

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**MUNICIPALITY OF MANATI, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2005
(INDEPENDENT AUDITOR'S REPORT)**

JUAN A. FELICIANO CHARNECO * CERTIFIED PUBLIC ACCOUNTANT

MUNICIPALITY OF MANATI, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2005

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Municipio Autónomo de Manatí
La Atenas de Puerto Rico
Departamento de Finanzas



Sandra M. Ocasio Vázquez
Directora de Finanzas

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipality of Manatí, we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2004-2005 operations sustain the Municipality's track of solvency and sound fiscal condition. The Governmental Wide financial statement also supports our statement. This condition is achieved in a time of economy constrains and low revenues growth rates.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality Government exceeded its liabilities at the close of the current fiscal year by \$40,790,849 (net assets).
- The adjusted actual of the General Fund operations resulted in a un-favorable variance of \$2,051,36 as compared to the revised budget.
- As June 30, 2005 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$114,697 an decrease of \$3,346,608 in comparison with the prior year.
- Loans principal payments were \$2,544,235 during fiscal year 2004-05. Loan proceeds from new debt issued amounted to \$3,192,867 during the same fiscal year.

New Requirements for the Financial Reporting

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

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

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MUNICIPALITY OF MANATI MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements Components

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

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

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

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement.

MUNICIPALITY OF MANATI MANAGEMENT'S DISCUSSION AND ANALYSIS

Infrastructure Assets

The Municipality implemented the major model portions of GASB statement 34 during the current fiscal year. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statement. The new statement required that this asset be valuated and reported within the Governmental column of the Governmental Wide Statement. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets managements system, which periodically, by category, measures and demonstrate its maintenance system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

Government-Wide Statement

Statement of Net Assets

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$40,790,849 millions at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

**MUNICIPALITY OF MANATI
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Net Assets
As of June 30, 2005 and 2004**

	2005	2004
Current and other assets	\$ 63,063,383	\$23,778,078
Capital assets	19,423,469	58,173,376
Total assets	82,486,852	81,951,454
Current and other liabilities	14,208,758	17,522,399
Long-term liabilities	27,487,245	26,284,011
Total liabilities	41,696,003	43,806,410
Net assets:		
Invested in capital assets, net related debt	36,949,383	32,739,602
Reserve for debt service	3,052,776	3,816,011
Special revenue fund	212,080	615
Capital project fund	8,508,992	6,710,112
Unrestricted	(7,932,382)	(5,121,296)
	\$ 40,790,849	\$38,145,044

The principal increase of the net assets was due mainly to the inclusion of the capital assets of the municipality. Such amount will increase as the infrastructure assets are identified and included in the financial statements.

Statement of Activities

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

For the year ended June 30, 2005 and 2004

	2005	2004
General revenue	\$ 25,909,632	\$ 27,498,830
Program revenue	22,439,537	11,660,810
Total revenue	48,349,169	39,159,640
Expenses	48,892,521	34,612,653
Governmental activities		34,612,653
Change in net assets	\$ (543,352)	\$ 4,546,987

**MUNICIPALITY OF MANATI
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Governmental Funds
Balance Sheet
June 30, 2005 and 2004**

	2005	2004
Assets:		
Cash	\$14,208,874	\$16,496,022
Restricted Cash	3,052,776	3,905,011
Accounts Receivable	3,267,279	5,772,473
Total Assets	\$20,528,929	\$26,173,506
Liabilities and Fund Balance		
Liabilities:		
Accounts payable and due to	4,568,616	8,981,534
Deferred Revenue and Volume of Business Tax	7,418,376	6,550,537
Total Liabilities	11,996,992	15,532,071
Fund Balances	8,541,937	10,641,435
Total liabilities and Fund Balances	\$20,528,929	\$26,173,506

The most significant changes in this statement were as follows:

- Noticeably, the fund balances are mostly in cash and cash restricted.
- The increase in assets and liabilities is due mainly to the loan of \$3,192,867 obtained during the year.

**MUNICIPALITY OF MANATI
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2005 and 2004**

	2005	2004
Revenues:		
Property taxes	\$ 9,052,870	\$ 9,133,746
Volume of business tax	7,894,538	7,883,087
Accounts Receivable	17,258,221	7,819,690
Federal grants	9,372,081	8,538,556
Other	4,771,459	5,429,633
Total Revenues	48,349,169	38,804,712
Liabilities and Fund Balance		
Expenditures:		
General Government	13,081,696	13,817,828
Public works	1,718,245	3,982,500
Public safety	4,598,344	1,529,594
Health	5,385,573	4,912,224
Capital projects	14,844,637	6,357,221
Bonds, notes and interests	3,984,204	3,834,213
Education and training	4,812,858	4,855,438
Other expenditures	2,538,563	2,107,976
Total Expenditures	50,964,120	41,396,994
Excess of revenues (expenditures)		
Over expenditures (revenues)	\$ (2,614,951)	\$ (2,592,282)

The most significant changes of this statement is as follows:

- The larger increase was in the intergovernmental revenue and federal grants by approximately \$8.7 and 1 million, respectively.
- The most significant change sin the expenditures were an increase in other for approximately \$8.4 millions related with capital outlays.



Municipio Autónomo de Manatí
La Atenas de Puerto Rico
Departamento de Finanzas



Sandra M. Ocasio Vázquez
Directora de Finanzas

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year Budget

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 16 members.

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

The municipality has a wide industrial base, large pharmaceuticals, wholesalers, retail stores, financial institutions, and restaurants, among others. This industrial base has increased substantially during the most recent years.

Contacting the Municipality's Financial Management

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

Sandra Ocasio Vázquez
Finance Director

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INDEPENDENT AUDITOR'S REPORT

Mayor of the Municipality of Manatí
Manatí, Puerto Rico

I have audited the accompanying financial statements of the Governmental Activities, each major fund and the remaining fund information of the **Municipality of Manatí**, Puerto Rico, as of and for the year ended June 30, 2005, which collectively comprise the **Municipality of Manatí** basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of each major fund and the aggregate remaining fund information and governmental activities of the **Municipality of Manatí**, Puerto Rico, as of June 30, 2005, and the respective changes in financial position, thereof the respective budgetary comparison for the general fund 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 28, 2005 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. The additional report is not an integral part of a governmental auditing standard audit in considering the results of the audit the separate report should be read in conjunction with the auditor's report considering the results of our audit.

My audit was performed for the purpose of forming an opinion on the Governmental Activities 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.

As described in Note 1, on July 1, 2003, the **Municipality** implemented a new financial reporting model required by GASB Statement No. 34, (GASB No. 34), *Basic Financial Statements – And Management's Discussion and analysis-for State and Local Governments*. In conjunction with the adoption of BASB No. 34, the Municipality has also adopted the following pronouncements: (1) BASB Statement No. 37-*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, (2) GASB Statement No.38-*Certain Financial Statement Note Disclosures*, and (3) GASB Interpretation No. 6-*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The Management's Discussion and Analysis, on pages 1 through 7 are not a required part of the basic financial statements but does the Accounting Principles Generally Accepted in the United States of America require supplementary information. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audited the information and express no opinion on it.

San Juan, Puerto Rico
October 28, 2005

The stamp number **2108531**
was affixed to the
original of this report

Juan A. Feliciano
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007



The seal is circular with the text "JUAN FELICIANO CHARNECO" around the top edge and "PUERTO RICO" around the bottom edge. In the center, it reads "CONTADOR PUBLICO AUTORIZADO LIC. No. 1263".

MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2005

<u>ASSETS</u>	Governmental Activities
Cash and investments	\$ 14,208,874
Cash with fiscal agent and other	3,052,776
Receivable volume business	328,734
Accounts receivable federal government	896,524
Accounts receivable other	353,219
Accounts receivable government	583,342
Capital Assets	63,063,383
Total assets	\$ 82,486,852
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 2,878,537
Deferred revenue	7,418,376
Due to government entity	584,619
Noncurrent liabilities:	3,327,226
Due within one year	27,487,245
Due in more than one year	
Total liabilities	41,696,003
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	36,949,383
Reserve for debt service	3,052,776
Special revenue fund	212,080
Capital project fund	8,508,992
Unrestricted (deficit)	(7,932,382)
Total Net Assets	40,790,849
Total liabilities and net assets	\$ 82,486,852

See notes to financial statement

MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (expense) revenue and change in Net Assets in Net Assets Governmental Activities
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	
EXPENDITURES:					
General government	\$ 13,276,284	\$ (154,310)	\$ (1,831,760)	\$ (795,972)	\$ 10,494,242
Public work	5,840,308	-	-	-	5,840,308
Public safety	1,938,760	-	-	-	1,938,760
Health	5,423,674	-	-	-	5,423,674
Capital projects	14,844,637	-	(745,825)	(14,098,812)	-
Culture and recreation	2,372,135	-	-	-	2,372,135
Education and training	4,812,858	-	-	(4,812,858)	-
Other expenditures	383,865	-	-	-	383,865
Debt service:					
Interest	1,439,969	-	-	-	\$ 1,439,969
Total governmental activities	\$ 48,892,521	\$ (154,310)	\$ (2,577,585)	\$ (19,707,642)	\$ 26,452,984
GENERAL REVENUES					
Property taxes					\$ 9,052,870
Municipal licenses tax					7,894,538
Licenses, permits and fines					1,234,821
Intergovernmental revenues					4,345,075
Interests revenues					539,562
Other Revenues					2,842,766
Total general revenues					25,909,632
Changes in net assets					(543,352)
Net assets at beginning of year					38,145,044
Prior period adjustment					3,195,157
Net assets at end of year					\$ 40,796,849

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

ASSETS	General Fund	2004-2005 Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 5,202,926	\$ 1,519,998	\$ 1,814,676	\$ 166,595	\$ -	\$ 5,504,679	\$ 14,208,874
Cash with fiscal agent and other	-	-	-	-	3,052,776	-	3,052,776
Receivable volume business	328,734	-	-	-	-	-	328,734
Accounts receivable federal government	-	-	557,116	251,571	-	87,837	896,524
Accounts receivable general fund	-	-	-	-	-	955,955	955,955
Accounts receivable other	233,581	-	119,638	-	-	-	353,219
Accounts receivable government	583,342	-	-	-	-	-	583,342
Due from other funds	147,646	-	-	-	-	1,859	149,505
Total assets and other debits	\$ 6,496,229	\$ 1,519,998	\$ 2,491,430	\$ 418,166	\$ 3,052,776	\$ 6,550,330	\$ 20,528,929
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 767,331	\$ -	\$ 1,629,492	\$ 270,520	\$ -	\$ 211,194	\$ 2,878,537
Due to special revenue funds	957,814	-	-	-	-	-	957,814
Due to general fund	-	-	-	147,646	-	-	147,646
Due to government	584,619	-	-	-	-	-	584,619
Deferred revenue	7,418,376	-	-	-	-	-	7,418,376
Total liabilities	9,728,140	-	1,629,492	418,166	-	211,194	11,986,992
Fund balances							
Reserve for debt services	\$ -	\$ -	\$ -	\$ -	\$ 3,052,776	\$ -	\$ 3,052,776
Encumbrances	35,500	-	-	-	-	-	35,500
General Fund	(3,267,411)	-	-	-	-	-	(3,267,411)
Special revenue fund	-	-	-	-	-	212,080	212,080
Capital Project fund	-	1,519,998	861,938	-	-	6,127,056	8,508,992
Total fund balances	(3,231,911)	1,519,998	861,938	-	3,052,776	6,339,136	8,541,937
Total liabilities and fund balance	\$ 6,496,229	\$ 1,519,998	\$ 2,491,430	\$ 418,166	\$ 3,052,776	\$ 6,550,330	\$ 20,528,929

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

- Accrued compensated absence
- Liability for claims and judgments
- Health insurance debt
- Bonds payable

\$ 2,935,476
225,000
1,539,995
26,114,000

Total long-term liabilities

30,814,471
\$ 40,790,849

See notes to financial statement

MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND -
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	2004-2005 Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES							
Property taxes	\$ 7,410,618	\$ -	\$ -	\$ -	\$ 1,642,252	\$ -	9,052,870
Municipal license tax	7,894,538	-	-	-	-	-	7,894,538
Licenses, permits and fines	1,234,821	-	-	-	-	-	1,234,821
Intergovernmental revenues	3,597,913	-	-	-	-	13,660,308	17,258,221
Rent of properties	154,310	-	-	-	-	-	154,310
Interest income	500,054	-	-	-	39,508	-	539,562
Other revenues	2,842,766	-	-	-	-	-	2,842,766
Federal financial award	-	-	3,754,150	5,139,603	-	478,328	9,372,081
Total revenues	23,635,020	-	3,754,150	5,139,603	1,681,760	14,138,636	48,349,169
EXPENDITURES:							
Current:							
General government	10,786,709	-	1,831,760	-	-	463,227	13,081,696
Public safety	4,598,344	-	-	-	-	-	4,598,344
Public works	1,718,245	-	-	-	-	-	1,718,245
Health	5,385,573	-	-	-	-	-	5,385,573
Capital projects	-	5,370,173	745,825	-	-	8,728,639	14,844,637
Culture and recreation	2,154,698	-	-	-	-	-	2,154,698
Education and training	-	-	-	4,812,858	-	-	4,812,858
Other expenditures	383,865	-	-	-	-	-	383,865
Debt service:							
Principal retirement	-	-	-	-	2,544,235	-	2,544,235
Interest and fiscal charges	-	-	-	-	1,439,969	-	1,439,969
Total expenditures	25,027,434	5,370,173	2,577,585	4,812,858	3,984,204	9,191,866	50,964,120
Excess of revenues over (under) expenditures	(1,392,414)	(5,370,173)	1,176,565	326,745	(2,302,444)	4,946,770	(2,614,951)
Other financing source (uses):							
Transfer in (out) to debt service fund	(658,972)	-	(914,542)	-	1,573,514	-	-
Interest expenditure	-	-	-	-	(123,305)	-	(123,305)
Net bond issued debt	-	3,192,867	-	-	-	-	3,192,867
Bond expenditure	-	-	-	-	-	-	-
Total other financing source (uses)	(658,972)	3,192,867	(914,542)	-	1,450,209	-	3,069,562
Excess of revenues and other sources over (under) expenditures and other uses	(2,051,386)	(2,177,306)	262,023	326,745	(852,235)	4,946,770	454,611
Fund balance June 30, 2004	114,697	3,697,304	1,620,442	615	3,905,011	1,392,366	10,730,435
Prior period adjustment	(1,295,222)	-	(1,020,527)	(327,360)	-	-	(2,643,109)
Fund balance June 30, 2005	\$ (3,231,911)	\$ 1,519,998	\$ 861,938	\$ -	\$ 3,052,776	\$ 6,339,136	\$ 8,541,937

See notes to financial statements.

04/07/2005

**MUNICIPALITY OF MANATI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

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

\$ 454,611

Net change in fund balance - total governmental funds

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

Less: current year depreciation

(1,912,602)

(1,912,602)

Some revenues reported in the statement of activities do not
require the use of current financial resources and, therefore,
are not reported as income in governmental funds.

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

Net bond proceeds of bond issued

3,192,867

Principal payments

(2,544,235)

648,632

Some expenses reported in the statement of activities do not
require the use of current financial resources and, therefore,
are not reported as expenditures in governmental funds.

266,007

Change in net assets of governmental activities

\$ (543,352)

See notes to financial statement

MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND AND DEBT SERVICE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 953,255	\$ 953,255	\$ 953,255	\$ -
Municipal license tax	8,500,000	8,500,000	7,565,804	(934,196)
Intergovernmental revenues	3,688,277	3,688,277	3,597,913	(90,364)
Licenses, permits and fines	1,085,000	1,085,000	1,234,821	149,821
Rent of properties	150,000	150,000	154,310	4,310
Interest income	600,000	600,000	266,473	(333,527)
Other revenues	2,659,667	2,659,667	1,343,099	(1,316,568)
Other financial source	6,069,626	6,069,626	6,339,377	269,751
Total revenues	\$ 23,705,825	\$ 23,705,825	\$ 21,455,052	\$ (2,250,773)
EXPENDITURES:				
Current:				
General government	\$ 10,194,249	\$ 10,194,249	\$ 10,544,395	(350,146)
Public safety	1,725,627	1,725,627	1,718,245	7,382
Public Work	4,614,084	4,614,084	4,598,344	15,740
Health	3,894,738	3,894,738	3,885,907	8,831
Culture and recreation	2,159,616	2,159,616	2,154,699	4,917
Other Expenditures	385,631	385,631	383,865	1,766
Transfer to debt service	731,880	731,880	658,972	72,908
Total expenditures	\$ 23,705,825	\$ 23,705,825	\$ 23,944,427	\$ (238,602)
Excess of revenues over (under) expenditures			\$ (2,489,375)	(2,489,375)
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			\$ 21,455,052	
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				3,864,728
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				\$ 25,319,780
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule			\$ 23,944,427	
Differences - budget to GAAP:				
Non budgeted expenditures				1,083,007
Budgeted expenditures included prior year				2,410,680
Other financial resources transferred to debt service				1,573,514
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				\$ 29,011,628

See notes to budgetary comparison schedule.

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

GENERAL ORGANIZATION

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Municipality's financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

The Municipality of Manatí was required to implement this Standard for the fiscal year ended June 30, 2003.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

b. Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of the **Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 14, - *The Financial Reporting Entity (GASB No. 14.)*

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of **the Municipality** as of June 30, 2005 nor for the year then ended.

c. Basic Financial Statements-GASB Statement No. 34

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

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

This government-wide focus is more on the substantiality of **the Municipality** the change in aggregate economic position resulting from the activities of the fiscal period.

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basic Financial Statements-GASB Statement No. 34 (continuation)

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund statements into the governmental wide statements.

d. Basis of Presentation

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

Major Funds

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund – Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Head Start – Program Funds – The special revenue fund of Head Start is a major fund used by **the Municipality** to account for revenues derived from the grant that is legally restricted by outside parties for use on specific purpose. The uses and limitations of this revenue fund are specified by municipal ordinances of federal and state statues.

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

d. Basis of Presentation (continuation)

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

e. Basis of Accounting

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

Measurement Focus, Basis of Accounting

Government-wide Financial Statements – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Funds Financial Statement – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or 60 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

e. Basis of Accounting (continuation)

Governmental Fund Types / Governmental Activities – 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.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

f. Encumbrances

Governmental funds employ encumbrances accounting. Under the encumbrance system, all purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and they constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and accordingly, are reported with expenditures in all budgetary basis statements.

g. Budgetary Data

The Municipality follows these procedures, which are in accordance with the municipal law; in establishing the budgetary date reflected in the basic financial statements.

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

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Budgetary Data (Continuation)

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

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year. During the fiscal year, the Municipality readjusted its original budget of the General Fund Balance by \$(2,250,773 from current year resources decrease.

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

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

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

h. Deposits

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

i. Inventories

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

j. Capital Assets

Fund Financial Statements

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

Government Wide Financial Statement

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

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

k. Vacation and Sick Leave and Other Compensated Absences

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

l. Insurance

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

m. Restricted Assets

Investments and Certificates

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

Cash with fiscal agent

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 12) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

n. Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. **The Municipality** has the following reservations of fund balance:

- *Encumbrances* – Represent future expenditures under purchase order, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *Debt Service* – Represents net assets available to finance future debt service payments.
- *Capital Projects* – Represent net assets available to finance future capital outlays.
- *Special Revenue Fund* – Represent net assets available to finance specified outlays.
- *For other Purposes* – Represent mainly resources set aside for use in federal and state grant programs accounted for in the special revenue funds, and resources available in the general fund for the payment of certain accounts payable and commitments approved by GDB.

o. Claims and Judgements

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

p. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

q. Totals Column (Memorandum Only) Governmental Funds Statement

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

2. PROPERTY TAXES

The "Centro de Recaudación de Ingresos Municipales"(CRIM) is responsible for the assessment of all real and personal property located within the **Municipality of Manatí** and for the levy, administration and collection of the corresponding taxes.

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

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The tax rate per annum is 8.08% for real property and 6.08% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.5% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.3% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service which is accounted for through the debt service fund (See note 11). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax 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. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer becomes the source of payment in these cases.

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

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

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

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$281,663 during 2005.

The following is a summary of the property tax advances, which resulted as an account receivable, for the year ended June 30, 2005 and outstanding debt from 2005. The resulting receivable is presented as a deferred revenue in the general fund for Fund Financial Statement and as a revenue in the Government Wide Financial Statements. The debt has been presented in the Statement of Net Assets as a non-current liability since payment is not anticipated to be paid in near future.

Accounts Receivable:

Amortization through collections of property taxes by the CRIM	
07-01-04 – 06-30-05	\$ 9,170,581
Advance received, 07-01-04 – 06-30-05	9,052,596
Due to Municipality 2005	\$ 117,985

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

3. DEPOSITS

Deposits include investment account amounting to \$4,027,278. **The Municipality's** cash and investments at June 30, 2005, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. **The Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, **the Municipality** invested its funds in interest-bearing bank accounts, and short-term certificates of deposit.

4. CONCENTRATION OF CREDIT RISK

The Municipality maintains its cash account in local commercial banks, whose accounts are warranted by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits in excess of \$100,000 are collateralized by the bank securities to properly safeguard such funds. Nevertheless, Management believes that concentration of credit risks is limited because balances are deposited with high standing financial institutions.

5. MUNICIPAL LICENSE TAXES

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

The tax rates are as follow:

1% for financial institutions
for all other organizations 0.5%

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The Municipality recognized as account receivable the amount estimated to be collected based on the volume business tax declaration during the next year that pertaining to this year and prior years included interest receivable of \$9,352. (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.

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

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

6. INTERFUND TRANSACTIONS

Due From/To Other Funds (Fund Financial Statement)

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

Funds	Due From	Due To
General Funds	\$ -	\$ 957,814
Other Funds	957,814	-
TOTAL	\$ 957,814	\$ 957,814

The Inter.-fund receivables and payables on Fund Financial Statement are eliminated on Statement of Net Assets (Government Wide Financial Statement).

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

7. INTERGOVERNMENTAL REVENUES

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

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

8. DUE FROM (DUE TO) GOVERNMENTAL ENTITIES

As of June 30, 2005 balances from (due to) governmental entities of the general fund consists of the following:

Name	Due to
Electric Puerto Rico Power Authority	\$ 184,499
Puerto Rico Water and Sewer Authority	64,143
Puerto Rico Retirement System	142,473
Puerto Rico Telephone Co.	155,026
United States Treasury	1,714
Puerto Rico Department of Treasury	36,764
Totals	\$ 584,619

Part of the balances of due from governmental agencies were recorded as deferred revenues- others as of June 30, 2005.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

9. CAPITAL ASSETS

Fund Financial Statements

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

	Balance 6/30/2004	Additions	Retirements and transfers dispositions	Balance 6/30/2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 11,656,100	\$ 636,000	\$ -	\$ 12,292,100
Construction in progress	10,127,729	1,318,000	612,307	10,833,422
Total capital assets not being depreciated	<u>21,783,829</u>	<u>1,954,000</u>	<u>612,307</u>	<u>23,125,522</u>
Capital assets, being depreciated				
Buildings and building improvements	43,026,002	1,748,310	-	44,774,312
Infrastructure	15,533,708	2,397,142	-	17,930,850
Equipment	4,676,218	640,971	-	5,317,189
Vehicles	7,787,845	674,496	-	8,462,341
Total capital assets being depreciated	<u>71,023,773</u>	<u>5,460,919</u>	<u>-</u>	<u>76,484,692</u>
Less accumulated depreciation for:				
Buildings and building improvements	(10,949,165)	-	770,472	(11,719,637)
Infrastructure	(14,239,232)	-	258,895	(14,498,127)
Equipment	(3,369,493)	-	340,820	(3,710,313)
Vehicles	(6,076,336)	-	542,418	(6,618,754)
Total accumulated depreciation	<u>(34,634,226)</u>	<u>-</u>	<u>1,912,605</u>	<u>(36,546,831)</u>
Total capital assets being depreciated, net	<u>36,389,547</u>	<u>5,460,919</u>	<u>1,912,605</u>	<u>39,937,861</u>
Governmental activities capital assets, net	<u>\$ 58,173,376</u>	<u>\$ 7,414,919</u>	<u>\$ 2,524,912</u>	<u>\$ 63,063,383</u>

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

Governmental activities:	
General government	\$194,588
Public safety	220,515
Public works	1,241,964
Culture and recreation	217,437
Health	38,101
Total depreciation expense- governmental activities	\$1,912,605

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Government Wide Financial Statements

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

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

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

10. CHANGES IN GENERAL LONG-TERM DEBT

General in General Long- Term Debt

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

The following is a summary of bonds of the Municipality of Manati for year ended June 30, 2005.

Description	Payable at July 1, 2004	Additions	Reductions	Balance June 30, 2005
General Obligations Bonds	\$25,433,774	\$3,223,000	\$2,544,235	\$26,114,000

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

11. GENERAL IN LONG-TERM DEBT (Continuation)

The annual requirements to amortize all bonded debt outstanding as of June 30, 2005 follow:

Description	Original Amount	Interest Rate	Balance at 06-30-05	Due Date	Due within One Year
General obligation Bonds (Series 1991)	\$5,100,000	9.95%	\$1,090,000	07-01-2006	\$520,000
Special loan from Lottery fund	333,000	10%	-0-	01-01-2005	-0-
Special loan from Lottery fund	479,438	10%	-0-	07-01-2005	-0-
Special obligation	375,000	10%	41,000	07-01-2006	20,000
Special obligation	400,000	12%	-0-	07-01-2005	-0-
Operational loan	7,500,000	5.00%	375,000	07-01-2006	375,000
Special obligation	3,600,000	7.06%	1,130,000	07-01-2007	345,000
General obligation Bond (Series 2000)	125,000	5.00%	100,000	07-01-2024	5,000
General obligation Bond (Series 2000)	315,000	5.00%	-0-	07-01-2005	-0-
General obligation Bonds (Series 94-95)	1,005,000	7.06%	685,000	07-01-2014	45,000
General obligation Bond (Series 94-95)	300,000	5.50%	215,000	01-01-2012	15,000
General obligation Bond	1,160,000	2.7%	1,110,000	07-01-2026	20,000
General obligation Bonds (Series 95-96)	1,500,000	5.25%	1,255,000	01-01-2022	57,000

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2005

Description	Original Amount	Interest Rate	Balance at 06-30-05	Due Date	Due within One Year
Guaranteed loans funds (by Secretary of Housing and Urban Development) (97-98)	\$ 8,915,000	6.23%	6,690,000	08-01-2017	445,000
General obligation Bonds (Series 97-98)	2,850,000	5.32%	2,485,000	07-04-2022	70,000
General obligation Bond (Series 94-95)	605,000	5.32%	105,000	07-01-2005	105,000
General obligation Bonds (Series 99-00)	105,000	5.00%	50,000	07-01-2010	15,000
General obligation Bonds (Series 99-00)	1,150,000	5.00%	1,040,000	07-01-2025	35,000
General obligation Bonds (Series 01-02)	920,000	5.00%	785,000	07-01-2021	45,000
General obligation Bonds (Series 01-02)	270,000	5.00%	150,000	01-01-2007	45,000
General obligation Bonds (Series 01-02)	130,000	5.00%	60,000	01-01-2006	30,000
General obligation Bonds (Series 01-02)	2,515,000	2.70%	2,370,000	01-01-2026	60,000
General obligation Bonds (Series 01-02)	485,000	5.00%	300,000	01-01-2008	70,000
General obligation Bonds (Series 01-02)	2,010,000	4.75%	1,875,000	07-01-2026	45,000
General obligation Bonds (Series 2005)	785,000	5.00%	695,000	07-01-2010	100,000
General obligation Bonds (Series 2005)	320,000	5.00%	315,000	07-01-2028	5,000
General obligation Bonds (Series 2005)	250,000	4.37% to 5.00%	250,000	07-01-2009	45,000
General obligation Bonds (Series 2005)	318,000	2.0%	318,000	01-01-2025	11,711
General obligation Bonds (Series 2005)	385,000	3.27 to 5.00%	385,000	01-07-2014	30,000
General obligation Bonds (Series 2005)	625,000	3.27 to 5.00%	625,000	01-07-2019	30,000
General obligation Bonds (Series 2005)	645,000	4.3% to 5.0%	645,000	07-01-2029	10,000
General obligation Bonds (Series 2005)	1,000,000	4.5%	970,000	07-01-2025	31,000
TOTAL	\$ 46,475,438		\$26,414,000		\$2,629,711

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The annual requirements to amortize all bonded debt outstanding as June 30, 2005 follows:

Year Ending	Principal	Interest	Total
2006	\$2,629,711	\$ 1,424,711	\$ 4,054,422
2007	2,274,946	1,329,968	3,604,914
2008	1,739,187	1,241,284	2,980,471
2009	1,394,432	1,115,854	2,510,286
2010	1,354,681	1,035,630	2,390,311
Subsequent years	16,721,043	7,138,842	23,859,885
	\$26,114,000	\$13,286,289	\$ 39,400,289

The Municipality is subjected to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond obligations that can be used to 10% of the assessed valuation of the property located at the **Municipality of Manati**.

12. DEBT SERVICE FUND

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

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

Property taxes	\$ 1,681,760
General funds	658,972
Other funds	914,542
Debt Service fund	728,930
	\$ 3,984,204

Expenditures for the year 2004-2005 were as follows:

Principal	\$ 2,544,235
Interest	1,439,969
	\$ 3,984,204

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

13. RETIREMENT SYSTEM

Plan Description

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

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

OLD PLAN

Eligibility

Pension Benefits

Age 55 and 30 years
Of service

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

Under 55 and 30 ears
Of service

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

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NEW PLAN

Eligibility

Age 65 with 10 years
of service

Pension Benefits

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

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

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The Municipality's total payroll for the fiscal year 2005 amounted approximately \$15,272,228 respectively. Members' contributions are 5.775% for gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary.

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond obligations that can be issued to 10% of the assessed valuation of the property located at the **Municipality of Manatí**.

Actuarial Valuation

The actuarial determined present value of benefits accrued as of July 1, 2003 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$11.2 billion. The net assets available for benefits at such date were \$2.0 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$9.2 billion. This information is not available by each participant government agencies or municipalities.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Actuarial Valuation (continuation)

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

- | | |
|--|---|
| a) Interest rate | 8.5% a year |
| b) Salary increases | 5.0% year |
| c) Mortality | GAM'83 Mortality Table set forward two years |
| d) Termination | Medium Turnover Table commensurate with anticipated experience. |
| e) Disability | 65% of Third Railroad Retirement Table Rates. |
| f) Retirement age | Graded scale of retirement ages commensurate with anticipated experience. |
| g) Proportion of participants with spouses | 80% of participants assumed to be married, with wives assumed to be four years younger than husbands. |
| h) Number of employees electing high contributions | 15% of retiring employees assumed to pay retroactive contributions at retirement. |
| i) Cost-of-living adjustments | 3% every third year |

14. LONG TERM LIABILITIES

Compensated Absences

Account for vacation and sick leave absences to be financed with governmental funds.

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

The changes in Compensated absences for the year ended June 30, 2005 are as follows:

Governmental activity	June 30, 2004	Net Increase	June 30, 2005	Due within One year
Compensated Absences	\$ 2,108,210	\$ 827,266	\$ 2,935,476	\$ 472,515

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

In addition, the liabilities for retirement obligations were recorded in the Government-Wide Financial Statements. The balance consists of unpaid, accumulated pension obligations.

15. LEASES

Operating Leases

The Municipality has several short-term operating lease agreements covering some of **the Municipality's** premises and equipment. Most of the agreements are renewed annually. Total rental charges for the year ended June 30, 2005, were approximately \$602,200 included in all funds.

16. CLAIMS AND CONTINGENCIES

Contingencies

As pr Act No. 72 of September 7, 1993, "Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. As of June 30, 2002 the amount billed by HIA to the Municipality amounted to \$1,539,995. 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 fund financial statements. During this year the Municipality paid \$1,318,763 to ASES.

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

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Federal Programs

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, during the year ended June 30, 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse to the grantor agency. Accordingly, the Administrations's compliance with applicable grant requirements will be established at some future date. Nevertheless, **the Municipality's** management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, to be immaterial.

Comptroller's Office Audits

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

17. PRIOR PERIOD ADJUSTMENTS

Other Fund

The beginning balance of other fund, includes special and capital projects funds balance from prior year, was adjusted to the debt service fund to reflect proper balance of accounts.

JUAN A. FELICIANO CHARNECO

Certified Public Accountant

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Eleanor Roosevelt
Hato Rey, PR 00919

Tel. (787) 879-4433
Fax (787) 880-1402

**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 financial statements of the **Municipality of Manatí**, Puerto Rico, as of and for the year ended June 30, 2005, and has issued unqualified report thereon dated October 28, 2005. 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 obtain reasonable assurance about whether the **Municipality of Manatí** financial statements are free of material misstatement, I performed tests of its compliance which certain provision of law, 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.

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 being 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 28, 2005.

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 28, 2005

The stamp number
was affixed to the
original of this report

2108532

Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007



The seal is circular with the text "JUAN FELICIANO CHARNECO" around the top edge and "PUERTO RICO" around the bottom edge. In the center, it reads "CONTADOR PUBLICO AUTORIZADO LIC. No. 1263".

JUANA FELICIANO CHARNECO

Certified Public Accountant

406 Tnt. César González
Eleanor Roosevelt
Hato Rey, PR 00919

Tel. (787) 879-4433
Fax (787) 880-1402

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAYOR 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, 2005. The **Municipality of Manatí** major federal programs is identified in the summary of auditor's result 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, 2005. 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 2005-01, 2005-02, and 2005-03.

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 being 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 28, 2005

The stamp number **2108533**
was affixed to the
original of this report

Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007



**MUNICIPALITY OF MANATI , PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Department of Housing and Urban Development Public and Indian Housing			
Section 8 - Voucher	14-871	RQ46-VO-54-001	\$ 1,018,806
Passed-through Puerto Rico Public Housing Administration Los Murales Public Housing	14-850	PR-5104	388,792
Community Planning and Development Community Development Block Grant	14-218	B-04-MC-72-0016	1,024,472
	14-218	B-03-MC-72-0016	754,383
	14-218	B-02-MC-72-0016	16,359
	14-218	B-01-MC-72-0016	23,165
	14-218	B-00-MC-72-0016	4,617
			1,822,996
Section 108 loan guarantees	14-248	B-95-MC-72-0016	19,686
UDAG (Program Income)	14-221	-	1,024,765
Atenas Internet (Program Income UDAG)	14-221	-	193,491
<u>U.S. Department of Transportation:</u>			
Direct Program:			
Federal Transit Administration			
Federal Transit Capital Improvement Grant			
Mini Buses - Buses Purchase	20-500	PR-90-X073	230
Public Car - Terminal Improvements	20-500	PR-90-X090	73,143
Program Income FTA	20-500	-	50,842
			124,215
<u>U.S. Department of Health and Human Services:</u>			
Passed-through Governors Office for Human Development: Administration for Children and Families			
Head Start (IPA-22)	93-600	02CH-0483-36-102	4,463,267
Child Care	93-575	CCC-007-M	349,591
			4,812,858
<u>U.S. Federal Emergency Management Agency (FEMA)</u>			
Public Assistance Grant Passed-through Emergency Management State and Local Assistance (GAR)			
FEMA (Tormenta Jeanne)	83-534	1552	43,211
Administration on Aging Special Program for the Aging Title III B and C	93-044	Supportive Services	140,511
TOTAL FEDERAL ASSISTANCE			\$ 9,589,331

**MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO THE SCHEDULE
OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2005**

(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 define in Note 1 to the financial statements of the Municipality. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) MAJOR FEDERAL AWARDS

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 84% of total expenditures.

(3) FEDERAL CFDA NUMBER

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

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

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

Description	HUD Programs	Head Start Programs	Other Funds	Total
Federal Programs Expenditures	\$ 2,577,585	\$4,812,858	\$ 2,198,888	\$ 9,589,331
State & Municipal Expenditures	-	-	6,992,978	6,992,978
Total Expenditures	\$ 2,577,585	\$ 4,812,858	\$ 9,191,866	\$ 16,582,309

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

A. Summary of Audit results

Financial Statements

Type of auditor's issued: Unqualified

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
14-871	Section 8 – Voucher
14-248	Section 108 –Loan Guarantees
93-600	Head Start
93-575	Child Care

Dollar threshold used to distinguish Between type A and type B programs \$500,000

Auditee qualified as low-risk auditee ___X___yes ___no

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

B – Financial Statements Findings

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

C - Federal Award Findings and Questioned Cost

Federal Program Information

**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, 2005**

Ref.

No. Finding/Noncompliance

2005-1 Statement of Condition and Criteria:

It was noted in my test of compliance the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements. 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 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 Cash Management Requirements of the Department of Treasury of the United States.

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

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, 2005**

**U.S. Department of Health and Human Services
Child Care
Passed-through Office of Children and Families Administration
CFDA No. 93-575
Grant – CCC-07-M
Year ended June 30, 2005**

Ref.

No. Finding / Non-compliance

Questioned
Cost

2005-2 Statement of Condition and Criteria:

It was noted in my test of compliance the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements. 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 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 Cash Management Requirements 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, 2005
(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, 2005**

Ref.

No. Finding / Noncompliance
2005-3 Statement of Condition and Criteria:

Questioned
Cost

It was noted in my test of compliance the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements. The Municipality's 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 Cash Management Requirements 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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005**

2005-Finding No. 1: U.S. Department of Health and Human Services
Head Start (PA 22)
CFDA No. 93-600
Year ended June 30, 2004

Finding reported again.

2005-Finding No. 2: Department of Health and Human Services
Child Care
CFDA No. 93-575
Year ended June 30, 2004

Finding reported again.

2005-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, 2004

Finding reported again.

Condition:

It was noted in my test of compliance the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements the Municipality's financial management system.

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2005**

REF: FINDING/CORRECTIVE ACTION PLANNED/PERSON RESPONSIBLE:	Anticipated Completion Date -----
<p>2005- 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 2006-06 fiscal year</p>
<p>2005- 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 2005-06 fiscal year</p>



Municipio Autónomo de Manatí
 La Atenas de Puerto Rico
 Departamento de Finanzas



Sandra M. Ocasio Vázquez
 Directora de Finanzas

**CORRECTIVE ACTION PLAN
 YEAR ENDED JUNE 30, 2005
 (continued)**

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

**Anticipated
 Completion
 Date**

2005- 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 2005-06
 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