

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE MANATI
AUDITORIA 2005-2006
30 DE JUNIO DE 2006

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DE LOS MUNICIPIOS MUNICIPALES
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**MUNICIPALITY OF MANATI, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2006
(INDEPENDENT AUDITOR'S REPORT)**

JUAN A. FELICIANO CHARNECO * CERTIFIED PUBLIC ACCOUNTANT

MUNICIPALITY OF MANATI, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2006

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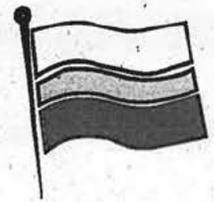
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Municipio Autónomo de Manatí
La Atenas de Puerto Rico
Departamento de Finanzas



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, 2006. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

In spite of the difficult economic situation during fiscal year 2005-2006 and the budgetary deficit that the island of Puerto Rico has run through, our administration has continued offering quality services to citizens of the Municipality. The Operational Deficit increased by approximately \$700,000. In most governments, the practice of spending more money than is received is made up by borrowing or adding new funds, however, through the following management's discussion and analysis it will be shown our approach to face the actual deficit situation of the Municipality.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality Government exceeded its liabilities at the close of the current fiscal year by \$40,157,056 (net assets).
- The adjusted actual of the General Fund operations resulted in a un-favorable variance of \$1,020,200 as compared to the revised budget.
- As June 30, 2006 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$3,738,822 an decrease of \$506,911 in comparison with the prior year.
- Loans principal payments were \$2,463,299 during fiscal year 2005-06. Loan proceeds from new debt issued amounted to \$6,755,000 during the same fiscal year.
- The Municipality of Manatí has established the following action on projects to face the deficit situation at September 30, 2006 and to advance our Municipality to the actual technology developments: 1) Atenas "sale tax" estimated in annual collection of approximately \$4 million; 2) Atenas Generation II that will make Atenas Internet one of the main internet providers through wireless technology in Puerto Rico. During 2005-06 these services provided revenues in approximately \$200,000; 3) "Centro de Diagnóstico y Tratamiento" to serve more people in our region.

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.

MUNICIPALITY OF MANATI MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 private sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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.

MUNICIPALITY OF MANATI MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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

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 \$40,157,056 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**

**Statements of Net Assets
As of June 30, 2006 and 2005**

	2006	2005
Current and other assets	\$19,829,015	\$19,423,469
Capital assets	64,545,241	63,063,383
Total assets	84,374,256	82,486,852
Current and other liabilities	10,931,388	14,208,758
Long-term liabilities	33,285,812	27,487,245
Total liabilities	44,217,200	41,696,003
Net assets:		
Invested in capital assets, net related debt	33,893,259	36,949,383
Reserve for debt service	3,038,222	3,052,776
Special revenue fund	126,350	212,080
Capital project fund	10,420,450	8,508,992
Unrestricted	(7,321,225)	(7,932,382)
	\$40,157,056	\$ 40,790,849

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

Statements of Activities

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

For the year ended June 30, 2006 and 2005

	2006	2005
General revenue	\$ 27,433,333	\$ 25,909,632
Program revenue	9,649,060	22,439,537
Total revenue	37,082,393	48,349,169
Expenses	37,824,167	48,892,521
Governmental activities		
Change in net assets	\$ (741,774)	\$ (543,352)

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

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

**Governmental Funds
Balance Sheets
June 30, 2006 and 2005**

	2006	2005
Assets:		
Cash	\$ 8,374,604	\$14,208,874
Restricted Cash	8,821,808	3,052,776
Accounts Receivable	5,926,808	3,267,279
Total Assets	23,123,220	\$20,528,929
Liabilities and Fund Balance		
Liabilities:		
Accounts payable and due to	6,310,633	4,568,616
Deferred Revenue and Volume of Business Tax	6,966,387	7,418,376
Total Liabilities	13,277,020	11,996,992
Fund Balances	9,846,200	8,541,937
Total liabilities and Fund Balances	\$23,123,220	\$20,528,929

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 loans of \$6,755,000 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, 2006 and 2005**

	2006	2005
Revenues:		
Property taxes	\$10,010,490	\$ 9,052,870
Volume of business tax	8,452,162	7,894,538
Intergovernmental Revenues	6,521,289	17,258,221
Federal grants	7,847,290	9,372,081
Other	5,023,687	4,771,459
Total Revenues	37,854,918	48,349,169
Liabilities and Fund Balance		
Expenditures:		
General Government	12,881,291	13,081,696
Public works	4,661,868	1,718,245
Public safety	2,433,226	4,598,344
Health	3,952,120	5,385,573
Capital projects	3,964,259	14,844,637
Bonds, notes and interests	3,964,096	3,984,204
Education and training	4,173,406	4,812,858
Other expenditures	4,357,438	2,538,563
Total Expenditures	40,387,704	50,964,120
Excess of revenues (expenditures)		
Over expenditures (revenues)	\$ (2,532,786)	\$ (2,614,951)

The most significant changes of this statement were as follows:

- The larger decrease was in the intergovernmental revenue and federal grants by approximately \$10.7 and 1.5 million, respectively.
- The most significant change in the expenditures were a decrease in Capital Projects for approximately \$10.9 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 governmental 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
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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Municipal Council 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, 2006, 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, each major fund and the aggregate remaining fund information of the **Municipality of Manatí**, Puerto Rico, as of June 30, 2006, and the respective changes in financial position, thereof for the 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 November 27, 2006 on my consideration of the **Municipality of Manatí**, Puerto Rico internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of and audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

My audit was performed for the purpose of forming an opinion on the Governmental Activities financial statements of the **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, 2004, **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 GASB No. 34, the Municipality has also adopted the following pronouncements: (1) GASB 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 and budgetary comparison information on pages 1 through 7 and page 15, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

San Juan, Puerto Rico
November 27, 2006

The stamp number
was affixed to the
original of this report

2202571

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



MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 8,374,604
Cash with fiscal agent and other	8,821,808
Receivable volume business	563,434
Accounts receivable federal government	798,823
Accounts receivable other	1,270,855
Accounts receivable government	245,772
Capital Assets	64,298,960
Total assets	\$ 84,374,256
 <u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 2,273,793
Deferred revenue	7,212,668
Due to government entity	744,277
Noncurrent liabilities:	
Due within one year	700,650
Due in more than one year	33,285,812
Total liabilities	44,217,200
 <u>NET ASSETS</u>	
Invested in capital assets, net of related debt	33,893,259
Reserve for debt service	3,038,222
Special revenue fund	126,350
Capital project fund	10,420,450
Unrestricted (deficit)	(7,321,225)
Total Net Assets	40,157,056
Total liabilities and net assets	\$ 84,374,256

See notes to financial statement

MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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	\$ 13,039,941	\$ (10,903)	\$ (1,931,138)	\$ (736,449)	\$ 10,361,451
Public work	5,898,857	-	-	-	5,898,857
Public safety	2,559,045	-	-	-	2,559,045
Health	3,990,221	(689,204)	-	-	3,301,017
Capital projects	2,107,960	-	(970,221)	(1,137,739)	-
Culture and recreation	2,475,607	-	-	-	2,475,607
Education and training	4,173,406	-	-	(4,173,406)	-
Other expenditures	2,078,333	-	-	-	2,078,333
Interest and fiscal charges	1,500,797	-	-	-	\$ 1,500,797
Total governmental activities	\$ 37,824,167	\$ (700,107)	\$ (2,901,359)	\$ (6,047,594)	\$ 28,175,107
GENERAL REVENUES:					
Property taxes					\$ 10,010,490
Municipal licenses tax					8,452,162
Licenses, permits and fines					461,432
Intergovernmental revenues					4,647,101
Rent of properties					154,196
Interests revenues					529,352
Other Revenues					3,178,600
Total general revenues					27,433,333
Changes in net assets					(741,774)
Net assets at beginning of year					40,796,849
Prior period adjustment					101,981
Net assets at end of year					\$ 40,157,056

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

<u>ASSETS</u>	General Fund	2005-2006 Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 4,269,532	\$ -	\$ 200,851	\$ 234,911	\$ -	\$ 3,669,310	\$ 8,374,604
Cash with fiscal agent and other	-	5,069,238	714,348	-	3,038,222	-	8,821,808
Receivable volume business	563,434	-	-	-	-	-	563,434
Accounts receivable federal government	-	-	539,732	-	-	12,810	552,542
Accounts receivable general fund	-	-	-	1,642	-	-	1,642
Accounts receivable other	1,138,703	-	127,318	2,258	-	2,576	1,270,855
Accounts receivable government	245,772	-	-	-	-	-	245,772
Due from other funds	755,941	-	-	-	-	2,536,622	3,292,563
Total assets and other debits	\$ 6,973,382	\$ 5,069,238	\$ 1,582,249	\$ 238,811	\$ 3,038,222	\$ 6,221,318	\$ 23,123,220
 <u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 695,644	\$ -	\$ 1,228,883	\$ 212,116	\$ -	\$ 137,150	\$ 2,273,793
Due to special revenue funds	2,536,622	-	-	-	-	-	2,536,622
Due to general fund	-	-	-	-	-	755,941	755,941
Due to government	744,277	-	-	-	-	-	744,277
Deferred revenue	6,735,661	-	204,031	26,695	-	-	6,966,387
Total liabilities	10,712,204	-	1,432,914	238,811	-	893,091	13,277,020
 Fund balances							
Reserve for debt services	\$ -	\$ -	\$ -	\$ -	\$ 3,038,222	\$ -	\$ 3,038,222
Encumbrances	45,000	-	-	-	-	-	45,000
General Fund	(3,783,822)	-	-	-	-	-	(3,783,822)
Special revenue fund	-	-	-	-	-	126,350	126,350
Capital Project fund	-	5,069,238	149,335	-	-	5,201,877	10,420,450
Total fund balances	(3,738,822)	5,069,238	149,335	-	3,038,222	5,328,227	9,846,200
Total liabilities and fund balance	\$ 6,973,382	\$ 5,069,238	\$ 1,582,249	\$ 238,811	\$ 3,038,222	\$ 6,221,318	\$ 23,123,220

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	\$ 64,298,960
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	1,815,766
Liability for claims and judgments	225,000
Health insurance debt	1,539,995
Bonds payable	30,405,701
Total long-term liabilities	\$ 33,986,462
	(33,986,462)
	\$ 53,435,718

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, 2006

	General Fund	2004-2005 Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:							
Property taxes	\$ 7,333,266	\$ -	\$ -	\$ -	\$ 2,677,224	\$ -	\$ 10,010,490
Municipal license tax	8,452,162	-	-	-	-	-	8,452,162
Licenses, permits and fines	1,161,539	-	-	-	-	-	1,161,539
Intergovernmental revenues	4,525,768	-	-	-	-	1,995,521	6,521,289
Rent of properties	154,196	-	-	-	-	-	154,196
Interest income	444,508	-	-	-	84,844	-	529,352
Other revenues	3,178,600	-	-	-	-	-	3,178,600
Federal financial award	-	-	2,901,359	4,173,406	-	772,525	7,847,290
Total revenues	25,250,039	-	2,901,359	4,173,406	2,762,068	2,768,046	37,854,918
EXPENDITURES:							
Current:							
General government	10,243,476	-	1,901,366	-	-	736,449	12,881,291
Public safety	2,433,226	-	-	-	-	-	2,433,226
Public works	4,661,868	-	-	-	-	-	4,661,868
Health	3,952,120	-	-	-	-	-	3,952,120
Capital projects	-	-	970,221	-	-	2,994,038	3,964,259
Culture and recreation	2,279,105	-	-	-	-	-	2,279,105
Education and training	-	-	-	4,173,406	-	-	4,173,406
Other expenditures	2,078,333	-	-	-	-	-	2,078,333
Debt service:							
Principal retirement	-	-	-	-	2,463,299	-	2,463,299
Interest and fiscal charges	-	-	-	-	1,500,797	-	1,500,797
Total expenditures	25,648,128	-	2,871,587	4,173,406	3,964,096	3,730,487	40,387,704
Excess of revenues over (under) expenditures	(398,089)	-	29,772	-	(1,202,028)	(962,440)	(2,532,786)
Other financing source (uses):							
Transfer in (out) from other fund	-	-	564,319	-	-	-	564,319
Transfer in (out) to debt service fund	(400,520)	-	(886,128)	-	1,286,648	-	-
Interest expenditure	-	-	-	-	(84,844)	-	(84,844)
Net bond issued debt	-	6,455,406	-	-	-	-	6,455,406
Bond expenditure	-	(2,906,166)	-	-	-	-	(2,906,166)
Total other financing source (uses)	(400,520)	3,549,240	(321,809)	-	1,201,804	-	4,028,715
Excess of revenues and other sources over (under) expenditures and other uses	(798,609)	3,549,240	(292,037)	-	(224)	(962,440)	1,495,930
Fund balance June 30, 2005	(3,231,911)	1,519,998	441,372	-	3,052,776	6,339,136	8,121,371
Prior period adjustment	291,698	-	-	-	(14,330)	(48,469)	228,899
Fund balance June 30, 2006 (deficit)	\$ (3,738,822)	\$ 5,069,238	\$ 149,335	\$ -	\$ 3,038,222	\$ 5,328,227	\$ 9,846,200

See notes to financial statements.

OK Juan A. Feliciano Chameco
19/02/2007

**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, 2006**

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

Net change in fund balance - total governmental funds	\$	(771,774)
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		2,107,960
		<u>(1,756,061)</u>
		351,899

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.		350,389
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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		4,028,715
Principal payments		<u>(2,463,299)</u>
		1,565,416

Change in net assets of governmental activities	\$	<u>1,495,930</u>
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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, 2006

	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	8,452,162	(47,838)
Intergovernmental revenues	4,572,526	4,572,526	4,525,767	(46,759)
Licenses, permits and fines	1,025,000	1,025,000	1,161,538	136,538
Rent of properties	164,000	164,000	154,196	(9,804)
Interest income	600,000	600,000	444,508	(155,492)
Other revenues	2,496,667	2,496,667	1,267,816	(1,228,851)
Other financial source	5,937,858	5,937,858	6,380,010	442,152
Total revenues	\$ 24,249,306	\$ 24,249,306	\$ 23,339,252	\$ (910,054)
EXPENDITURES:				
Current:				
General government	\$ 9,788,723	\$ 10,080,166	\$ 10,240,762	(160,596)
Public safety	2,646,378	2,440,041	2,433,226	6,815
Public Work	4,553,039	4,672,079	4,661,868	10,211
Health	3,892,180	3,965,196	3,952,120	13,076
Culture and recreation	2,279,216	2,288,415	2,270,105	18,310
Other Expenditures	462,895	402,834	400,852	1,982
Transfer to debt service	626,875	400,575	400,519	56
Total expenditures	\$ 24,249,306	\$ 24,249,306	\$ 24,359,452	\$ (110,146)
Excess of revenues over (under) expenditures			\$ (1,020,200)	(1,020,200)
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			\$ 23,339,252	
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				1,910,787
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				\$ 25,250,039
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule			\$ 24,359,452	
Differences - budget to GAAP:				
Non budgeted expenditures				2,326,364
Budgeted expenditures included prior year				(637,169)
Other financial resources transferred to debt service				(400,519)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				\$ 25,648,128

See notes to budgetary comparison schedule.

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

GENERAL ORGANIZATION

The **Municipality of Manatí (the Municipality)** was founded in 1881. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of 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 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, 2006

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, 2006 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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

c. 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 another 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 statutes.

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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

d. Basis of Presentation (continuation)

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

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 90 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, 2006

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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

g. 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 maintains its original budget of the General Fund Balance by \$1,020,200 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, 2006

1. 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 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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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 for 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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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 appropriate 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 Judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net 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, 2006

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, 2006

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 \$307,028 during 2006.

The following is a summary of the property tax advances, that resulted in an Account Receivable, for the year ended June 30, 2006. The resulting receivable presented as a deferred revenue in the Fund Financial Statement.

Accounts Receivable:

Amortization through collections of property taxes by the CRIM	
07-01-05 – 06-30-06	\$(9,930,891)
Advance received, 07-01-05 – 06-30-06	9,684,610
Due to Municipality 2006	\$(246,281)

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

3. DEPOSITS

Deposits include investment account amounting to \$3,552,318. **The Municipality's** cash and investments at June 30, 2006, 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 warranty by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits in excess of \$100,000 are collateralized by the bank securities to property safeguard such funds. Nevertheless, Management believes that concentration of credit risk is limited because balances are deposited with high standing financial institutions.

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, 2006

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 next year, but corresponding to current year. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as deferred 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	\$ 755,941	\$2,536,622
Other Funds	2,536,622	755,941
TOTAL	\$ 3,292,563	\$3,292,563

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, 2006

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, 2006 balances from (due to) governmental entities of the general fund consists of the following:

Name	Due to
Electric Puerto Rico Power Authority	\$151,434
Puerto Rico Water and Sewer Authority	138,846
Puerto Rico Retirement System	164,318
Puerto Rico Telephone Co.	273,317
Puerto Rico Department of Treasury	8,310
Puerto Rico Employee Association	3,907
General Administration Services	4,145
Totals	\$744,277

Part of the balances of due from governmental agencies were recorded as deferred revenues- others as of June 30, 2006.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

9. CAPITAL ASSETS

Fund Financial Statements

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

	Balance 6/30/2005	Additions	Retirements and transfers dispositions	Balance 6/30/2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,292,100	\$ -	\$ -	\$ 12,292,100
Construction in progress	10,833,422	476,084	-	11,309,506
Total capital assets not being depreciated	23,125,522	476,084	-	23,601,606
Capital assets, being depreciated				
Buildings and building improvements	44,774,312	1,065,000	-	45,839,312
Infrastructure	17,930,850	-	-	17,930,850
Equipment	5,317,189	577,962	15,188	5,879,963
Vehicles	8,462,341	887,780	-	9,350,121
Total capital assets being depreciated	76,484,692	2,530,742	15,188	79,000,246
Less accumulated depreciation for:				
Buildings and building improvements	(11,719,637)	-	(770,472)	(12,490,109)
Infrastructure	(14,498,127)	-	(258,895)	(14,757,022)
Equipment	(3,710,313)	-	(280,945)	(3,991,258)
Vehicles	(6,618,754)	-	(445,749)	(7,064,503)
Total accumulated depreciation	(36,546,831)	-	(1,756,061)	(38,302,892)
Total capital assets being depreciated, net	39,937,861	2,530,742	(1,771,249)	40,697,354
Governmental activities capital assets, net	\$ 63,063,383	\$ 3,006,826	\$ (1,771,249)	\$ 64,298,960

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

Governmental activities:	
General government	\$158,650
Public safety	125,819
Public works	1,236,989
Culture and recreation	196,502
Health	38,101
Total depreciation expense- governmental activities	\$1,756,061

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Government Wide Financial Statements

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the use full life of an asset are capitalized. Other costs incurred for repairs and maintenance 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 Manatí for year ended June 30, 2006.

Description	Payable at July 1, 2005	Additions	Reductions	Balance June 30, 2006
General Obligations Bonds	\$26,114,000	\$ 6,755,000	\$ 2,442,299	\$ 30,426,701

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

11. GENERAL IN LONG-TERM DEBT (Continuation)

The annual requirements to amortize all bonded debt outstanding as of June 30, 2006 follow:

Description	Original Amount	Interest Rate	Balance at 06-30-06	Due Date	Due within One Year
General obligation Bonds (Series 1991)	\$5,100,000	9.95%	\$570,000	07-01-2006	\$570,000
General obligation Bonds (Series 1985)	375,000	10%	21,000	01-01-2005	21,000
Operational loan	7,500,000	5.00%	175,701	07-01-2006	175,701
Special obligation	3,600,000	7.06%	785,000	07-01-2007	375,000
General obligation Bond (Series 2000)	125,000	5.00%	95,000	07-01-2024	5,000
General obligation Bonds (Series 94-95)	1,005,000	7.06%	640,000	07-01-2014	50,000
General obligation Bond (Series 94-95)	300,000	5.50%	200,000	01-01-2012	15,000
General obligation Bond	1,160,000	2.7%	1,090,000	07-01-2026	20,000
General obligation Bonds (Series 95-96)	1,500,000	5.25%	1,198,000	01-01-2022	60,000
General obligation Bond (Series 05-06)	455,000	4.73%-4.17%	455,000	07-01-2012	55,000
General obligation Bond (Series 05-06)	175,000	4.17%-4.24%	175,000	07-01-2008	55,000
General obligation Bond (Series 05-06)	4,370,000	4.17%-5.31%	4,370,000	07-01-2030	90,000
General obligation Bond (Series 05-06)	405,000	4.23%-5.33%	405,000	07-01-2012	50,000
General obligation Bond (Series 05-06)	1,075,000	6.5%	1,075,000	07-01-2030	15,000
General obligation Bond (Series 05-06)	275,000	6.5%	275,000	07-01-2030	5,000

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2006

Description	Original Amount	Interest Rate	Balance at 06-30-06	Due Date	Due within One Year
Guaranteed loans funds (by Secretary of Housing and Urban Development) (97-98)	\$ 8,915,000	6.23%	6,245,000	08-01-2017	445,000
General obligation Bonds (Series 97-98)	2,850,000	5.32%	2,415,000	07-04-2022	75,000
General obligation Bonds (Series 99-00)	105,000	5.00%	35,000	07-01-2010	15,000
General obligation Bonds (Series 99-00)	1,150,000	5.00%	1,005,000	07-01-2025	40,000
General obligation Bonds (Series 01-02)	920,000	5.00%	740,000	07-01-2021	45,000
General obligation Bonds (Series 01-02)	270,000	5.00%	105,000	01-01-2007	50,000
General obligation Bonds (Series 01-02)	130,000	5.00%	30,000	01-01-2006	30,000
General obligation Bonds (Series 01-02)	2,515,000	2.70%	2,310,000	01-01-2026	60,000
General obligation Bonds (Series 01-02)	485,000	5.00%	230,000	01-01-2008	75,000
General obligation Bonds (Series 01-02)	2,010,000	4.75%	1,830,000	07-01-2026	45,000
General obligation Bonds (Series 2005)	785,000	5.00%	595,000	07-01-2010	105,000
General obligation Bonds (Series 2005)	320,000	5.00%	310,000	07-01-2028	5,000
General obligation Bonds (Series 2005)	250,000	4.37% to 5.00%	205,000	07-01-2009	50,000
General obligation Bonds (Series 2005)	318,000	2.0%	318,000	01-01-2025	11,946
General obligation Bonds (Series 2005)	385,000	3.27 to 5.00%	355,000	01-07-2014	30,000
General obligation Bonds (Series 2005)	625,000	3.27 to 5.00%	595,000	01-07-2019	30,000
General obligation Bonds (Series 2005)	645,000	4.3% to 5.0%	635,000	07-01-2029	15,000
General obligation Bonds (Series 2005)	1,000,000	4.5%	939,000	07-01-2025	32,000
TOTAL	\$ 51,098,000		\$30,426,701		\$2,720,647

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The annual requirements to amortize all bonded debt outstanding as June 30, 2006 follows:

Year Ending	Principal	Interest	Total
2007	\$2,720,647	\$1,647,388	\$4,368,035
2008	2,029,187	1,571,058	3,600,245
2009	1,694,432	1,429,030	3,123,462
2010	1,604,681	1,336,253	2,940,934
2011	1,617,750	1,240,142	2,857,892
Subsequent years	20,760,004	9,053,209	29,813,213
	\$30,426,701	\$16,277,080	\$ 46,703,781

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 Manatí**.

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 genera 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	\$ 2,762,068
General funds	400,520
Other funds	801,508
	\$3,964,096

Expenditures for the year 2004-2005 were as follows:

Principal	\$ 2,463,299
Interest	1,500,797
	\$3,964,096

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006

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 2006 amounted approximately \$11,375,517 respectively. Member's 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 Manati**.

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, 2006

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, 2006 are as follows:

Governmental activity	June 30, 2005	Net Decrease	June 30, 2006	Due within One year
Compensated Absences	\$ 1,903,823	\$ (83,976)	\$ 1,819,847	\$ 475,650

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006, were approximately \$137,094 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, 2006

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 Administration's compliance with applicable grant requirements will be established at some future date. Nevertheless, **the Municipality's** management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, to be immaterial.

Comptroller's Office Audits

The Municipality of Manatí, Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office 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 and General Fund

The beginning balance of other fund, includes fund balances of debt services from prior year, was adjusted to the debt service fund to reflect proper balance of accounts. The General Fund was adjusted by the accounts payable cancelled accounts from prior year.

18. SUBSEQUENT EVENT:

On June 27, 2006, the Municipal Council approved Ordinance No. 48, Series 05-06, (the ordinance), that established a sales tax of 1.5% over retail sales in the municipality. The ordinance will be effective commencing on July 1, 2006. The monies collected through the above mentioned sales tax will be used among other purposes for the management for improvements in the Municipal infrastructure.

JUAN A. FELICIANO CHARNECO

Certified Public Accountant

Urb. Matienzo
151 Calle Miguel Salas
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Fax (787) 880-1402

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

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

I have audited the accompanying financial statements of the Governmental Activities of the **Municipality of Manatí**, Puerto Rico, as of and for the year ended June 30, 2006, and have issued an unqualified report thereon dated November 27, 2006. I conducted my audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 caused by error of fraud in amounts that would be material in relation to the general purpose 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 we considered to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of **Municipality of Manatí**, in a separate dated November 27, 2006.

Compliance and other matters

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

This report is intended solely for the information of the Municipal Assembly, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
November 27, 2006

The stamp number
was affixed to the
original of this report

2202572

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

A circular professional seal for Juan A. Feliciano Charneco. The outer ring contains the text "JUAN FELICIANO CHARNECO" at the top and "PUERTO RICO" at the bottom. The inner circle contains the text "CONTADOR PUBLICO AUTORIZADO" and "LIC. No. 1263".

JUAN A. FELICIANO CHARNECO
Certified Public Accountant

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

To the Mayor and Municipal Council 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, 2006. The **Municipality of Manatí** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Manatí Management. My responsibility is to express an opinion on **Municipality of Manatí** compliance based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States, 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 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 the **Municipality of Manatí** compliance with those requirements.

In my opinion, the **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, 2006. 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 2006-01, 2006-02 and 2006-03, 2006-04, 2006-05 and 2006-06.

Internal Control Over Compliance

The management of the **Municipality of Manatí**, is responsible for establishing and maintaining effective 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 reportable 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 the applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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 solely for the information of the Municipal Assembly, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
November 27, 2006

The stamp number
was affixed to the
original of this report

2202573

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, 2006

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	\$ 966,930
Section 8 -FSS			1,860
			<u>968,790</u>
Passed-through Puerto Rico Public Housing Administration Los Murales and Campo Alegre Public Housing	14.850	PR-5104	520,477
Community Planning and Development	14.218	B-05-MC-72-0016	568,949
Community Development Block Grant	14.218	B-04-MC-72-0016	280,704
	14.218	B-03-MC-72-0016	44,173
	14.218	B-02-MC-72-0016	32,785
	14.218	B-01-MC-72-0016	13,582
	14.218	B-00-MC-72-0016	3,622
	14.218	B-99-MC-72-0016	250
	14.218	B-98-MC-72-0016	260
			<u>944,325</u>
Section 108 loan guarantees	14.248	B-95-MC-72-0016	1,291,089
UDAG (Program Income)	14.221	-	2,281
Atenas Internet (Program Income UDAG)	14.221	-	250,187
<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	1,668
Program Income FTA	20.500	-	70,748
			<u>72,416</u>
<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	4,173,406
<u>U.S. Department of Agriculture</u>			
Child Care Food Program	10.558	CCC-007-M	321,823
Administration on Aging			
Special Program for the Aging Title III B and C	93.044	Supportive Services	342,210
TOTAL FEDERAL ASSISTANCE			<u><u>\$ 8,887,004</u></u>

**MUNICIPALITY OF MANATI, PUERTO RICO
 NOTES TO THE SCHEDULE
 OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
 FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2006**

(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 and Health and Human Services Programs 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	\$ 3,977,149	\$ 4,173,406	\$ 736,449	\$ 8,887,004
State & Municipal Expenditures	-	-	2,994,038	2,994,038
Total Expenditures	\$ 3,977,149	\$ 4,173,406	\$ 3,730,487	\$ 11,881,042

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

**A. Summary of Audit results
Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ___ yes ___ no

Reportable condition(s) identified not considered to be material weaknesses? ___ yes ___ none reported

Noncompliance material to financial statements noted? ___ yes ___ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___ yes ___ no

Reportable condition(s) identified not Considered to be material weaknesses? ___ yes ___ none reported

Type of auditors report issued on compliance considered for major programs: Unqualified

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

Identification of Major 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
10.558	Child Care Food Program
93.044	Special Program for the Aging Tittle III B and C
14.850	Los Murales and Campo Alegre Public Housing

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

Audited qualified as low-risk auditee ___ yes ___ no

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

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, 2006**

Ref.

No. Finding/Noncompliance

2006-01 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish 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.

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Cause

The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:

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

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

**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, 2006**

Ref.

No. Finding / Non-compliance

Questioned
Cost

2006-2 Statement of Condition and Criteria:

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the Office of Human Development and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause

The Municipality did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:

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

MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(continued)

Department of Housing and Urban Development Public and Indian Housing
CFDA No. 14.871
Grant – Section 8 - Voucher
Year Ended June 30, 2006

Ref. <u>No.</u>	<u>Finding / Non-compliance</u>	Questioned Cost -----
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2006-3 Statement of Condition and Criteria:

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from the HUD Offices 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 did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:

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

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(continued)**

**Department of Housing and Urban Development
Section 108 loan guarantees
CFDA No. 14.248
Year Ended June 30, 2006**

Ref.

No. Finding / Non-compliance

Questioned
Cost

2006-4 Statement of Condition and Criteria:

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from HUD Offices 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 did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:

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

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(continued)**

**Department of Housing and Urban Development Public and Indian Housing
Los Murales and Campo Alegre Public Housing
CFDA No. 14.850
Year Ended June 30, 2006**

Ref. <u>No.</u>	<u>Finding / Non-compliance</u>	Questioned Cost -----
2006-5	<u>Statement of Condition and Criteria:</u>	

It was noted in my test of compliance that the Municipality's financial management system is not complying with the cash management requirements established by the United States Treasury. According to these requirements the Municipality had to establish procedures to minimize the time elapsing between the transfer of funds from HUD Offices 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 did not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality did not maintain adequate procedures for the Administration of cash to determine properly their use needs.

Auditor's Recommendation

The Municipality should establish adequate procedures in order to control in a more effective manner the need and use of the federal funds.

Municipality Response:

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

**MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(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, 2006**

Ref.

No. Finding / Non-compliance

Questioned
Cost

2006-6 Statement of Condition and Criteria:

It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial management Systems, Sub-part C, Section 21, b., 24 CFR, Section 982.158 Uniform Administrative Requirements.

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1. Accurate, current and complete disclosure of the financial results of federally sponsored projects of programs.
2. Records that identify adequately the source and application of funds. The records shall contain information pertaining to federal awards, authorization, obligations, un-obligated balances, assets, outlays, income and interest.
3. Effective controls and accountability for funds, property and other assets.

To establish procedures to comply with Financial and Program Management Standards of funds of the Special Program for the Aging. It was noted during my audit that the Municipality modify the proper accounting records to comply standard require.

Cause

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

MUNICIPALITY OF MANATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006
(continued)

Effect

The Municipality did not maintain adequate procedures for the Administration of funds from Section 8 Voucher Program.

Auditors Recommendation

The Municipality must establish adequate procedures in order to comply in a more effective manner with the Financial and Program Management System Standards

Municipality Response:

We concur with auditor's recommendations. The Municipality will correct the accounting system before June 30, 2007 and before the audit was is completed.

**MUNICIPALITY OF MANATI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006**

2006-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.

2006-Finding No. 2: Department of Health and Human Services
Child Care
CFDA No. 93.575
Year ended June 30, 2004
Finding was corrected.

2006-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.



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, 2006**

REF: FINDING/CORRECTIVE ACTION PLANNED/PERSON RESPONSIBLE:	Anticipated Completion Date
<p>Ref. No. <u>Finding /Corrective Action</u> 2006-01 <u>Planned/Person Responsible:</u></p> <p><u>Statement of Condition:</u> The Head Start program cash balance over \$5,000 for the periods larger than 3 days.</p> <p><u>Corrective Action Planned:</u> The Head Start program Administration will evaluate and implement adequate procedures to control and use in effective manner, federal funds.</p> <p><u>Person Responsible:</u> Mrs. Sandra Ocasio Vázquez, Finance Director</p>	<p>----- <u>Anticipated Completion Date</u></p> <p>On or before end of 2006-07 Fiscal year</p>
<p>Ref. No. <u>Finding /Corrective Action</u> 2006-02 <u>Planned/Person Responsible:</u></p> <p><u>Statement of Condition:</u> The Special Program for the Aging cash balance over \$5,000 for the periods larger than 3 days.</p> <p><u>Corrective Action Planned:</u> The Municipality Administration will evaluate and implement adequate procedures to control and use in effective manner, federal funds.</p> <p><u>Person Responsible:</u> Mrs. Sandra Ocasio Vázquez, Finance Director</p>	<p><u>Anticipated Completion Date</u></p> <p>On or before end of 2006-07 Fiscal year</p>

Sandra M. Ocasio Vázquez

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006**

REF: FINDING/CORRECTIVE ACTION PLANNED/PERSON RESPONSIBLE:	Anticipated Completion Date
<p>Ref. No. <u>Finding /Corrective Action</u> 2006-03 <u>Planned/Person Responsible:</u></p> <p><u>Statement of Condition:</u> The Section 8 –Voucher Program cash balance over \$5,000 for the periods larger than 3 days.</p> <p><u>Corrective Action Planned:</u> The Section 8–Voucher Administration will evaluate and implement adequate procedures to control and use in effective manner, federal funds.</p> <p><u>Person Responsible:</u> Mrs. Sandra Ocasio Vázquez, Finance Director</p>	<p><u>Anticipated Completion Date</u></p> <p>On or before end of 2006-07 Fiscal year</p>
<p>Ref. No. <u>Finding /Corrective Action</u> 2006-04 <u>Planned/Person Responsible:</u></p> <p><u>Statement of Condition:</u> The Section 108 Program cash balance over \$5,000 for the periods larger than 3 days.</p> <p><u>Corrective Action Planned:</u> The Section 108 Program Administration will evaluate and implement adequate procedures to control and use in effective manner, federal funds.</p> <p><u>Person Responsible:</u> Mrs. Sandra Ocasio Vázquez, Finance Director</p>	<p><u>Anticipated Completion Date</u></p> <p>On or before end of 2006-07 Fiscal year</p>

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2006**

REF: FINDING/CORRECTIVE ACTION PLANNED/PERSON RESPONSIBLE:	Anticipated Completion Date
<p>Ref. No. <u>Finding /Corrective Action</u> 2006-05 <u>Planned/Person Responsible:</u></p> <p><u>Statement of Condition:</u> The Los Murales and Campo Alegre Public Housing Program cash balance over \$5,000 for the periods larger than 3 days.</p> <p><u>Corrective Action Planned:</u> The Los Murales and Campo Alegre Public Housing Administration will evaluate and implement adequate procedures to control and use in effective manner, federal funds.</p> <p><u>Person Responsible:</u> Mrs. Sandra Ocasio Vázquez, Finance Director</p>	<p><u>Anticipated Completion Date</u></p> <p>On or before end of 2006-07 fiscal year</p>
<p>Ref. No. <u>Finding /Corrective Action</u> 2006-06 <u>Planned/Person Responsible:</u></p> <p><u>Statement of Condition:</u> The Special Program for the Aging Management System Standards.</p> <p><u>Corrective Action Planned:</u> The Municipality Administrator Established adequate and correct the finding before the audit report was issued.</p> <p><u>Person Responsible:</u> Mrs. Sandra Ocasio Vázquez, Finance Director</p>	<p><u>Anticipated Completion Date</u></p> <p>On or before end of 2006-07 fiscal year</p>