

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

**MUNICIPIO DE MANATI**  
**AUDITORIA 2006-2007**  
**30 DE JUNIO DE 2007**

*Ver hoja fronte  
de recepción  
recibida el  
4 de abril de 2008  
Raymond Vazquez*

OFICINA DEL COMISIONADO  
MUNICIPAL

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*Carta 5/1/08*

**MUNICIPALITY OF MANATI, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2007  
(INDEPENDENT AUDITOR'S REPORT)**

*JAC*

**MUNICIPALITY OF MANATI, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2007**

TABLE OF CONTENTS

	<u>PAGE</u>
Management's Discussion and Analysis .....	1-7
Independent Auditor's Report .....	8-9
Basic Financial Statements:	
Government – Wide Financial Statements:	
Statement of Net Assets .....	10
Statement of Activities .....	11
Government funds financial statements:	
Balance sheet Governmental Funds .....	12
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds .....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	14
Statement of revenues, expenditures and changes in fund balance Budget and actual (budget basis) general fund and debt service fund .....	15
Notes to financial statements .....	16-39

PART II - GOVERNMENTAL AUDITING STANDARDS AND  
OMB CIRCULAR A-133 REPORTS

Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards.....	40-41
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	42-43
Schedule of Expenditures of Federal Awards. ....	44
Notes to Schedule of Expenditures Federal Financial Awards .....	45
Schedule of Findings and Questioned Costs.....	46-49
Summary Schedule of Prior Audit Findings .....	50
Corrective Action Plan .....	51

## **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, 2007. 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 2006-2007 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 \$1,725,697. 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 \$39,754,575 (net assets).
- The adjusted actual of the General Fund operations resulted in a un-favorable variance of \$451,962 as compared to the revised budget.
- As June 30, 2007 the Municipality's General Fund (the primary operating fund) reported a fund balance (deficit) of \$(5,464,519) a decrease of \$1,725,697 in comparison with the prior year.
- Loans principal payments were \$2,513,639 during fiscal year 2006-07. Loan proceeds from new debt issued amounted to \$3,225,000 during the same fiscal year.
- The Municipality of Manatí has established the following action on projects to face the deficit situation at September 30, 2007 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 2006-07 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.

The Statement of Net Assets and the statement of activities, on page 10-11, report the Municipality net assets and changes in them. One can analyze of the Municipality's net assets, as the difference between assets and liabilities, as one way to measure the Municipality's financial position. Over time increase decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered, such as changes in the Municipality's property tax base, and the condition of roads, to assess the overall health of the Municipality's of Manati.

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

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

Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality'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 and fund financial Statements*

#### *Statement of Net Assets*

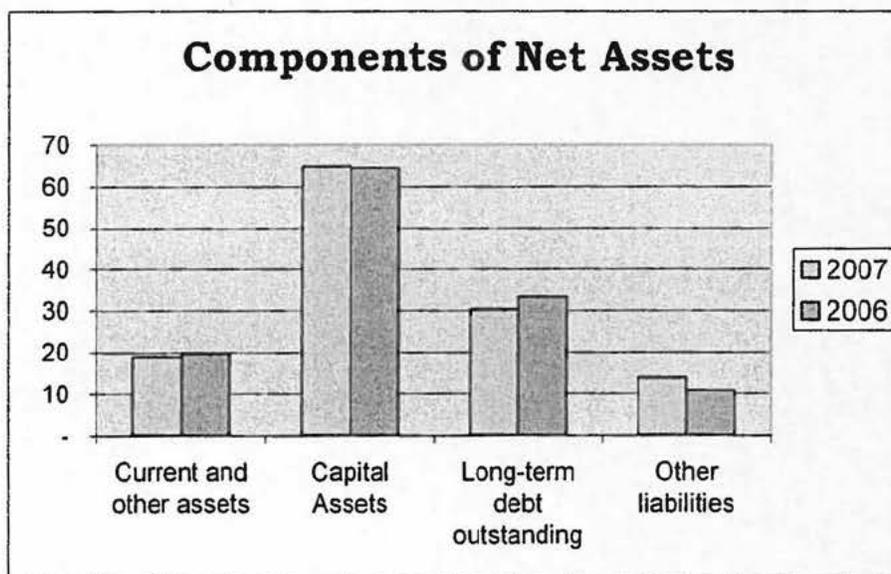
The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$39,754,575 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, 2007 and 2006

	2007	2006
Current and other assets	\$ 18,993,320	\$ 19,829,015
Capital assets	64,937,967	64,545,241
<b>Total assets</b>	<b>83,931,287</b>	<b>84,374,256</b>
Current and other liabilities	13,912,907	10,931,388
Long-term liabilities	30,263,805	33,285,812
<b>Total liabilities</b>	<b>44,176,712</b>	<b>44,217,200</b>
Net assets:		
Invested in capital assets, net of related debt	34,575,599	33,893,259
Reserve for debt service	2,373,121	3,038,222
Special revenue fund	5,886,309	126,350
Capital project fund	4,852,924	10,420,450
Unrestricted	(7,933,378)	(7,321,225)
<b>Total net assets</b>	<b>\$ 39,754,575</b>	<b>\$ 40,157,056</b>

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.



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

**Statements of Activities**

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

**For the year ended June 30, 2007 and 2006**

	2007	2006
General Revenue	\$ 35,057,089	\$ 27,433,333
Program Revenue	9,514,439	9,649,060
<b>Total Revenue</b>	<b>44,571,528</b>	<b>37,082,393</b>
Expenses	(43,589,854)	(37,824,167)
Governmental activities		-
<b>Changes in net assets</b>	<b>\$ 981,674</b>	<b>\$ (741,774)</b>

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

**Governmental Funds  
Balance Sheets  
June 30, 2007 and 2006**

	2007	2006
<b>Assets:</b>		
Cash	\$ 14,122,474	\$ 8,374,604
Restricted Cash	2,373,121	8,821,808
Accounts Receivable	7,869,307	5,926,808
<b>Total Assets</b>	<b>\$ 24,364,902</b>	<b>\$ 23,123,220</b>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable and due to other	\$ 9,485,478	\$ 6,310,633
Deferred and Volume of Business Tax	7,231,591	6,966,387
<b>Total Liabilities</b>	<b>16,717,069</b>	<b>13,277,020</b>
<b>Funds Balances</b>	<b>7,647,833</b>	<b>9,846,200</b>
<b>Total liabilities and Fund Balances</b>	<b>\$ 24,364,902</b>	<b>\$ 23,123,220</b>

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 \$3,225,000 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, 2007 and 2006**

	2007	2006
<b>Revenues:</b>		
Property taxes	\$ 9,870,363	\$ 10,010,490
Volume of business tax	8,099,003	8,452,162
Intergovernmental revenue	11,208,894	6,521,289
Federal grants	9,514,439	7,847,290
Other	5,965,730	5,023,687
<b>Total Revenues</b>	<b>\$ 44,658,429</b>	<b>\$ 37,854,918</b>
Liabilities and Fund Balance		
<b>Expenditures:</b>		
General Government	\$ 19,492,074	\$ 12,881,291
Public works	4,134,546	4,661,868
Public safety	2,819,691	2,433,226
Health	4,073,074	3,952,120
Capital projects	2,441,588	3,964,259
Bonds, notes and interest	4,133,157	3,964,096
Education and training	4,543,905	4,173,406
Other expenditures	4,779,494	4,357,438
<b>Total Expenditures</b>	<b>\$ 46,417,529</b>	<b>\$ 40,387,704</b>
Excess of revenues (expenditures)		
<b>Over expenditures (revenues)</b>	<b>\$ (1,759,100)</b>	<b>\$ (2,532,786)</b>

The most significant changes of this statement were as follows:

- The larger increases were in the intergovernmental revenue and federal grants by approximately \$4.8 and 1.7 million, respectively.
- The most significant change in the expenditures were an increase in General Government that was financed by intergovernmental revenues and a decrease in Capital Projects for approximately \$1.5 million 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**

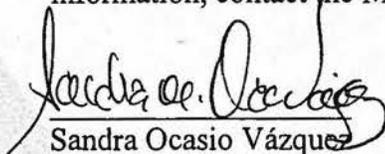
The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central governmental of Puerto Rico. The Municipal Government comprises the executive and 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  
Finance Director

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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, 2007, 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, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 16, 2007 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 result 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 is 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.

Arecibo, Puerto Rico  
November 16, 2007

The stamp number 2227528  
was affixed to the  
original of this report.



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

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

<b><u>ASSETS</u></b>	<b>Governmental Activities</b>
Cash and investments	\$ 14,122,474
Cash with fiscal agent and other	2,373,121
Receivable volume business	563,434
Accounts receivable federal government	807,442
Accounts receivable other	13,677
Accounts receivable government	1,113,172
Capital Assets	64,937,967
<b>Total assets</b>	<b>\$ 83,931,287</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 3,005,456
Deferred revenue	7,231,591
Due to government entity	1,099,119
Noncurrent liabilities:	
Due within one year	2,576,741
Due in more than one year	30,263,805
<b>Total liabilities</b>	<b>44,176,712</b>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	34,575,599
Reserve for debt service	2,373,121
Special revenue fund	5,886,309
Capital project fund	4,852,924
Unrestricted (deficit)	(7,933,378)
<b>Total Net Assets</b>	<b>39,754,575</b>
<b>Total liabilities and net assets</b>	<b>\$ 83,931,287</b>

See notes to financial statements.

**MUNICIPALITY OF MANATI, PUERTO RICO  
STATEMENTS OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (expense) revenue and change in Net Assets Governmental Activities
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	
<b><u>EXPENDITURES:</u></b>					
General government	\$ 19,612,910	\$ -	\$ (3,023,428)	\$ (1,622,135)	\$ 14,967,347
Public work	5,504,769	(214,844)	-	-	5,289,925
Public safety	2,938,710	-	-	-	2,938,710
Health	4,111,175	(3,578,436)	-	-	532,739
Capital projects	324,971	-	(324,971)	-	-
Culture and recreation	2,130,230	-	-	-	2,130,230
Education and training	4,543,905	-	-	(4,543,905)	-
Other expenditures	2,803,666	-	-	-	2,803,666
Interest and fiscal charges	1,619,518	-	-	-	\$ 1,619,518
<b>Total governmental activities</b>	<b>\$ 43,589,854</b>	<b>\$ (3,793,280)</b>	<b>\$ (3,348,399)</b>	<b>\$ (6,166,040)</b>	<b>\$ 30,282,135</b>
<b><u>GENERAL REVENUES:</u></b>					
Property taxes					\$ 9,870,363
Municipal licenses tax					8,099,003
Licenses, permits and fines					975,343
Intergovernmental revenues					11,208,894
Rent of properties					144,514
Interests revenues					522,885
Other Revenues					442,807
<b>Total general revenues</b>					<b>31,263,809</b>
Changes in net assets					981,674
Net assets at beginning of year					40,157,056
Prior period adjustment					(1,384,155)
<b>Net assets at end of year</b>					<b>\$ 39,754,575</b>

See notes to financial statements.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

<b>ASSETS</b>	<b>General Fund</b>	<b>2007 Bond Issue Fund</b>	<b>HUD Programs</b>	<b>Head Start Programs</b>	<b>Debt Service Fund</b>	<b>Other Funds</b>	<b>Total Governmental Funds</b>
Cash and investments	\$ 6,051,990	\$ 4,789,733	\$ 804,770	\$ 216,355	\$ -	\$ 2,259,626	\$ 14,122,474
Cash with fiscal agent and other	-	-	-	-	2,373,121	-	2,373,121
Receivable volume business	563,434	-	-	-	-	-	563,434
Accounts receivable federal government	-	-	670,852	17,088	-	119,502	807,442
Accounts receivable general fund	-	-	-	-	-	12,440	12,440
Accounts receivable other	-	-	-	-	-	1,237	1,237
Accounts receivable government	1,113,172	-	-	-	-	-	1,113,172
Due from other funds	755,941	-	70,496	-	-	4,545,145	5,371,582
<b>Total assets and other debits</b>	<b>\$ 8,484,537</b>	<b>\$ 4,789,733</b>	<b>\$ 1,546,118</b>	<b>\$ 233,443</b>	<b>\$ 2,373,121</b>	<b>\$ 6,937,950</b>	<b>\$ 24,364,902</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 1,073,201	\$ -	\$ 1,539,956	\$ 233,443	\$ -	\$ 158,856	\$ 3,005,456
Due to special revenue funds	4,545,145	-	-	-	-	826,437	5,371,582
Due to general fund	-	-	-	-	-	9,321	9,321
Due to government entities	1,099,119	-	-	-	-	-	1,099,119
Deferred revenue	7,231,591	-	-	-	-	-	7,231,591
<b>Total liabilities</b>	<b>13,949,056</b>	<b>-</b>	<b>1,539,956</b>	<b>233,443</b>	<b>-</b>	<b>994,614</b>	<b>16,717,069</b>
<b>Fund balances</b>							
Reserve for debt services	\$ -	\$ -	\$ -	\$ -	\$ 2,373,121	\$ -	\$ 2,373,121
Encumbrances	45,000	-	-	-	-	-	45,000
General Fund	(5,509,519)	-	-	-	-	-	(5,509,519)
Special revenue fund	-	-	6,162	-	-	5,880,145	5,886,307
Capital Project fund	-	4,789,733	-	-	-	63,191	4,852,924
<b>Total fund balances</b>	<b>(5,464,519)</b>	<b>4,789,733</b>	<b>6,162</b>	<b>-</b>	<b>2,373,121</b>	<b>5,943,336</b>	<b>7,647,833</b>
<b>Total liabilities and fund balance</b>	<b>\$ 8,484,537</b>	<b>\$ 4,789,733</b>	<b>\$ 1,546,118</b>	<b>\$ 233,443</b>	<b>\$ 2,373,121</b>	<b>\$ 6,937,950</b>	<b>\$ 24,364,902</b>

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

<b>TOTAL FUND BALANCE - GOVERNMENTAL FUNDS</b>	\$ 7,647,833
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	64,937,967
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 absences	1,889,864
Bonds payable	30,941,361
	\$ 32,831,225
<b>TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 39,754,575</b>

See notes to financial statements.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND -**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General Fund	2007 Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>							
Property taxes	\$ 7,414,888	\$ -	\$ -	\$ -	\$ 2,455,475	\$ -	\$ 9,870,363
Municipal license tax	8,099,003	-	-	-	-	-	8,099,003
Licenses, permits and fines	1,190,187	-	-	-	-	-	1,190,187
Intergovernmental revenues	4,548,689	-	-	-	-	6,660,205	11,208,894
Rent of properties	144,514	-	-	-	-	-	144,514
Interest income	543,091	-	-	-	66,695	-	609,786
Other revenues	4,021,243	-	-	-	-	-	4,021,243
Federal financial award	-	-	3,348,399	4,543,905	-	1,622,135	9,514,439
<b>Total revenues</b>	<b>25,961,615</b>	<b>-</b>	<b>3,348,399</b>	<b>4,543,905</b>	<b>2,522,170</b>	<b>8,282,340</b>	<b>44,658,429</b>
<b>EXPENDITURES:</b>							
Current:							
General government	11,220,926	-	2,160,378	-	-	6,110,770	19,492,074
Public safety	2,819,691	-	-	-	-	-	2,819,691
Public works	4,134,546	-	-	-	-	-	4,134,546
Health	4,073,074	-	-	-	-	-	4,073,074
Capital projects	-	-	324,971	-	-	2,116,617	2,441,588
Culture and recreation	1,975,828	-	-	-	-	-	1,975,828
Education and training	-	-	-	4,543,905	-	-	4,543,905
Other expenditures	2,803,666	-	-	-	-	-	2,803,666
Debt service:							
Principal retirement	-	-	-	-	2,513,639	-	2,513,639
Interest and fiscal charges	-	-	-	-	1,619,518	-	1,619,518
<b>Total expenditures</b>	<b>27,027,731</b>	<b>-</b>	<b>2,485,349</b>	<b>4,543,905</b>	<b>4,133,157</b>	<b>8,227,387</b>	<b>46,417,529</b>
Excess of revenues over (under) expenditures	(1,066,116)	-	863,050	-	(1,610,987)	54,953	(1,759,100)
Other financing source (uses):							
Transfer in (out) from other fund	-	-	(1,006,223)	-	860,371	145,852	-
Transfer in (out) to debt service fund	(172,416)	-	-	-	172,416	-	-
Interest expenditure	-	-	-	-	(86,901)	-	(86,901)
Net bond issued debt	-	3,192,949	-	-	-	-	3,192,949
Bond expenditure	-	(3,472,454)	-	-	-	-	(3,472,454)
<b>Total other financing source (uses)</b>	<b>(172,416)</b>	<b>(279,505)</b>	<b>(1,006,223)</b>	<b>-</b>	<b>945,886</b>	<b>145,852</b>	<b>(366,406)</b>
Excess of revenues and other sources over (under) expenditures and other uses	1,238,532	(279,505)	(143,173)	-	(665,101)	200,805	(2,125,506)
Fund balance June 30, 2006 (deficit)	(3,738,822)	5,069,238	149,335	-	3,038,222	5,328,227	9,846,200
Prior period adjustment (Note 17)	(487,165)	-	-	-	-	414,304	(72,861)
<b>Fund balance June 30, 2007 (deficit)</b>	<b>(5,464,519)</b>	<b>\$ 4,789,733</b>	<b>\$ 6,162</b>	<b>\$ -</b>	<b>\$ 2,373,121</b>	<b>\$ 5,943,336</b>	<b>\$ 7,647,833</b>

See notes to financial statements.

*Handwritten signature and date:*  
 10/24/08  
 Juan A. Feliciano Charneco

**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, 2007**

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

Net change in fund balance - total governmental funds		\$ (2,125,506)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	2,116,617	
Less: current year depreciation	(1,802,581)	
		314,036
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Net bond proceeds of bond issued	(3,192,949)	
Principal payments	2,513,639	
Bond issued expenditures	3,472,454	
		2,793,144
<b>Change in net assets of governmental activities</b>		<b>\$ 981,674</b>

See notes to financial statements.

**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, 2007**

	Budgeted Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 953,255	\$ 953,255	\$ 953,225	\$ (30)
Municipal license tax	8,500,000	8,500,000	8,099,003	(400,997)
Intergovernmental revenues	4,212,162	4,212,162	4,548,689	336,527
Licenses, permits and fines	1,060,000	1,060,000	1,190,187	130,187
Rent of properties	164,000	164,000	144,514	(19,486)
Interest income	600,000	600,000	543,091	(56,909)
Other revenues	2,196,667	2,196,667	1,391,021	(805,646)
Other financial source	6,807,772	6,807,772	6,807,772	(0)
Transfer from other funds	2,157,778	2,157,778	2,522,170	364,392
		860,371	860,371	-
<b>Total revenues</b>	<b>\$ 26,651,634</b>	<b>\$ 27,512,005</b>	<b>\$ 27,060,043</b>	<b>\$ (451,962)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	\$ 10,327,124	\$ 10,971,676	\$ 11,107,830	(136,154)
Public safety	2,945,897	2,822,269	2,819,691	2,578
Public Work	4,433,040	4,133,830	4,134,546	(716)
Health	3,958,062	4,068,796	4,073,074	(4,278)
Culture and recreation	2,183,204	1,979,206	1,975,828	3,378
Other Expenditures	405,105	336,403	334,551	1,852
Transfer to debt service	241,423	146,413	172,413	(26,000)
Transfer from other funds	2,157,778	2,157,778	3,263,786	(1,106,008)
		860,371	869,371	(9,000)
<b>Total expenditures</b>	<b>\$ 26,651,634</b>	<b>\$ 27,476,741</b>	<b>\$ 28,751,090</b>	<b>\$ (1,274,349)</b>
Excess of revenues over (under) expenditures		35,264	<u>\$ (1,691,047)</u>	<u>(1,726,311)</u>
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			<u>\$ 27,060,043</u>	
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				2,630,222
Transfer of funds for budget purpose only				(860,371)
Revenues reported for budget purpose only				(346,109)
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances			<u>\$ 28,483,785</u>	
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				<u>\$ 28,751,090</u>
Differences - budget to GAAP:				
Non budgeted expenditures				3,222,097
Budgeted expenditures included prior year				(639,883)
Other financial resources transferred to debt service				(172,416)
<b>Total expenditures as reported on the statement of revenue, expenditures and change in fund balances</b>			<u>\$ 31,160,888</u>	

See notes to budgetary comparison schedule.

See notes to financial statements.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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, 2007**

**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, 2007**

**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, 2007**

**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 and Financial Statement Presentation**

*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, 2007**

**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 Control**

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

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

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

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**g. Budgetary Control (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 increased, its original budget of the General Fund Balance by \$860,371 from current year resources increases.

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, 2007**

**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 Statements*

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value at the time they are received by **the Municipality** and are capitalized in the Statement of Net 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, 2007**

**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 in the Statement of Net Assets.

**l. Insurance**

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

**m. Restricted Assets**

*Investments and Certificates*

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

*Cash with fiscal agent*

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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 appropriable for expenditure. **The Municipality** has the following reservations of fund balance:

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

**o. Claims and 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 this column do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have been made.

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**2. PROPERTY TAXES**

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality of 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 exemption is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer becomes the source of payment in these cases.

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

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, 2007**

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 \$346,429 during 2007.

The following is a summary of the property tax advances that, resulted in an Account Receivable, for the year ended June 30, 2007. The resulting payable presented as a current liability.

Accounts Payable:

Amortization through collections of property taxes by the CRIM	
07-01-06 - 06-30-07	\$ (9,647,493)
Advance received, 07-01-06 - 06-30-07	9,993,632
Due to CRIM - 2007	<b>\$ 346,139</b>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**3. DEPOSITS**

Deposits include investment account amounting to \$4,292,025. **The Municipality's** cash and investments at June 30, 2007, 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, 2007**

The Municipality recognized as account receivable the amount estimated to be collected based on the volume business tax declaration during the next year that pertaining to this year. (Net of allowance for 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 minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, 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:

<b>Funds</b>	<b>Due From</b>	<b>Due To</b>
General	\$ 755,941	\$ 4,545,145
Other Funds	4,545,145	826,437
HUD Funds	70,496	-
<b>TOTAL</b>	<b>\$ 5,371,582</b>	<b>\$ 5,371,582</b>

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, 2007**

**7. INTERGOVERNMENTAL REVENUES**

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

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

**8. DUE TO GOVERNMENTAL ENTITIES**

As of June 30, 2007 balances from (due to) governmental entities of the general fund consists of the following:

Name	Due to
Electric Puerto Rico Power Authority	\$ 106,040
Puerto Rico Retirement System	168,671
Puerto Rico Telephone Co.	378,982
Puerto Rico Department of Treasury	91,472
Puerto Rico Employees Association	5,053
General Administration Services	2,762
Centro de Recaudación de Impuestos Municipales	346,139
<b>Totals</b>	<b>\$ 1,099,119</b>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**9. CAPITAL ASSETS**

**Capital assets activity for the year ended June 30, 2007 was as follows:**

<b>Governmental activities:</b>	Balance 6/30/2006	Additions	Retirements and transfers dispositions	Balance 6/30/2007
Capital assets, not being depreciated:				
Land	\$ 12,292,100	\$ -	\$ -	\$ 12,292,100
Construction in progress	11,309,506	1,868,120	-	13,177,626
Total capital assets not being depreciated	<u>23,601,606</u>	<u>1,868,120</u>	<u>-</u>	<u>25,469,726</u>
Capital assets, being depreciated				
Buildings and building improvements	45,839,312	-	-	45,839,312
Infraestructure	17,930,850	-	-	17,930,850
Equipment	5,879,963	200,316	-	6,080,279
Vehicles	9,350,121	373,152	-	9,723,273
Total capital assets being depreciated	<u>79,000,246</u>	<u>573,468</u>	<u>-</u>	<u>79,573,714</u>
Less accumulated depreciation for:				
Buildings and building improvements	(12,490,109)	-	(770,472)	(13,260,581)
Infraestructure	(14,757,022)	-	(258,895)	(15,015,917)
Equipment	(3,991,258)	-	(425,106)	(4,416,364)
Vehicles	(7,064,503)	-	(348,108)	(7,412,611)
Total accumulated depreciation	<u>(38,302,892)</u>	<u>-</u>	<u>(1,802,581)</u>	<u>(40,105,473)</u>
Total capital assets being depreciated, net	<u>40,697,354</u>	<u>573,468</u>	<u>(1,802,581)</u>	<u>39,468,241</u>
Governmental activities capital assets, net	<u>\$ 64,298,960</u>	<u>\$ 2,441,588</u>	<u>\$ (1,802,581)</u>	<u>\$ 64,937,967</u>

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

Governmental activities:	
General government	\$ 120,836
Public safety	119,019
Public works	1,370,223
Culture and recreation	154,402
Health	38,101
Total depreciation expense governmental activities	<u>\$ 1,802,581</u>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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.

**Fund Financial Statements**

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

**10. CHANGES IN GENERAL LONG-TERM DEBT**

*General in General Long- Term Debt*

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

The following is a summary of bonds of the Municipality of Manatí for year ended June 30, 2007

Description	Payable at July 1, 2006	Additions	Reductions	Balance June 30, 2007
General Obligations Bonds	\$30,230,000	\$ 3,225,000	\$ 2,513,639	\$ 30,941,361

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**11. GENERAL IN LONG-TERM DEBT (Continuation)**

*The annual requirements to amortize all bonded debt outstanding as of June 30, 2007 follow:*

Description	Original Amount	Interest Rate	Balance 06-30-07	Due Date	Due within One Year
Special obligation	3,600,000	7.06%	410,000	7/1/2007	410,000
General obligation Bond (Series 2000)	125,000	5.00%	90,000	7/1/2024	5,000
General obligation Bonds (Series 94-95)	1,005,000	7.06%	590,000	7/1/2014	55,000
General obligation Bonds (Series 94-95)	300,000	5.50%	185,000	1/1/2012	15,000
General obligation Bond	1,160,000	2.7%	1,070,000	7/1/2026	25,000
General obligation Bonds (Series 95-96)	1,500,000	5.25%	1,138,000	1/1/2022	63,000
General obligation Bonds (Series 05-06)	455,000	4.73-4.17%	400,000	7/1/2012	60,000
General obligation Bonds (Series 05-06)	175,000	4.17-4.24%	120,000	7/1/2008	60,000
General obligation Bonds (Series 05-06)	4,370,000	4.17-5.31%	4,280,000	7/1/2030	95,000
General obligation Bonds (Series 05-06)	405,000	4.23-5.33%	355,000	7/1/2012	50,000
General obligation Bonds (Series 05-06)	1,075,000	6.5%	1,060,000	7/1/2030	20,000
General obligation Bonds (Series 05-06)	275,000	6.5%	275,000	7/1/2030	5,000
Guranteed loans funds (by Secretary of Housing and Urban Development)(97-98)	8,915,000	6.23%	5,800,000	8/1/2017	445,000
General obligation Bonds (Series 97-98)	2,850,000	5.32%	2,340,000	7/4/2022	80,000
General obligation Bonds (Series 99-00)	105,000	5.00%	20,000	7/1/2007	20,000
General obligation Bonds (Series 99-00)	1,150,000	5.00%	965,000	7/1/2025	40,000
<b>SUB-TOTAL</b>	<b>27,465,000</b>		<b>\$ 19,098,000</b>		<b>\$ 1,448,000</b>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**11. GENERAL IN LONG-TERM DEBT (Continuation)**

Description	Original Amount	Interest Rate	Balance 06-30-07	Due Date	Due within One Year
General obligation Bonds (Series 01-02)	920,000	5.00%	695,000	7/1/2021	45,000
General obligation Bonds (Series 01-02)	270,000	5.00%	55,000	1/1/2007	55,000
General obligation Bonds (Series 01-02)	2,515,000	2.70%	2,250,000	1/1/2026	65,000
General obligation Bonds (Series 01-02)	485,000	5.00%	155,000	1/1/2008	75,000
General obligation Bonds (Series 01-02)	2,010,000	4.75%	1,785,000	7/1/2026	45,000
General obligation Bonds (Series 2005)	785,000	5.00%	490,000	7/1/2010	110,000
General obligation Bonds (Series 2005)	320,000	5.00%	305,000	7/1/2028	5,000
General obligation Bonds (Series 2005)	250,000	4.37 to 5.00%	155,000	7/1/2009	50,000
General obligation Bonds (Series 2005)	318,000	2.0%	311,361	1/1/2025	13,613
General obligation Bonds (Series 2005)	385,000	3.27 to 5.00%	325,000	1/7/2014	35,000
General obligation Bonds (Series 2005)	625,000	3.27 to 5.00%	565,000	1/7/2019	30,000
General obligation Bonds (Series 2005)	645,000	4.37% to 5.0%	620,000	7/1/2029	15,000
General obligation Bonds (Series 2000)	1,000,000	4.5%	907,000	7/1/2025	34,000
General Obligation Bonds (Series 2007)	280,000	6.6%-7.5%	280,000	7/1/2031	5,000
General Obligation Bonds (Series 2007)	620,000	6.6% to 7.25%	620,000	7/1/2013	70,000
General Obligation Bonds (Series 2007)	1,135,000	6.6% to 7.25%	1,135,000	7/1/2031	15,000
General Obligation Bonds (Series 2007)	630,000	6.6% to 7.25%	630,000	7/1/2031	10,000
General Obligation Bonds (Series 2007)	560,000	4.13%	560,000	1/1/2032	13,000
<b>SUB-TOTAL</b>	<b>13,753,000</b>		<b>\$ 11,843,361</b>		<b>\$ 690,613</b>
<b>TOTAL</b>	<b>\$ 41,218,000</b>		<b>\$ 30,941,361</b>		<b>\$ 2,138,613</b>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

*The annual requirements to amortize all bonded debt outstanding as June 30, 2007 follows:*

Year Ending	Principal	Interest	Total
2008	\$ 2,138,613	\$ 1,649,650	\$ 3,788,263
2009	1,818,887	1,627,739	3,446,626
2010	1,730,166	1,525,930	3,256,096
2011	1,757,450	1,427,367	3,184,817
2012	1,692,741	1,327,662	3,020,403
Subsequent years	21,803,504	12,834,748	34,638,252
	<b>\$ 30,941,361</b>	<b>\$ 20,393,096</b>	<b>\$ 51,334,457</b>

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**.

**10. 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	\$ 2,522,170
General funds	172,416
Other fund	860,371
Debt service fund prior year	578,200
	<b>\$ 4,133,157</b>

*Expenditures for the year 2006-2007 were as follows:*

Principal	\$ 2,513,639
Interest	1,619,518
	<b>\$ 4,133,157</b>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**11. 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 retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS 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, 2007**

**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 plans, 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 to approximately \$14,208,611. Member's required contributions are 5.775% of gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600. The Municipality is required to contribute 9.275% of gross salary annually during year 2007, the Municipality's required and actual contribution under Act 447 and Reforma 2000 were \$396,639 and \$468,545 respectively.

**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, 2005 (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, 2007**

**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, 2007 are as follows:

Governmental activity	June 30, 2006	Net Increase	June 30, 2007	Due within One year
Compensated Absences	<b>\$ 1,819,847</b>	<b>\$ 70,017</b>	<b>\$ 1,889,864</b>	<b>\$ 428,807</b>

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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, 2007, were approximately \$160,679 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, 2007 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, 2007**

Federal Programs

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

Comptroller's Office Audits

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

**JUAN A. FELICIANO CHARNECO**  
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**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 financial statements of the governmental activities of Municipality of Manatí, Puerto Rico as of and for the year ended June 30, 2007 and have issued my report thereon dated November 16, 2007. I 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Municipality of Manatí, internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Manatí internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Municipality of Manatí, Puerto Rico's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the Municipality of Manatí Puerto Rico's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement

the of the Municipality of Manatí, Puerto Rico's financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Manatí, Puerto Rico's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality of Manatí, Puerto Rico's internal control.

*My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as define above.*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Manatí, Puerto Rico's financial statements are free of material misstatement, I performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2007-1 and 2007-2.

I noted certain matters that I reported to management of Municipality of Manatí Puerto Rico in a separate letter dated November 16, 2007.

Municipality of Manatí, Puerto Rico's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the Municipality of Manatí, Puerto Rico's response and, accordingly, I express no opinion on it.

The report is intended solely for the information and use of management, Municipal Council 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.

Arecibo, Puerto Rico  
November 16, 2007

The stamp number 2227529  
was affixed to the  
original of this report



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

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

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, 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, 2007. 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 of Municipality of Manatí compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States and Local Governments". Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Manatí' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Manatí' compliance with those requirements.

In my opinion, Municipality of Manatí, Puerto Rico, 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, 2007. However, the results of my auditing procedures disclosed instances of non compliance with those requirements, which 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 item 2007-01 and 2007-02.

Internal Control Over Compliance

The management of 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Manatí internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as define above.

Municipality of Manatí' response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit Municipality of Manatí' Puerto Rico's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Municipal Council, others within the entity, 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.

Arecibo, Puerto Rico  
November 16, 2007

The stamp number 2227530  
was affixed to the  
original of this report



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

**MUNICIPALITY OF MANATI, PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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	\$ 886,093
Passed-through Puerto Rico Public Housing Administration			
Los Murales and Campo Alegre Public Housing	14.850	PR-5104	637,442
Community Planning and Development	14.218	B-06-MC-72-0016	1,083,873
Community Development Block Grant	14.218	B-05-MC-72-0016	180,478
	14.218	B-04-MC-72-0016	161,810
	14.218	B-03-MC-72-0016	9,238
	14.218	B-02-MC-72-0016	4,244
	14.218	B-01-MC-72-0016	4,711
	14.218	B-00-MC-72-0016	1,005
			1,445,359
Section 108 loan guarantees	14.248	B-95-MC-72-0016	111,797
UDAG (Program Income)	14.221	N/A	54,775
Atenas Internet (Program Income UDAG)	14.221	N/A	275,525
<u>U.S. Department of Transportation:</u>			
Direct Program:			
Federal Transit Administration			
Federal Transit Capital Improvement Grant			
Improvement to Public Terminal	20.500	PR-90-X090	40,957
Mini Buses - Buses Purchase	20.500	PR-90-X073	6,416
Program Income FTA	20.500	N/A	31,667
			79,040
<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	4,543,905
<u>U.S. Department of Agriculture</u>			
Child Care Food Program	10.558	CCC-007-M	302,142
Administration on Aging			
Special Program for the Aging Title III B and C	93.044	Supportive Services	168,331
<u>U.S. Department of Agriculture</u>			
Rural Development	10.769	N/A	942,192
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>\$ 9,446,601</b>

See notes to the schedule of expenditures of federal awards.

**MUNICIPALITY OF MANATI, PUERTO RICO  
NOTES TO THE SCHEDULE  
OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS  
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2007**

(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 and U.S. Department of Agriculture Program represents the major federal financial awards of the Municipality. Major federal awards represent 93% 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	\$ 3,410,991	\$4,543,905	\$ 1,491,705	\$9,446,601
State & Municipal Expenditures	80,581	-	6,735,682	6,816,263
<b>Total Expenditures</b>	<b>\$ 3,491,572</b>	<b>\$ 4,543,905</b>	<b>\$ 8,227,387</b>	<b>\$ 16,262,864</b>

**MUNICIPALITY OF MANATI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2007**

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

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_yes X no

Reportable condition(s) identified not considered  
to be material weaknesses? \_\_\_\_\_yes X none reported

Noncompliance material to financial statements noted? \_\_\_\_\_yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_yes X no

Reportable condition(s) identified not  
Considered to be material weaknesses? \_\_\_X yes \_\_\_\_\_ no

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 \_\_\_X 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
10.769	Rural Development
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 \_\_\_X yes \_\_\_\_\_ no

**MUNICIPALITY OF MANATI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2007**

**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, 2007**

Ref.

No. Finding/Noncompliance

**2007-01 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 20 days.

**MUNICIPALITY OF MANATI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007**

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, 2007**

**Department of Housing and Urban Development**  
**Public and Indian Housing**  
**CFDA No. 14.871**  
**Grant – Section 8 - Voucher**  
**Year Ended June 30, 2007**

Ref.

No.    Finding / Non-compliance

Questioned  
Cost  
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2007-2    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 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 20 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  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2007**

2006-Finding No. 1: U.S. Department of Health and Human Services  
Head Start (PA 22)  
CFDA No. 93.600  
Year ended June 30, 2006  
**Finding reported again.**

2006-Finding No. 2: Department of Health and Human Services  
Passed-through Governor Office for Human Development  
Special program for the aging  
CFDA No. 93.044  
Year ended June 30, 2006  
**Finding was corrected.**

2006-Finding No. 3: Department of Housing and Urban Development  
Section 8 Voucher  
CFDA No. 14.871  
Year ended June 30, 2006  
**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.

2006 Finding No. 4: Department of Housing and Urban Development  
Section 108 Loan Guarantee  
CFDA No. 14.248  
Year ended June 30, 2006  
**Finding was corrected.**

2006 Finding No. 5: Department of Housing and Urban Development  
Los Murales and Campo Alegre Public Housing  
CFDA No. 14.850  
**Finding was corrected.**

2006 Finding No. 6: Department of Health and Human Services  
Administration on Aging  
Passed through Governors office for Human Development  
Special Program for the Aging  
CFDA 93.044  
**Finding was corrected.**



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, 2007**

Ref. No. <u>Finding /Corrective Action</u> 2007-01 <u>Planned/Person Responsible:</u>	<u>Anticipated Completion Date</u>
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Statement of Condition:

The Head Start program cash balance over \$5,000 for the periods larger than 20 days.

On or before  
end of 2007-08  
Fiscal year

Corrective Action Planned:

The Head Start program Administration will evaluate and implement adequate procedures to control and use in effective manner, federal funds.

Person Responsible:

Mrs. Sandra Ocasio Vázquez, Finance Director

Ref. No. <u>Finding /Corrective Action</u> 2007-02 <u>Planned/Person Responsible:</u>	<u>Anticipated Completion Date</u>
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Statement of Condition:

The Section 8 –Voucher Program cash balance over \$5,000 for the periods larger than 20 days.

On or before  
end of 2007-08  
Fiscal year

Corrective Action Planned:

The Section 8–Voucher Administration will evaluate and implement adequate procedures to control and use in effective manner, federal funds.

Person Responsible:

Mrs. Sandra Ocasio Vázquez, Finance Director

*Sandra M. Ocasio Vázquez*  
-51-

