

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE MANATÍ
AUDITORÍA 2011-2012
30 DE JUNIO DE 2012**

**MUNICIPALITY OF MANATÍ, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2012
(INDEPENDENT AUDITOR'S REPORT)**

**MUNICIPALITY OF MANATÍ, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2012**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

My Management's Discussion and Analysis (MD&A) of the Municipality of Manatí financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2012. The MD&A should be read in conjunction with the transmittal letter on page 10 and the Municipality's financial statements, which begin on page 14. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended June 30, 2012. This MD&A is prepared in order to comply with such pronouncement and to provide the financial statements users with major information.

Management of the Municipality's, provides these MD&A for the reader of the Municipality's basic financial statements. This narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2012, and is intended to provide an easily readable explanation of the information provided in the attached basic financial statement. We encourage readers to consider these information with the Municipality's basic financial statements that follow.

The Commonwealth of Puerto Rico during the last five years presents a stagflation, together with an increasing in the unemployment rate and stagnant in business activity. Continuous increase in the price of good and cost living affects all municipalities of Puerto Rico.

In spite of the difficult economic situation during fiscal year 2011-2012 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 thanks to the Atenas Tax (Sales Tax) which has been crucial support to our economy and our managerial decisions. With the Atenas tax revenues we have been able to continue or services to the communities and performed new improvements like Polvorin Park, to the Solid Waste Disposal Services, to the Senior Center, to the Community Center, electrical Work and others.

MUNICIPALITY OF MANATÍ MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

- The Net assets of the Municipality Government exceeded its liabilities at the close of the current fiscal year by \$43,809,787 net assets.
- Revenues were \$1.6 million more than last year, while expenses were \$1.7 million less than last year as reported in the Statements of Activities.
- The actual revenues were \$2 million over and expenditures were \$3,489,107 less creating an excess of \$5.5 million over the revenues in the Budgetary Schedule mainly due to favorable variances in revenues.
- As June 30, 2012 the Municipality's General Fund (the primary operating fund) reported a fund balance (deficit) of \$12.6 million creating a decrease by \$2.1 million when compare to prior year.
- Loans principal payments were \$2.1million during fiscal year 2011-12.
- The Municipality government fund reported combined ending fund balances by \$13.3 million in the accompanying statement of revenues, expenditures and changes in fund balances.
- The Municipality has reported unassigned fund balance deficit for the general fund amounting \$14.1 million.

New Requirements for the Financial Reporting

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

MUNICIPALITY OF MANATÍ

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements Components

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

Governmental-wide financial statements - The government-wide financial statements which begin on page 15 of this report are designed to provide users with a broad overview of the Municipality's finances, in a manner similar to a private-sector business. The government wide statements provide short and long term information about the municipality's status as a whole.

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 the 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 14-15, 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 or 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, total assess present the overall health of the Municipality of Manatí.

MUNICIPALITY OF MANATÍ 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 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 prior years. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statement. The new statement required that these assets 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.

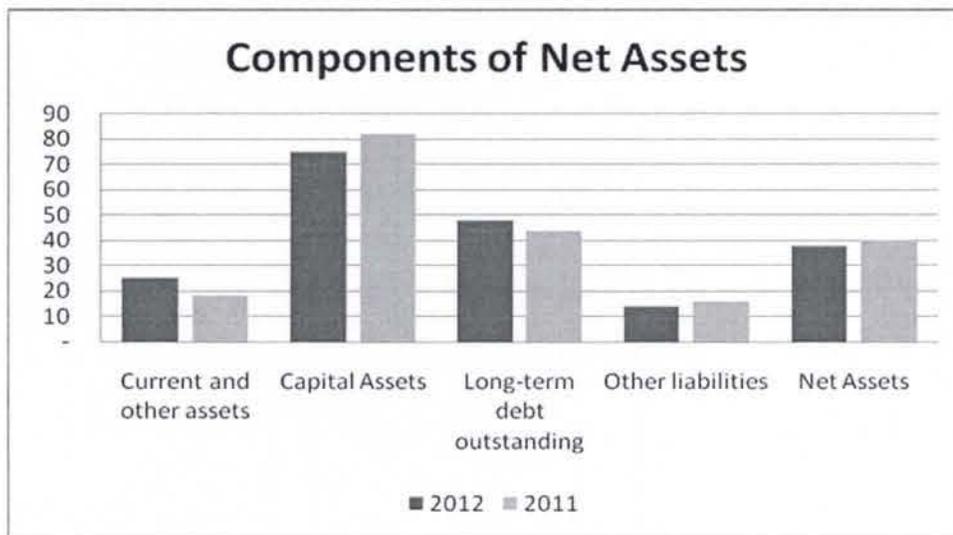
MUNICIPALITY OF MANATÍ MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-Wide Financial Analysis Statements 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 \$43,809,787 at the close of the recent fiscal year compared to \$40,863,591 at end of previous year, as restated and showed in the following the condensed Statement of Net Assets of the Primary Government.

Statements of Net Assets As of June 30, 2011 and 2012

	2012	2011	Changes	%
Current and other assets	\$ 29,189,465	\$ 18,040,896	\$ 11,148,569	62%
Capital assets net	86,166,095	83,713,718	2,452,377	3%
Total assets	115,355,560	101,754,614	13,600,946	0.13
Current and other liabilities	15,886,312	16,666,666	(780,354)	-5%
Long-term liabilities	55,659,461	44,853,857	10,805,604	24%
Total liabilities	71,545,773	61,520,523	10,025,250	16%
Net assets:				
Invested in capital assets, net of related debt	49,386,386	42,801,569	6,584,817	15%
Restricted for debt service	3,913,763	2,459,167	1,454,596	59%
Restricted Other activity	240,727	281,064	(40,337)	-14%
Restricted for Capital project	22,385,446	13,210,409	9,175,037	69%
Committed	1,718,895	1,637,450	81,445	5%
Unrestricted (deficit)	(33,835,430)	(19,526,068)	(14,309,362)	73%
Total net assets	\$ 43,809,787	\$ 40,863,591	\$ 2,946,196	7%



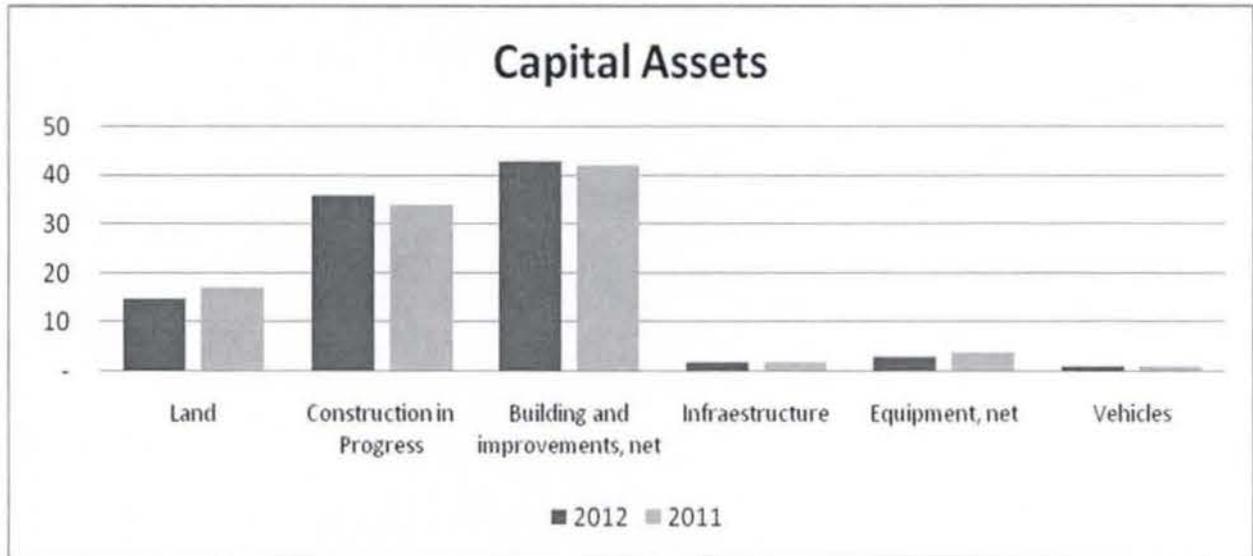
**MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The increase of \$11.1 million in current net assets was mainly due to increase of cash with fiscal agent by \$10.6 million. Capital assets increased by \$1.8 million principally for additions to construction in progress of \$1.6 million. The net investment in capital asset increase by \$2.4 million and the Capital Project Fund decrease by \$6.5 million.

Current liabilities increase by \$780,354 caused by an increase of due to special revenue funds. Long-term liabilities increase by \$10.8 million.

Increase- (Decrease) Net in Capital Assets was as follows:

	June 30, 2012	%	June 30, 2011	%	Change
Land	\$ 12,292,100	16%	\$ 12,292,100	18%	\$ -
Construction in progress	30,624,063	36%	28,953,963	34%	1,670,100
Building and improvements, net	37,812,080	44%	37,316,927	44%	495,153
Infrastructure	1,715,551	2%	1,879,353	2%	(163,802)
Equipment, net	2,811,012	3%	3,116,299	4%	(305,287)
Vehicles	911,289	1%	753,352	1%	157,937
Total Net Capital Asset	\$ 86,166,095		\$ 84,311,994		\$ 1,854,101



The net building improvements represent 33 percent and 44 percent of total assets and net capital asset respectively. Construction in progress represents 27 percent of total assets and 36 percent of net capital assets. The increase in Construction in progress by \$1.6 million when compared to prior years includes \$1.4 million increase in projects from Bond Issued Funds.

MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Statements of Activities
For the year ended June 30, 2011 and 2012
Changes in Net Assets

	2012	2011	Changes	%
General Revenues	\$ 36,020,012	\$ 33,665,563	\$ 2,354,449	7%
Program Revenues	10,972,451	11,702,554	(730,103)	-6%
Total Revenues	46,992,463	45,368,117	1,624,346	4%
Expenses				
Governmental activities	(44,046,267)	(45,123,231)	1,076,964	-2%
Changes in net assets	\$ 2,946,196	\$ 244,886	\$ 2,701,310	1103%

The Statement of Activities reflects for fiscal year 2012, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to an increase of \$2.9 million in the Municipality's net assets, due to a increased in program revenues of \$2.3 million that was compensated by a decrease in expenditures of 1 million. Approximately 52 percent of the Municipality's total revenues came from taxes, while 24 percent resulted from Federal grants and 22 percent resulted from Intergovernmental Revenues. The Municipality's expenses cover a range of services like health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and improvements. The largest expenses were for general government, public works, education and training and culture and recreation besides capital outlays of \$3.6 million. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

A brief review of the Statements of Activities of the Municipality at June 30, 2012, shows total expenses incurred to afford the cost of all functions and programs amounted to \$44 million. Upon examining the sources of revenues for the financing of the programs, the Statement reflects that the following; \$51,732 from charges for services, \$7 million from operating grants and contributions; and \$3.8 million from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$36 million. There was a change in net assets \$2.9 that represents 9 percent of total revenues. Expenses decreased by \$1 million or 2 percent when compared to prior year.

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

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

**Governmental Funds
Balance Sheets
June 30, 2011 and 2012**

	2012	2011	Changes	%
Assets:				
Cash	\$ 7,771,420	\$ 6,774,185	\$ 997,235	15%
Restricted Cash	19,703,658	9,033,837	10,669,821	118%
Accounts Receivable	11,994,689	11,549,394	445,295	4%
Total Assets	\$ 39,469,767	\$ 27,357,416	\$ 12,112,351	44%
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and due to other funds	\$ 16,838,039	\$ 20,961,709	(4,123,670)	-20%
Deferred revenue	7,828,577	7,527,423	301,154	4%
Total Liabilities	24,666,616	28,489,132	\$ (3,822,516)	-13%
Fund Balances	14,803,153	(1,131,716)	15,934,869	-1408%
Total liabilities and Fund Balances	\$ 39,469,769	\$ 27,357,416	\$ 12,112,353	44%

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality's most significant funds and is particularly related to the local government only instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities.

During 2012 the Municipality had \$19.7 million for cash restricted and increased in accounts receivable of \$445,295 when compared to prior year. Accounts payable decreased by \$4.1 million. Deferred revenues increased by \$301,154.

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

**Statements of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2011 and 2012**

	2012	2011	Changes	%
Revenues:				
Property taxes	\$ 11,355,888	\$ 10,511,702	\$ 844,186	8%
Volume of business tax	8,706,904	7,449,438	1,257,466	17%
Intergovernmental revenue	9,934,317	8,967,105	967,212	11%
Federal grants	10,972,451	11,702,554	(730,103)	-6%
Sales Tax	4,062,071	4,051,884	10,187	0%
Other	2,012,564	2,685,434	(672,870)	-25%
Total Revenues	\$ 47,044,195	\$ 45,368,117	\$ 1,676,078	4%
Liabilities and Fund Balance				
Expenditures:				
General Government	\$ 22,400,719	\$ 24,837,785	\$ (2,437,066)	-10%
Public works	3,893,042	3,423,349	469,693	14%
Public safety	2,884,645	2,686,641	198,004	7%
Health	2,999,591	2,944,471	55,120	2%
Capital outlays	3,656,483	14,022,501	(10,366,018)	-74%
Bonds, principal and interest	3,579,114	3,475,364	103,750	3%
Education and training	6,189,081	5,257,202	931,879	18%
Other expenditures	2,617,813	2,219,272	398,541	18%
Total Expenditures	\$ 48,220,488	\$ 58,866,585	\$ (10,646,097)	-18%
Excess of revenues (expenditures)				
Over expenditures (revenues)	\$ (1,176,293)	\$ (13,498,468)	\$ 12,322,175	-91%
Fund Balance, ending	\$ 1,303,153	\$ 708,024	\$ 595,129	84%

The most significant changes of this statement were as follows:

- Revenues from property tax increased by \$844,186 million due to decrease in property tax in the amount collected relate to property tax. The increase in Intergovernmental revenue of \$967,212 million was the result of the received funds in prior year the from Central Government of Puerto Rico. Revenue from volume business tax declaration increased by \$1.2 million.
- Total expenditures decrease by approximately \$10.6 million when compare to prior year. The Capital outlays expense decreased \$10.3 million when compared to prior year. General Government expense decreased by \$2.4 million. All other expenses increased by \$2.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, which has 16 members, exercises legislative power.

Economic Factors and Next Year Budget

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 an industrial base, large pharmaceuticals, wholesalers, retail stores, financial institutions, and restaurants, among others. This industrial base has decreased substantially during the most recent years

The Municipality has future projects in development that include the following:

- New Convention Center by \$5,000,000.
- Acquisition and improvement of the Borinquen Theater by \$1,000,000.
- Improvement by 1,415,000 to Center of Diagnostic and Treatment "Dr. Cesar Rosa Febles" as Atenas Community Health Center (ACHC)

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 Finance Director.

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Telephone (787) 854-2024, Ext. 4012/4013 Fax: (787) 854-1600
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Governmental Activities, each major fund, and the aggregate remaining fund information of the **Municipality of Manatí**, Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2012, which collectively comprise the "Municipality" 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 our audit.

We have conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the "Municipality" internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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. We believe that my audit provides a reasonable basis for my opinion.

The financial statements referred to above include only the primary government of the "Municipality". The financial statements do not include financial data for the legally separated discrete component unit, Center of Diagnostic and Treatment "Dr. Cesar Rosa Febles" as Atenas Community Health Center (ACHC), Inc, as a not profit organization, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the primary government. As result the primary government financial statements do not purport to, and do not present fairly the financial position of the reporting entity of the "Municipality" as of June 30, 2012 and the changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our 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, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2013, on my consideration of the "Municipality" internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and others matters. 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 an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 11 and page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the "Municipality" financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not required part of the financial statements. 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 also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and the other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the

financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Arecibo, Puerto Rico
March 15, 2013

The stamp number 2661166
was affixed to the
original of this report.



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2013

MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2012

<u>ASSETS</u>	Governmental Activities
Cash and investments	\$ 7,771,420
Cash with fiscal agent and other	19,703,658
Accounts receivable from federal government	1,368,650
Accounts receivable other (municipal sales tax)	235,115
Accounts receivable government	110,622
Capital Assets, net of accumulated depreciation	86,166,095
Total assets	\$ 115,355,560
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 3,367,265
Deferred revenue	7,828,577
Due to government entity	1,725,722
Noncurrent liabilities:	
Due within one year	2,964,748
Due in more than one year	55,659,461
Total liabilities	71,545,773
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	49,386,386
Restricted for:	
Debt service	3,913,763
Capital project fund	22,385,446
Other activities	240,727
Committed	1,718,895
Unassigned	(33,835,430)
Total Net Assets	43,809,787
Total liabilities and net assets	\$ 115,355,560

See notes to financial statements.

**MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (expense) revenue and change in Net Assets
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities
<u>EXPENDITURES:</u>					
General government	\$ 21,830,435	\$ -	\$ (3,884,997)	\$ (637,745)	\$ 17,307,693
Public works	4,808,177	(51,732)	-	-	4,756,445
Public safety	2,992,788	-	-	-	2,992,788
Health	3,468,210	-	-	-	3,468,210
Culture and recreation	2,184,467	-	-	-	2,184,467
Education and training	6,266,584	-	-	(6,449,709)	(183,125)
Other expenditures	436,950	-	-	-	436,950
Interest and fiscal charges	1,440,973	-	-	-	\$ 1,440,973
Total governmental activities	\$ 43,428,584	\$ (51,732)	\$ (3,884,997)	\$ (7,087,454)	\$ 32,404,401
<u>GENERAL REVENUES:</u>					
Property taxes					\$ 11,355,888
Municipal licenses tax					8,706,904
Licenses, permits and fines					955,099
Intergovernmental revenues					9,934,317
Rent of properties					123,998
Interests income					489,515
Municipal sales tax					4,062,071
Other Revenues					392,220
Total general revenues					36,020,012
Changes in net assets					3,615,611
Net assets at beginning of year					37,691,829
Prior period adjustment (Note 18)					2,502,347
Beginning balance restated					40,194,176
Net assets at end of year					\$ 43,809,787

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2012

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS							
Cash and investments	\$ 5,693,128		\$ 213,305	\$ 182,002	\$ -	\$ 1,682,985	\$ 7,771,420
Cash with fiscal agent and other	-	12,559,722	265,425	-	6,878,511	-	19,703,658
Accounts receivable from federal government	-	-	-	1,368,650	-	-	1,368,650
Accounts receivable other (municipal sales tax)	235,115	-	-	-	-	-	235,115
Accounts receivable government	110,622	-	-	-	-	-	110,622
Due from other funds	948,567	-	-	-	-	9,331,737	10,280,304
Total assets and other debits	\$ 6,987,432	\$ 12,559,722	\$ 478,730	\$ 1,550,652	\$ 6,878,511	\$ 11,014,722	\$ 39,469,769
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 1,301,048	\$ -	\$ 238,003	\$ 1,008,960	\$ 2,964,748	\$ 819,254	\$ 6,332,013
Due to special revenue funds	10,254,611	-	-	-	-	25,693	10,280,304
Due to government entities	1,725,722	-	-	-	-	-	1,725,722
Deferred revenue (volume bussiness tax)	7,828,577	-	-	-	-	-	7,828,577
Total liabilities	21,109,958	-	238,003	1,008,960	2,964,748	844,947	26,166,616
Fund balances							
Reserve for:							
Debt Services		\$ -	\$ -	\$ -	\$ 3,913,763	\$ -	\$ 3,913,763
Capital project activity		12,559,722	-	541,692	-	9,284,032	22,385,446
Other activities		-	240,727	-	-	-	240,727
Committed	833,152					885,743	1,718,895
Unassigned	(14,955,678)						(14,955,678)
Total fund balances	(14,122,526)	12,559,722	240,727	541,692	3,913,763	10,169,775	13,303,153
Total liabilities and fund balance	\$ 6,987,432	\$ 12,559,722	\$ 478,730	\$ 1,550,652	\$ 6,878,511	\$ 11,014,722	\$ 39,469,769

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

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS		\$ 13,303,153
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		86,166,095
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	\$ 1,863,239	
Bonds payable	53,796,222	
Total long-term liabilities	\$ 55,659,461	(55,659,461)
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ 43,809,787

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, 2012

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:							
Property taxes	\$ 7,685,802	\$ -	\$ -	\$ -	\$ 3,670,086	\$ -	\$ 11,355,888
Municipal license tax	8,706,904	-	-	-	-	-	8,706,904
Licenses, permits, fines and sales tax	992,599	-	-	-	-	-	992,599
Intergovernmental revenues	6,193,190	-	-	-	-	3,741,127	9,934,317
Rent of properties	123,998	-	-	-	-	-	123,998
Interest income	489,515	-	-	-	-	-	489,515
Other revenues	406,452	-	-	-	-	-	406,452
Municipal sales Tax	97,379	-	-	-	622,951	3,341,741	4,062,071
Federal financial award	-	-	3,884,997	6,449,709	-	637,745	10,972,451
Total revenues	24,695,839	-	3,884,997	6,449,709	4,293,037	7,720,613	47,044,195
EXPENDITURES:							
Current:							
General government	14,541,145	-	3,420,592	-	-	3,769,567	21,731,304
Public safety	2,884,645	-	-	-	-	-	2,884,645
Public works	3,893,042	-	-	-	-	-	3,893,042
Health	2,999,591	-	-	-	-	-	2,999,591
Capital outlays	-	1,410,000	206,907	-	-	2,039,576	3,656,483
Culture and recreation	2,180,863	-	-	-	-	-	2,180,863
Education and training	-	-	-	6,189,081	-	-	6,189,081
Other expenditures	436,950	-	-	-	-	-	436,950
Debt service:							
Principal retirement	-	-	-	-	2,138,141	-	2,138,141
Interest and fiscal charges	-	-	-	-	1,440,973	-	1,440,973
Total expenditures	26,936,236	1,410,000	3,627,499	6,189,081	3,579,114	5,809,143	47,551,073
Excess of revenues over (under) expenditures	(2,240,397)	(1,410,000)	257,498	260,628	713,923	1,911,470	(506,878)
Other financing sources (uses):							
Transfer in (out) from other fund	(130,247)	-	(610,426)	-	740,673	-	-
Net issued bond	-	14,811,500	-	-	-	-	14,811,500
Bond expenditure	5,030,379	(5,030,379)	-	-	-	-	-
Total other financing sources (uses)	5,030,379	9,781,121	(610,426)	-	740,673	-	14,941,747
Excess of revenues and other sources over (under) expenditures and other uses	2,789,982	8,371,121	(352,928)	260,628	1,454,596	1,911,470	14,434,869
Net change in fund balance	2,789,982	8,371,121	(352,928)	260,628	1,454,596	1,911,470	14,434,869
Fund balance June 30, 2011 (deficit)	(14,110,900)	3,813,585	593,655	281,064	2,459,167	8,803,169	1,839,740
Prior period adjustment (Note 18)	(2,801,608)	375,016	-	-	-	(544,864)	(2,971,456)
Beginning balance restated	(16,912,508)	4,188,601	593,655	281,064	2,459,167	8,258,305	(1,131,716)
Fund balance June 30, 2012 (deficit)	\$ (14,122,526)	\$ 12,559,722	\$ 240,727	\$ 541,692	\$ 3,913,763	\$ 10,169,775	\$ 13,303,153

See notes to financial statements.

**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, 2012**

Net change in fund balance - total governmental funds \$ 14,434,869

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

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	3,656,483	
Less: current year depreciation	<u>(1,802,382)</u>	
		1,854,101

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 issued bond	(14,811,500)	
Principal payments	2,138,141	
		<u>(12,673,359)</u>
Change in net assets of governmental activities		<u>\$ 3,615,611</u>

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Property taxes	\$ 953,255	\$ 953,255	\$ 953,255	\$ -
Municipal license tax	8,560,936	8,560,936	8,706,904	145,968
Intergovernmental revenues	6,198,190	6,198,190	6,193,522	(4,668)
Licenses, permits and fines	1,585,000	1,585,000	992,600	(592,400)
Rent of properties	337,000	337,000	123,998	(213,002)
Interest income	500,000	500,000	489,514	(10,486)
Other revenues	801,000	801,000	5,436,831	4,635,831
Municipal Sales Tax	400,000	400,000	97,379	(302,621)
Other financial source	8,298,712	8,298,712	6,658,279	(1,640,433)
Total revenues	\$ 27,634,093	\$ 27,634,093	\$ 29,652,282	\$ 2,018,189
EXPENDITURES:				
Current:				
General government	\$ 13,813,841	\$ 14,995,114	\$ 12,090,601	\$ 2,904,513
Public safety	3,239,671	2,896,726	2,960,613	(63,887)
Public Works	4,352,888	3,954,934	3,557,437	397,497
Health	3,206,030	3,011,021	3,176,766	(165,745)
Culture and recreation	2,330,979	2,208,549	1,864,682	343,867
Other Expenditures	515,784	441,676	368,814	72,862
Transfer to debt service	174,900	126,073	126,073	-
Total expenditures	\$ 27,634,093	\$ 27,634,093	\$ 24,144,986	\$ 3,489,107
Excess of revenues over (under) expenditures			\$ 5,507,296	5,507,296
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 29,652,282
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				73,936
Revenues reported for budget purpose only				(5,030,379)
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				<u>\$ 24,695,839</u>
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 24,144,986
Differences - budget to GAAP:				
Non budgeted expenditures				2,917,323
Other expenditures not for financial reporting				(126,073)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				<u>\$ 26,936,236</u>

See notes to budgetary comparison schedule.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 (16) 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 implemented this Standard for the fiscal year ended June 30, 2003.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.)* and *GASB Statement No. 39, Determining Whether Certain Organizations are Component Unites – Amendment of GASB Statement No. 14 (GASB No. 39)* to determine its financial reporting entity.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which in may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete.

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary governmental are such that to exclude the entity from financial reporting entity would render the financial statements misleading or incomplete. USGAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The Municipality management determined as a component unit the operations of Center of Diagnostic and Treatment “Dr. César Rosa Febles” as Atenas Community Health Center (ACHC), Inc, because of the financial interdependency, ability to designate management and the ability to significantly influence operations demonstrated by the Municipality. The Health Center funds comes from private and municipal donations and the rent of the facilities.

The Center of Diagnostic and Treatment “Dr. César Rosa Febles” as Atenas Community Health Center (ACHC), Inc elected the provision of Section 101 (7) of the Puerto Rico Income Tax Law for non-profit organization and all of their net revenues are exempt from payment of income taxes.

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 sustainability of **the Municipality** as an entity and 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 MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 sources 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 based financial statements into the governmental column of the government-wide presentation.

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 of 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.

HUD Programs Fund – This fund accounts for revenues sources for the development of viable urban communities, decent housing suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

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

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

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

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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.

Other Funds (non 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 MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

The principal revenues sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and certain charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying FFFS, except for amounts recorded as deferred revenues.

All revenues, expenses, gains losses and assets resulting from non-exchanges transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012.

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 balances 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.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

g. Budgetary Control

The Municipality follows the following 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:

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 do not increased its original budget of the General Fund Balance.

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.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

- (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.

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budge indicating: 1) interest, amortization and retirement public debt, 2) statutory obligations, 3) judicial claims payments, 4) any amount to cover prior years deficit, 5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtain of additional special property tax (municipal) collections. **The Municipality's** management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for debt service fund.

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 are for 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.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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.

k. Interfund transactions

The Municipality has the types of transactions:

- a. Operating Transfers – Legally required transfers that are reported when incurred as “Operating transfer-in” by the recipient fund and as “Operating transfer-out” by the disbursing fund.

l. Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation leave 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, is accounted for in the Statement of Net Assets.

m. 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**.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

n. Restricted Assets

Investments and Certificates

Certain proceeds of the Municipality 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. In debt service fund are unsecured and collateralized, as no collateral is required by governmental banks.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

o. Fund Balance

During year ended June 30, 2012, **the Municipality** implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Type Definitions ("GASB 54"). The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The implementation of this statement had no impact on the total fund balances for **the Municipality's** governmental funds.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

The Municipality classifies governmental fund balances as follows:

- **Nonspendable**— includes amounts that inherently cannot be spent either because it is not in spendable form (i.e., prepaid, inventories, long-term portions of loans receivable, etc.) or because of legal or contractual requirements (i.e., principal of an endowment, etc.).
- **Restricted** – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal actions made by **the Municipality's** legislative body, which is the highest level of decision making authority, before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – includes amounts that are intended to be used for specific purposes that are neither restricted nor committed; in addition, such assignments are made before the report issuance date.
- **Unassigned** – include amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other government funds, if expenditures incurred for specific purposes exceeded the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The Municipality generally uses restricted amounts first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, **the Municipality** generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

p. 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.

q. Use of Estimates

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

r. 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 not been made.

MUNICIPALITY OF MANATI, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 9.58% for real property and 7.58% 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.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2. PROPERTY TAXES

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.

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

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$307,910 during 2012.

The following is a summary of the property tax advances that resulted in an Account Receivable, for the year ended June 30, 2012. The resulting payable presented as a current asset in both financial statements, Government Wide and Fund Financial Statements.

Amortization through collections of property taxes by the CRIM	
07-01-11 - 06-30-12	\$ 10,162,164
Advance of property taxes by the CRIM	\$ 10,088,496
Accounts Receivable	\$ 74,268

**The modified accrual basis of accounting allows the use of 30 days of collection of Property Taxes after June 30, 2012 to be used to pay liabilities of the current period, as revenue of the period.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

3. DEPOSITS

The Municipality's cash and investments at June 30, 2012, 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 \$250,000. Deposits in excess of \$250,000 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.

Custodial Credit Risk

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2012:

Credit risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico*. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2012 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt or equity securities were made during the fiscal year ended June 30, 2012. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2012.

Interest rate risk - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2012, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the Government Development Bank for Puerto Rico (the adopted policy of the Municipality). At June 30, 2012, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

Custodial credit risk — In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB are uninsured and **uncollateralized**. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2012. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

Therefore, the Municipality's management has concluded that at June 30, 2012, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk -This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2012.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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 uncollectible). 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, 2012 but pertaining to the next fiscal year is recorded as deferred revenues.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 balances are as follows:

Funds	Due From	Due To
General	\$ 948,567	\$ 10,254,611
Other Funds	9,331,737	25,693
TOTAL	\$ 10,280,304	\$ 10,280,304

For the most part, the effect of interfund activity has been removed from the Statement of Net Assets (Government Wide Financial Statement).

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, 2012 balances due to governmental entities of the general fund consists of the following:

Governmental Entities	Due to
Puerto Rico Water System	\$ 496,435
Puerto Rico Association System	19,617
Puerto Rico Department of The Treasury	246,940
Puerto Rico Department of Labor	193,245
Municipal Revenue Collection Center (CRIM)	590,007
Puerto Rico Retirement System	179,478
Total	\$ 1,725,722

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

9. CAPITAL ASSETS

Include those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation.

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance		Retirements	
	6/30/2011	Additions	and transfers	Balance
Governmental activities:	6/30/2011	Additions	dispositions	6/30/2012
Capital assets, not being depreciated:				
Land	\$ 12,292,100	\$ -	\$ -	\$ 12,292,100
Construction in progress	28,953,963	1,670,100	-	30,624,063
Total capital assets not being depreciated	41,246,063	1,670,100	-	42,916,163
Capital assets, being depreciated				
Buildings and building improvements	54,139,312	1,410,000	-	55,549,312
Infrastructure	17,930,850	-	-	17,930,850
Equipment	9,046,209	143,938	-	9,190,147
Vehicles	8,406,890	432,445	-	8,839,335
Total capital assets being depreciated	89,523,261	1,986,383	-	91,509,644
Less accumulated depreciation for:				
Buildings and building improvements	(16,822,385)	-	(914,847)	(17,737,232)
Infrastructure	(16,051,497)	-	(163,802)	(16,215,299)
Equipment	(5,929,910)	-	(449,225)	(6,379,135)
Vehicles	(7,653,538)	-	(274,508)	(7,928,046)
Total accumulated depreciation	(46,457,330)	-	(1,802,382)	(48,259,712)
Total capital assets being depreciated, net	43,065,931	1,986,383	(1,802,382)	43,249,932
Governmental activities capital assets, net	\$ 84,311,994	\$ 3,656,483	\$ (1,802,382)	\$ 86,166,095

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

Governmental activities:	
General government	\$ 99,131
Public safety	108,143
Public works	1,045,382
Culture and recreation	3,604
Education and Training	77,503
Health	468,619
Total depreciation expense governmental activities	\$ 1,802,382

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

9. CAPITAL ASSETS

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 is 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, 2012.

Description	Payable at July 1, 2011	Additions	Reductios	Balance June 30, 2012
General Obligations Bonds	\$ 42,999,628	\$ 14,860,000	\$ 2,138,141	\$ 55,721,487

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

11. GENERAL IN LONG-TERM DEBT (Continuation)

The annual requirements to amortize all bonded debt outstanding as of June 30, 2012 follow:

Description	Balance June 30, 2012	Due within One Year
Serie 2000, \$125,000 payable in annual installments of \$5,000 to \$5,000 until 2024; with interest ranging from 2.7% to 7.81%	\$ 65,000	\$ 5,000
Serie 1995, \$1,005,000 payable in annual installments of \$20,000 to \$95,000 until 2014; with interest ranging from 4.7% to 6.88%	265,000	80,000
Serie 1995, \$300,000 payable in annual installments of \$20,000 to \$95,000 until 2014; with interest ranging from 2.7% to 5%	85,000	25,000
Serie 2001, \$1,160,000 payable in annual installments of \$15,000 to \$100,000 until 2026; with interest ranging from 2.7% to 5.6%	935,000	35,000
Serie 1996, \$1,500,000 payable in annual installments of \$44,000 to \$117,000 until 2020; with interest of 5.25%	786,000	82,000
Serie 2005, \$455,000 payable in annual installments of \$55,000 to \$75,000 until 2012; with interest ranging from 4.17% to 4.73%	75,000	75,000
Serie 2005, \$4,370,000 payable in annual installments of \$90,000 to \$300,000 until 2030; with interest ranging from 4.17% to 5.31%	3,755,000	125,000
Serie 2005, \$405,000 payable in annual installments of \$50,000 to \$70,000 until 2012; with interest ranging from 4.23% to 5.33%	70,000	70,000
Serie 2006, \$1,075,000 payable in annual installments of \$15,000 to \$85,000 until 2030; with interest ranging from 1.53% to 6.62%	950,000	25,000
Serie 2006, \$275,000 payable in annual installments of \$5,000 to \$20,000 until 2030; with interest ranging from 1.54% to 6.62%	245,000	5,000
Serie 1998 \$8,915,000 payable in annual installments of \$445,000 to \$540,000 until 2017; with interest of 6.62% (B-95-MC72-0016)	3,215,000	535,000
Serie 1998 \$2,850,000 payable in annual installments of \$40,000 to \$240,000 until 2022; with interest ranging from 4.87% to 6.71%	1,875,000	115,000
Serie 2000, \$1,150,000 payable in annual installments of \$20,000 to \$105,000 until 2020; with interest ranging from 2.7% to 7.81%	730,000	60,000
Serie 2007, \$3,020,000 payable in annual installments of \$45,000 to \$250,000 until 2032; with interest ranging from 1.53% to 7.25%	2,815,000	60,000
Serie 2008, \$145,000 payable in annual installments of \$15,000 to \$25,000 until 2014; with interest ranging from 1.53% to 7.5%	70,000	20,000
Serie 2008, \$6,638,000 payable in annual installments of \$101,100 to \$553,000 until 2032; with interest ranging from 1.53% to 7.25%	6,311,900	124,900
SUB-TOTAL	\$ 22,247,900	\$ 1,441,900

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

11. GENERAL IN LONG-TERM DEBT (Continuation)

Description	Balance June 30, 2012	Due within One Year
Serie 2009, 1,249,000 payable in annual instalments of \$19,000 to \$104,000 until 2032; with interest ranging from 1.53% to 7.25%	\$ 1,187,700	\$ 23,500
Serie 2001, 920,000 payable in annual installments of \$45,000 to \$65,000 until 2021; with interest ranging from 2.7% to 5.39%	470,000	45,000
Serie 2002, 2,515,000 payable in annual instalments of \$45,000 to \$180,000 until 2026; with interest ranging from 2.7% to 5.6%	1,890,000	85,000
Serie 2002, 2,010,000 payable in annual instalments of \$10,000 to \$165,000 until 2026; with interest ranging from 1.28% to 7%	1,570,000	65,000
Serie 2004, 320,000 payable in annual installments of \$5,000 to \$30,000 until 2028; with interest ranging from 4.17% to 5.31%	265,000	10,000
Serie 2005, 318,000 payable in annual installments of \$5,826 to \$9,594 until 2025; with interest of 2%	220,887	7,481
Serie 2005, 385,000 payable in annual installments of \$30,000 to \$50,000 until 2014; with interest ranging from 3.28% to 4.73%	140,000	45,000
Serie 2005, 625,000 payable in annual installments of \$30,000 to \$60,000 until 2019; with interest ranging from 3.28% to 4.73%	390,000	40,000
Serie 2005, 645,000 payable in annual installments of \$10,000 to \$45,000 until 2029; with interest ranging from 4.7% to 5.28%	540,000	20,000
Serie 2005, 1,000,000 payable in annual instalments of \$30,000 to \$72,000 until 2025; with interest 4.5%	722,000	42,000
Serie 2007, 280,000 payable in annual installments of \$5,000 to \$25,000 until 2031; with interest ranging from 1.53% to 7.5%	255,000	5,000
Serie 2007, 620,000 payable in annual installments of \$70,000 to \$110,000 until 2013; with interest ranging from 1.53% to 7.25%	210,000	100,000
Serie 2007, 1,135,000 payable in annual instalments of \$15,000 to \$95,000 until 2031; with interest ranging from 1.53% to 7.25%	1,035,000	25,000
Serie 2007, 630,000 payable in annual installments of \$10,000 to \$55,000 until 2031; with interest ranging from 1.53% to 7.25%	575,000	15,000
Serie 2008, 560,000 payable in annual installments of \$13,000 to \$37,000 until 2032; with interest 4.13%	490,000	16,000
Serie 2009, 8,532,000 payable in annual instalments of \$ to \$ until 2032; with interest rate of 6%	8,350,000	193,000
Serie 2011, 353,000 payable in annual installments of \$50,000 to \$73,000 until 2016; with interest ranging from 6% to 7.50%	303,000	50,000
SUB-TOTAL	18,613,587	786,981

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Description	Balance June 30, 2012	Due within One Year
Serie 2011, 1,410,000 payable in annual instalments of \$20,000 to \$125,000 until 2036; with interest ranging from 6% to 7.5%	\$ 1,410,000	\$ 20,000
Serie 2011, \$385,000 payable in annual installments of \$40,000 to \$70,000 until 2018; with interest ranging from 6% to 7.51%	385,000	40,000
Serie 2012, \$5,020,000 payable in annual installments of \$15,000 to \$510,000 until 2030; with interest ranging from 6% to 7%	5,020,000	280,000
Serie 2011, \$5,025,000 payable in annual installments of \$70,000 to \$265,000 until 2031; with interest of 6% to 7%	5,025,000	15,000
Serie 2011, \$3,020,000 payable in annual installments of \$70,000 to \$265,000 until 2031; with interest of 6% to 7%	3,020,000	70,000
SUB-TOTAL	14,860,000	425,000
TOTAL	\$ 55,721,487	\$ 2,653,881

11. GENERAL IN LONG-TERM DEBT (Continuation)

The annual debt service requirements for the bonded debt outstanding as June 30, 2012 are as follows:

Year Ending	Principal	Interest	Total
2013	\$ 3,196,437	\$ 3,049,849	\$ 6,246,286
2014	3,190,579	3,132,385	6,322,964
2015	3,210,348	2,675,990	5,886,338
2016	3,144,262	3,298,479	6,442,741
2017	2,766,283	2,581,578	5,347,861
Subsequent years	40,213,578	14,677,337	54,890,915
TOTAL	\$ 55,721,487	\$ 29,415,618	\$ 85,137,105

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the **Municipality**, for bonds to be repaid with the proceeds of property tax restricted for debt services. Other obligations include compensated absences; LIMS refinance debt, claims and judgments.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

12. DEBT SERVICE FUND

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

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

Property taxes	\$ 3,670,086
General funds	130,247
Other fund	610,426
Municipal sales tax	622,951
TOTAL	\$ 5,033,710

Expenditures for the year 2011-2012 were as follows:

Principal	\$ 2,138,141
Interest	1,440,973
TOTAL	\$ 3,579,114

13. RETIREMENT PLAN

Plan Description

Regular full time employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, "Retirement Pensions, Disability and Death Benefits", 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.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. RETIREMENT PLAN (Continuation)

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 (LAW 447)

<u>Eligibility</u>	<u>Pension Benefits</u>
Age 55 and 30 years Of service	75% of average highest compensation during any years of credited service
Under 55 and 30 years Of service	65% of average highest compensation during any 3 years of credit service

Participants 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.

No benefit is payable if the participant receives a refund of his accumulated contributions.

Additional information of ERS is provided in its financial statements for the year ended June 30, 2012 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

NEW PLAN (REFORMA 2000)

<u>Eligibility</u>	<u>Pension Benefits</u>
Age 65 with 10 years of service	1.5% of average compensation during the final 5 years of credited services multiples by the numbers of years credited service

For both plans, the employees are vested when attaining ten years of plan participation. Disability and death benefits 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.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. RETIREMENT PLAN (Continuation)

Reform 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under Reforma 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

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.

Contribution Requirements

The Municipality's total payroll for the fiscal year 2012 amounted to approximately \$15,849,851. The Puerto Rico Commonwealth legislation requires employees to contribute 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 2012. The Municipality is required and actual contribution under Act 447 and Reform 2000 during year ended on June 30, 2012 was \$306,077 and \$588,624 respectively.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Actuarial Valuation

As of June 30, 2011, the ERS has an unfunded accrual liability of approximately \$17.1 billion, representing a 9.7% funding ratio. This information is not available by each participating government agency or municipalities.

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	6.40% a year
b) Salary increases	3.0% year
c) Pre-retirement Mortality	For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA.
Post-retirement Health Mortality	Gender-specific mortality rates were developed based on a study of plan's experience from 2003 to 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA.
Post-retirement Disabled Mortality	RP 2000 Disabled Annuitant Mortality Rates, without projection.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

d) Termination

Withdrawal rates vary by employee category.

The annual rate of termination is as follows:

For general employees	2.0%
For police and fire	1.6%
For mayors	3.0%

e) Disability

Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, adjusted as set forth in the table below. Rates of disability cease to apply once a member is eligible for the 75% of the Highest Salary maximum benefit.

Adjustment to 1987 CGDT		
Act	Members Converged under Act 127	Other Members
447	100%	75%
1	100%	75%
2000	100% if more than 10 years from retirement eligibility. 300% if at or past retirement eligibility. Interpolated from 100% to 300% in the 10 years leading up to retirement eligibility.	75%

100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127. For other members, 90% of disabilities occurring while in active service are assumed to be occupational and 10% are assumed to be non-occupational.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

f) Retirement

Rates of retirement vary by employment category, Act, and by age and years of Creditable Service.

Act 447 General Employees (Includes General Hazardous Employees)			
	Service Condition		
Age	10 years	25 years	30 years
45 to 49			10.0%
50 to 53			15.0
54			20.0
55 to 57		10.0%	20.0
58	5.0%	10.0	20.0
59 to 64	10.0	15.0	20.0
65 to 69	15.0	15.0	20.0
70	100.0	100.0	100.0

System 2000 General Employees		
Age	Non-hazardous	Nasardos
60 to 66	15.0%	12.0%
67	100.0	100.0

Act 447 Police & Fire			
	Service Condition		
Age	10 years	25 years	30 years
45 to 48			10.0%
49			15.0
50		7.0%	15.0
51 to 56		15.0	20.0
57		20.0	30.0
58	2.5%	20.0	100.0
59 to 64	10.0	25.0	
65 to 69	10.0	30.0	
70	100.0	100.0	

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

System 2000 Police & Fire			
Age	Service Condition		
	10 years	25 years	30 years
45 to 48			9.0%
49			13.5
50		6.3%	13.5
51 to 56		13.5	18.0
57		18.0	27.0
58	2.25%	18.0	27.0
59 to 64	9.0	22.5	27.0
65 to 69	9.0	27.0	31.5
70	100.0	100.0	100.0

- g) Proportion of participants with spouses 50% of participants assumed to be married at retirement, with females assumed to be four years younger than males.
- 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

Accordingly, the pension expense for fiscal year 2012 was approximately \$802,139 that represented 100% of the contributions required by funding policies of the Plan.

14. LONG TERM LIABILITIES

Compensated Absences

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, 2012 are as follows:

Governmental activity	June 30, 2011	Net decrease	June 30, 2012	Due within One year
Compensated Absences	\$ 1,907,473	\$44,234	\$1,863,239	\$ 175,432

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 expenditures for the year ended June 30, 2012, were approximately \$192,418 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. During this year the Municipality paid \$1,318,763 to ASES.

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

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 operations by the Comptroller's Office.

Judgments against the Municipality

The **Municipality** is a defendant in a number of lawsuits arising principally from claims against the **Municipality** for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that there are no probable claims against the **Municipality** at June 30, 2012.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

17. MUNICIPAL SALES TAX

Pursuant to the provisions of the Law number 80 of July 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

18. RESTATEMENT OF 2011 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2012 **the Municipality** notes that certain liabilities had been overstated or understated as well as other differences related with adjustments to capital assets and reclassification of certain fund balances. As a result, Net assets increased by \$1,502,459 June 30, 2012, as previously reported, and the fund balance of Head Start Programs decreased by \$39,083 at June 30, 2012, as previously reported, the debt service fund decreased by \$51,037 and the General fund decreased by \$103,322.

	General Fund	Bond Issue Fund	Other Funds
Beginning balance at			
June 30, 2011	\$ (14,110,900)	\$ 3,813,585	\$ 8,803,109
Accounts payable from			
prior year	(801,608)	375,016	(544,864)
Beginning balance, as			
restated June 30, 2011	\$ (14,912,508)	\$ 4,188,601	\$ 8,258,245

19. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality evaluated events and transactions that occurred often the financial statements date for potential recognition or disclosure through March 15, 2013, the date on which the financial statements were issued.

JUAN A. FELICIANO CHARNECO
Certified Public Accountant

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Manatí, Puerto Rico, (the "Municipality") as of and for the year ended June 30, 2012 and has issued my report thereon dated March 15, 2013. We conducted our 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

Management of Municipality of Manatí is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion 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, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Cost that we consider to be significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality’s financial statements are free of material misstatement, we performed tests 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of non compliance 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 items 2012-01.

We noted certain matters that I reported to management of Municipality of Manatí, Puerto Rico in a separate letter dated March 15, 2013.

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

This report is intended solely for the information of the 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
March 15, 2013

The stamp number 2661167
was affixed to the
original of this report



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2013

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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**

Independent Auditor's Report

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

Compliance

We have audited the compliance of the Municipality of Manatí, Puerto Rico, (the "Municipality") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on to each of its major federal programs for the year ended June 30, 2012. The Municipality 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 the "Municipality" management. Our responsibility is to express an opinion on of Municipality compliance based on my audit.

We 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, Local Governments and Non-Profit Organizations*". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the "Municipality" is compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the "Municipality" is compliance with those requirements.

In our opinion, the Municipality of Manatí complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned cost as item 2012-01.

Internal Control over Compliance

Management of the “Municipality” is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the “Municipality” internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine my auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance with OMB Circular A-133, but not for the purpose of expressing an opinion on effectiveness. Accordingly, we do not express an opinion on the effectiveness of the “Municipality” internal control over compliance.

A deficiency in an entity’s internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the entity’s internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The "Municipality" is response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. We did not audit the "Municipality" response and, accordingly, we 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
March 15, 2013

The stamp number 2661168
was affixed to the
original of this report




CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2013

MUNICIPALITY OF MANATI, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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>			
<u>Direct Program:</u>			
Department of Housing and Urban Development Public and Indian Housing			
Section 8 - Housing Choice Voucher	14.871	RQ46-VO-54-001	\$ 995,176
HOPWA	14.241		32,206
Community Planning and Development	14.218	B-09 to 20	1,324,185
Urban Development Action Grant - Atenas Internet (Program Income)	14.221	N/A	73,696
ARRA - Homeless Prevention and Rapid Re-housing	14.257	S09-MY-72-0022	71,543
ARRA - Emergency Shelter Grant	14.257		8,974
ARRA - Community Development Block Grant Program ARRA Entitlement Grant	14.253	N/A	22,976
Community Development Block Grant - Section 108 Loan Guarantee	14.248	N/A	535,000
 <u>Passed-through Commonwealth of P.R. Governor's office of Public Housing Administration of P.R.</u>			
Public and Indian Housing - Los Murales, Campo Alegre and Zorrilla Public Housing	14.850	PR-5104	1,174,169
Total U.S. Department of Housing and Urban Development			4,237,925
 <u>U.S. Department of Transportation:</u>			
<u>Direct Program:</u>			
Federal Transit Administration			
Federal Transit Capital Improvement Grant	20.500	PR90-X275-00	188,384
Federal Transit Capital Improvement Grant - (Program Income)	20.500	N/A	19,287
Total U.S. Department of Transportation			207,671

**MUNICIPALITY OF MANATI, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Health and Human Services:</u>			
<u>Passed-through Commonwealth of P.R. Governors Office for the Care and Integral Development of Children:</u>			
Department of Families of P.R.			
Head Start (IPA-22)	93.600	02CH-0483-36-102	5,317,545
ARRA - Head Start	93.709	02SE-9944/01	579,877
ARRA - Early Head Start	93.708	02SH-9944/02	25,818
Special Program for the Aging Title III B and C	93.045	Supportive Services	265,841
Total U.S. Department of Health and Human Services			6,189,081
<u>U.S. Department of Agriculture</u>			
<u>Passed-through Commonwealth of P.R. Governors Office for the Care and Integral Development of Children:</u>			
Child and Adult Care Food Program	10.558	CCC-007-M	262,201
Rural Housing Preservation Grant	10.443		14,880
Total U.S. Department of Agriculture			277,081
<u>U.S. Department of Energy</u>			
<u>Passed-through Commonwealth of P.R. Governors Office of Department of Justice of P.R.</u>			
ARRA-Energy Efficiency & Conservation Grant	81.128		108,775
Total U.S. Department of Energy			108,775
<u>U.S. Department of Homeland Security</u>			
<u>Passed through Commonwealth of P.R. Governors Office of PR Office of Public Safety</u>			
Disaster Grant Assistance Grant	97.036		28,663
Homeland Security Grant Program	97.067	2008-6E-78-0001	772,613
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			801,276
TOTAL FEDERAL ASSISTANCE			\$ 11,821,809

See notes to the schedule of expenditures of federal awards.

MUNICIPALITY OF MANATÍ, PUERTO RICO
NOTES TO THE SCHEDULE
OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2012

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

(2) MAJOR FEDERAL AWARDS

The Community Development Block Grants, Housing Assistance Payments Programs, Health and Human Services Programs, Department of Agriculture Programs, Department of Justice Programs and **American Recovery and Reinvestment Act Programs** and represents the major federal financial awards of the Municipality. Major federal awards represent 86% 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	\$ 4,237,925	\$ 6,189,081	\$ 1,394,803	\$ 11,821,809
State & Municipal Expenditures	-	-	4,414,340	4,414,340
TOTAL	\$ 4,237,925	\$ 6,189,081	\$ 5,809,143	\$ 16,236,149

MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Identification of Major Programs

CFDA Numbers	Name of Federal Program or Cluster
14.871	Section 8 – Housing Choice Voucher
14.218	Community Development Block Grant – Entitlement Grant
14.221	Urban Development Action Grant - Atenas Internet
14.257	ARRA – Homeless Prevention and Rapid Re-Housing Program
14.253	ARRA – Community Development Block Grant
14.248	Community Development Block Grant – Section 108 Loan Guarantee
14.850	Public and Indian Housing – Los Murales, Campo Alegre and Zorrilla Public Housing
93.600	Head Start
93.708	ARRA – Head Start
97.067	Homeless Security Grant Program

Dollar threshold used to distinguish

Between type A and type B programs

\$348,704

Audited qualified as low-risk auditee

___X___ yes ___ no

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

MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Program: Accounting and Finance Department
General Fund – Deficit
Year ended June 30, 2012

Ref. No.	Finding / Noncompliance	Questioned Cost
2012-01	<p><u>Statement of Condition and Criteria</u> It was noted in my test of balance of accounts that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems for Regulations for Municipal Administration; and with GASB codifications 1700, with requirements stated in OMB Circular A-133.</p> <p><u>Cause</u> The Municipality has significant deficiencies in its accounting and financial management systems and financial reporting practices as related to budgets for the General Fund.</p> <p><u>Effect</u> The lack of budget results does not permit the Municipality: a) To provide services to citizens without affecting them. b) To determine compliance with finance – related legal and contractual provisions.</p> <p><u>Auditors Recommendation</u> The Municipality should revised and evaluate in a monthly basis revenues and disbursements to adjust disbursements to the revenues receipt to comply with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended. Implement measure to reduce the Municipal deficit. Evaluate the impact in the revenues of the change in construction tax and the increase of the real and personal taxes. Evaluate the impact in the disbursement to reduce hours of services of employees, evaluate and revised transitory contracts with employees, approve only necessary professional services, reduce confidence employees salary and consolidate services.</p> <p><u>Municipality Response</u> We concur with auditor’s recommendations. The Municipality will evaluate the actual administrative procedures being followed. The Municipality management took serious and radical measure to minimize the impact of this condition and expect to correct in the near future.</p>	-0-

MUNICIPALITY OF MANATÍ
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

2011-Finding No. 1: Accounting and Finance Department
General Fund – Budget Deficit
Year ended June 30, 2011
Finding reported again

2011-Finding No. 2: Accounting and Finance Department
General Fund – Cash Balance
Year ended June 30, 2011
Finding was corrected



**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2012**

Ref. No. Finding /Corrective Action
2011-01 Planned/Person Responsible:

Anticipated
Completion Date

Statement of Condition:

The General Fund is not complying with budget balances and criteria established by the Standards of Financial Management System for Regulations for Municipal administration, with GASB codification 1700, with requirements stated in OMB Circular A-133 and with Budget requirements of Municipal Law number 81 of August 30, 1991 as amended.

On or before
end of 2011-12
fiscal year

Corrective Action Planned:

The Finance Director will establish adequate procedure to permit the preparation of reliable budget and comply with all standards, requirements and laws that apply.

Person Responsible:

Jonathan Figueroa
Finance Director