

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

**MUNICIPIO DE MANATI
AUDITORÍA 2013-2014
30 DE JUNIO DE 2014**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SINGLE AUDIT REPORT
JUNE 30, 2014
(INDEPENDENT AUDITOR'S REPORT)**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SINGLE AUDIT REPORT
JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
Of the Municipal Legislature
Municipality of Manatí
Manatí, Puerto Rico

Report on the Financial Statements

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 of the Commonwealth of Puerto Rico ("the Municipality") as of end for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion in the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Municipality of Manatí, of the Commonwealth of Puerto Rico, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-11 and 47-48 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. I 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 I obtained during my audit of the basic financial statements. I 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.

Also the U.S. Department of Housing and Urban Development, Real State Assessment Center (REAC) is presented (separate report) for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Municipality's basic financial statements. *The combining and individual non-major fund financial statements and schedule of expenditures of federal awards, as required by office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations and the other information, such as the introductory and statistical section* are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis and budgetary comparison information it's the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In my opinion, the *management's discussion and analysis and budgetary comparison information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The *combining and individual non-major fund financial statements and schedule of expenditures of federal awards* has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

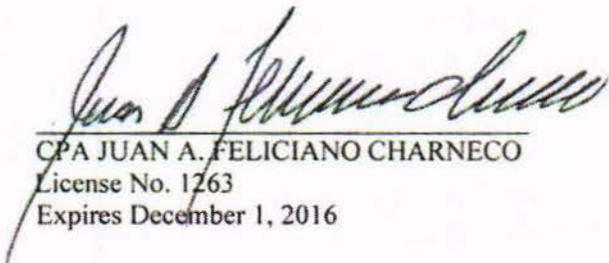
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015 on our consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.

Arecibo, Puerto Rico
March 27, 2015

The stamp number E131986
was affixed to the record
original report.




CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

My Management's Discussion and Analysis (MD&A) of the Commonwealth of Puerto Rico Municipality of Manatí (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2014. The MD&A should be read in conjunction with the transmittal letter on page 14 and the Municipality's financial statements, which begin on page 15. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended June 30, 2014. This MD&A is prepared in order to comply with such pronouncement and to provide the financial statements users with major information.

This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of GASB 34, and it has been designed accordingly with the following goals:

- a. Assist the reader in focusing on significant financial issued,
- b. Provide an overview of the Municipality's financial activity,
- c. Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d. Identify any material deviations from the financial plan (the approved budget), and
- e. Identify individual fund issues or concerns.

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, 2014, and is intended to provide an easily readable explanation of the information provided in the attached basic financial statement. We encourage readers to consider this 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 2013-2014 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 to the Solid Waste Disposal Services, to the Senior Center, to the Community Center, electrical Work and others.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL HIGHLIGHTS

- The Net position of the Municipality Government exceeded its liabilities at the close of the current fiscal year by \$46.4 million net position.
- Revenues were \$2.8 million less than last year, while expenses were \$261,534 less than last year as reported in the Statements of Activities.
- The actual revenues were \$1.1 million under and expenditures were \$1.8 less creating an excess of \$720,838 over the revenues in the Budgetary Schedule mainly due to favorable variances in revenues reflected in Volume of Business Taxes and Excise tax.
- As June 30, 2014 the Municipality's General Fund (the primary operating fund) reported a fund balance (deficit) of \$10.6 million creating a decrease by \$505,020 when compare to prior year.
- Loans principal payments were \$3.3 million during fiscal year 2013-14.
- The Municipality government fund reported combined ending fund balances by \$11 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 \$10.6 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.

**COMMONWEALTH OF PUERTO RICO
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 Position reports information of the municipality as a whole. Increase or decrease of net position 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 Position and the Statement of Activities, on page 16, report the Municipality net position and changes in them. One can analyze of the Municipality's net position, as the difference between assets, liabilities and deferred inflows of resources, as one way to measure the Municipality's financial position. Over time increase or decreases in the Municipality's net position 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.

**COMMONWEALTH OF PUERTO RICO
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.

Notes to the Basic Financial Statements - The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Required Supplementary Information – The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

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 valuated and reported within the Governmental column of the Governmental Wide Statement.

Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets 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.

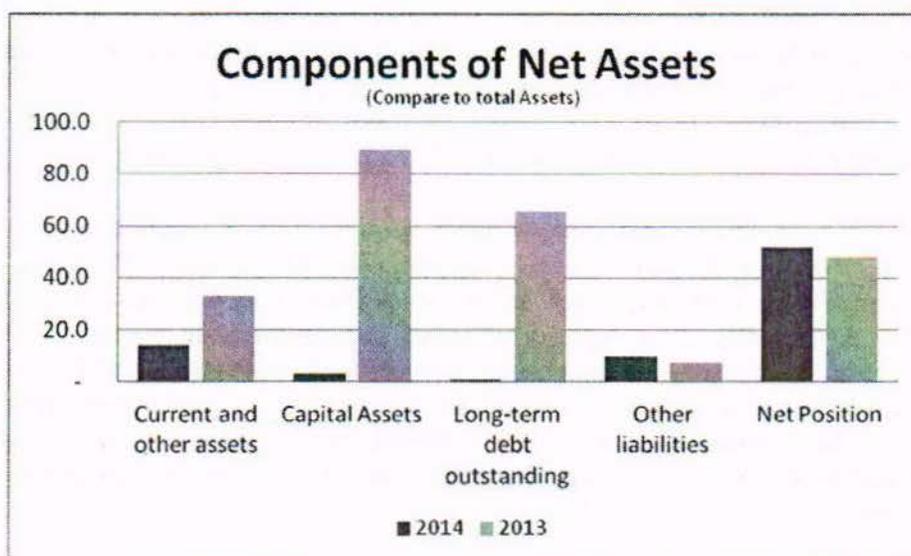
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Government-Wide Financial Analysis
Statements of Net Position*

The Statement of Net Position reports information of the municipality as a whole. Increase or decrease of net position 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 \$46.4 million at the close of the recent fiscal year compared to \$46.8 at end of previous year, as restated and showed in the following the condensed Statement of Net Position of the Primary Government.

**Statements of Net Position
As of June 30, 2014 and 2013**

	2014	2013	Changes	%
Current and other assets	\$ 28,251,839	\$ 32,889,123	\$ (4,637,284)	-14%
Capital assets net	91,877,696	89,149,582	2,728,114	3%
Total assets	120,129,535	122,038,705	(1,909,170)	
Current and other liabilities	8,658,437	9,658,964	(1,000,527)	-10%
Long-term liabilities	55,291,929	55,729,511	(437,582)	-1%
Total liabilities	63,950,366	65,388,475	(1,438,109)	
Deferred inflows of resources	9,765,641	8,502,427	1,363,262	
Net position:				
Invested in capital assets,	53,353,066	50,624,949	2,728,117	5%
Restricted for debt service	3,557,529	4,767,758	(1,210,229)	-25%
Other purposes	9,495,163	11,904,929	(2,409,766)	-20%
Unrestricted (deficit)	(19,992,230)	(20,480,614)	488,384	-2%
Total net position	\$ 46,413,528	\$ 46,817,022	\$ (403,494)	



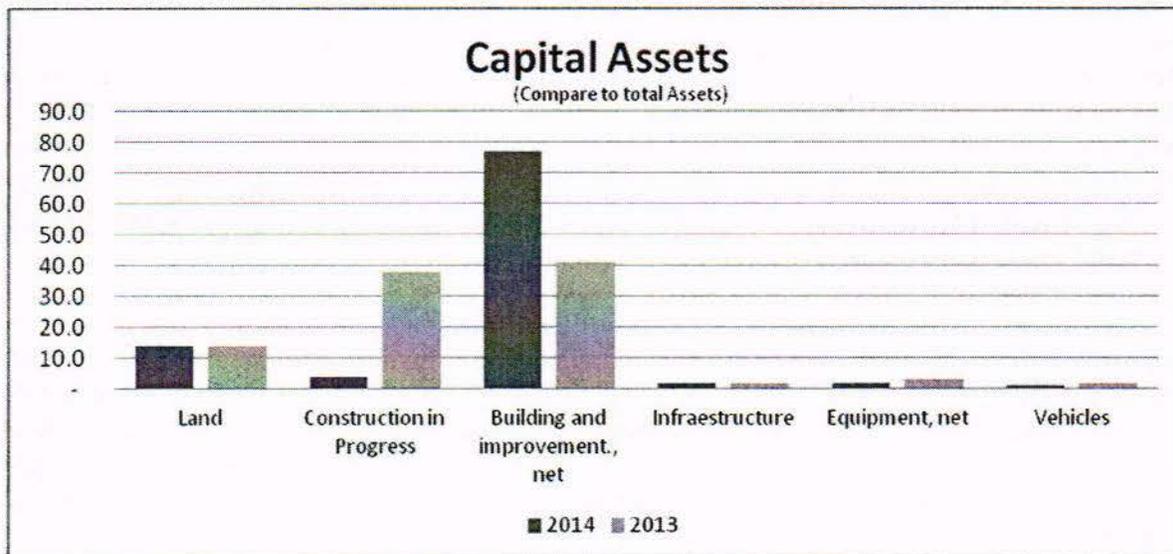
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The decrease of \$4.6 million in current net position was mainly due to decrease of cash with fiscal agent by \$5.3 million. Capital assets increased by \$2.6 million principally for additions to building and improvements of \$3.7 million.

Current liabilities decrease by \$1 million caused by an increase of due to special revenue funds. Long-term liabilities decrease by \$437,582.

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

	June 30, 2014	%	June 30, 2013	%	Change
Land	\$ 12,425,200	14%	\$ 12,292,100	14%	\$ 133,100
Construction in progress	3,897,560	4%	34,405,944	39%	(30,508,384)
Building and improvements, net	70,306,100	77%	36,812,193	41%	33,493,907
Infrastructure	1,602,447	2%	1,676,499	2%	(74,052)
Equipment, net	2,206,467	2%	2,578,390	3%	(371,923)
Vehicles	1,349,922	1%	1,384,456	2%	(34,534)
Total Net Capital Asset	\$ 91,787,696		\$ 89,149,582		\$ 2,638,114



The net building improvements represent 58 percent and 76 percent of total assets and net capital asset respectively. Construction in progress represents 3 percent of total assets and 4 percent of net capital assets. The increase in building and improvements by \$33.4 million when compared to prior years.

**COMMONWEALTH OF PUERTO RICO
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, 2013 and 2014
Changes in Net Position**

	2014	2013	Changes	%
General Revenues	\$ 34,883,131	\$ 37,763,385	\$ (2,880,254)	-8%
Program Revenues	9,998,455	9,967,416	31,039	0%
Total Revenues	44,881,586	47,730,801	(2,849,215)	
Expenses				
Governmental activities	(46,127,477)	(46,389,011)	261,534	-1%
Changes in net position	\$ (1,245,891)	\$ 1,341,790	\$ (2,587,681)	

The Statement of Activities reflects for fiscal year 2014, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to an decrease of \$2.5 million in the Municipality's net position, due to a decreased in program revenues of \$2.8 million that was compensated by a decrease in expenditures of \$261,534. Approximately 56 percent of the Municipality's total revenues came from taxes, while 24 percent resulted from Federal grants and 17 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 \$4.7 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, 2014, shows total expenses incurred to afford the cost of all functions and programs amounted to \$46.1 million. Upon examining the sources of revenues for the financing of the programs, the Statement reflects that the following; \$4.2 million from operating grants and contributions; and \$5.7 million from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$34.8 million. There was a change in net position \$1.2. Expenses decreased by \$261,534 or 1 percent when compared to prior year.

**COMMONWEALTH OF PUERTO RICO
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, 2014 and 2013**

	2014	2013	Changes	%
Assets:				
Cash	\$ 8,102,990	\$ 6,334,434	\$ 1,768,556	28%
Restricted cash	17,575,053	22,887,025	(5,311,972)	-23%
Accounts receivable	7,929,955	10,560,018	(2,630,063)	-25%
Total Assets	\$ 33,607,998	\$ 39,781,477	\$ (6,173,479)	-16%
Liabilities and fund balance				
Liabilities:				
Accounts payable and due to other funds	\$ 12,798,346	\$ 13,132,117	(333,771)	-3%
Deferred inflows of resources	9,765,641	8,502,427	1,263,214	15%
Total Liabilities	22,563,987	21,634,544	\$ 929,443	4%
Fund balances	11,044,011	18,146,933	(7,102,922)	-39%
Total liabilities and fund balances	\$ 33,607,998	\$ 39,781,477	\$ (6,173,479)	-16%

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 2014 the Municipality had \$17.5 million for cash restricted and increased in accounts receivable of \$5.3 million when compared to prior year. Accounts payable decreased by \$.3 million. Deferred inflows of resources increased by \$1,263, 214.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2014 and 2013**

	2014	2013	Changes	%
Revenues:				
Property taxes	\$ 10,818,879	\$ 11,069,872	\$ (250,993)	-2%
Volume of business tax	9,489,785	8,892,454	597,331	7%
Intergovernmental revenue	9,152,184	9,323,979	(171,795)	-2%
Federal grants	9,998,455	9,967,416	31,039	0%
Sales tax	2,002,409	4,406,981	(2,404,572)	-55%
Other	2,023,278	3,841,140	(1,817,862)	-47%
Total Revenues	\$ 43,484,990	\$ 47,501,842	\$ (4,016,852)	-8%
Expenditures:				
General government	\$ 17,515,047	\$ 24,061,529	\$ (6,546,482)	-27%
Public works	4,435,002	3,821,195	613,807	16%
Public safety	4,970,782	2,772,374	2,198,408	79%
Health	2,630,101	2,780,101	(150,000)	-5%
Capital outlays	4,689,089	4,727,495	(38,406)	-1%
Bonds, principal and interest	5,693,512	5,363,514	329,998	6%
Education and training	4,204,232	5,025,627	(821,395)	-16%
Other expenditures	7,118,766	2,548,838	4,569,928	179%
Total Expenditures	\$ 51,256,531	\$ 51,100,673	\$ 155,858	0%
Excess of revenues (expenditures)				
Over expenditures (revenues)	\$ (7,771,541)	\$ (3,598,831)	\$ (4,172,710)	116%
Fund Balance, ending	\$ 11,044,012	\$ 18,545,652	\$ (7,501,640)	-40%

The most significant changes of this statement were as follows:

- Revenues from property tax decreased by \$250,993 due to decrease in property tax in the amount collected relate to property tax. The decrease in Intergovernmental revenue of \$2.5 million was the result of the received funds in prior year from Central Government of Puerto Rico. Revenue from volume of business tax declaration increased by \$597,331.
- Total expenditures decrease by approximately \$155,858 when compare to prior year. The Capital outlays expense decreased \$38,406 million when compared to prior year. General Government expense decreased by \$6.5 million. All other expenses increased by \$4.5.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have established a limitation for the issuance of general obligation municipal bonds and note for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable laws and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption fund and the annual amounts collected with respect to such municipality's Special Additional Tax, as projected by the Government Development Bank of Puerto Rico, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable laws and regulations to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

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 13 members, exercises legislative power.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, restaurants, hospitals and hotels among others. This industrial base has decreased substantially during the most recent years The Coliseo Juan Aubin (Bincito) Cruz Abreu at a cost of \$27 million and the Center of Diagnostic and Treatment "Dr, Cesar Rosa Febles" as Atenas Community Health Center (ACHC), Inc. as cost of \$8 million were finish during the year.

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.

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.

Finance Director, Address: 10 Calle Quiñones, Manatí, Puerto Rico 00674
Telephone (787) 854-2024, Ext. 4012/4013 Fax: (787) 854-1600
E-mail armandomiranda12@gmail.com

MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENT OF NET POSITION
JUNE 30, 2014

<u>ASSETS</u>	Governmental Activities	Atenas Community Health Center, Inc
Cash and investments	\$ 8,102,990	\$ 285,542
Cash with fiscal agent and other	17,575,053	-
Accounts receivable from federal government	1,833,587	-
Accounts receivable other (municipal sales tax)	351,827	-
Accounts receivable government	388,382	-
Accounts receivable other	-	980,914
Inventory	-	504,113
Capital Assets, net of accumulated depreciation	91,877,696	118,726
Total assets	\$ 120,129,535	\$ 1,889,295
 <u>LIABILITIES, DEFERRETED INFLOWS OF RESOURCES AND NET POSITION</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,709,022	\$ 2,707,326
accrued interest	1,245,157	-
Due to government entity	1,643,411	-
Noncurrent liabilities:		
Due within one year	3,060,847	7,640
Due in more than one year	55,291,929	-
Total liabilities	63,950,366	2,714,966
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
<i>Unavailable Revenue-Tax Volume of Business</i>	9,288,669	-
	476,972	-
	<u>9,765,641</u>	<u>-</u>
 <u>NET POSITION</u>		
Invested in capital	53,353,066	-
Restricted for:		
Debt service	3,557,529	-
Capital project activity	9,283,337	-
Capital project activity	211,826	-
Unrestricted (deficit)	(19,992,230)	(825,671)
Total Net Position	46,413,528	(825,671)
Total liabilities and Net Position	\$ 120,129,535	\$ 1,889,295

See notes to financial statements.

**MUNICIPALITY OF MANATI, PUERTO RICO
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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	Atenas Community Health Center, Inc
EXPENDITURES:						
General government	\$ 19,126,715	\$ -	\$ (4,208,268)	\$ (986,738)	\$ 13,931,709	
Public works	5,697,478	-	-	-	5,697,478	
Public safety	5,163,750	-	-	-	5,163,750	
Health	2,402,250	-	-	-	2,402,250	
Culture and recreation	7,201,733	-	-	-	7,201,733	
Education and training	4,204,232	-	-	(4,803,449)	(599,217)	
Interest and fiscal charges	2,331,319	-	-	-	2,331,319	
Total governmental activities	\$ 46,127,477	\$ -	\$ (4,208,268)	\$ (5,790,187)	\$ 36,129,022	\$ -
Component Units:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Atenas Community Health Center, Inc	11,706,217	(9,883,196)	-	-	-	(1,823,022)
Total Component Activities	\$ 11,706,217	\$ (9,883,196)	\$ -	\$ -	\$ -	\$ (1,823,022)
GENERAL REVENUES:						
Property taxes					\$ 11,207,261	\$ -
Municipal licenses tax					9,489,785	-
Licenses, permits and fines					748,128	-
Intergovernmental revenues					9,152,084	-
Rent of properties					95,538	-
Interests income					595,705	-
Municipal sales tax					2,002,409	-
Other Revenues					1,592,221	-
Total general revenues					34,883,131	-
Changes in net assets					(1,245,891)	(1,823,022)
Net assets at beginning of year					48,147,803	883,543
Prior period adjustment (Note 18)					(488,384)	113,808
Beginning balance restated					47,659,419	997,351
Net assets at end of year					\$ 46,413,528	\$ (825,671)

See notes to financial statements.

MUNICIPALITY OF MANATI, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

<u>ASSETS</u>	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 2,880,764	\$ -	\$ 184,865	\$ 79,655	\$ -	\$ 4,957,705	\$ 8,102,989
Cash with fiscal agent and other	-	9,083,354	416,300	595,412	7,475,171	4,816	17,575,053
Accounts receivable from federal government	-	-	476	1,053,967	-	779,144	1,833,587
Accounts receivable other (municipal sales tax)	347,178	-	-	4,649	-	-	351,827
Due from other funds	716,628	14,771	9,700	253	-	5,003,190	5,744,542
Total assets and other debits	\$ 3,944,570	\$ 9,098,125	\$ 611,341	\$ 1,733,936	\$ 7,475,171	\$ 10,744,855	\$ 33,607,998
 <u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 61,501	\$ 183,668	\$ 216,884	\$ 662,995	\$ -	\$ 1,128,816	\$ 2,253,864
Due to special revenue funds	4,958,063	241,911	21,553	376,490	-	146,525	5,744,542
Due to government entities	317,564	-	22,490	542,244	-	-	882,298
Bond, notes and interest	-	-	-	-	3,917,642	-	3,917,642
Total liabilities	5,337,128	425,579	260,927	1,581,729	3,917,642	1,275,341	12,798,346
Deferred inflows or Resources							
Unavailable Revenue - Volume of Business Tax	9,288,669	-	-	-	-	-	9,288,669
Federal Funds	-	-	218,496	72,299	-	186,177	476,972
Total deferred Inflows of Resources	9,288,669	-	218,496	72,299	-	186,177	9,765,641
Fund balances							
Restricted for:							
Debt Services	\$ -	\$ -	\$ -	\$ -	\$ 3,557,529	\$ -	3,557,529
Capital project activity or other purposes	-	8,672,546	131,918	79,908	-	9,283,337	18,167,709
Unassigned	(10,681,227)	-	-	-	-	-	(10,681,227)
Total fund balances	(10,681,227)	8,672,546	131,918	79,908	3,557,529	9,283,337	11,044,011
Total liabilities and fund balance	\$ 3,944,570	\$ 9,098,125	\$ 611,341	\$ 1,733,936	\$ 7,475,171	\$ 10,744,855	\$ 33,607,998

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

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ 11,044,011
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	91,877,696
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued expense	\$ 827,868
Accrued compensated absences	2,623,285
Bonds payable	53,057,026
Total long-term liabilities	\$ 56,508,179
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 46,413,528

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, 2014

	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:							
Property taxes	\$ 6,955,920	\$ -	\$ -	\$ -	\$ 3,862,959	\$ -	\$ 10,818,879
Municipal license tax	9,489,785	-	-	-	-	-	9,489,785
Licenses, permits, fines and sales tax	748,128	-	-	-	-	-	748,128
Intergovernmental revenues	5,507,006	16,531	-	-	-	3,628,547	9,152,084
Rent of properties	95,538	-	-	-	-	-	95,538
Interest income	587,891	1,447	-	-	5,623	744	595,705
Other revenues	583,907	-	-	-	-	-	583,907
Municipal sales Tax	1,014,226	-	-	-	988,183	-	2,002,409
Federal financial award	-	-	4,208,268	4,803,449	-	986,738	9,998,455
Total revenues	24,982,401	17,978	4,208,268	4,803,449	4,856,765	4,616,029	43,484,890
EXPENDITURES:							
Current:							
General government	10,965,448	903,302	-	261,018	-	5,385,279	17,515,047
Public safety	4,514,836	-	-	-	-	455,946	4,970,782
Public works	4,378,707	-	-	-	-	56,295	4,435,002
Health	2,360,101	-	-	-	-	-	2,360,101
Capital outlays	75,196	4,405,474	16,801	-	-	191,618	4,689,089
Culture and recreation	2,496,887	-	-	4,578,826	-	43,053	7,118,766
Education and training	565,651	-	3,637,681	-	-	900	4,204,232
Debt service:							
Principal retirement	-	-	-	-	3,362,193	-	3,362,193
Interest and fiscal charges	-	-	-	-	2,331,319	-	2,331,319
Total expenditures	25,356,826	5,308,776	3,654,482	4,839,844	5,693,512	6,133,091	50,986,531
Excess of revenues over (under) expenditures	(374,425)	(5,290,798)	553,786	(36,395)	(836,747)	(1,517,062)	(7,501,641)
Other financing sources (uses):							
Transfer in (out) from other fund	(128,869)	(687,300)	(559,554)	45,067	1,330,656	-	-
Transfer in (out) from other fund	1,008,314	-	-	-	(1,704,138)	695,824	-
Total other financing sources (uses)	879,445	(687,300)	(559,554)	45,067	(373,482)	695,824	-
Excess of revenues and other sources over (under) expenditures and other uses	505,020	(5,978,098)	(5,768)	8,672	(1,210,229)	(821,238)	(7,501,641)
Net change in fund balance	505,020	(5,978,098)	(5,768)	8,672	(1,210,229)	(821,238)	(7,501,641)
Fund balance June 30, 2013 (deficit)	(11,186,247)	14,255,493	-	-	4,767,758	10,309,929	18,146,933
Prior period adjustment (Note 18)	-	395,151	137,686	71,236	-	(205,354)	398,719
Beginning balance restated	(11,186,247)	14,650,644	137,686	71,236	4,767,758	10,104,575	18,545,652
Fund balance June 30, 2014 (deficit)	\$ (10,681,227)	\$ 8,672,546	\$ 131,918	\$ 79,908	\$ 3,557,529	\$ 9,283,337	\$ 11,044,011

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, 2014**

Net change in fund balance - total governmental funds \$ (7,501,641)

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	4,689,089	
Less: current year depreciation	<u>(1,975,978)</u>	2,713,111

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.

Principal payments	<u>3,362,193</u>	3,362,193
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Revenues and expense for wide financial statements purpose only:

Accrued expense	(827,868)	
Other revenues (Other sources)	<u>1,008,314</u>	
Change in net assets of governmental activities		<u><u>\$ (1,245,891)</u></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, 2014

	Budgeted Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Property taxes	\$ 953,255	\$ 953,255	\$ 953,255	\$ -
Municipal license tax	9,220,782	9,220,782	9,312,969	92,187
Intergovernmental revenues	5,799,956	5,799,956	5,749,639	(50,317)
Licenses, permits and fines	1,430,823	1,430,823	709,600	(721,223)
Rent of properties	169,000	169,000	110,868	(58,132)
Interest income	600,000	600,000	630,557	30,557
Municipal Sales Tax	650,000	650,000	1,000,000	350,000
Other	1,380,395	1,380,395	568,576	(811,819)
Other financial source	6,089,855	6,089,855	6,089,854	(1)
Total revenues	\$ 26,294,066	\$ 26,294,066	\$ 25,125,318	\$ (1,168,748)
EXPENDITURES:				
Current:				
General government	\$ 12,566,900	\$ 13,620,864	\$ 12,684,508	\$ 936,356
Public safety	2,647,774	2,428,774	2,278,089	150,685
Public Works	4,549,971	3,843,720	3,608,027	235,693
Health	2,755,110	2,722,110	2,580,863	141,247
Culture and recreation	3,022,023	2,774,843	2,627,143	147,700
Other Expenditures	581,488	718,955	442,185	276,770
Transfer to debt service	170,800	184,800	183,665	1,135
Total expenditures	\$ 26,294,066	\$ 26,294,066	\$ 24,404,480	\$ 1,889,586
Excess of revenues over (under) expenditures			\$ 720,838	720,838
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 25,125,318
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				
Revenues reported for budget purpose only				(142,917)
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				\$ 24,982,401
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 24,404,480
Differences - budget to GAAP:				
Non budgeted expenditures				1,136,011
Other expenditures not for financial reporting				(183,665)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				\$ 25,356,826

See notes to budgetary comparison schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 thirteen (13) 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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. 61, - *The Financial Reporting Entity (Omnibus and amendment of GASB statement No. 14 and 34)*.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it 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 to be misleading or incomplete. Accordingly, a legally separate organization would be reported as component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.
- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organizations, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

GAAP 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 units financial data in columns separate from the Municipality's balances and transactions.

The Municipality's management has concluded that, based on the aforementioned criteria, the Atenas Community Health Center, Inc. is a legally separate entity that should be reported as component unit of the Municipality for the fiscal year ended June 30, 2014.

Discretely Presented Component Units

The following discretely presented component unit is in basic financial statement because the nature of the services they provide and the Municipality's ability to impose its will.

Atenas Community Health Center (ACHH), Inc. was incorporated under the laws of the Commonwealth of Puerto Rico in 2009 as a non-profit corporation. It was constituted by the Autonomous Municipality of Manatí for which its main role is to establish the public primary health cover services to its citizen and neighborhood area. It is a comprehensive primary care ambulatory, supplemental and environmental health services to the medically underserved residents in the Municipality of Manatí, Puerto Rico. The PRHD Health reform revenues consists of capitation revenues received through and HMO based on the number of portion who select the institution as their primary care center.

Basis of accounting- The financial statements of the Institution have been prepared on the accrual of basis of accounting and accordingly reflect all significant receivables, payables and other liabilities

Net patient service revenue – The Institution has agreements with third-party payers that provide for payments to the Institution at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered and are recognized in the period in which the institution is obligated to provide services to its patients.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

Health care services cost recognition – The cost of health care services provided or contracted for, is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported to the Institution. Medical claims, which has been incurred but not reported by providers, are estimated based on historic data; trends and other financial information submitted but the insurance carrier and amounted to \$785,340 for June 30, 2014. This IBNR (cost incurred but not recorded) reserve could be reduced but the medical services reserve withhold by the insurance carrier amounting to \$12,000 as of June 30, 2014.

Notes Payable:

Note payable with Financial Institution bearing interest at 7.99 %. Due in monthly installments of \$6,387 balance due on July 2014.

Note payable with Financial Institution without interest. Due in monthly installments of \$5,177.63, balance due on January 2014.

Commitments and Contingencies:

Puerto Rico Health Reform Contract – The Institution entered into a manage care contracts (“the Contract”) with a Health Maintenance Organization (HMO) Triple s, Inc. to provide health services to the designated beneficiaries of the health insurance plan of the Government of the Commonwealth of Puerto Rico in Manatí. Pursuant to the contract, among other things, the Institution agrees and commits itself to provide all covered health services to the designated beneficiaries under the dispositions of the health insurance plan of the Government of the Commonwealth of Puerto Rico, which are specified in the contract in consideration to the covered services rendered by the institution, Triple S will pay a fixed amount per beneficiary per month. (Known as capitation), as defined in the Contract The capitation will be subject to retentions of money for the Medical Services Reserve for the payment of IBNR claims. The institution is financially responsible for the covered services included in the Physicians Fund as well as, for services included in the Institutional Fund (Hospital, high tech laboratories and other).

Income Tax:

The Center of Diagnostic and Treatment “Dr. César Rosa Febles” as Atenas Community Health Center (ACHC), Inc elected the provision of Section 1101.01 (a) (2) of the Puerto Rico Internal Revenue Code of 2011, as amended. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. If applicable, income from unrelated business activities would be taxable; no such income was earned by the organization.

In – kind contributions:

In-kind contributions from the Autonomous Municipality of Manatí are reflected as contributions at their estimated fair market value at the date of receipt.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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 position 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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.

Major and Non-major Funds

Under the provisions of GASB 34, the Municipality is required to segregate funds among major and non-major categories within the fund financial statements. Major individual governmental funds are reported as separate columns in the accompanying fund financial statements, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type. At minimum a fund is considered major if: (1) it is the primary operating fund of the Municipality (i.e. the general fund) or; (2) meets both of the following criteria:

- a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b) Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

In addition funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

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. Include HUD programs as grouped in the Schedule of Federal Funds.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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. Include HUD programs as grouped in the Schedule of Federal Funds.

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** is 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.

During fiscal year ended June 30, 2013, the Municipality implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "Fund Balance Reporting and Governmental Fund Type Definitions". GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It 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 governmental funds.**

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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 (60 for property tax) 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.

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, in 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 inflows of resources.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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, 2014.

f. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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

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

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
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JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

h. Deposits

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

The carrying amounts (book balance) and the bank balance of deposits and investments with financial institutions of the Municipality at June 30, 2014 consist of the following:

	Carrying amount	Bank balance
Deposits in commercial banks	\$ 16,697,721	\$ 16,883,433
Deposits in governmental bank	8,980,319	9,597,771
TOTAL	\$ 25,678,040	\$ 26,481,204

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 position. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

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 Position.

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**.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
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JUNE 30, 2014

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.

o. Fund Balance

During year ended June 30, 2014, **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.

COMMONWEALTH OF PUERTO RICO
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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 consider 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.
- **Encumbrance** – Encumbrances should not be displayed as a separate classification of fund balance on the face of the balance sheet. For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and non-major funds in the aggregate in conjunction with required disclosures about other significant commitments.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 Position.

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. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

66	Technical corrections – 2012 an amendment of GASB Statements No. 10 and 62	2013-14
68	Accounting and financial reporting for pensions – and amendment of GASB Statement No. 27	2014-15
69	Government Combinations and Disposals of Government Operations	2014-15
71	Pension Transition for contributions made subsequent to the measurement date on amendment of GASB statement No. 68	2014-15

The impact of these statements on the Municipality's financial statement has not yet been determined.

s. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATI
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
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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 \$297,368 during 2014.

The following is a summary of the property tax advances that resulted in an Account Payable, for the year ended June 30, 2014. 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	
07-01-13 - 06-30-14	\$ 9,924,031
Advance of property taxes by the CRIM	\$ (10,011,220)
Accounts Payable	\$ (87,189)

**The modified accrual basis of accounting allows the use of 60 days of collection of Property Taxes after June 30, 2014 to be used to pay liabilities of the current period, as revenue of the period.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014:

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, 2014 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt of equity securities were made during the fiscal year ended June 30, 2014. 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, 2014.

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COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2014

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, 2014, (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, 2014, 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, 2014. 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, 2014, 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, 2014.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
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JUNE 30, 2014

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 inflows of resources 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, 2014 but pertaining to the next fiscal year is recorded as deferred inflows of resources.

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**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2014**

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	\$ 716,628	\$ 4,958,063
Bond issued fund	14,771	241,911
HUD Programs	9,700	21,553
Head Start Programs	253	376,490
Other Funds	5,003,190	146,525
TOTAL	\$ 5,744,542	\$ 5,744,542

For the most part, the effect of interfund activity has been removed from the Statement of Net Position (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, 2014 balances due to governmental entities of the general fund consists of the following:

Governmental Entities	Due to
Puerto Rico Water System	\$ 991,488
CRIM	87,189
Puerto Rico Department of The Treasury	388,382
Other agencies	564,724
Total	\$ 2,031,783

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014 was as follows:

	Balance 6/30/2013	Additions	Retirements and transfers dispositions	Balance 6/30/2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,292,100	\$ 133,100	\$ -	\$ 12,425,200
Construction in progress	34,405,944	4,217,377	34,725,761	3,897,560
Total capital assets not being depreciated	46,698,044	4,350,477	34,725,761	16,322,760
Capital assets, being depreciated				
Buildings and building improvements	55,549,312	34,725,761	-	90,275,073
Infrastructure	17,930,850	55,000	-	17,985,850
Equipment	9,397,956	78,083		9,476,039
Vehicles	9,325,693	220,532		9,546,225
Total capital assets being depreciated	92,203,811	35,079,376	-	127,283,187
Less accumulated depreciation for:				
Buildings and building improvements	18,737,119	1,231,854		19,968,973
Infrastructure	16,254,351	39,052		16,293,403
Equipment	6,819,567	450,005		7,269,572
Vehicles	7,941,236	255,067		8,196,303
Total accumulated depreciation	49,752,273	1,975,978	-	51,728,251
Total capital assets being depreciated, net	42,451,538	37,055,354	-	75,554,936
Governmental activities capital assets, net	\$ 89,149,582	\$ 41,405,831	\$ 34,725,761	91,877,696

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

Governmental activities:	
General government	\$ 395,418
Public safety	192,968
Public works	1,262,476
Culture and recreation	82,967
Health	42,149
Total depreciation expense governmental activities	\$ 1,975,978

**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2014**

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, 2014.

Description	Payable at July 1, 2013	Additions	Reductios	Balance June 30, 2014
General Obligations Bonds	\$ 58,560,050	-	\$ 2,830,539	\$ 55,729,511

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. GENERAL IN LONG-TERM DEBT (Continuation)

The annual requirements to amortize all bonded debt outstanding as of June 30, 2014 follow:

Description	Balance June 30, 2014	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%	\$ 55,000	\$ 5,000
Serie 1995, \$1,005,000 payable in annual installments of \$20,000 to \$95,000 until 2014; with interest ranging from 6.5% to 7.71%	95,000	95,000
Serie 1995, \$300,000 payable in annual installments of \$5,000 to \$30,000 until 2014; with interest ranging from 4.7% to 6.58%	30,000	30,000
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%	865,000	40,000
Serie 1996, \$1,500,000 payable in annual installments of \$44,000 to \$117,000 until 2020; with interest of 5.25%	618,000	90,000
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%	3,500,000	135,000
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%	895,000	30,000
Serie 2006, \$275,000 payable in annual installments of \$5,000 to \$20,000 until 2030; with interest ranging from 1.53% to 6.62%	235,000	10,000
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%	1,635,000	135,000
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%	605,000	70,000
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%	2,690,000	70,000
Serie 2008, \$145,000 payable in annual installments of \$15,000 to \$25,000 until 2014; with interest ranging from 1.53% to 6.5%	25,000	25,000
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%	380,000	45,000
Serie 2002, \$2,515,000 payable in annual installments of \$45,000 to \$180,000 until 2026; with interest ranging from 2.7% to 5.6%	1,715,000	95,000
Serie 2002, \$2,010,000 payable in annual installments of \$10,000 to \$165,000 until 2026; with interest ranging from 1.28% to 7%	1,440,000	70,000
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%	245,000	10,000
SUB-TOTAL	\$ 15,028,000	\$ 955,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. GENERAL IN LONG-TERM DEBT (Continuation)

Description	Balance June 30, 2014	Due within One Year
Serie 2005, \$318,000 payable in annual installments of \$5,826 to \$9,594 until 2025; with interest of 2%	\$ 190,511	\$ 15,648
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%	50,000	50,000
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%	305,000	45,000
Serie 2005, \$645,000 payable in annual installments of \$10,000 to \$45,000 until 2029; with interest ranging from 4.17% to 5.31%	500,000	20,000
Serie 2005, \$1,000,000 payable in annual installments of \$30,000 to \$72,000 until 2025; with interest 4.5%	636,000	46,000
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%	245,000	5,000
Serie 2007, \$1,135,000 payable in annual installments of \$15,000 to \$95,000 until 2031; with interest ranging from 1.53% to 7.25%	985,000	30,000
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%	545,000	15,000
Serie 2008, \$560,000 payable in annual installments of \$13,000 to \$37,000 until 2032; with interest 4.13%	457,000	17,000
Serie 2009, \$8,532,000 payable in annual installments of \$182,000 to \$654,000 until 2033; with interest rate of 6%	7,953,000	216,000
Serie 2011, \$353,000 payable in annual installments of \$50,000 to \$73,000 until 2016; with interest ranging from 6% to 7.50%	198,000	60,000
Serie 2011, 1,410,000 payable in annual installments of \$20,000 to \$125,000 until 2036; with interest ranging from 6% to 7.5%	1,370,000	25,000
Serie 2011, \$385,000 payable in annual installments of \$40,000 to \$70,000 until 2018; with interest ranging from 6% to 7.5%	300,000	50,000
Serie 2012, \$5,020,000 payable in annual installments of \$280,000 to \$595,000 until 2023; with interest ranging from 6% to 7%	4,440,000	320,000
Serie 2011, \$5,025,000 payable in annual installments of \$15,000 to \$510,000 until 2033; with interest of 6% to 7%	4,995,000	15,000
Serie 2013, \$1,600,000 payable in annual installments of \$25,000 to \$130,000 until 2037; with interest ranging from 6% to 7%	1,575,000	25,000
Serie 2013, \$3,900,000 payable in annual installments of \$150,000 to \$410,000 until 2027; with interest ranging from 6% to 7%	3,750,000	160,000
SUB-TOTAL	28,494,511	1,114,648
Total General and Operational Bonds	\$ 43,522,511	\$ 2,069,648

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. GENERAL IN LONG-TERM DEBT (Continuation)

Description	Balance June 30, 2014	Due within One Year
Serie 2008, \$6,638,000 payable in annual installments of \$101,000 to \$553,000 until 2032; with interest of 1.53% to 7.25%	6,053,000	143,700
Serie 2011, \$1,249,000 payable in annual installments of \$19,000 to \$104,000 until 2032; with interest of 1.53% to 7.25%	1,139,000	27,000
Serie 2011, \$3,020,000 payable in annual installments of \$70,000 to \$265,000 until 2031; with interest of 6% to 7%	2,870,000	85,000
SUB-TOTAL Sales Tax Bond	10,062,000	255,700
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)	2,145,000	535,000
SUB-TOTAL 108 HUD Loan	2,145,000	535,000
TOTAL	\$ 55,729,511	\$ 2,860,348

The annual debt service requirements for the bonded debt outstanding as June 30, 2013 are as follows:

Year Ending	Principal	Interest	Total
2015	\$ 2,860,348	\$ 1,780,978	\$ 4,641,326
2016	2,814,262	2,008,630	4,822,892
2017	2,981,284	1,910,744	4,892,028
2018	3,061,610	1,898,535	4,960,145
2019	2,412,944	1,686,200	4,099,144
Subsequent years	41,599,063	11,891,583	53,490,646
TOTAL	\$ 55,729,511	\$ 21,176,670	\$ 76,906,181

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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	\$ 3,862,959
General funds	12,869
Hud programs and others	1,201,787
Municipal sales tax	993,806
TOTAL	\$ 6,071,421

Expenditures for the year 2013-2014 were as follows:

Principal	\$ 3,362,193
Interest	2,331,319
TOTAL	\$ 5,693,512

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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	65% of average highest compensation of service 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, 2013 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 2014 amounted to approximately \$16.8 million. 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 2014. The Municipality is required and actual contribution under Act 447 and Reform 2000 during year ended on June 20, 2014 was \$911,813.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Actuarial Valuation

As of June 30, 2013, the ERS has an unfunded accrual liability of approximately \$22.9 billion, representing a 3% funding ratio. This information is not available by each participating government agency or municipalities.

Net position of the system consists 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 | 6.0% a year |
| b) Salary increases | 3.20% 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. As generational tables, they reflect mortality improvements both before and after the measurement date 100% of deaths while in active service are assumed to be occupational for members covered under Act 127. For other members, 25% of deaths while in active service are assumed to be occupational and 75% are assumed to be non-occupational. |
| Post-retirement Health Mortality | Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. |
| Post-retirement Disabled Mortality | Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 10.5% of the rates from the UP-1994 Mortality Table for Males and 11.5% of the rates from the UP-1994 Mortality for Females. No provision was made for future mortality improvements for disabled retirees. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 65% or 75% of 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 (Eligible to retire as of June 30, 2013 or attained 30 years of creditable service by December 31, 2013)			
	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

Act 1 General Employees (Eligible to Retire as of June 30, 2013)		
	Service Condition	
Age	10 years	25 years
55 to 57		4.5%
58		4.5
59		8.0
60		9.0
61		10.0
62		13.0
63-64		14.0
65	15.0%	50.0
66	15.0	15.0
67	100.0	100.0

System 2000 General Employees		
Age	Eligible to retire as of June 30, 2013	Not Eligible retire as of June 30, 2013
60	15%	-
61-64	15%	10%
65	15%	40%
66	15%	20%
67	100%	100%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

Act 447 (Police officer in high risk positions who were eligible to retire as of June 30,2013)			
Age	Service Condition		
	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	100.0
65 to 69	10.0	30.0	100.0
70	100.0	100.0	100.0

System 2000 (Public officers in high risk positions)	
Age	Any Service
55	25.0%
56 to 64	20.0%
64 to 66	25.0%
67	100.0%

Act 447 and Act 1 Mayors			
Age	Service Condition		
	8 years	25 years	30 years
45 to 49			10.0%
50 to 53	5.0%		15.0
54	10.0		20.0
55 to 56	10.0	10.0%	20.0
57 to 58	15.0	15.0	20.0
59 to 69	20.0	20.0	20.0
70	100.0	100.0	100.0

System 2000 Mayors	
Age	Any Service
60 to 66	15.0%
67	100.0%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. RETIREMENT PLAN (Continuation)

- | | |
|--|---|
| g) Mariage | 70% of current active members are assumed to be married at retirement with males 4 years older than females. 100% of current active members covered under Act 127 who die service ob become disabled are assumed to have qualifying beneficiaries, which are approximately by a spouse with males 4 years older than females. |
| h) Number of employees electing higher 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 2014 was approximately \$911,813 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, 2014 are as follows:

Governmental activity	June 30, 2013	Net increase	June 30, 2014	Due within One year
Compensated Absences	\$ 2,250,535	\$372,750	\$2,623,285	\$ 455,137

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, were approximately \$75,000 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 the probable claims against the Municipality not covered by insurance are by the amount of \$250,000 at June 30, 2014, the financial condition of the Municipality adjusted for that amount.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 2013 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2014 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 the funds at June 30, 2013, were restated as follows:

	Bond Issue	Hud	Head	Other	Net	
	Fund	Programs	Start	Funds	Position	total
Beginning balance at						
June 30, 2013	\$ (14,255,493)	\$ -		\$ 10,309,929	\$ 48,147,803	\$ 33,892,310
Reclassification balance						-
Accounts payable						
from prior year	(395,151)	137,686	71,236	(205,354)	(488,384)	(736,819)
Beginning balance, as						
restated June 30, 2013	\$ (14,650,644)	\$ 137,686	\$ 71,236	\$ 10,104,575	\$ 47,659,419	\$ 33,155,491

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, 27 2015, the date on which the financial statements were issued.

MUNICIPALITY OF MANATI, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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	\$ 1,030,352
HOPWA	14.241	N/A	27,222
Community Planning and Development	14.218	B-09 to 20	906,712
<u>Passed-through Commonwealth of P.R.</u>			
Department of families Emergency Solutions Grant Program	14.231	S100-C72001	3,222
<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	2,246,030
Total U.S. Department of Housing and Urban Development			4,213,538
<u>U.S. Department of Transportation:</u>			
<u>Direct Program:</u>			
Federal Transit Administration Federal Transit Capital Improvement Grant	20.500	PR90-X275-00	8,114
Total U.S. Department of Transportation			8,114
<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	4,315,903
Early Head Start	93.600	N/A	260,437
Special Program for the Aging Title III B and C	93.045	Supportive Services	119,765
Total U.S. Department of Health and Human Services			4,696,105
<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	327,126
Rural Housing Preservation Grant	10.443	N/A	19,895
Total U.S. Department of Agriculture			347,021
<u>U.S. Department of Homeland Security</u>			
Office of Juvenile Justice and Delinquency Prevention Passed-through-Commonwealth of P.R. Office of Youth Affairs, Governors Office Homeland Security Grant Program	97.067	N/A	633,312
Total U.S. Department of Homeland Security			633,312
TOTAL FEDERAL ASSISTANCE			\$ 9,898,090

See notes to the schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO THE SCHEDULE
OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2014**

(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

CFDA Numbers	Name of Federal Program or Cluster
14.871	Section 8 Housing Choice Voucher
14.218	Community Planning and Development
14.257	Homeless Prevention and Rapid Re Housing Program
14.850	Public and Indian Housing
93.600	Head Start (IPA-22)
10.558	Child and Adult Care Food Program
97.067	Homeland Security Grant Program

(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.

Pass-Through Grantor's Number

State or local government and private entities includes within their federal proposal award the related amount of federal awards granted to SIM, also known as "pass-through awards". SIM should consider these federal funds as though they were received directly from the federal government. OMB Circular A-133 requires that the schedule should include the name and the identifying number assigned for federal awards received as subrecipient Numbers identified as N/A are not applicable or available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
NOTES TO THE SCHEDULE
OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2014**

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

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

Description	Hud Programs	Head Start Programs	Other funds	Total
Federal Programs Expenditures	\$ 3,654,482	\$ 4,806,449	\$ 1,444,159	\$ 9,905,090
State & Municipal Expenditures	-	-	38,736,340	38,736,340
TOTAL	\$ 3,654,482	\$ 4,806,449	\$ 40,180,499	\$ 48,641,430

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

Honorable Mayor and Members
Of the Municipal Legislature
Municipality of Manatí
Manatí, Puerto Rico

We have audited, in accordance with the 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, the financial statements of their governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of Manatí, as of end for the year ended June 30, 2014, and the related statements, which collectively comprise Municipality of Manatí basic financial statements, and have issued my report thereon dated March 27, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipality of Manatí internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Manatí internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal Control

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 prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Manatí financial statements are free from material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amount. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as mentioned in items 14-01 and 14-02 14-03 .

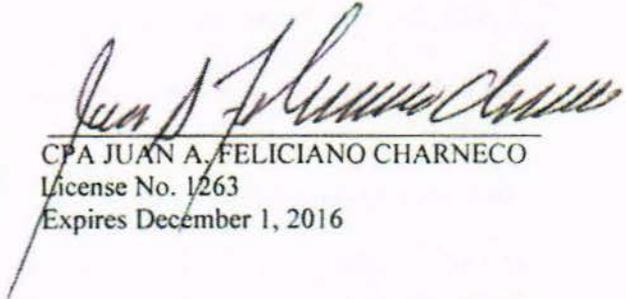
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arecibo, Puerto Rico
March 27, 2015

The stamp number E131987
was affixed to the record
original report.




CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2016

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A- 133**

Honorable Mayor and Members
Of the Municipal Legislature
Municipality of Manatí
Manatí, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Municipality of Manatí compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality of Manatí major federal programs for the year ended June 30, 2014. Municipality of Manatí major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Municipality of Manatí major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our 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 Centro de Servicios a la Juventud, Inc. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality of Manatí compliance.

Opinion on Each Major Federal Program

In our opinion except for the noncompliance described in the accompanying schedule of findings, and questioned costs, as items 14-01 and 14-02 Municipality of Manatí complied, in all material respects, with the types of compliance requirements referred to above that could have a direct effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Municipality of Manatí is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality of Manatí internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A- 133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Centro de Servicios a la Juventud, Inc. internal control over compliance.

A deficiency in 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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

I have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Manatí as of and for the year ended June 30, 2014, and the not to the financial statements which collectively comprise Municipality of Manatí basic financial statements. We issued my report thereon dated December 11, 2014, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and 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 in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Arecibo, Puerto Rico
March 27, 2015

The stamp number E131988
was affixed to the record
original report.



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2016

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency (s) identified not considered
to be material weaknesses? _____ yes X no
none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness (es) identified? _____ yes X no

Significant deficiency (s) identified not
Considered to be material weaknesses? _____ X yes _____ no

Type of auditor's report issued on compliance
for major programs: Unmodified

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Identification of Major Programs

CFDA Numbers	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grant – Entitlement Grant
14.850	Public and Indian Housing – Los Murales, Campo Alegre and Zorrilla Public Housing
14.871	Section 8 – Housing Choice Voucher
93.600	Head Start

Dollar threshold used to distinguish
Between type A and type B programs

\$300,000

Audited qualified as low-risk auditee

___ yes X 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

**Program: Accounting and Finance Department
General Fund – Deficit
Year ended June 30, 2014**

Ref. No.	Finding / Noncompliance	Questioned Cost
2014-01	<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>Auditor’s 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-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

**Department of Health and Human Services
Passed-through Commonwealth of P.R. Governor's Office
For the Care and Integral Development of Children
CFDA No. 93.600
Grant No. Head Start Program
Year ended June 30, 2014**

Ref. No.	Finding / Noncompliance	Questioned Cost
2014-02	<u>Statement of Condition and Criteria</u> <u>Accounting</u>	-0-

It was noted in my test of compliance that the Municipality is not complying with the criteria established by the Standards of Financial management Systems, in 45 CFR Part 92.20(b), Uniform Administrative Requirements, were is established that management system shall provide for the following:

1. Financial reporting accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.
2. Accounting records grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
3. Source documentation accounting records must be supported by such source documentation as cancelled checks, paid bills, bank reconciliation, contract documents and etc.

To established procedures to comply with Financial and Program Management Standards of funds of the Head Start Program. It was noted during my audit that Municipality does not prepare all the required accounting records required by 45 CFR Part 92.20 (b) on time.

Cause

The Municipality does not comply with the Financial and Program Management System Standards. The municipality does not prepare trial balance and program cash bank reconciliation in a monthly basis. The examination of the Municipality Financial Statements was more difficult because the accounting records are not designed to provide the financial information was necessary to obtain such information using alternative procedures.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Effect

The Municipality does not maintain and adequate accounting procedures for the Administration of funds from the Head Start Program for the control on the preparation of accounting reports on a monthly basis. The Municipality should modify procedures to out seek that all required reports including the trial balances and bank reconciliation of the program are prepared on time.

Auditor's Recommendation

We recommend revising, improving and modifying the internal control procedures in order to control in a more effective manner the financial and program management system standards. The Municipality should revise the procedures in order to establish procedures for all required reports are prepared in the correct monthly basis; take the necessary measure to prepare financial reports in accordance to Generally Accepted Accounting Principles in the United States of America applicable to governmental entities.

Municipality Response:

The Municipality accepts the auditor recommendation and the Mayor gave instructions to implement immediately Finance assigned personnel to assist and supervised the preparation of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

**Department of Health and Human Services
Passed-through Commonwealth of P.R. Governor's Office
For the Care and Integral Development of Children.
CFDA No. 93.600
Grant No. Head Start Program
Year ended June 30, 2014**

Ref. No.	Finding / Noncompliance	Questioned Cost
-----	-----	-----
2014-03	<p><u>Statement of Condition and Criteria</u></p> <p>It was noted in my test of compliance that the established procedures for the cash management requirements do not minimize the time elapsing between the transfer of funds from the Office for the Care and Integral Development of Children and the disbursements by the Municipality. It was noted during my audit that the Municipality held cash balances over \$5,000 for periods longer than 3 days. At June 30, 2014 excess of cash were \$252,070 and \$174,262 that was returned to grantor.</p> <p><u>Cause</u></p> <p>The Municipality did not comply with the Cash Management requirements of the Department of Treasury of the United States as per Title 45 of CFR, part 92.20 (7).</p> <p><u>Effect</u></p> <p>The Municipality revised the procedures for the Administration of cash to determine properly their use needs.</p> <p><u>Auditor's Recommendation</u></p> <p>The Municipality should revise the procedure in order to establish control in a more effective manner the need and use of the federal funds to minimize the time elapsed to disburse the funds received.</p> <p><u>Municipality Response:</u></p> <p>The Municipality accepts the auditor recommendation and the Mayor gave instructions to implement immediately. The grantor office evaluate and approved any operation of the program.</p>	-0-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MANATÍ
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

2013-Finding No. 1: Accounting and Finance Department
General Fund – Budget Deficit
Year ended June 30, 2012
Finding reported again.

2013-Finding No. 2: U.S. Department of Health and Human Services
CFDA No. 93.600
Head Start Program
Year ended June 30, 2014
Finding reported again.

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2014**

Ref. No.	<u>Finding /Corrective Action</u>	Anticipated
2014-01	<u>Planned/Person Responsible:</u>	<u>Completion Date</u>
	<u>Statement of Condition:</u> 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 2014-15 fiscal year
	<u>Corrective Action Planned:</u> The Finance Director will establish adequate procedure to permit the preparation of reliable budget and comply with all standards, requirements and laws that apply.	
	<u>Person Responsible:</u> Mr. Armando Miranda Bracero Finance Director	
Ref. No.	<u>Finding /Corrective Action</u>	Anticipated
2014-02	<u>Planned/Person Responsible:</u>	<u>Completion Date</u>
	<u>Statement of Condition:</u> The apply Head Start Program Standards of Financial Management Systems	On or before end of 2014-15 fiscal year
	<u>Corrective Action Planned:</u> The Finance Director established adequate procedures to control to permit the preparation of reliable financial statements, reconciled to books, investigated and resolved in a timely manner, cash accounts reconciliations.	
	<u>Person Responsible:</u> Mr. Armando Miranda Bracero Finance Director	

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2010**

Ref. No.	<u>Finding /Corrective Action</u>	<u>Anticipated</u>
2014-03	<u>Planned/Person Responsible:</u>	<u>Completion Date</u>
	<p><u>Statement of Condition:</u> The financial accounting for the Head Start Program will be in accordance with the reporting requirements. Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks should be prepared.</p>	<p>On or before end of 2014-15 fiscal year</p>
	<p><u>Corrective Action Planned:</u> The Finance Director will establish adequate procedure to permit the preparation of reliable monthly reports and comply with all standards, requirements and laws that apply. The mayor gave instructions to implement the financial reporting requirements as soon as possible.</p>	
	<p><u>Person Responsible:</u> Mr. Armando Miranda Bracero Finance Director</p>	

Noemi Padilla Rivera

From: Esteba Morales Diaz
Sent: Friday, April 10, 2015 3:48 PM
To: Noemi Padilla Rivera
Subject: FW: SINGLE AUDIT - MUN MANATI - 2014
Attachments: SINGLE AUDIT MANATI 2014.pdf

From: Valeria Rivera [<mailto:vrivera.manati@gmail.com>]
Sent: Friday, April 10, 2015 3:30 PM
To: Esteba Morales Diaz
Subject: SINGLE AUDIT - MUN MANATI - 2014

Saludos,

Como acordamos en la conversación telefónica esta tarde, adjunto le envío el Single Audit correspondiente al 2014.

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Valeria Rivera Cruz
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Municipio Autónomo de Manati
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vrivera.manati@gmail.com
auditoriamanati@gmail.com

Por favor considera al ambiente antes de imprimir este e-mail.



