



Estado Libre Asociado de Puerto Rico

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COMMONWEALTH OF PUERTO RICO SOLID WASTE AUTHORITY MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of **The Solid Waste Authority** (the Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Authority's financial audited statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The Authority experienced an increase in its net assets by approximately 13.00% over the course of the past fiscal year.
- The operating and non-operating revenues decreased approximately 23% during the fiscal year 2004.
- The Contributions from the Government of the Commonwealth of Puerto Rico increased by approximately \$5.58 million.
- The Authority's unrestricted net assets decreased by approximately \$3.48 million over the course of the past fiscal year.
- Operating expenses decreased approximately by \$1.02 million. Therefore, the Authority's activities improved during fiscal year 2004.
- The Statement of Revenues and Changes in Net Assets for the fiscal year ended June 30, 2004 indicates a net loss before contributions of approximately 17.63% less than the year ended June 30, 2003.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues and Changes in Net Assets (on page) provide information about the activities of the Authority's as a whole and present a view of the Authority's finances. For governmental activities, these statements show how these services were financed in the short term as well as what remains for future activities.

REPORTING THE AUTHORITY AS A WHOLE

Our analysis of the Authority as a whole begins on page 3. The Authority reports its financial position and results of operations as an enterprise fund; similar to private business enterprises on which the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private business enterprises. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets, the difference between assets and liabilities, as one-way measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the condition of the Solid Waste Authority, to assess the overall health of the Authority.

THE AUTHORITY AS A WHOLE

The Authority's net assets increased from \$111.3 million to \$125.9 million, this represents a 13.00%. The increase in net assets was primarily due to the increase in Capital assets. The increase in Capital assets consist mostly of the acquisition of an administrative building for \$56 million, and the purchase of equipment, the majority of which are used to provide alternatives for the collection and processing of solid waste.

Our analysis focuses on the assets (Table 1) and changes in net assets (Table 2) of the Authority's governmental activities.

Table 1

| Net Assets (in millions) | | |
|--|------------------|------------------|
| | June 30, | |
| Assets: | 2004 | 2003 |
| Current assets | \$ 5.57 | \$ 9.16 |
| Restricted assets | 16.50 | 18.13 |
| Investment in Preferred Stock | .95 | .95 |
| Capital assets | 186.06 | 126.59 |
| Total assets | 209.08 | 154.83 |
| Liabilities: | | |
| Current liabilities | \$ 31.26 | \$ 21.01 |
| Long-term debts | 51.88 | 22.53 |
| Total liabilities | 83.14 | 43.54 |
| Net assets: | | |
| Invested in capital assets, net of debt | \$ 114.90 | \$ 96.87 |
| Restricted | 2.17 | 2.06 |
| Unrestricted | 8.87 | 12.36 |
| Total net assets | 125.94 | 111.29 |
| Total liabilities and net assets | \$ 209.08 | \$ 154.83 |

Table 2**Changes in Net Assets (in millions)**

For the years ended June 30,

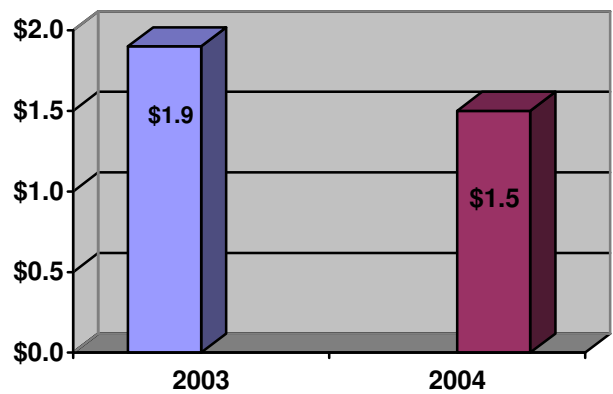
| | <u>2004</u> | <u>2003</u> |
|--|----------------------|----------------------|
| Operating revenues: | | |
| Contract revenues | 0.88 | 0.94 |
| Other revenues | <u>0.03</u> | <u>0.40</u> |
| Total operating revenues | <u>0.91</u> | <u>1.34</u> |
| Non-operating revenues (expenses): | | |
| Federal government grants | 0.22 | 0.07 |
| Matching local share in Federal Programs Grants | 0.13 | 0.10 |
| Interest income | 0.23 | 0.43 |
| Interest expenses | (0.18) | (0.12) |
| Other | (0.26) | - |
| Loss in value of investment in preferred stock | - | (0.55) |
| Loss discontinued infrastructure proj. in const. | <u>-</u> | <u>(1.69)</u> |
| Total non-operating revenues (expenses) | <u>0.14</u> | <u>(1.76)</u> |
| Operating expenses: | | |
| Salaries and fringe benefits | 4.45 | 4.71 |
| Depreciation and amortization | 1.51 | 1.77 |
| Professional services | 2.70 | 2.82 |
| General and administrative | 0.55 | 0.86 |
| Provision for doubtful accounts | 0.10 | 0.23 |
| Financial assistance program | 1.88 | 1.67 |
| Rent | 0.70 | 0.76 |
| Others | <u>0.72</u> | <u>0.80</u> |
| | <u>12.61</u> | <u>13.62</u> |
| Net income (loss) before contributions | <u>(11.56)</u> | <u>(14.04)</u> |
| Contributions: | | |
| From the Government of the Commonwealth of Puerto Rico: | <u>26.21</u> | <u>20.63</u> |
| Change in net assets | <u>14.65</u> | <u>6.59</u> |
| Beginning net assets | <u>111.29</u> | <u>104.70</u> |
| Ending net assets | <u><u>125.94</u></u> | <u><u>111.29</u></u> |

GOVERNMENTAL ACTIVITIES

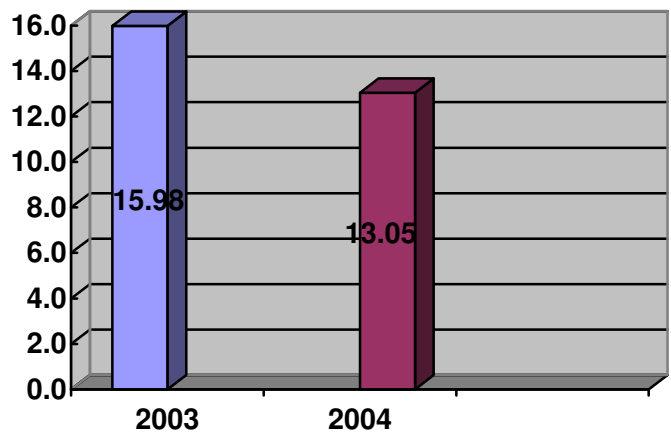
During fiscal year 2004 the Authority’s total operating and non-operating revenues decreased by approximately 23 percent (\$0.45 million). However, the total operating and non-operating expenses decreased by \$2.9 million.

The Statement of Revenues and Changes in Net Assets of the fiscal year ended June 30, 2004 indicates a change in net assets of approximately \$14.65 million or \$8.05 million more than the prior fiscal year. This increase represents approximately 122%.

Graph 1– Operating and non-operating revenues:



Graph 2– Operating and non-operating expenses:



The next table summarizes the results of the operations of the Authority's four programs; Administration, Lajas Project, Federal Projects and Infrastructure Projects.

Table 3- Summarized change in net assets by programs (in millions):

| | For the years ended June 30, | |
|--------------------------|------------------------------|----------------|
| | 2004 | 2003 |
| Net income (loss) | | |
| Administration | \$ 11.90 | \$ 10.13 |
| Lajas project * | (0.03) | 0.04 |
| Federal projects | 0.10 | (0.00) |
| Infrastructure projects | 2.68 | (3.58) |
| | \$ 14.65 | \$ 6.59 |

*The Authority commenced the closing of this landfill subsequent to June 30, 2001. Commonwealth of Puerto Rico and federal laws and regulations require certain procedures when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after the closure. No studies by outside independent sources have been performed to evaluate if changes are currently needed in the cost estimated by the Authority's management. The Authority has estimated the obligation for landfill closure and post-closure care costs in approximately \$100,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS:

Capital assets mostly consist of land and structures, the majority of which are acquired or constructed to provide alternatives for the collection and processing of solid waste. Also is included, the acquisition of the administrative building for \$56 million.

At end of 2004, the Authority had \$186 million invested in a broad range of capital assets (See **Table 4**). This amount represents a net increase, including additions and deductions, of approximately \$59.5 million, or approximately 47% percent over the prior year. The increase is due, principally, as the result of the acquisition of the administrative building for \$56 million.

Table 4

| Capital Assets | | |
|---|------------------|-----------------|
| (Net of accumulated depreciation, in millions) | | |
| | June 30, | |
| | 2004 | 2003 |
| Land | \$ 1.94 | \$ 1.94 |
| Building, improvements and equipment | 77.39 | 56.49 |
| Construction in progress | 106.73 | 68.16 |
| Total capital assets | 186.06 | 126.59 |
| Borrowings related to the acquisition, construction or improvement | (71.16) | (29.71) |
| | <u>\$ 114.90</u> | <u>\$ 96.87</u> |

DEBTS:

At June 30, 2004 the Authority had \$83.14 million in outstanding liabilities versus \$43.54 million in last year, representing an increase of approximately 91% (See **Table 5**).

Table 5

| Outstanding debt at year-end | | |
|--|-----------------|-----------------|
| (In millions) | | |
| | June 30, | |
| | 2004 | 2003 |
| Current liabilities: | | |
| Accounts payable-trade | \$ 11.79 | \$ 10.89 |
| Current portion of bank line of credit and other | 16.19 | 7.84 |
| Current portion of capital lease obligation | 0.02 | 0.05 |
| Accrued expenses | 2.83 | 1.98 |
| Current portion of accrued compensated absences | 0.43 | 0.25 |
| | <u>31.26</u> | <u>21.01</u> |
| Long-term liabilities: | | |
| Bank line of credit, net of current portion | \$ 51.33 | \$ 21.76 |
| Capital lease obligation, net of current portion | 0.12 | 0.12 |
| Accrued expenses, net of current portion | 0.43 | 0.65 |
| | <u>51.88</u> | <u>22.53</u> |
| Total liabilities | \$ 83.14 | \$ 43.54 |

The Authority is a co-defendant in a lawsuit filed by a supplier's customer for collection of monies. The management and the legal counselors believe that the outcome of this case, will not significant affect the basic financial statements as of June 30, 2004 and 2003. Also, a contractor filed a demand against the Authority for termination of a design and construction contract. The Authority and its internal and external legal representatives are of the opinion that, at this moment, is not possible to predict the outcome of this action.

ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES

During the fiscal year ending June 30, 2005, the Authority's budget will be impacted with an increase in funds to pay the line of credit with the Governmental Development Bank for the acquisition in prior year of building facilities. This will allow the centralization of agencies related to the environment, such as the Solid Waste Authority, The Department of Natural Resources, The Energy Office and the Environmental Quality Board. It will also allow to continue with the development of infrastructure projects directly related with the disposition of solid waste in the Commonwealth of Puerto Rico.

For the fiscal year 2004-2005 a consolidated budget of \$12.0 million was assigned to The Solid Waste Authority.

CONTACTING THE ADMINISTRATION FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Management Affairs Director or Finance Director at (787) 765-7575.