

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2004

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

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Secretary of the Department of
Natural and Environmental Resources
Government of Puerto Rico
Solid Waste Authority

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Solid Waste Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient competent evidential matter to validate the fair value, at the time of donation, of the real estate assets described in Note 5, which are included as building for \$7,320,000 and land for \$1,180,000 in the accompanying statement of net assets.

We were unable to satisfy ourselves regarding the fair value of the investments on eligible corporations related to solid waste management described in Notes 1 and 6 and included in the accompanying statement of net assets in the amount of \$950,000.

As discussed in Note 14, the Authority has no insurance

coverage for environmental risks, and no studies have been performed by outside independent sources to evaluate the closure and post closure care costs of a landfill in Lajas, Puerto Rico. We were not able to obtain sufficient competent evidential matter to determine the potential amount of losses, if any, related to these matters and no provision for losses has been made in the accompanying financial statements. Accounting principles generally accepted in the United States of America require the recognition of a liability for insurance risks not covered by insurance policies, such as for landfill closure and post closure care costs.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding (1) the value for recording the assets described in the third and fourth paragraphs of this report, and (2) the liability for insurance risks not covered by insurance policies and for the estimated closure and post closure costs of the landfill in Lajas, Puerto Rico as described in the fifth paragraph of this report, the component unit basic financial statements referred to above present fairly, in all material respects, the financial position of the Solid Waste Authority as of June 30, 2004 and the results of its operations, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 14, the Authority is a defendant in various lawsuits. It is not possible to predict at this time the outcome of those cases and whether the ultimate awards or settlements will exceed the amount currently provided as liability in the accompanying financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as required supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Solid Waste Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico
December 17, 2004

Stamp 2030475 was affixed
to the original.

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

| | |
|---|-------------------------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 2 210 027 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,586,240 | <u>1 505 333</u> |
| Total current assets | <u>3 715 360</u> |
| CAPITAL ASSETS, net | <u>186 060 175</u> |
| CASH RESTRICTED FUNDS: | |
| Cash and cash equivalents | 17 629 672 |
| Certificates of deposit | <u>721 636</u> |
| | <u>18 351 308</u> |
| INVESTMENTS IN PREFERRED STOCK | <u>950 000</u> |
| Total assets | <u>\$209 076 843</u> ===== |

LIABILITIES AND NET ASSETS

| | |
|--|-------------------------------|
| CURRENT LIABILITIES | |
| Current portion of bank lines of credit | \$ 16 186 699 |
| Current portion of loan payable | 3 135 |
| Current portion of obligations under capital lease | 19 884 |
| Accounts payable - trade | 7 849 153 |
| Accounts payable - retainage | 438 601 |
| Current portion of accrued compensated absences | 432 415 |
| Accrued expenses | 2 828 572 |
| Due to other governmental entity | <u>3 500 000</u> |
| Total current liabilities | 31 258 459 |
| BANK LINES OF CREDIT, net of current portion | 44 630 954 |
| LOAN PAYABLE, net of current portion | 6 703 822 |
| OBLIGATIONS UNDER CAPITAL LEASE, net of current portion | 115 391 |
| ACCRUED COMPENSATED ABSENCES, net of current portion | <u>431 572</u> |
| Total liabilities | <u>83 140 198</u> |
| COMMITMENTS AND CONTINGENCIES | <u>-</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 114 900 290 |
| Restricted for Federal projects | <u>2 166 117</u> |
| | 117 066 407 |
| Unrestricted | <u>8 870 238</u> |
| Total net assets | <u>125 936 645</u> |
| Total liabilities and net assets | <u>\$209 076 843</u> ===== |

See accompanying notes to financial statements.
COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

| | |
|--|--------------------------------------|
| Operating revenues | |
| Contract revenues | \$ 875 898 |
| Miscellaneous | <u>31 123</u> |
| Total operating revenues | <u>907 021</u> |
| Operating expenses | |
| Salaries and fringe benefits | 4 454 128 |
| Depreciation and amortization | 1 508 083 |
| Rent | 703 181 |
| Repairs and maintenance | 85 912 |
| Insurance | 473 331 |
| Professional services | 2 702 161 |
| General and administrative | 545 070 |
| Provision for doubtful accounts | 103 246 |
| Educational campaign | 15 314 |
| Financial assistance program | 1 880 448 |
| Matching local share in Federal Programs | <u>134 712</u> |
| Total operating expenses | <u>12 605 586</u> |
| Operating loss before non-operating revenues (expenses) and grants | <u>(11 698 565)</u> |
| Non-operating revenues (expenses) and grants: | |
| United States Federal Government Grants | 215 284 |
| Interest income | 227 224 |
| Matching local share in Federal Programs Grants | 134 712 |
| Interest expense | (177 493) |
| Other | <u>(259 886)</u> |
| Non-operating revenues (expenses) and grants-net | <u>139 841</u> |
| Net loss before contributions | (11 558 724) |
| Capital contributions from the Commonwealth of Puerto Rico | <u>26 204 563</u> |
| Change in net assets | 14 645 839 |
| Total net assets, at beginning of year | <u>111 290 806</u> |
| Total net assets, at end of year | <u>\$125 936 645</u> <u>=====</u> |

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

| | |
|--|---------------------|
| Cash flows from operating activities: | |
| Cash received from contracts and other | \$ 2 116 786 |
| Cash paid to suppliers | (8 853 697) |
| Cash paid for salaries and related fringe benefits | <u>(4 487 316)</u> |
| Net cash used in operating activities | <u>(11 224 227)</u> |
| Cash flows from non-capital financing activities: | |
| Contributions from the Government of the Commonwealth of Puerto Rico | 6 909 767 |
| Contributions from the United States and matching local share - Federal Government | <u>387 620</u> |
| Net cash provided by non-capital financing activities | <u>7 297 387</u> |
| Cash flows from capital and related financing activities: | |
| Contributions from the Government of the Commonwealth of Puerto Rico | 5 645 244 |
| Proceeds from lines of credit and other | 60 538 818 |
| Purchase of property and equipment, and construction of property | (56 865 419) |
| Payments of line of credit and obligations under capital lease | (5 664 025) |
| Interest paid | <u>(226 801)</u> |
| Net cash provided by capital and related financing activities | <u>3 427 817</u> |

(Continues)

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004

| | |
|--|-----------------------|
| Cash flows from investing activities: | |
| Interest received | \$ 235 472 |
| Increase in certificates of deposit | <u>(188 136)</u> |
| Net cash provided by investing activities | <u>47 336</u> |
| Net decrease in cash and cash equivalents | (451 687) |
| Cash and cash equivalents at beginning of year | <u>20 291 386</u> |
| Cash and cash equivalents at end of year | \$19 839 699 |
| | ===== |
| Reconciliation of loss from operations to net cash used in operating activities: | |
| Operating loss before non-operating revenues and contributions | <u>(\$11 698 565)</u> |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation and amortization | 1 508 083 |
| Provision for doubtful accounts | 103 246 |
| Changes in assets and liabilities: | |
| (Increase) decrease in: | |
| Accounts receivable | 1 209 765 |
| Prepaid expenses | 286 233 |
| Increase (decrease) in: | |
| Accounts payable | (2 601 249) |
| Accrued payroll liabilities | <u>(31 740)</u> |
| Total adjustments | <u>474 338</u> |
| Net cash used in operating activities | <u>(\$11 224 227)</u> |
| | ===== |

Reconciliation of cash and cash equivalents with the statement of net assets:

| | |
|------------------------|-------------------|
| Cash in current assets | \$ 2 210 027 |
| Cash restricted | <u>17 629 672</u> |
| | \$19 839 699 |
| | ===== |

See accompanying notes to financial statements.

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Solid Waste Authority (the Authority) is a governmental instrumentality of the Commonwealth of Puerto Rico, created by Law No. 70 of June 23, 1978, as amended. The main purpose of the Authority is to provide alternatives for the processing of solid waste in Puerto Rico. Also, in accordance with the law, the Authority has the responsibility of educating the community in this respect as well as the implementation of the required programs needed for the reduction and reuse of solid waste.

Pursuant to the Reorganization Plan Number 1 of 1993, the Authority is under the oversight of the Department of Natural and Environmental Resources of Puerto Rico (the Department). The Secretary of the Department is the President of the Governing Board of the Authority. The Authority is a component unit of the Commonwealth of Puerto Rico.

Basis of presentation

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.

Basis of accounting

As an enterprise fund the Authority follows the accrual method of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded as liabilities when incurred without regard to receipt or payment of cash. Pursuant to Government Standards Board (SGAS) No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting", the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies

The Authority's accounting policies are in accordance with the requirements of the law under which it was created and with accounting principles generally accepted in the United States of America.

A summary of the Authority's significant accounting policies applied in the preparation of the accompanying financial statements follows:

a. Governmental contributions

During the year ended June 30, 2001, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". This statement establishes accounting and financial reporting standards for nonexchange transactions, which includes contributions from the Primary Government (Commonwealth of Puerto Rico) and other entities. These contributions are classified as either Government-Mandated Nonexchange Transactions or Voluntary Nonexchange Transactions and Revenues.

b. Contract revenues

Contract revenues arise from the lease of heavy equipment to different municipalities of Puerto Rico for the collection of solid waste and the operation of landfills and with other agencies, principally the Department of Natural and Environmental Resources for the collection of debris and vegetative materials. The Authority also operates certain facilities at Lajas, Puerto Rico for the disposal of industrial waste.

(Continues)

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Capital assets

Capital assets consisting mostly of land and structures, the majority of which are used to provide alternatives for the collection and processing of solid waste are carried at cost. Major renewals and betterments are capitalized while replacements, maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense as incurred. Upon retirement or other disposal of properties, the related cost and accumulated depreciation are removed from the accounts. Gains or losses on sale or retirement of properties are reflected in earnings.

The Authority's capital assets are depreciated or amortized over the estimated useful lives of the related assets or the term of the lease agreement, whichever is shorter, using the straight-line method. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of related project. Buildings and buildings improvements not in use are not being depreciated.

Estimated useful lives of property and equipment are as follows:

| <u>Description</u> | <u>Useful years</u> |
|---|---------------------|
| Airplanes | 12 years |
| Project equipment | 10 years |
| Office furniture and equipment and motor vehicles | 5 years |
| Leasehold improvements | 2 to 5 years |

The Authority calculates the interest to be capitalized during the construction of certain projects using interest rates which approximate those at which it borrows money. The Authority capitalized interest in the amount of \$849,319 in 2004.

(Continues)

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Cash and cash equivalents

For purposes of the statement of cash flows, the Authority classifies the certificates of deposit with original maturities of three months or less when purchased, to be cash equivalents.

e. Allowance for doubtful accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of their collectibility. Because of uncertainties inherent in the estimation process, management's estimates of losses in the receivables outstanding and the related allowance may change.

f. Investments

The Authority is permitted by law to invest on eligible corporations related to solid waste management. Investments in shares of preferred stock of such corporations are recorded at acquisition cost, as these are not held for investment purposes, but rather as an incentive to assist organizations related to waste management.

g. Compensated absences

The vacation policy of the Authority generally provides for the accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation time is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed of sixty (60) days.

(Continues)

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days. A liability is reported for accrued but unused vacation and sick leave days.

As per Law Number 156 of August 20, 1996, for fiscal years beginning on July 1, 1997, the employee has the right to accumulate the excess of 60 days of vacation and 90 days of sick leave until December 31st. of each year. The excess should be paid to the employee before March 31st. of the following year.

h. Use of estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, 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. Such estimates primarily relate to the unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from those estimates.

i. Accounting for pension cost

The Authority accounts for pension costs in accordance with provisions of Governmental Accounting Standards Board Statement (SGAS) No. 27, "Accounting for Pensions by States and Local Governmental Employers".

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The SGAS No. 27 establishes standards of accounting and financial reporting for pension expenditures/expenses and related pension liabilities, pension assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. The statement defines that the pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

j. Net assets

Net assets represent the difference between assets and liabilities and are presented in three components as follows:

- a. Invested in capital assets, net of related debts - Consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net assets - Consist of net assets with constraint placed on the use either by: (1) external groups such as creditors, grantors, contributions, or law or regulations of other government; (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - Consist of all other assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debts".

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Risk management

The Authority is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, environmental and other losses. Commercial insurance coverage, obtained for claims arising from such matters, is negotiated by the Department of Treasury of the Commonwealth of Puerto Rico, and the cost is paid by the Authority.

The Authority is self-insured with regards to environmental risks.

NOTE 2 CASH AND CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

The Authority is required to deposit only in institutions approved by the Department of Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the Authority. The Authority's deposits in commercial banks as of June 30, 2004 were entirely covered by the Federal Deposit Insurance Corporation or by collateral held by the Puerto Rico Department of Treasury. The cash classified in the credit risk category as uncollateralized are deposits in the Economic Development Bank for Puerto Rico and the Government Development Bank for Puerto Rico, bank institutions of the Commonwealth of Puerto Rico.

The Authority's cash deposits as of June 30, 2004 are as follows:

| | <u>Bank balance</u> | <u>Carrying amount</u> | <u>Credit risk category</u> | | |
|------------------------------|-------------------------|----------------------------|-----------------------------|---------------|-----------------------|
| | | | <u>1</u> | <u>2</u> | <u>3</u> |
| Cash and cash equivalents | \$20 160 529 ===== | \$19 839 699 ===== | \$ 1 795 459 ===== | \$ - ===== | \$18 365 070 ===== |
| Certificates of deposit | \$ 721 636 ===== | \$ 721 636 ===== | \$ 721 636 ===== | \$ - ===== | \$ - ===== |

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT
(CONTINUED)

Following is a description of the categories of credit risk:

| <u>Category</u> | <u>Description</u> |
|-----------------|--|
| 1 | The deposits are collateralized by the Federal Deposit Insurance Corporation or collateralized by securities pledged with the Department of the Treasury of the Commonwealth of Puerto Rico. |
| 2 | The deposits are collateralized by securities held by the pledging financial institution's trust Department or agent. |
| 3 | The deposits are uncollateralized. |

Cash and cash equivalents as of June 30, 2004 consist of the following:

| | |
|-------------------------|-----------------------|
| | <u>2004</u> |
| Cash in bank | \$ 4 508 982 |
| Certificates of deposit | <u>15 330 717</u> |
| Total | \$19 839 699 ===== |

NOTE 3 RESTRICTED ASSETS

Restricted assets in the accompanying basic financial statements as of June 30, 2004 include certain cash, cash equivalents, certificates of deposit and other to be used for the following purposes:

| | |
|--|-----------------------|
| | <u>2004</u> |
| Development of infrastructure projects | \$14 266 586 |
| Financial assistance program | 618 100 |
| Construction | 586 783 |
| Other programs | <u>2 879 839</u> |
| Total | \$18 351 308 ===== |

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 CONCENTRATION OF CREDIT RISK

A financial instrument that potentially subjects the Authority to a concentration of credit risk is its accounts receivable. The accounts receivable balance as of June 30, 2004 is mainly from several Municipalities and governmental agencies of Puerto Rico. The Authority generally does not require collateral, and credit losses are provided for currently through the allowance for doubtful accounts.

The net accounts receivable as of June 30, 2004 consist of the following:

| | <u>2004</u> |
|--|----------------------|
| Governmental agencies | \$ 309 425 |
| Municipalities | 856 057 |
| Department of Natural and Environmental Resources | 1 360 204 |
| Interest receivable | 27 669 |
| Employees | 795 |
| Other | <u>537 423</u> |
| | 3 091 573 |
| Allowance for doubtful accounts | <u>(1 586 240)</u> |
| Total - net | \$1 505 333 ===== |

NOTE 5 CAPITAL ASSETS

Information about major classes of capital assets as of June 30, 2004 is as follows:

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (CONTINUED)

| | <u>2003</u> | <u>Additions</u> | <u>Retirements</u> | <u>Reclassifications</u> | <u>2004</u> |
|--|----------------------|---------------------|-----------------------|--------------------------|----------------------|
| Being depreciated: | | | | | |
| Mini transfer stations | \$51 915 937 | \$ | \$ | \$ (9 277 370) | \$ 42 638 567 |
| Project equipment | 14 669 035 | 153 350 | | | 14 822 385 |
| Office furniture and equipment | 2 032 890 | 25 364 | | 18 560 | 2 076 814 |
| Motor vehicles | 554 638 | 184 806 | | | 739 444 |
| Airplane | 461 000 | | | | 461 000 |
| Leasehold improvements | <u>263 929</u> | | | | <u>263 929</u> |
| | 69 897 429 | 363 520 | | (9 258 810) | 61 002 139 |
| Less accumulated depreciation and amortization | <u>(13 408 409)</u> | <u>(3 195 278)</u> | | <u>3 727</u> | <u>(16 599 960)</u> |
| | <u>56 489 020</u> | <u>(2 831 758)</u> | | <u>(9 255 083)</u> | <u>44 402 179</u> |
| Not depreciated: | | | | | |
| Land | 1 944 276 | 3 250 | | (3 350) | 1 944 176 |
| Construction in progress | 68 154 698 | 3 972 584 | (1 356 867) | (27 358 452) | 43 411 963 |
| Buildings | | 56 000 000 | | 7 320 000 | 63 320 000 |
| Buildings improvements | | <u>3 688 323</u> | | <u>29 293 534</u> | <u>32 981 857</u> |
| | <u>70 098 974</u> | <u>63 664 157</u> | <u>(1 356 867)</u> | <u>9 251 732</u> | <u>141 657 996</u> |
| Capital assets, net | <u>\$126 587 994</u> | <u>\$60 832 399</u> | <u>\$ (1 356 867)</u> | <u>\$ (3 351)</u> | <u>\$186 060 175</u> |
| | ===== | ===== | ===== | ===== | ===== |

On May 28, 1999, the Office of Management and Budget of the Commonwealth of Puerto Rico acquired: (1) a lot of 7,136 square meters with a four stories cement building at 306 Barbosa Avenue in Hato Rey, Puerto Rico for the amount of \$8,590,000 and (2) a lot of 748 square meters at 307 Italia Street in Hato Rey, Puerto Rico for the amount of \$110,000. Two independent appraisal reports prepared between October and November 1998, estimated the combined value of the two properties using "the leased fee method" to be \$8,890,000 and \$8,500,000.

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (CONTINUED)

On November 27, 2000, the subject properties, were transferred to the Authority as contributed capital by the Commonwealth of Puerto Rico. The properties were recorded in the amount of \$8,500,000 plus \$8,174,924 representing the cost of improvements previously assumed by the Department of Natural and Environmental Resources of Puerto Rico. Subsequent to June 30, 2001, the Department of Justice of the Commonwealth of Puerto Rico filed a legal action against prior owners of the subject properties, questioning the market value assessed. A new appraisal was included in the legal action. This appraisal valued the subject properties in an amount of \$2,000,000 using "the market value of the fee simple interest" valuation method.

Management has not been able to obtain reliable information with regards to the appropriate value of the contributed assets, and therefore, the value at which the properties should be recorded cannot be readily determined.

NOTE 6 INVESTMENTS IN PREFERRED STOCK

The Authority is allowed by its laws and regulations to invest directly in eligible corporations that are related with the collection, disposition, construction or operations of solid waste facilities. The eligible corporation must be established or must be authorized to do business in Puerto Rico and must provide a role in the management of the solid waste and/or recycling infrastructure. The operations of the corporation must be in accordance with the Regional Plan for Disposition and Recycling of the Solid Waste of Puerto Rico and/or the Plan for Reduction, Reuse and Recycling for Puerto Rico.

As of June 30, 2004, the Authority has invested in six eligible corporations dedicated to the recycling of plastic and battery waste and to the development and commercialization of anaerobic technology for the treatment of poultry wastes. The equity securities are all held by the Authority. The market value of the preferred shares is not available as of June 30, 2004.

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 INVESTMENTS IN PREFERRED STOCK (CONTINUED)

The following summarizes the preferences, special rights and restrictions of the preferred shares as of June 30, 2004, as set forth in the stock purchase agreements among the Authority and the investees:

| <u>Investee</u> | <u>Description</u> | <u>Amount</u> |
|---|---|----------------|
| The Battery Recycling Co., Inc. | 200 shares of Class A, convertible preferred stock with a par value of \$1,000 per share. The preferred stockholder will receive a preferred cumulative dividend of 6% per annum payable quarterly. | \$ 200 000 |
| Grupo Comunitario de Reciclaje, Inc. P.T. | 3,000 shares of Class A, preferred stock with a par value of \$100 per share. The preferred stockholder will receive a dividend that will vary from 0% to 15% through the five-year period that cover the stock purchase agreement. | 300 000 |
| Safetech Corporation | 300,000 shares of Class A, preferred stock with a par value of \$1.00 per share. The preferred stockholder will receive a preferred cumulative dividend of 6% per annum payable quarterly. | 300 000 |
| Western Medical Environmental Service, Inc. | 1,500 shares of Class A, convertible with a par value of \$100.00 per share. The preferred stockholder will receive a preferred cumulative dividend of 6% per annum payable quarterly. | <u>150 000</u> |
| Sub-total | | <u>950 000</u> |

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 INVESTMENTS IN PREFERRED STOCK (CONTINUED)

| <u>Investee</u> | <u>Description</u> | <u>Amount</u> |
|-------------------------------|---|---------------------|
| Sub-total | | \$ 950 000 |
| Novo Recicladores, Inc. | 3,510 shares of Class A, convertible with a par value of \$100 per share. The preferred stockholder will receive a preferred cumulative dividend of 6% per annum payable quarterly. During the year ended June 30, 2003, management determined, based on examination and evaluation procedures performed, that the investment is worthless and proceeded to write down the carrying value of the stock. | - |
| Biorganic Energy, Inc. | 2,283 shares of Class A, convertible, and 778 shares of Class B cumulative preferred stock with a par value of \$64.15 per share. The preferred stockholder will receive a preferred cumulative dividend of 6% per annum payable quarterly. During the year ended June 30, 2003, management determined, based on examination and evaluation procedures performed, that the investment is worthless and proceeded to write down the carrying value of the stock. | - |
| | | \$ 950 000 ===== |

The shares of preferred stock have liquidation preferences, conversion, anti-dilutive clauses, pre-emptive rights, representation in the Boards of Directors of the corporations and certain redemption provisions.

During the year ended June 30, 2004, the Authority did not receive any dividends from these investments.

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Authority under age 55 at the date of employment become members of the ERS as a condition to their employment.

The ERS provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least thirty years (30) of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service. No benefit is payable if the participant receives a refund of his accumulated contributions.

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (CONTINUED)

The legislation of the Commonwealth of Puerto Rico requires employees to contribute 5.775% for the first \$6,600 of their annual gross salary and 8.275% for the salary in excess of \$6,600 for employees hired on or before March 31, 1990. For employees hired on or after April 1, 1990, the required contribution is 8.275% of gross salary. The Authority's contributions are 9.275% of gross salary. Total employee and employer contributions during the year ended June 30, 2004 amount to approximately \$303,000 and \$342,000, respectively. Total payroll covered for the year was approximately \$4,370,000.

For the two preceding fiscal years the Authority contributed approximately \$316,000 in 2003 and \$306,000 in 2002, which represented 100% of required contributions.

Additional information on ERS is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from Mrs. Marisol Marchand, Esq., Administrator, Retirement System Administration, PO Box 42003, San Juan, Puerto Rico 00949.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Authority on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990. System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets which are invested by System 2000, together with those of the current defined benefit plan. Benefits at retirement age are not guaranteed by the Commonwealth of Puerto Rico.

(Continues)

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (CONTINUED)

The annuity is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up 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 a 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 are not granted under System 2000. The employee's contribution (9.275% of the employee's salary) is used to fund the current plan.

NOTE 8 BANK LINES OF CREDIT

- A. The Authority has a loan agreement with the Government Development Bank for Puerto Rico for a non-revolving line of credit of \$112,000,000. Infrastructure project costs incurred are disbursed by the Bank to the Authority. The interest, based on the lender's cost of funding for tax exempt variable rate loan transactions or the cost of any similar obligations to fund the loan is payable quarterly. The line of credit is due and payable on June 30, 2006.

Per approved budget for fiscal year 2001-2002 of the Commonwealth of Puerto Rico as submitted by the Office of Management and Budget, \$25,000,000 have been used for amortizing this bank credit line. The line of credit is payable in four annual installments of \$25,000,000 and the remaining final balance during the fifth year.

| | |
|--------------------------------|-----------------------|
| | June 30, 2004 |
| Balance at beginning of year | \$ 7 607 610 |
| Additions | 4 224 333 |
| Reduction | <u>(5 645 244)</u> |
| Balance at end of year-current | \$ 6 186 699 ===== |

(Continues)

SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 BANK LINES OF CREDIT (CONTINUED)

- B. In May 2003, the Authority signed another line of credit for \$75 million with the Government Development Bank for Puerto Rico for the acquisition of building facilities (Refer to Note 11). The line of credit carries interest based on quarterly variable LIBOR rate plus 1.25% with a minimum annual interest rate of 5%. Principal and interest are payable annually. The principal will be paid as follows:

| Payment <u>Year</u> | <u>Amount</u> |
|------------------------|-----------------------|
| 1-2 | \$10,000,000 per year |
| 3-5 | 15,000,000 per year |
| 6 | 20,000,000 |

As of June 30, 2004, the outstanding balance is \$54,630,954, detailed as follows:

| | |
|------------------------------|-----------------------|
| Balance at beginning of year | \$ - |
| Additions | 54 630 954 |
| Repayment | <u>-</u> |
| Balance at end of year | 54 630 954 |
| Less current portion | <u>10 000 000</u> |
| Long-term portion | \$44 630 954 ===== |

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 9 OBLIGATIONS UNDER CAPITAL LEASE

The Authority has entered into lease agreements to finance the acquisition of office equipment. The annual interest rate of the leases is approximately 8.0%. The lease agreements qualified as capital leases for accounting purposes and, therefore, were recorded at the present value of the future minimum lease payments at the inception dates.

The motor vehicles and office equipment are depreciated over the shorter of the lease term or their estimated useful lives. Depreciation of the assets under capital lease is included in the depreciation expense.

As of June 30, 2004, the assets acquired through capital lease are as follows:

| | |
|-------------------------------|--------------------|
| | <u>2004</u> |
| Office equipment | \$251 911 |
| Less accumulated depreciation | <u>(131 895)</u> |
| Book value | \$120 016 ===== |

The net present value of the minimum lease payments as of June 30, 2004 is as follows:

| | |
|---------------------------------------|--------------------|
| <u>Year ending</u> <u>June 30,</u> | <u>Amount</u> |
| 2005 | \$ 19 884 |
| 2006 | 41 976 |
| 2007 | 30 960 |
| 2008 | 33 529 |
| 2009 | <u>8 926</u> |
| Total minimum lease payments | \$135 275 ===== |

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 LOAN PAYABLE

In 2000, the Authority executed a loan agreement with the Government Development Bank for Puerto Rico in the original amount of \$22,283,768 to finance the reconstruction and remodeling of certain building facilities. In June 2004, the balance of the debt was refinanced by the Commonwealth of Puerto Rico together with balances of other public agencies. The loan, secured by the building and payable in variable principal installments, is related to the bonds issued by the Government Development Bank for Puerto Rico, 2001 Series C and 2001 Series E. The bonds bear annual interest rates fluctuating from 1.25% to 5.75%. Principal and interest are payable from funds to be made available by the Office of Management and Budget for this purpose. Annual future payments to principal and estimated interest are as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Estimated interest</u> | <u>Total</u> |
|---------------------------------|------------------|-------------------------------|------------------|
| 2005 | \$ 3 135 | \$ 193 005 | \$ 196 140 |
| 2006 | 859 | 385 131 | 385 990 |
| 2007 | 620 | 385 099 | 385 719 |
| 2008 | 4 427 | 384 877 | 389 304 |
| 2009 | 4 686 | 384 618 | 389 304 |
| From 2010 through 2014 | 23 695 | 1 920 015 | 1 943 710 |
| From 2015 through 2019 | 35 675 | 1 911 918 | 1 947 593 |
| From 2020 through 2024 | 50 625 | 1 896 969 | 1 947 594 |
| From 2025 through 2029 | <u>6 583 235</u> | <u>964 611</u> | <u>7 547 846</u> |
| | \$6 706 957 | \$8 426 243 | \$15 133 200 |
| | ===== | ===== | ===== |

(Continues)

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 10 LOAN PAYABLE (CONTINUED)

| | <u>June 30, 2004</u> |
|---|--------------------------|
| Balance at beginning of year | \$ 21 991 932 |
| Additions | - |
| Reductions: | |
| Capital contributions from the Commonwealth of Puerto Rico | (13 649 551) |
| Other adjustments | <u>(1 635 424)</u> |
| Balance at end of year | 6 706 957 |
| Less current portion | <u>3 135</u> |
| Long-term portion | \$ 6 703 822 ===== |

NOTE 11 DUE TO OTHER GOVERNMENTAL ENTITY

As of June 30, 2004, the Solid Waste Authority has an outstanding debt of \$3,500,000 with the State Insurance Fund Corporation related with certain building facilities acquired by the Authority in November 2003 for \$56,000,000. (Refer to Notes 5 and 8-B).

NOTE 12 SUPPLEMENTARY INFORMATION ON NON CASH TRANSACTIONS

As of June 30, 2004, the Authority has a debt of \$3.5 million related with the acquisition of a building, and \$894,319 in accrued interest that were capitalized in the construction in progress accounts.

In June 2004, the Commonwealth of Puerto Rico refinanced certain debts and, as a result, the Authority recorded the reduction of its debt with the Government Development Bank of \$13,649,551 as capital contributions from the Commonwealth of Puerto Rico.

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 13 OPERATING LEASES

The Authority operates on leased premises under an operating lease agreement renewable every three months. The minimum rental payments required under the operating lease agreement is \$432,000.

The Authority also leases equipment and parking facilities under operating leases expiring in various years.

NOTE 14 CONTINGENCIES

Litigations

The Authority is a co-defendant in a lawsuit filed by a supplier's customer for collection of monies. The management and legal counselors for the Authority believe that the outcome of this case, will not significantly affect the financial statements of the Authority as of June 30, 2004.

On December 28, 2001, a supplier of the Authority (the Supplier) filed a complaint against the Authority for breach of contract, collection of monies, and execution of a penalty clause before the Puerto Rico Court of First Instance, Superior Court of San Juan. In essence, the Supplier claims it executed a contract with the Authority on January 19, 1999, to furnish certain services to implement the regional infrastructure plan for the recycling and management of solid waste in the Commonwealth of Puerto Rico. The Supplier further alleges that as a result of a change in the administration of the Authority, its contract was canceled without cause. As a result, the Supplier is claiming the sum of \$4,197,084, plus interest, for work allegedly performed and not paid. Furthermore, the Supplier is claiming the sum of \$6,250,000 on the basis of the contract's penalty clause.

(Continues)

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 14 CONTINGENCIES (CONTINUED)

On April 9, 2002, a subcontractor of the Supplier referred to in the above paragraph filed a request to intervene in the same. The subcontractor claims that due to the Authority's failure to pay the Supplier, the Authority owes to the subcontractor for services provided the sum of \$1,430,519. Furthermore, the subcontractor and their officials are claiming the sum of \$9,285,736 on the basis of loss of reputation and loss of profits.

On April 23, 2002, a banking institution requested permission to intervene, alleging that it had an agreement with the Supplier whereby the proceeds of its contract with the Authority guarantee a line of credit of \$1,500,000. The bank demands payment of the sum of \$782,373 owed as of March 2002, including interest, penalties and surcharges.

On May 21, 2002, the Court allowed the requested interventions. On November 5, 2004, the Authority filed a motion for summary judgment. Thereafter, the bank requested that the adjudication of the same be put on hold until all discovery is concluded. This case continues to be in the discovery stage. At this moment, it is not possible to predict the outcome of the litigation. However, the Authority sustains the contract is null and void because it is contrary to the public policy of the Commonwealth of Puerto Rico.

On March 11, 2003, a subcontractor of the Supplier (refer to the claim dated December 28, 2001), filed a complaint in the United States District Court for the District of Puerto Rico against the Authority for the total sum of \$1,095,626 for work it allegedly performed on behalf of the Authority. The subcontractor alleges that although it has not privity of contract with the Authority, the work it performed benefitted the Authority, and demands payment based on the doctrine on unjust enrichment.

The Authority answered the complaint on April 30, 2003. On July 23, 2003, the Authority requested of the Court to join the Supplier as a third party defendant, to which the subcontractor objected. Said motion is still pending.

(Continues)

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 14 CONTINGENCIES (CONTINUED)

On December 2003, the Authority and the subcontractor both filed motions for summary judgment, respectively. After the corresponding replies and sur-replies, on August 30th, 2004, the Court entered judgment in favor of the Authority by dismissing the subcontractor's entire complaint against it. On September 10, 2004, the subcontractor requested reconsideration of judgment, but the court denied it.

On October 22, 2004, the subcontractor filed a motion requesting authorization to amend the complaint. The Authority filed an opposition to said request on November 10, arguing that the request was unduly belated, and it granted would cause grave prejudice to the Authority. Additionally, the Authority argued that, should the court grant the request, then it should abstain from adjudication the case until the local state case is concluded, to avoid the possibility of inconsistent judgments. Both motions are pending resolution by the court.

For the reasons stated above, it is not possible to predict the outcome of this litigation at this time.

On November 14, 2001, a three-member Panel of Arbitrators was selected and time tables for various pre-hearing activities were established, and parties (the Authority and a construction contractor) filed a joint document stating all their allegations and defenses regarding the Authority's termination of an Agreement entered into on September 17, 1997, for the design and construction of a sludge and yard waste compost facility. The termination was based on several applicable provisions of the Agreement. The Demand for Arbitration prayed for relief for alleged monies owed and damages in excess of \$4,125,149. Pursuant to the directives issued by the Panel of Arbitrators, the parties exchanged substantial documentary evidence and other information. The parties presented their evidence and the case was submitted for adjudication. The case is under advisement by the Panel of Arbitrators. At this moment, it is not possible to predict the outcome of this action.

(Continues)

COMMONWEALTH OF PUERTO RICO

SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 14 CONTINGENCIES (CONTINUED)

On November 8, 2002, the owner of a barge filed an action for preliminary and permanent injunction and a claim for collection of monies against the Authority and other defendants. Regarding the Authority, the claimant demands the return of the barge free of its load of 8,000 tons of shredded tire strips, presently deposited in the barge. The tire strips are the property of a codefendant. Nevertheless, an order of the Environmental Quality Board dated November 14, 2002, imposed the responsibility to dispose of the tire strips and adjudicated possession of the barge to the Authority.

There have been three court hearings to discuss the possible causes of action. On December 8, 2002, the Court scheduled a hearing on injunction to be held February 3 to 5, 2003. At the same time, and since the Authority had accepted its obligation to unload the barge, the Court urged the parties to agree to enter into a stipulation indicating the date that the barge would be returned without its present load. On February 3, 2003, the Court entered partial summary judgment dismissing the injunction because the barge had been returned. The case was reassigned to continue as an ordinary civil proceeding. There have been no further developments in this case.

On July 2, 2004, plaintiff filed a motion for voluntary dismissal without prejudice of the complaint against all defendants. At this time, the Authority awaits the Court's judgment of dismissal without prejudice.

Environmental concern

The Authority's operations include activities which are subject to state environmental regulations. The Authority is currently involved in the implementation and development of the Infrastructure Regional Plan for Recycling and Disposal of Solid Waste in Puerto Rico. As of June 30, 2004, the Authority has no insurance coverage for environmental risks and management believes that, at this time, there is no sufficient information available to determine the potential amount of related losses, if any, and no provision for losses has been made in the accompanying financial statements. Nevertheless, preventive infrastructure has been constructed to minimize any possible impact or events that occur. In addition, operational plans have been developed to incorporate good maintenance practices.

(Continues)

NOTES TO FINANCIAL STATEMENTS

NOTE 14 CONTINGENCIES (CONTINUED)

Closure and postclosure care costs and landfill obligations

The Authority administers a landfill, which is used by several municipalities on a leased tract of land in Lajas, Puerto Rico. Commonwealth of Puerto Rico and federal laws and regulations require certain procedures when the landfill stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after the closure. Subsequent to June 30, 2001, the Authority commenced the closing of this landfill. The Authority's management has estimated the obligation for landfill closure and postclosure care costs in approximately \$100,000, based in the nature of the solid waste being deposited. No studies performed by outside independent sources have been performed to evaluate if changes are currently needed in the cost estimated by management for the closing of the landfill facility.

Federal grants

During the normal course of its operations, the Authority receives grant funds from the Environmental Quality Board and the Federal Emergency Management Agency. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of the audits is not considered by management to have a significant effect in the accompanying financial statements.

NOTE 15 COMMITMENTS

The Authority initiated in prior years, the implementation and development of the Strategic Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately \$112 million. The first stage consists of the construction of thirty-nine (39) projects to be financed through an interim financing agreement with the Government Development Bank for Puerto Rico.

The lines of credit under the agreement were paid by the Treasury Department through joint resolutions approved by the Legislature of Puerto Rico. As of June 30, 2004, twenty (20) projects out of thirty-nine (39) had been completed. The Authority has continued with the planning and construction of the remaining nineteen (19) projects.

COMMONWEALTH OF PUERTO RICO
SOLID WASTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 16 CAPITAL ASSETS, NET OF RELATED DEBTS

In accordance with requirements of GASB Statement No. 34, net assets classification "invested in capital assets" is disclosed as follows:

| | |
|--|-------------------------|
| | June 30, <u>2004</u> |
| Capital assets, net | \$186 060 175 |
| Borrowings attributable to the acquisition, construction or improvements of capital assets | <u>(71 159 885)</u> |
| | \$114 900 290 ===== |

REQUIRED SUPPLEMENTARY INFORMATION