SOLID WASTE AUTHORITY

(A Component Unit of the
Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

AUTORIDAD DE
DESPERDICIOS SÓLIDOS
ESTADO LIBRE ASOCIADO DE PUERTO RICO

Sector El 5, Carr. 8838 Km. 6.3, Edificio
Agencias Ambientales, Piso 6, San Juan PR 00926

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Lcdo. Agustín F. Carbo Lugo

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López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

INDEPENDENT AUDITORS' REPORT

To Secretary of the Department of
Natural and Environmental Resources
Commonwealth of Puerto Rico
Solid Waste Authority
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying basic financial statements of **Solid Waste Authority** (the Authority), a component unit of Commonwealth of Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's statement of net position, statements of revenues, expenses and changes in net position and cash flows.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and 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 and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 misstatement 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 on 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.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 ~ Tel. (787) 777-8044 Fax (787) 761-9377

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility (Continued)

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 respective financial position of the Authority, as of June 30, 2013 and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages **3** through **14** be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lopez Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 31, 2013
Stamp No. 2675774 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

This 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 on June 30, 2013. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2013. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. A broader basis in focusing important issues;
2. Acknowledgement of an overview of the Authority's financial activities;
3. Provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. Identification of uses of funds in the financing of Authority's variety of activities;
5. Assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2012-2013 deserve special mention:

1. The Authority experiences a net change in its net position of $(2,537,370) or (26%) during the current fiscal year. This change is mostly related to an increase in the revenues from contracts of $1,054,293, a decrease in the voluntary retirement benefits of approximately $1,233,663 (enacted Act No. 70), and a decrease in the depreciation expenses of $850,161 or 14%. The Authority also experiences a decrease in general and administrative expenses of approximately $256,957 or 8% and a decrease in the economic assistance program provided to the municipalities on $2,879,846 or 73% and a decrease on loss on impairment of capital assets of $7,903,485 or 97%. In change there was an increase of $2,642,019 in Landfill projects expenses and an increase in bad debt expenses of $5,552,601 and a decrease of $4,425,197 in capital and grants revenue contributions from the Commonwealth of Puerto Rico and a decrease of $3,902,312 in capital contributions from Puerto Rico Sales Tax Financing Corporation.
2. The Authority's assets exceeded liabilities by $58,218,597 as of June 30, 2013.
3. The Authority's unrestricted net position amounts to $5,755,851 and decrease by $2,839,688 or 33% during the current fiscal year.
4. The Authority's beginning net position has been restated for approximately $8,088,000 mainly to recognize loss on impairment of construction in progress.

FINANCIAL HIGHLIGHTS (Continued)

5. Operating expenses increased by $2,924,825 or 15%, basically due to an increase in bad debt expense of $5,552,601, an increase in landfill projects of $2,642,019, a decrease in voluntary retirement benefits of $1,233,663 resulting from Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment terminations to eligible employees, as defined, including employees of the Authority and a decrease in Economic Assistance Program of $2,879,486 or 73%.

USING THE ANNUAL REPORT

This annual report consists of a series of basic financial statements. The (i) Statement of Net Position, (ii) the Statements of Revenues, Expenses and Changes in Net Position, (iii) the Statements of Cash Flows and (iv) provided information about the activities of the Authority, present and image of the Authority finances. These statements show how these services were financed in the short-term as well as what remains for future activities.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The Authority is a component unit of the Commonwealth of Puerto Rico and is presented in the Commonwealth government-wide financial statements as an enterprise fund.

The approach used in the presentation of the financial statements of the Authority is based on a government-wide view. Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

Each statement will distinguish between the governmental and business-type activities of the primary government and between the total primary government and it's discretely presented component units by reporting each in separated columns. Fiduciary activities, whose resources are not available to finance the government's programs, will be excluded from the government-wide statements.

An enterprise fund essentially encompasses the same functions reported as business-type activities in the government-wide financial statements. Substantially all services are provided to customers not related to the Commonwealth of Puerto Rico.

The Authority's basic financial statements are presented attached to this document and are accompanied by notes to the basic financial statements, which provide information essential to their full understanding.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government-wide financial statements, and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Position reflects information of the Authority as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is

FINANCIAL STATEMENTS COMPONENTS (Continued)

measured as the difference between total assets and liabilities, with the difference between both items reported as net position. The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either thru additional borrowings or thru internally generated funds. Evaluation of the overall financial health of the Authority would extend to external factors such as the quality of the portfolio of investments and related market conditions. The statements of revenues, expenses and changes in net position shows how the Authority's net position changed during the fiscal year. All current fiscal year revenues and expenses are regardless of when cash is received or paid. An important purpose of the design of this statement is to show the financial reliance of the Authority's functions on revenues earned.

The statement of revenues, expenses and changes in net position is focused on both gross and net cost of the various activities of the Authority. It presents information which shows the changes in the Authority's net position at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the statement of revenues, expenses and changes in net position based on the theory that it will result in cash flows to be realized in future periods.

A brief review of the statement of revenues, expenses and changes in net position of the Authority at June 30, 2013, shows total expenses incurred to afford the cost of all functions and programs amounted to $20,199,753. Upon examining the sources of revenues for the financing of said programs, the statement of revenues, expenses and changes in net position reflects that $2,330,415 was derived from the following sources: $2,308,705 contract revenues; $21,710 from miscellaneous.

The statement of cash flows presents the source and uses of cash flows divided in four categories: operating activities, non-capital financial activities, capital and related financing activities and investing activities. The statement reconciles net cash and cash equivalent at the beginning and end of year and reconciles the net income (loss) with the cash used in operating activities to provide an explanation of cash and non-cash activities within the statement of revenues, expenses and changes in net position.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority is a public corporation and a governmental instrument 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 development and implementation of the required programs needed for the reduction and reuse of solid waste.

Our analysis, as shown below, focuses on net position (Table 1) and change in net position (Table 2) for the Authority's activities compared to prior year.

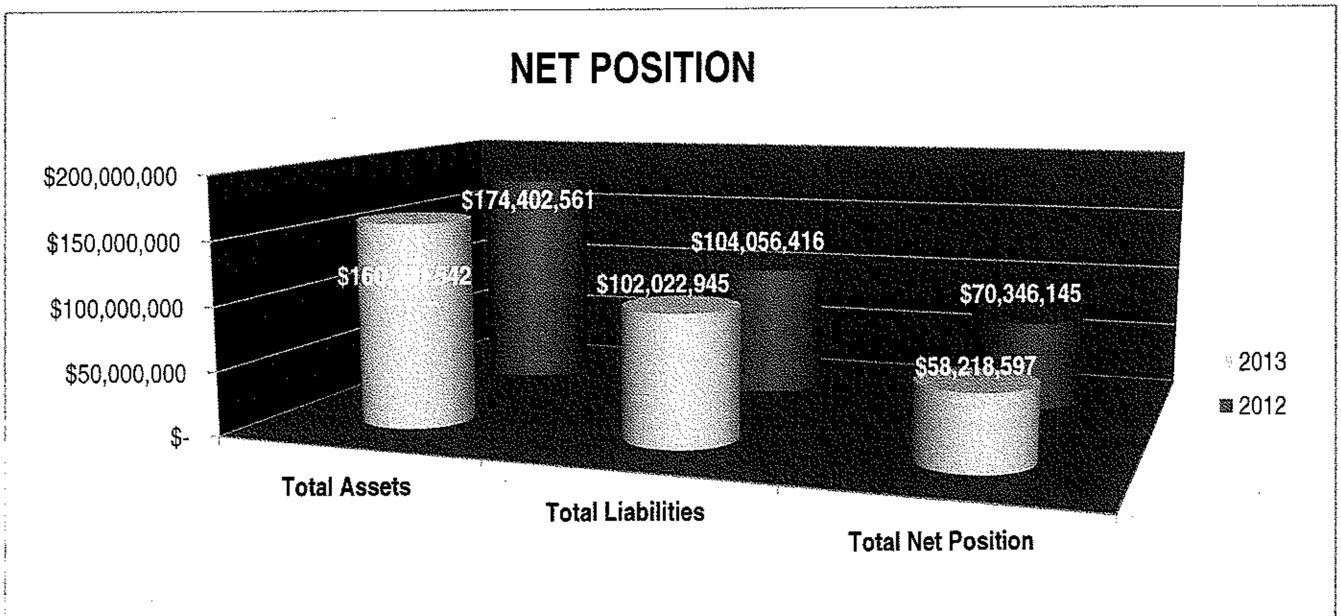
Net Position

The Statement of Net Position serves as an indicator of the Authority's financial position at the end of the fiscal year. In the case of the Authority, assets exceeded total liabilities by $ 58,218,597 at the end of 2012-2013, compared to $70,346,145 at the end of the previous year, as restated, as showed in the following Statement of Net Position.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

TABLE 1- STATEMENT OF NET POSITION

Assets	2013	2012, as Restated	Increase (Decrease)	Percentage Change
Current assets	$ 23,360,715	$ 27,846,267	$ (4,485,552)	(16%)
Restricted assets	10,900,286	15,172,365	(4,272,079)	(28%)
Investment in preferred stock	500,000	500,000		
Due from Commonwealth of Puerto Rico-PFC	404,621	673,767	(269,146)	(40%)
Capital asset-net	124,987,930	130,041,273	(5,053,343)	(4%)
Other assets	15,584	168,889	(153,305)	(91%)
Deferred debt issue cost	72,406		72,406	100%
Total assets	160,241,542	174,402,561	(14,161,019)	(8%)
Liabilities				
Current liabilities	9,768,224	11,467,640	(1,699,416)	(15%)
Long-term debt	92,254,721	92,588,776	(334,055)	(.36%)
Total liabilities	102,022,945	104,056,416	(2,033,471)	(2%)
Net Position				
Investment in capital assets, net of related debt	50,810,092	55,624,868	(4,814,776)	(9%)
Restricted for federal projects	126,557	125,738	819	1%
Restricted for state projects	1,526,097	6,000,000	(4,473,903)	(75%)
Unrestricted	5,755,851	8,595,539	(2,839,688)	(33%)
Total net position	58,218,597	70,346,145	(12,127,548)	(17%)
Total liabilities and net position	$ 160,241,542	$ 174,402,561	$ (14,161,019)	(8%)



FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

Total net position at June 30, 2013, compared to prior year, decreased of $12,127,548 or 17%. This was caused by a reduction in current assets of $4,485,552 or 16%, a reduction in restricted assets of $4,272,079 or 28%, a reduction in capital assets of $5,053,343 or 4% and a reduction in liabilities of $2,033,471 or 2%.

The reduction in current assets is mainly related to the decrease in net accounts receivables of $4,194,167 directly affected for the increase in current year bad debt expense of $5,552,601. The reduction of restricted assets is mainly related to the use of funds restricted for state projects that are directly affected by the increase in landfill projects expenses of approximately $3,511,253 during the current year and $962,650 in the prior year and the reduction in capital assets is mainly related to the recognition of current year depreciation expenses of $5,317,481.

The reduction in liabilities is mainly related to the decrease in accounts payable, trade from $3,776,028 in prior year to $2,335,946 in the current year. In the current year were liquidated approximately $1,400,000 of prior year accounts payable for landfill betterments realized in the Municipalities of Cabo Rojo, Isabela, Hormigueros and Toa Baja.

The net change in net position of $2,537,370 or 26% is primarily due to the net effect of an an increase in the revenues from contracts of approximately $1,054,293, a decrease in the voluntary retirement benefits of approximately $1,233,663 (enacted Act No. 70), and a decrease in the depreciation expenses of $850,161 or 14%. The Authority also experiences a decrease in general and administrative expenses of approximately $256,957 or 8% and a decrease in the economic assistance program provided to the municipalities on $2,879,846 or 73% and a decrease on loss on impairment of capital assets of $7,903,485 or 97%. In change there was an increase of $2,642,019 in Landfill projects expenses and an increase in bad debt expenses of $5,552,601 and a decrease of $8,327,509 in capital and grants revenue contributions from the Commonwealth of Puerto Rico.

Approximately 86% of the Authority's total operating and nonoperation revenues are from capital grants and contributions, $6,165,180 or 38% were assigned for the payment of the Line of Credit interest and $7,773,625 or 48% are from grants contributions from the Commonwealth of Puerto Rico. Operating revenues for the current year amounting to $2,308,705 or 14% are related to contracts.

Approximately 78% of the Authority's total operating and nonoperation expenses are from depreciation, landfill project, bad debt expense and interest expenses. As follows, a comparative analysis of governmental-wide data is presented. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

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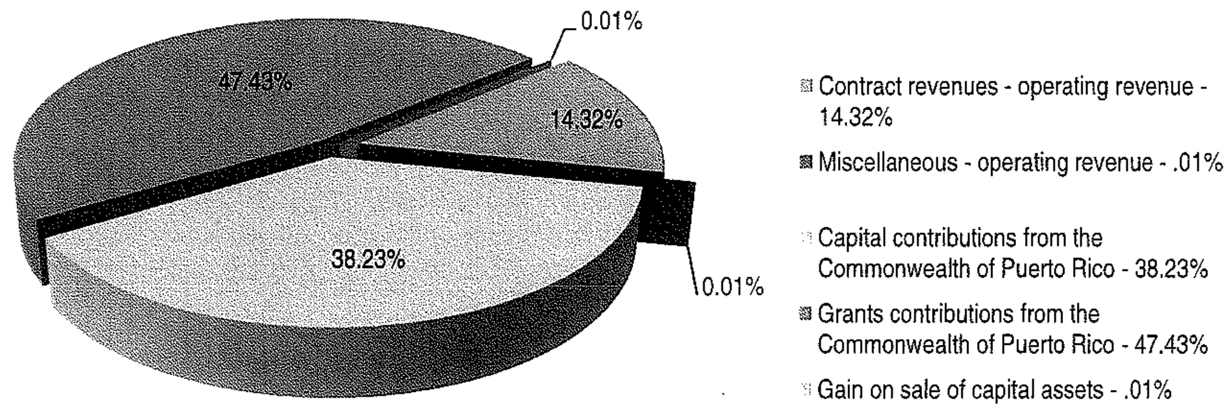
FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

TABLE 2- STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

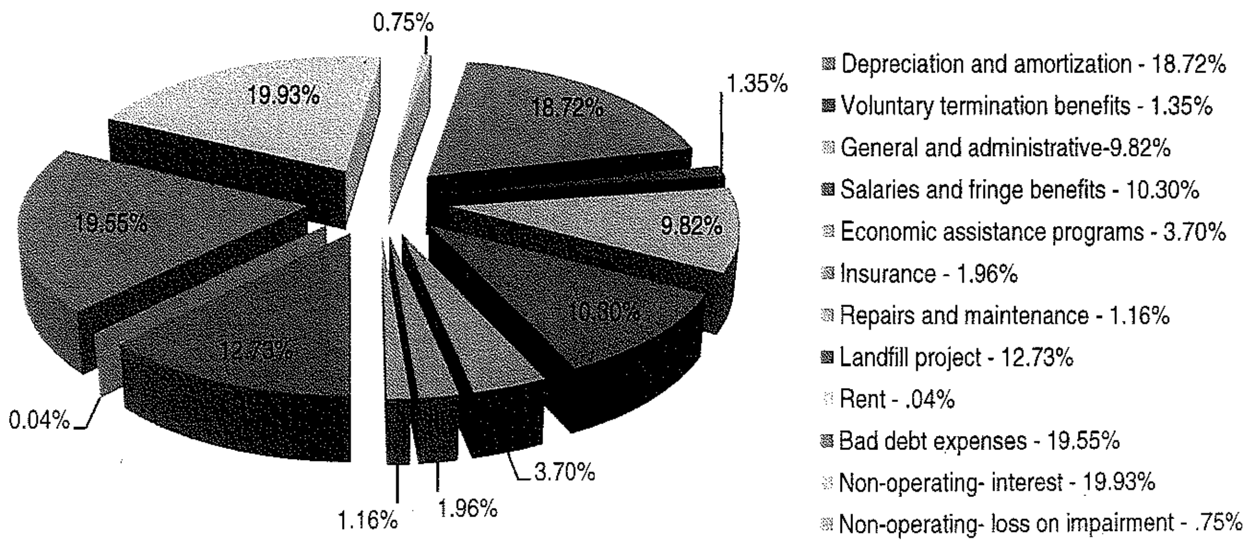
	2013	2012, as Restated	Increase (Decrease)	Percentage Change
Operating Revenues:				
Contract revenues	$ 2,308,705	$ 1,254,412	$ 1,054,293	84%
Miscellaneous	21,710	11,680	10,030	86%
Total operating revenues	2,330,415	1,266,092	1,064,323	84%
Operating Expenses:				
Depreciation and amortization	5,317,481	6,167,642	(850,161)	(14%)
Voluntary termination benefits	383,074	1,616,737	(1,233,663)	(76%)
General and administrative	2,788,773	3,045,730	(256,957)	(8%)
Salaries and fringe benefits	2,924,678	2,839,026	85,652	3%
Economic assistance programs	1,051,115	3,930,601	(2,879,486)	(73%)
Insurance	555,377	803,261	(247,884)	(31%)
Repairs and maintenance	329,007	226,683	102,324	45%
Landfill project	3,616,372	974,353	2,642,019	271%
Rent	11,690	1,240	10,450	843%
Bad debt expenses	5,552,601		5,552,601	100%
Total operating expense	22,530,168	19,605,273	2,924,895	15%
Operating loss before non-operating revenues (expenses)	(20,199,753)	(18,339,181)	(1,860,572)	(10%)
Non-Operating Revenues (Expenses)				
Interest and dividends income	52	202,377	(202,325)	(99.97%)
Interest expenses	(5,662,543)	(5,778,396)	115,853	2%
Loss on impairment of capital assets	(213,272)	(8,116,757)	7,903,485	97%
Loss on extinguishment of debt		(25,035)	25,035	100%
Gain on sale of capital assets	9,163	200,500	(191,337)	(95%)
Capital contributions from Puerto Rico sales tax financing corporation		3,902,312	(3,902,312)	(100%)
Capital and grants contributions from the Commonwealth of Puerto Rico	13,938,805	18,364,002	(4,416,034)	(24%)
Total non-operating revenues (expenses)	8,072,205	8,749,003	(676,798)	(8%)
Change in net position	(12,127,548)	(9,590,178)	(2,537,370)	(26%)
Net position, beginning of year, as restated	70,346,145	79,936,323	(9,590,178)	(12%)
Net position, end of year	$ 58,218,597	$ 70,346,145	$(12,127,548)	(17%)

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

OPERATING & NON-OPERATING REVENUES 2013



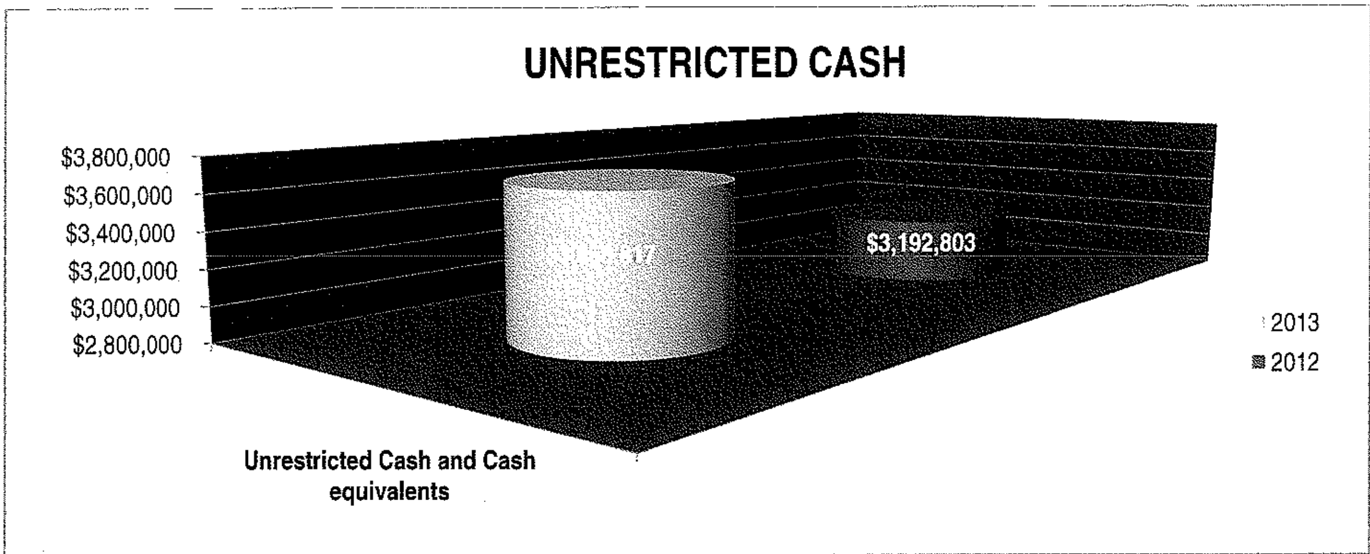
OPERATING & NON-OPERATING EXPENSES 2013



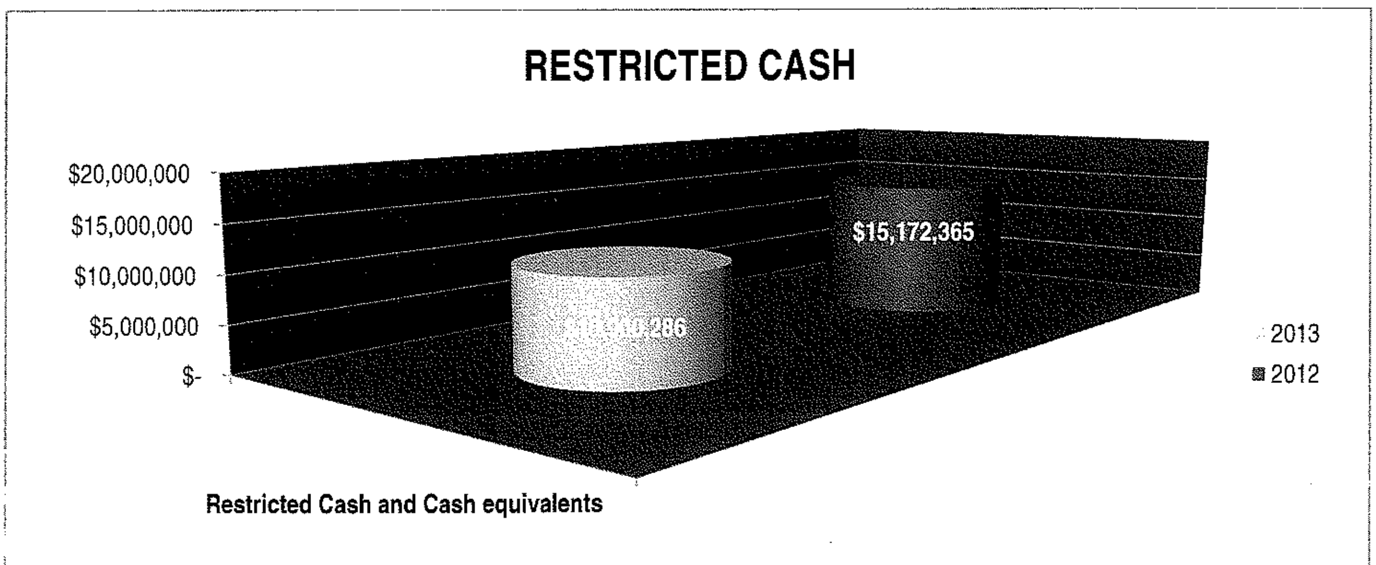
FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

Cash and Cash Equivalent

As of June 30, 2013, cash and cash equivalent consist mostly of certain cash, money market, certificates of deposits and others of which are classified in unrestricted cash and cash equivalent and restricted cash. At the end of fiscal year 2012-2013, Authority had an increase of $466,014 of Unrestricted Cash and Equivalents (See Graphics).



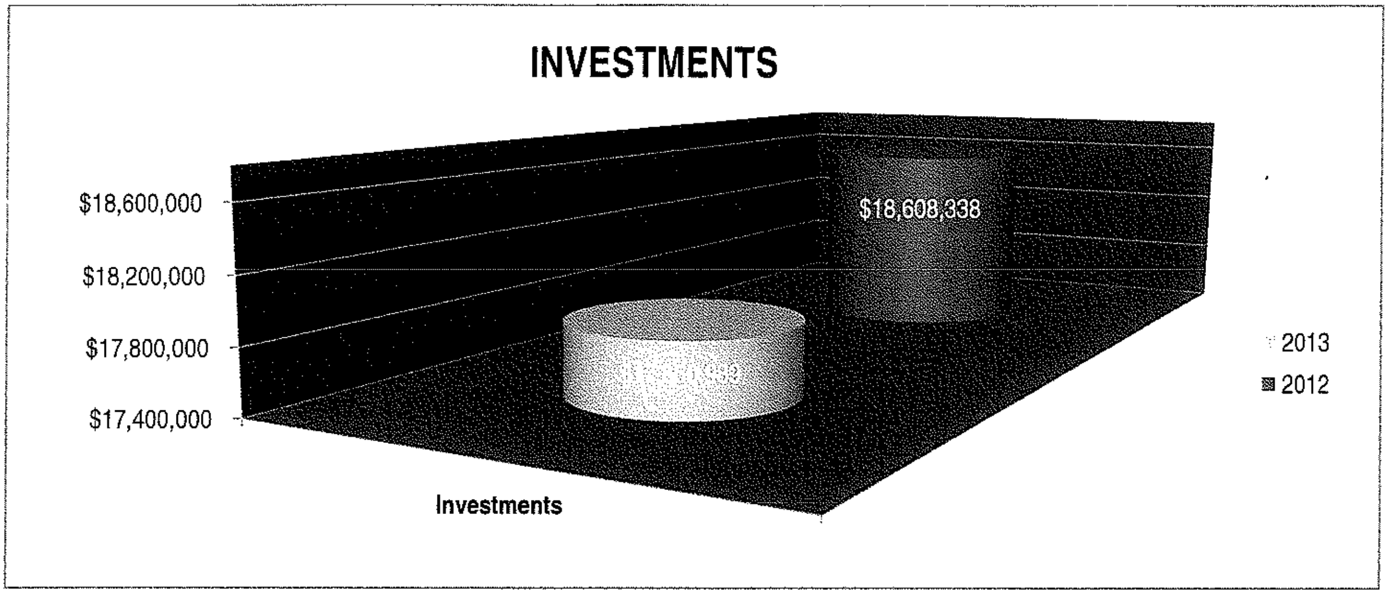
Otherwise, as observed from the graphics below, the Authority's restricted cash decrease from $15,172,365 to $10,900,286 or 28% percent. That represents a decrease of $4,272,079 that is mainly related to the use of funds restricted for state projects that are directly affected by the increase in landfill projects expenses of approximately $3,511,253 during the current year and $962,650 in the prior year.



FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

Investments

As of June 30, 2013, the Authority's investments decrease from $18,608,338 to $17,850,989 or 4% percent. That represents a decrease of $757,349.



CAPITAL ASSETS AND DEBT ADMINISTRATION

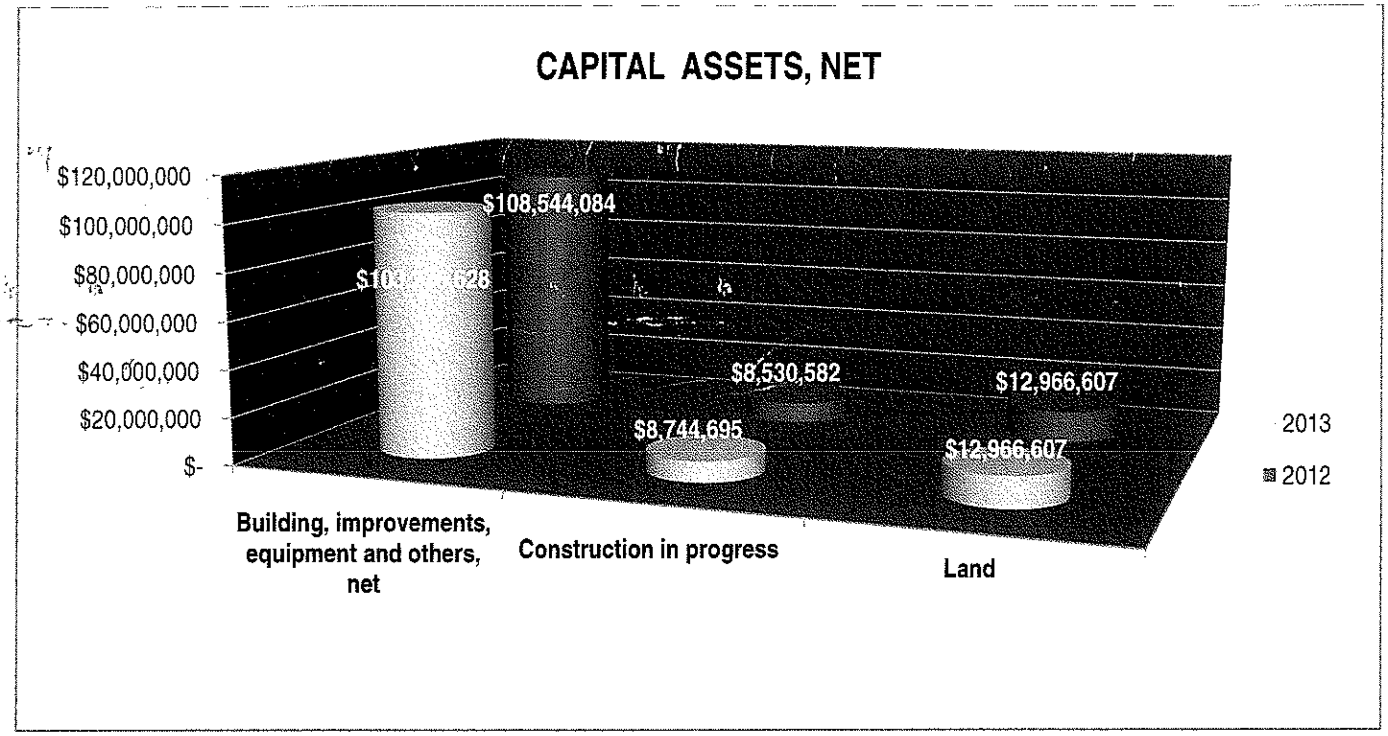
Capital Assets

Capital assets consist mostly of land and structures, the majority of which are acquired or constructed to provide alternatives for the collection and processing of solid waste. At the end of fiscal year 2012-2013, the Authority had $124,987,930 invested in a broad range of capital assets (See Table 3). This amount represents a net decrease, including additions and deductions, of approximately $5,053,343 over the prior year. Decrease is mainly related to current year depreciation expenses of $5,317,481.

TABLE-3 CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2013	2012, As Restated	Increase (Decrease)	Percentage Change
Land	$ 12,966,607	$ 12,966,607	$ -	
Building, improvements, equipment and others, net	103,276,628	108,544,084	(5,267,456)	(5%)
Construction in progress	8,744,695	8,530,582	214,113	3%
Total Capital Asset	$124,987,930	$130,041,273	$ (5,053,343)	(4%)

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)



Debt Administration

Decrease in total liabilities of $2,033,471 is mainly due to a decrease in accounts payables, trade and due to governmental agencies for $1,455,358. During the current year were liquidated approximately $1,400,000 of prior year accounts payables for landfill betterments realized in the Municipalities of Cabo Rojo, Isabela, Hormigueros and Toa Baja.

The Authority is a defendant in various lawsuits. The Authority and its internal and external legal representatives are of the opinion that it is not possible to predict as of the financial statements date the outcome of these lawsuits.

During the fiscal year ending June 30, 2012, an increase in funds to pay the outstanding balances on all credit lines with Government Development Bank of Puerto Rico (GDB) had an impact on the Authority's budget. These credit lines were obtained for the acquisition, prior to June 30, 2008, of build facilities that allowed the centralization of agencies relating to the environment, such as the Solid Waste Authority, the Department of Natural and Environmental Resources, the Energy Office and the Environmental Quality Board. It also allowed continuing with the development of infrastructure project directly related with the disposition of solid waste in the Commonwealth of Puerto Rico.

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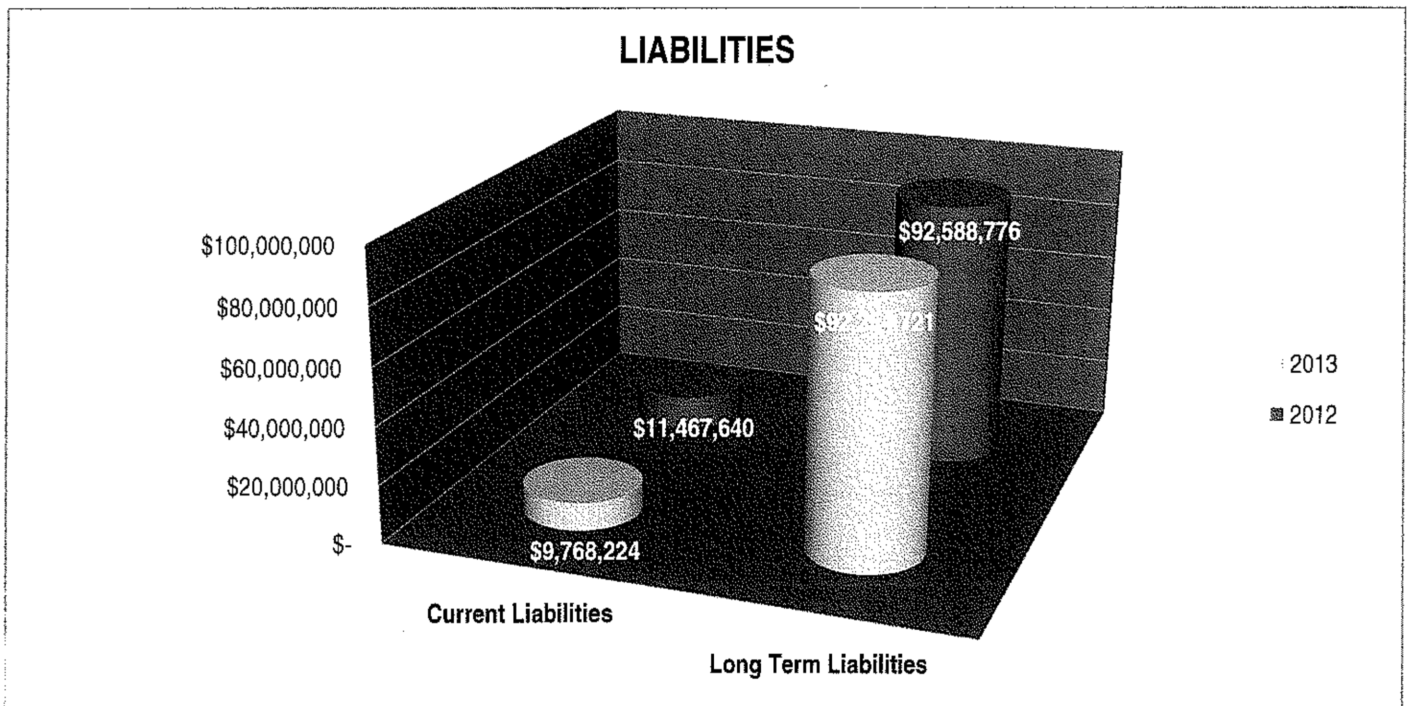
FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

TABLE - 4 OUTSTANDING DEBTS AT YEAR END

Current liabilities:	2013	2012, as restated	Increase (Decrease)	Percentage Change
Accounts payable-trade, including due to governmental agencies	$ 8,904,594	$ 10,359,952	$ (1,455,358)	(14%)
Accrued compensated absences	304,195	291,999	12,196	4%
Accrued expenses	127,629	383,883	(256,254)	(67%)
Voluntary termination benefits	431,806	431,806		
Total current liabilities	9,768,224	11,467,640	(1,699,416)	(15%)
Non current liabilities:				
Bank credit lines	74,177,838	74,416,405	(238,567)	(.32%)
Bond payable	7,828,835	7,777,895	50,940	1%
Accrued compensated absences	387,157	371,635	15,522	4%
Voluntary termination benefits	5,319,774	5,315,859	3,915	.07%
Accrued expenses		165,865	(165,865)	(100%)
Due to other governmental entities	4,541,117	4,541,117		
Total non current liabilites	92,254,721	92,588,776	(334,055)	(.36%)
Total liabilities	$ 102,022,945	$104,056,416	$ (2,033,471)	(2%)



ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the fiscal year 2012-2013 a capital and grants contribution budget of $6,165,180 and $6,451,385 respectively, for repayment of line of credit interest and for recycling program expenses, payroll expenses and others was assigned to the Solid Waste Authority by Legislative Resolution.

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 finance and to show the Authority's accountability for the funds it receives. If you have questions about this report or need additional information, contact the Management Affair Directors or Finance Director at (787) 765-7575.

Assets		
Current assets:		
Cash and cash equivalents	$	3,658,817
Investments at fair value		17,850,989
Accounts receivable, net of allowance for doubtful accounts		1,850,909
Restricted funds, cash and cash equivalents		10,900,286
Total current assets		34,261,001
Non current assets:		
Other assets		15,584
Deferred debt issue cost		72,406
Due from Commonwealth of Puerto Rico		404,621
Capital assets, net of accumulated depreciation		124,987,930
Investments in preferred stocks		500,000
Total non current assets		125,980,541
Total assets	$	160,241,542
Liabilities and Net position		
Current liabilities:		
Accounts payable, trade		2,335,946
Accrued compensated absences		304,195
Accrued liabilities		127,629
Due to governmental entities		6,568,648
Voluntary termination benefits		431,806
Total current liabilities		9,768,224
Non current liabilities:		
Credit lines		74,177,838
Bond payable		7,828,835
Due to other governmental entities		4,541,117
Accrued compensated absence		387,157
Voluntary termination benefits		5,319,774
Total noncurrent liabilities		92,254,721
Total liabilities		102,022,945
Net Position:		
Net investment in capital assets		50,810,092
Restricted for federal projects		126,557
Restricted for state projects		1,526,097
Unrestricted		5,755,851
Total net position		58,218,597
Total liabilities and net position	$	160,241,542

The notes to the basic financial statements are an integral part of this statement.

Operating revenues	
Contract revenues	$ 2,308,705
Miscellaneous	21,710
Total operating revenues	2,330,415
Operating expenses	
Depreciation and amortization	5,317,481
Voluntary termination benefits	383,074
General and administratives	2,788,773
Salaries and fringe benefits	2,924,678
Educational campaign	1,051,115
Insurance	555,377
Repairs and maintenance	329,007
Landfill projects	3,616,372
Rent	11,690
Bad debt expenses	5,552,601
Total operating expenses	22,530,168
Operating loss before non-operating revenues (expenses)	(20,199,753)
Non-operating revenues (expenses)	
Interest and dividend income	52
Loss on impairment of capital assets	(213,272)
Gain on sale of capital assets	9,163
Interest expenses	(5,662,543)
Capital and grant contributions from the Commonwealth of Puerto Rico	13,938,805
Total non-operating revenues (expenses)	8,072,205
Change in net position	$ (12,127,548)
Net position at beginning of fiscal year	78,434,970
Restatement of net position	(8,088,825)
Net position at beginning of fiscal year, as restated	70,346,145
Net position at end of fiscal year	$ 58,218,597

The notes to the basic financial statements are an integral part of this statement.

Cash flows from operating activities	
Cash received from contracts and others	$ 2,308,705
Cash paid to suppliers	(11,591,743)
Cash paid for salaries and fringes	(2,924,678)
Cash received from other sources	21,710
Net cash used in operating activities	(12,186,006)
Cash flows provided by non-capital financing activities	
Contributions from the Commonwealth of Puerto Rico	13,763,844
Net cash provided by non-capital financing activities	13,763,844
Cash flows from capital and related financing activities	
Proceeds from credit lines and others	427,384
Purchase of property and equipment, and construction of property	(264,138)
Repayment of credit lines	(665,951)
Interest paid	(5,662,543)
Net cash used in capital and related financing activities	(6,165,248)
Cash flows from investing activities	
Interest and dividends received	781,345
Net decrease in cash and cash equivalents	(3,806,065)
Cash and cash equivalents at beginning of fiscal year	18,365,168
Cash and cash equivalents at end of fiscal year	$ 14,559,103
Reconciliation of operating loss to net cash used in operating activities	
Operating loss before non-operating revenues and contributions	(20,199,753)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:	
Depreciation and amortization	5,317,481
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	4,463,363
Other assets	(15,584)
Increase (decrease) in liabilities:	
Accounts payable	(1,440,082)
Accrued liabilities	(311,431)
Total adjustments	8,013,747
Net Cash used in operating activities	(12,186,006)
Reconciliation of cash and cash equivalents with the statement of net position	
Cash and cash equivalents- unrestricted	3,658,817
Cash and cash equivalents- restricted	10,900,286
Cash and cash equivalents	$ 14,559,103

The notes to the basic financial statements are an integral part of this statement.

1. REPORTING ENTITY

The Solid Waste Authority (the Authority) is a public corporation and 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United Stated of America. Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users for the services provided by the funds operations. Proprietary funds distinguish operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

b) Basis of Presentation

The financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments" (GASB 34), as amended, that establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

The GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including these statements. The Authority adopted the provisions of GASB Statement No. 62 during the current year. The adoption of this provision did not have a material effect to the Authority.

In current year, the Authority adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position establishing a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Authority's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclose of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results may differ from those estimates.

d) Statement of Cash Flows

The Authority prepares its statements of cash flows using the direct method. For the purpose of this statement the Authority includes as cash equivalents all unrestricted and restricted highly liquid debt instruments with original maturities of three months or less at time of purchase.

e) Fair Market Value

The carrying amounts reported in the statement of Net Position for cash and cash equivalents and receivables, approximate fair value due to their short-term duration.

f) Non-exchange Transactions

GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions" established accounting and financial reporting standards for non- exchange transactions involving financial or capital resources (for example, most taxes, grants and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) 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 operations of landfills, and with other agencies, principally the Department of Natural and Environmental Resources for the collection of debris and vegetative materials.

h) Accounting for Pension Costs

The Authority accounts for pension costs in accordance with the provisions of GASB Statement No. 27, "Accounting for pensions by States and Local Governmental Employers". GASB Statement 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 government employers. The statement defines that the pension expense is equal to the statutory required contributions to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

i) Cash Equivalents

Cash equivalent are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less, excluding resources held in restricted accounts. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledge as collateral is held by the Secretary of the Treasury of the Commonwealth.

j) 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, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term.

k) Investments

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

Investments in debt instruments have been classified and presented in accordance with GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investments Pools". In accordance with this statement, investments are presented at fair market value in the statement of Net Position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Investments (continued)

Unrealized holding gains or losses related to the evaluation of the investments are presented as an increase or reduction in the Statement of Revenues, Expenses and Change in Net Position, as part of the current period interest and dividends income. Realized gains and losses for investments are reported in as current earnings or losses in the Statement of Revenues, Expenses and Change in Net Position based on the adjusted cost of the specified investments sold.

l) 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. Donated capital assets are recorded at estimated fair market value at the date of donation. Major renewals and betterments that materially extend the capacity or efficiency or extend the useful life of an asset are capitalized while replacements, maintenance, and repairs which do not improve or extend the life of the respective assets are charged to expense in the period incurred. Upon retirement or other disposal of properties, the related cost and accumulated depreciation and amortization are removed from the accounts. Gains or losses on sales or retirement of properties are reflected in the statement of revenues, expenses, and change in net position.

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 the related project. Major classification and related estimated useful lives of the capital assets are summarized as follows:

	Estimated Useful Lives
Building	30 years
Building improvement	30 years
Airplane	12 years
Project equipment	5 to 10 years
Vehicle	5 years
Furniture and fixtures	2 to 5 years

Impairment of Capital Assets

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Authority has evaluated events or changes in circumstances that may have affected the Authority's assets and has determined that impairment of a capital asset did occur in various circumstances.

The Authority periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management evaluated the costs incurred in construction in progress and determined various projects to be impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Accrued Compensated Absences

The vacations 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 vacations days up to the maximum allowed of sixty (60) days. 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.

n) Net Position

Net Position has been reported pursuant to the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Net Position represents the difference between all assets plus deferred outflows of resources and all liabilities plus deferred inflows of resources. The Net Position consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net position for which constraints are imposed by the constitutional provisions or enabling legislation.

The classification of restricted net position identifies resources that have been received or earned by the Authority with an explicit understanding between the Authority and the resource providers that the resources would be used for specific purposes. Grants contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

In the government-wide financial statements, net position is segregated into three categories:

a. Net Investment in capital assets: Represent the component of the net position that consist of capital asset balances net of accumulated depreciation and amortization reduced by the outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

b. Restricted net position: Represents the component of the net position that is subject to restrictions beyond the Authority's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Net Position (continued)

c. Unrestricted net position: Represents the component of the net position that do not meet the definition of net position invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the Statement of Net Position.

o) Accounting for Pension Costs

The Authority accounts for pension costs in accordance with the provisions of GASBS No. 27, "Accounting for Pensions by State and Local Government Employers".

GASBS 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 contributions to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

p) Adoption of Future Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following accounting standards that have effective dates after June 30, 2013 for the Authority:

Statement Number	Statement Name	Adoption Required in Fiscal Year
65	Items Previously Reported as Assets and Liabilities	2013-14
66	Technical Corrections- 2012- an amendment of GASB Statements No. 10 and 62	2013-14
67	Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25	2013-14
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15

3. CASH AND CASH EQUIVALENTS

As of June 30, 2013, cash unrestricted and restricted includes certain cash, cash equivalents, certificates of deposit, money market and others, as follows:

Unrestricted Cash and Equivalents

Cash	$ 3,390,152
Money Market (investment related)	268,665
Total	$ 3,658,817

Restricted Cash

Development of Infrastructure Projects	$ 5,012,262
Financial Assistance	4,428,407
Other Programs	1,459,617
Total	$ 10,900,286

4. INVESTMENTS

The following reflects the amortized cost and estimated fair value of investments held at fair value as of June 30, 2013. In addition, gross unrealized gains and losses are as follow:

	Cost	Market Value	Unrealized Gain
Corporate Bonds	$ 11,581,273	$ 11,567,822	$ (13,451)
Other Securities	6,054,148	6,283,167	229,019
Total	$ 17,635,421	$ 17,850,989	$ 215,568

The maturities of investments and their approximate market value as of June 30, 2013, were as follows:

	Cost	Market Value
Within one (1) year or less	$ 8,633,835	$ 8,862,854
After one (1) year through five (5) years	9,001,586	8,988,135
Total	$ 17,635,421	$ 17,850,989

a) Interest Rate Risk

The Authority maintains investments in debt instruments with the United States Government and Corporate bonds. The market value of such investment instruments varies and is dependable of changes in interest rates. The Authority does have an investment policy that requires an evaluation of the investment portfolio every twelve (12) months as a means of managing its exposure to declines in fair value and losses arising from increasing interest rates, so the investment portfolio manager can take the necessary actions to protect the Authority's investment. Nevertheless, the Authority is exposed to the risk of not recovering the market value of such investments due to fluctuations in interest rates.

4. INVESTMENTS (Continued)

b) Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. As of June 30, 2013, the Authority's external Investment did not have any securities exposed to custodial credit risk and there was no securities lending.

The Authority maintains Investment and cash accounts with stock brokerage firms. The Securities Investor Protection Corporation (SIPC) protects, in most cases, securities up to a ceiling of $500,000 per customer, as long as it is invested in money market funds. For short-term securities it is directly related to their credit rating. Also, it provides protection up to $100,000 in cash claims. The brokerage firm also maintains private insurance coverage, for custodial purposes only, which exceeds the balance of the investment. As of June 30, 2013, the investment in securities balance exceed the insured limits but they have been placed in high credit standing institutions and management of the Authority believes that custodial credit risk related to these investments and deposits are minimum.

c) Credit Risk

The Authority is exposed to credit risk, since the investment policy do not set forth the minimum acceptable credit ratings from any of the nationally recognized statistical rating organizations, although the policy limits its investment choices for investments to bonds and notes of the Federal Treasury, bonds and notes of federal and state agencies, and any other Investment that guarantees principal.

d) Concentration of Credit Risk

Although the investment policy limits its investment choices for investments to bonds and notes of the Federal Treasury, bonds and notes of federal and state agencies, and any other Investment that guarantees principal, the Authority places no limit on the amount it may invest in any one issuer of investment instruments.

5. ACCOUNTS RECEIVABLE

As of June 30, 2013, accounts receivable consisted of the following:

Puerto Rico Department of Natural Environmental Resources	$ 5,241,974
Puerto Rico Environmental Quality Board	3,041,016
Other governmental entities	1,253,912
Municipalities	715,592
Commonwealth of Puerto Rico	1,907,786
Others	1,597,116
Totals	13,757,396
Allowance for doubtful accounts	(11,906,487)
Totals	$ 1,850,909

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, were as follow:

	Beginning Balance, as restated	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 12,966,607	$ -	$ -	$ 12,966,607
Construction in progress	8,530,582	3,938,637	(3,724,524)	8,744,695
Total capital assets, not being depreciated	21,497,189	3,938,637	(3,724,524)	21,711,302
Capital assets, being depreciated:				
Buildings	93,979,993			93,979,993
Mini transfer stations	42,131,063		(9,163)	42,121,900
Project equipment	15,875,565			15,875,565
Building improvements	14,993,998	15,139		15,009,137
Office furniture	7,367,651	44,049		7,411,700
Motor vehicles	849,130			849,130
Leasehold improvements	262,629			262,629
Total capital assets, being depreciated	175,460,029	59,188	(9,163)	175,510,054
Less accumulated depreciation for:				
Buildings	(23,827,664)	(3,132,667)		(26,960,331)
Mini transfer stations	(15,944,204)	(1,404,369)		(17,348,573)
Project equipment	(15,387,432)	(185,454)		(15,572,886)
Building improvements	(3,394,546)	(500,178)		(3,894,724)
Office furniture	(7,250,340)	(94,813)		(7,345,153)
Motor vehicles	(849,130)			(849,130)
Leasehold improvements	(262,629)			(262,629)
Total accumulated depreciation	(66,915,945)	(5,317,481)	-	(72,233,426)
Total capital assets, being depreciated, net	108,544,084	(5,258,293)	(9,163)	103,276,628
Capital assets, net	$ 130,041,273	$ (1,319,656)	$ (3,733,687)	$ 124,987,930

Impairment Loss

Management evaluated the costs incurred in construction in progress and determined various projects to be impaired. The total impairment reserve amounted to $38,619,410 which was recorded as a cost of prior year operations and adjusted against the net position. The current impairment reserve as June 30, 2013 was $213,272.

6. CAPITAL ASSETS (Continued)

As of June 30, 2013, construction in progress net of impairment loss reserve consisted of the following:

Total construction in progress	$ 47,149,993
Impairment by executive order 2001-58A	(25,698,593)
Increase in impairment reserve	(4,804,061)
Construction in progress, net as of June 30, 2012	**16,647,339**
Increase in construction in progress during 2012-2013	**427,385**
Restatement to prior year financial statements to record additional impairment for projects stopped on or before June 30, 2012	(8,116,757)
Increase in impairment reserve during 2012-2013	(213,272)
Total impairment reserve for construction in progress as of June 30, 2013	**(8,330,029)**
Construction in progress, net as of June 30, 2013	**$ 8,744,695**

7. INVESTMENTS IN PREFFERED STOCKS

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 exercise 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, 2013, the Authority has invested in two (2) 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 Authority also invested in other three (3) eligible corporations: Safe tech Corporations, Novo Recicladores, Inc., and Biorganic Energy, Inc. The value of the preferred stocks from those corporations was reduced to zero. The equity securities are all held by the Authority. The market value of the preferred shares is not available as of June 30, 2013.

The following summarizes the cost, preferences, special rights and restrictions of the preferred shared as of June 30, 2013, as set forth in the stock purchase agreements among the Authority and the investees:

Investee	Description	Amount
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 (5) years period that cover the stock purchase agreement.	300,000
Total		$ 500,000

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

8. DUE TO GOVERNMENTAL ENTITIES

Due to governmental entities as of June 30, 2013, were as follows:

Puerto Rico Electric Power Authority	$	5,246,619
Puerto Rico Aqueduct and Sewer Authority		1,042,939
Puerto Rico Department of Natural Environmental Resources		217,165
Retirement System Administration		37,407
ELA Employees Association		15,882
Puerto Rico Treasury Department		6,103
General Service Administration		1,868
Puerto Rico Labor and Human Resources Department		665
Due to governmental entities – current	**$**	**6,568,648**

State Insurance Fund Corporation	$	4,541,117
Due to other governmental entities – long-term	**$**	**4,541,117**

9. PENSION PLAN

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) is a cost sharing multiple-employer defines 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 fifty-five (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 in 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 (10) years of plan participation.

Members who have attained an age 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 benefits, 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 of twenty 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 (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive sixty five percent (65%) of the average compensation or if they have attained fifty-five (55) years of age will receive seventy five percent (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 if his accumulated contributions.

9. 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 in or after April 1, 1990, the required contribution is 8.275% of the gross salary. The Authority's contribution is 10.275% of the gross salary.

Total employees and employer's contributions during the year ended June 30, 2013 amounted to approximately $219,000, respectively. Total payroll covered for the year was approximately $2.2 million.

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1952, which created the Retirement System, was enacted with the purpose of establishment 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 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.

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 seventy-five percent (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 (10.275% of the employee's salary) is used to fund the current plan.

Additional information on ERS is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtained by writing to the System's administrator at 437 Ponce de Leon Avenue, Hato Rey, Puerto Rico 00918.

10. CREDIT LINES

On January 4, 2000, the Authority entered into a loan agreement with the Government Development Bank for Puerto Rico for a non-revolving line-of-credit in an amount not to exceed $112,000,000 for the development of infrastructure projects. 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 credit line was due originally and payable on June 30, 2006. On December 4, 2007, the availability of the credit line was extended to June 30, 2009. On November 23, 2009 was extended to June 30, 2018. On June 27, 2012, was extended to June 30, 2040. 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's credit line. The credit line was to be paid in four (4) annual installments of $25,000,000 and the remaining final balance during the next (6) years. The outstanding balance at June 30, 2013 amounted to $28,401,676.

10. CREDIT LINES (Continued)

On May 5, 2003, the Authority entered into a loan agreement related to another non-revolving line-of-credit in an amount not to exceed $75,000,000 with the Government Development Bank of Puerto Rico for the acquisition of building facilities (See Note 6). The credit line carries interest based on quarterly variable LIBOR rate plus 1.25% with a minimum annual interest rate of five percent (5%). On June 26, 2008, the availability of the credit line was extended to June 30, 2011. To temper the terms and conditions of the line of credit to economic facts of the Puerto Rico Commonwealth on January 29, 2010 extends the availability to June 30, 2018. On June 19, 2012 was extended to June 30, 2040.The outstanding balance at June 30, 2013 amounted to $45,776,162.

Credit lines activity for the year ended June 30, 2013, was as follows:

Non-revolving credit line of $112,000,000:	
Balance at beginning of year	$ 28,229,276
Additions	427,384
Payments	(254,984)
Balance at end of year	$ 28,401,676
Non-revolving credit line of $75,000,000:	
Balance, beginning of year	$ 46,187,129
Payments	(410,967)
Balance at end of year	$ 45,776,162

11. BOND PAYABLE

On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and discretely presented component units to refund approximately $2.4 billion of their outstanding obligations with GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed $225 million. This refunding was originally executed with Commonwealth appropriation bonds through several series issued by Public Finance Corporation (PFC) during the period between December 2001 and June 2002. Subsequently, additional refunding's (current and advance) and/or redemptions of the Act No. 164 restructuring have been executed through PFC and COFINA bond issuances.

On May 13, 2006, the Legislature of the Commonwealth approved Act No. 91 and created the Puerto Rico Sales Tax Financing Corporation (the "Tax Financing Corporation"). Act No. 91 was amended by Act No. 291 of December 26, 2006, and by Act No. 56 of July 6, 2007. The purpose of the Tax Financing Corporation is to finance the payment, retirement, or defeasance of certain debt obligations of the Commonwealth, outstanding as of June 30, 2006, which are payable to the Bank and PFC. During the year ended June 30, 2008, the Tax Financing Corporation issued 2007 Series A, B and C and 2008 Series A Bonds, and with those proceeds refinanced certain obligations of the Commonwealth of Puerto Rico.

11. BOND PAYABLE (Continued)

The bond issuance costs and bond discount in proportion with the portion of the bonds not refunded or not retired in connection with the above transactions, remained in the statement of net position and continue to be deferred throughout the remaining term of the unrefunded portion of the bonds. The aggregate debt service requirements of the refunding and unrefunded bonds will be funded with annual appropriations from the Commonwealth.

During the year ended June 30, 2012, the Puerto Rico Public Finance Corp. (PFC) refinanced the debt of the Authority by the issuance of 2011 Series A, 2011 Series B and 2012 Series A. The outstanding balance of the bond at June 30, 2013 was $7,828,835 including the premium on bond refunding and the deferred losses arising from bond refunding and matures on June 30, 2031. Interest on the unpaid principal amount of the bond is equal to the applicable percentage of the aggregate interest payable on the Public Finance Corporation Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the Public Finance Corporation of the PFC Bonds serviced by the bond to the aggregate amount paid by the Public Finance Corporation on all PFC Bonds issued by the Public Finance Corporation. This bond will be paid from legislative appropriations.

In additions, during the year ended June 30, 2012, the Puerto Rico Sales Tax Financing Corporation contributed approximately $3.9 million for the payment of principal and interests due on such bond payable. Such transactions have been reflected as a contribution from the Puerto Rico Sales Tax Financing Corporation in the prior year statement of Revenues, Expenses and Changes in Net Position.

During the current year, the PFC contributed $183,281 for the interest payment of Bond 2011, Series A. Also the prior year, due from PFC was decrease for the portion applicable for the interest payment of bond 2011 Series B, for approximately $203,000 and bond 2012 Series A, for approximately $66,000.

Aggregate maturities and interest payments of the bond, are as follows:

Year ending June 30,	Principal	Interest	Totals
2014	$ -	$ 434,626	$ 434,626
2015		434,626	434,626
2016	228,958	428,711	657,669
2017	185,735	422,188	607,923
2018	192,140	415,116	607,256
2019-2023	1,083,395	1,943,331	3,026,726
2024-2028	2,737,009	1,633,490	4,370,499
2029-2033	3,350,658	217,924	3,568,582
Total	7,777,895	$ 5,930,012	$ 13,707,907
Add: Premiums on bond refunding	102,417		102,417
Less: deferred losses arising from bond refunding	(51,477)		(51,477)
Total	$ 7,828,835	$ 5,930,012	$ 13,758,847

12. CONTINGENCIES

a) Litigations

The Authority is a defendant in lawsuits arising in the normal course of operations, principally from claims for contract cancellations. According to the laws of the Commonwealth of Puerto Rico, the Authority is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the Authority. Any claims with negative financial impact would be paid from the resources of the Authority and the Commonwealth of Puerto Rico.

b) Comptroller's Office of Puerto Rico

This entity has issued several reports on audits over the operations of the Authority. The oversight entities, such as the Puerto Rico Department of Justice, are evaluating actions to be taken against the Authority and its employees.

The financial impact, if any, of the possible actions to be taken by the oversight entities cannot be presently determined.

c) Environmental Concern

The Authority's operations include activities which are subject to state and federal 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, 2013, management of the Authority 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 practice.

d) Closure and Post-closure Care Costs

The Authority administers a tract of land in the Authority of Lajas, Puerto Rico, to deposit acceptable sludge. The Commonwealth of Puerto Rico and federal laws and regulations require certain procedures when the tract of land stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. Subsequent to June 30, 2007, the Authority commenced the closing of this tract of land. The Authority's management has estimated the obligation for closure and post-closure care costs at $80,000, based on the nature of the waste being deposited. However, as of June, 2013, management of the Authority 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. Also, no studies have been performed by outside independent sources to evaluate the amount estimated and it changes are currently needed in the cost estimated by management for the closing of this tract of land facility.

12. CONTINGENCIES (Continued)

e) Federal Grants

During the normal course of its operations, the Authority sometimes receives grants 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.

13. COMMITMENTS

a) Strategic Plan for Recycling

The Authority initiated in years prior to the year ended June 30, 2013, 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 (See Note 10). 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 credit lines under the agreement were paid by the Treasury Department through joint resolutions approved by the Legislature of Puerto Rico. The Authority has continued with the planning and construction of the projects.

During September, 2013, the Authority actualized the line of credit drawdown schedule and presented disbursements projection for infrastructure projects from October, 2013 through June, 2014. Total funds of $30,389,584 were identified and assigned for the development and construction of projects related to the solid waste management.

b) Dynamic Itinerary for Infrastructure Projects

During May, 2008, the Authority approved the "Dynamic Itinerary for Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. The Authority proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico. The projects proposed in the itinerary includes programs to develop facilities for the recovery of recyclable materials (MRP's), facilities for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansions to sanitary stuffing systems (SRS). The development of those projects takes into consideration the closing of various SRS. The construction investment is estimated in approximately $1.9 billion. The Authority projects that financing for these projects will come from both the public and private sectors.

14. CONCENTRATION CREDIT RISK

a) Cash and Cash Equivalent

As of June 30, 2013, the Authority had all of its cash deposited with GDB for $14,290,438 which are unsecured and uncollaterized. This amount is uncollateralized since by law, the governmental bank of the Commonwealth of Puerto Rico are exempt of the requirement of insuring the deposits of funds of the entities of the Commonwealth of Puerto Rico.

b) Accounts Receivable

The accounts receivable balance as of June 30, 2013 is mainly from several municipalities and governmental agencies of Puerto Rico. Nevertheless, management of the Authority considers that concentration to credit risks related to these receivables are minimal because, although the Authority generally does not require collateral and credit losses are provided currently through an allowance for doubtful accounts, they will be collected according to their terms.

15. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the Authority will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited services in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $5,751,580 in the statement of Net Position as of June 30, 2013 and a charge of $383,074 in the statement of activities for the year ended June 30, 2013. At June 30, 2013, unpaid long-term benefits granted on this program were discounted at 3.34%.

16. PRIOR PERIOD ADJUSTMENT

Subsequent to the issuance of the Authority's basic financial statements for the year ended June 30, 2012, the Authority's management determined that basic financial statements were misstated as a result of the following:

16. PRIOR PERIOD ADJUSTMENT (Continued)

- Understatement on impairment of construction in progress (capital assets)
- Understatement of accounts receivable from governmental entities
- Understatement of allowance for doubtful accounts
- Understatement of accounts receivable from grants contributions
- Understatement of accounts payable
- Overstatement of prepaid expenses
- Overstatement of deferred revenue

Accordingly, the net position as of June 30, 2013, in the statement of revenues, expenses and change in net position as originally reported, have been restated to reflect a decrease of $8,088,825 which represents the correction of the errors described above. A summary of the effects of the restatement in the fiscal year 2013 basic financial statements is as follows:

		Net Position Balance
Beginning balance–as previously reported		$ 78,434,970
Understatement of impairment of construction in progress	$ (8,116,757)	
Understatement of accounts receivable from governmental entities	3,474,515	
Understatement of allowance for doubtful accounts	(3,474,515)	
Understatement of accounts receivable from grants contributions	166,667	
Understatement of accounts payable	(142,420)	
Overstatement of prepaid expenses	(200)	
Overstatement of deferred revenue	3,885	
Total Adjustments		(8,088,825)
Beginning balance, as restated		$ 70,346,145

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 31, 2013, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended June 30, 2013.

	Administration	Federal Projects	Infrastructure	Total
Operating revenues				
Contract revenues	$ 2,308,705	$ -	$ -	$ 2,308,705
Miscellaneous	21,710			21,710
Total operating revenues	2,330,415	-	-	2,330,415
Operating expenses				
Depreciation and amortization	3,710,040	2,286	1,605,155	5,317,481
Voluntary termination benefits	383,074			383,074
General and administratives	2,687,444		101,329	2,788,773
Salaries and fringe benefits	2,924,678			2,924,678
Educational campaign	1,051,115			1,051,115
Insurance	555,377			555,377
Repairs and maintenance	329,007			329,007
Landfill projects			3,616,372	3,616,372
Rent	11,690			11,690
Bad debt expense	4,769,075		783,526	5,552,601
Total operating expenses	$ 16,421,500	$ 2,286	$ 6,106,382	$ 22,530,168
Operating income (loss)	(14,091,085)	(2,286)	(6,106,382)	(20,199,753)
Non-operating revenues (expenses)				
Interest and dividend income		52		52
Loss on impairment of capital assets			(213,272)	(213,272)
Gain on sale of capital assets			9,163	9,163
Interest expense	(3,640,511)		(2,022,032)	(5,662,543)
Capital contributions from the Commonwealth of Puerto Rico	11,579,154	374	2,359,276	13,938,805
Total non-operating revenues (expenses)	7,938,643	426	133,135	8,072,205
Change in Net Position	$ (6,152,442)	$ (1,860)	$ (5,973,247)	$ (12,127,548)

The notes to the basic financial statements are an integral part of this statement.