SOLID WASTE AUTHORITY

(A Component Unit of the
Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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, 2015, 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. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As discussed in Notes **2** and **9**, the Authority's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 - Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion (Continued)

Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of the collective net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources reported by the pension plan trust. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Authority's governmental activities has not been determined. In addition, the Authority's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2014 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.

Management has omitted historical pension information, required as supplementary information related to new pension standards (GASB Statement No. 68) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

López-Vega, CPA, PSC

LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
December 28, 2015
Stamp No. 2705494 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, 2015. 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, 2015. 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 2014-2015 deserve special mention:

1. Total assets amounted to $150,794,664, resulting in a decrease of $4,690,889 compared with prior fiscal year. The decrease was mainly due to a decrease in capital assets amounting to $4,444,142.
2. Total liabilities decreased by $652,342 or 0.60%. This net decrease was caused by an increase in current liabilities of $1,934,850 and a decrease in long-term liabilities amounting to $2,587,192.
3. The Authority's total assets exceeded total liabilities by $43,395,977 as of June 30, 2015 and, during the year then ended, experienced a change in net position of $(4,038,547) or (8.51)%.
4. Operating revenues amounted to $2,626,501 and decreased by $387,282. Total operating expenses amounted to $12,159,790 and exceeded operating revenues by $9,533,289.
5. Non-operating revenues (expenses) increased by $2,712,923, from $2,781,819 in 2014 to $5,494,742 in 2015. The increase was mainly caused by the increase in capital and grant contributions received from the Commonwealth of Puerto Rico, which increased by $1,503,731 or 16.32%.
6. Interest expense related to long term-debt charged to operations during the fiscal year 2015 amounted to $5,586,271.

FINANCIAL HIGHLIGHTS (Continued)

7. Cash and cash equivalents decreased by $1,262,954 from $13,352,104 in 2014 to $12,089,150 in 2015. As of June 30, 2015, restricted cash amounted to $8,792,498 and unrestricted cash amounted to $3,296,652.

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, that together presents an image of the Authority's 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's 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 its 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 financial 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 Statement of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows 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 through additional borrowings or through 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 statement 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 recognized 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, 2015, shows total expenses incurred to afford the cost of the Authority's operations amounted to $12,159,790. Upon examining the sources of revenues for the financing of the Authority's operations, the statement of revenues, expenses and changes in net position reflects that $2,615,159 were derived from contract revenues and $11,342 from other miscellaneous revenues.

The statement of cash flows presents the sources and uses of cash flows divided into four categories: operating activities, non-capital financial activities, capital and related financing activities and investing activities. The statement reconciles net cash and cash equivalents 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.

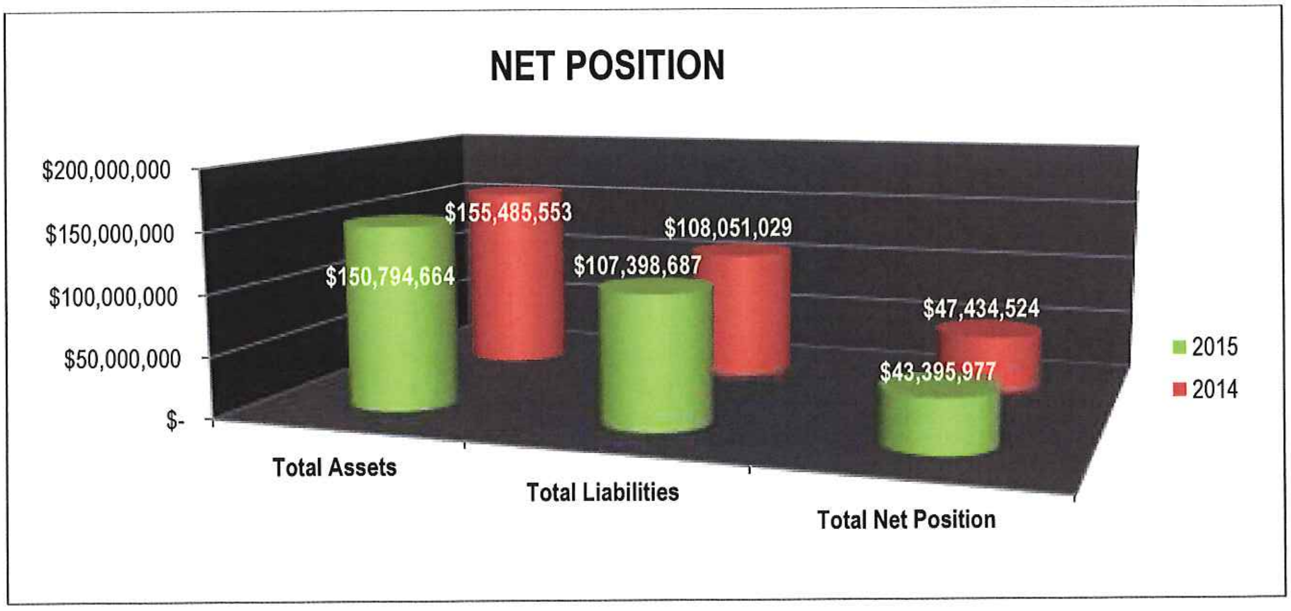
Net Position

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 $43,395,977 at the end of the 2014-2015 fiscal year, compared to $47,434,524 at the end of the previous year, as showed in the following Statements of Net Position.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

TABLE 1- STATEMENTS OF NET POSITION

	2015	2014	Variance
Assets			
Current assets	$ 25,154,036	$ 24,819,943	$ 334,093
Restricted assets	8,792,498	9,361,255	(568,757)
Investment in preferred stock	500,000	500,000	-
Due from Commonwealth of Puerto Rico	404,621	404,621	-
Capital asset-net	115,400,040	119,844,182	(4,444,142)
Other assets	543,469	555,552	(12,083)
Total assets	150,794,664	155,485,553	(4,690,889)
Liabilities			
Current liabilities	18,046,951	16,112,101	1,934,850
Long-term debt	89,351,736	91,938,928	(2,587,192)
Total liabilities	107,398,687	108,051,029	(652,342)
Net Position	43,395,977	47,434,524	(4,038,547)
Total liabilities and net position	$150,794,664	$155,485,553	$ (4,690,889)



FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

Total net position at June 30, 2015, compared to prior year, decreased by $4,038,547 or 8.51%. This net decrease was caused by the net effect of an increase in current assets of $334,093, a reduction in restricted assets of $568,757, a reduction in capital assets of $4,444,142, a decrease in other assets of $12,083, and the decrease in total liabilities of $652,342.

The increase in current assets amounting to $334,093, is directly related to the increase in net accounts receivable of $1,120,095, the decrease in unrestricted cash of $694,197 and the decrease in investments of $91,805. The reduction of restricted assets amounting to $568,757 is mainly related to the use of funds restricted for the acquisition of capital assets. In addition, the reduction in capital assets is mainly related to the recognition of current year depreciation expense of $5,259,827.

The increase in current liabilities of $1,934,850 is mainly related to the decrease in accounts payable trade and other accrued expenses of $835,739 and the increase in accrued interest payable of $2,770,589. Total long-term debt decreased by $2,587,192; this reduction was mainly caused by the net decrease on the line of credit amounting to $2,165,753.

The variance in the net change in net position amount of $6,745,526 or 62.55% is primarily due to the net effect of the decrease in operating revenues of $387,282, a decrease in total operating expenses of $4,419,885 and the increase in non-operating revenues (expenses) of $2,712,923.

Approximately $10.7 million or 78% of the Authority's total operating and non-operating revenues are from capital grants and other grants contributions from the Commonwealth of Puerto Rico. Operating revenues for the current year amounting to $2,615,159 or 19% are related to contracts.

Approximately 61% of the Authority's total operating and non-operating expenses are related to depreciation and interest expenses. In the following table a comparative analysis of the Statement of Revenues, Expenses and Changes in Net Position is presented. With this analysis, the readers have comparative information of the percentage of change in revenues and expenses from prior year to current year.

Interest expenses related to the Authority's long term debt charged to operations during the fiscal year ended June 30, 2015 amounted to $5,586,271.

Also, during fiscal year ended June 30, 2014, the Authority recognized a loss on impairment of capital assets amounting to $991,733. No provision for impairment of assets was recognized for the fiscal year ended June 30, 2015.

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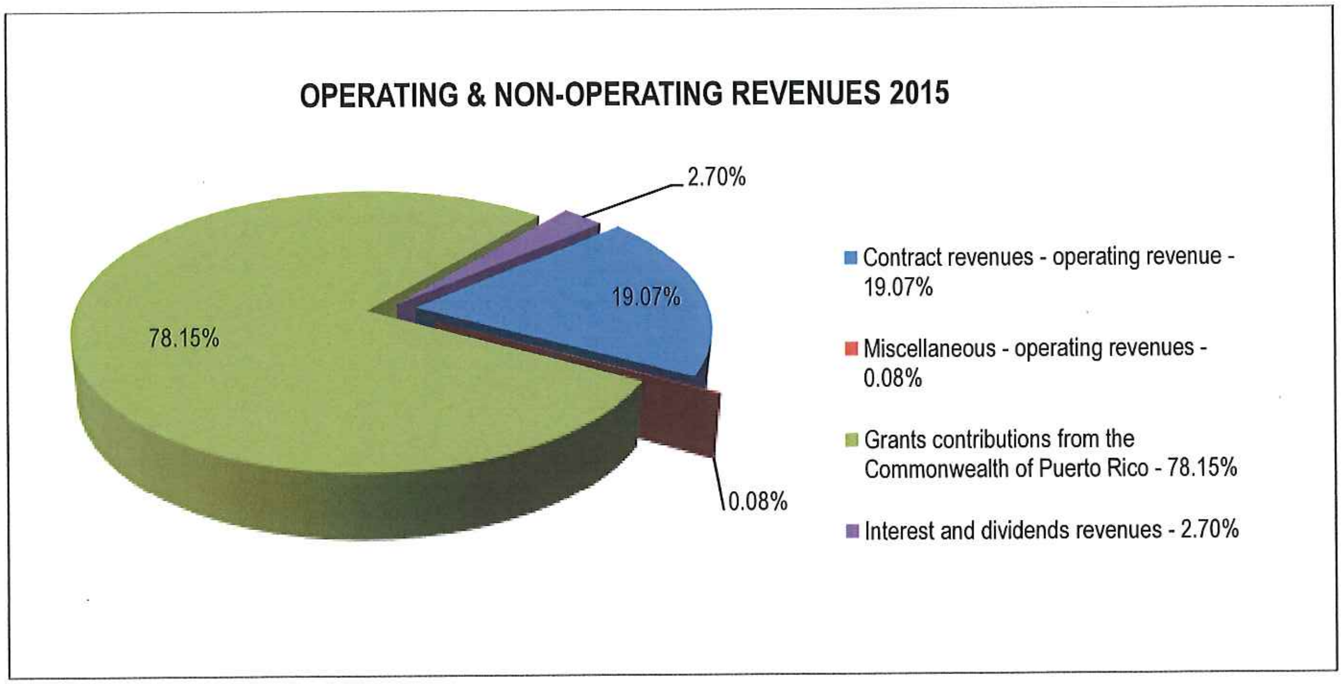
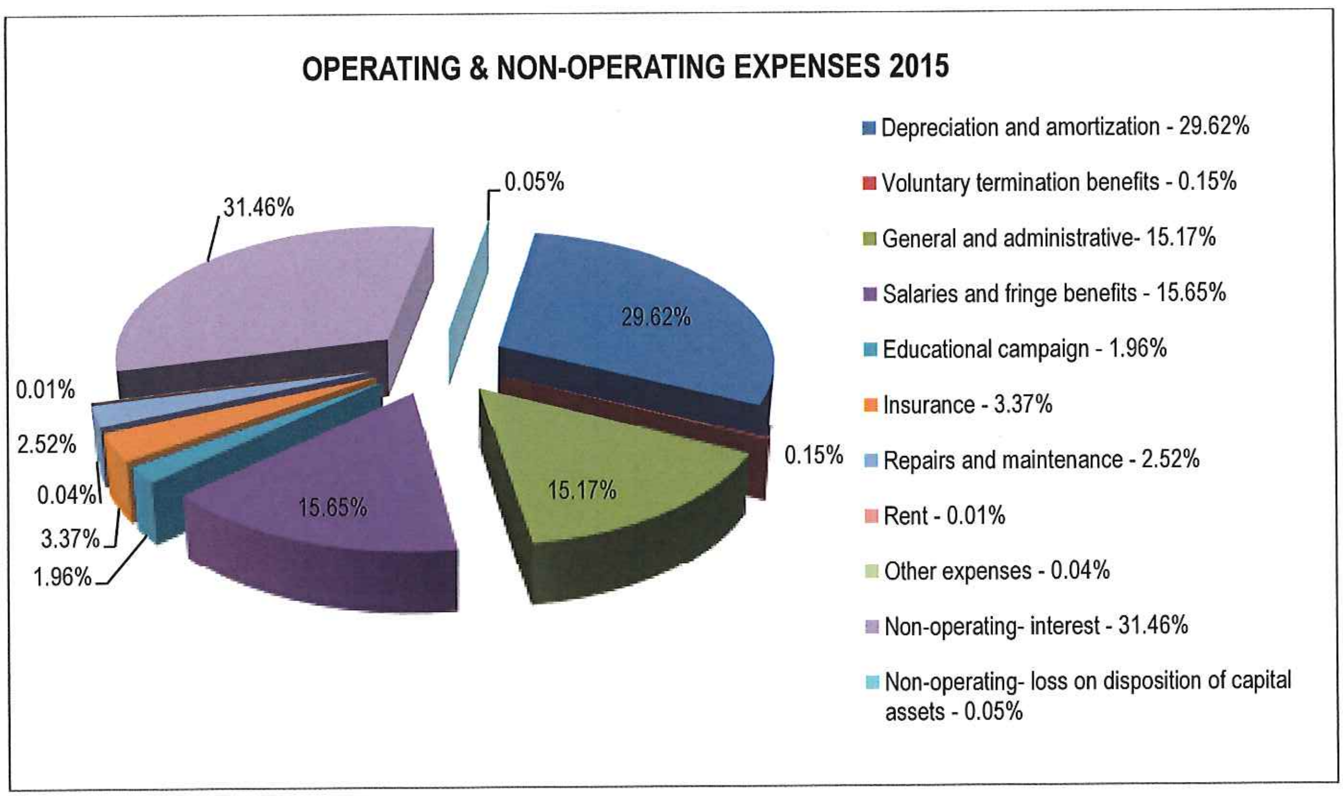
FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

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

	2015	2014	Variance
Operating Revenues	$ 2,626,501	3,013,783	$ (387,282)
Operating Expenses:			
Depreciation and amortization	5,259,827	5,258,532	(1,259)
Voluntary termination benefits	27,403	265,020	237,617
General and administrative	2,692,206	3,942,444	1,250,238
Salaries and fringe benefits	2,778,430	3,625,264	846,834
Educational campaign	347,254	2,359,558	2,012,304
Insurance	597,638	774,033	176,395
Repairs and maintenance	448,295	348,514	(99,781)
Rent	1,394	6,310	4,916
Other expenses	7,343	-	(7,343)
Total operating expense	12,159,790	16,579,675	4,419,885
Operating loss before non-operating revenues (expenses)	(9,533,289)	(13,565,892)	4,032,603
Non-Operating Revenues (Expenses)			
Interest and dividends income	370,314	281,885	88,429
Interest expense	(5,586,271)	(5,724,424)	138,153
Loss on impairment of capital assets	-	(991,733)	991,733
Loss on disposition of capital assets	(9,123)	-	(9,123)
Capital and grant contributions from the Commonwealth of Puerto Rico	10,719,822	9,216,091	1,503,731
Total non-operating revenues (expenses)	5,494,742	2,781,819	2,712,923
Change in net position	(4,038,547)	(10,784,073)	6,745,526
Net position, beginning of year	47,434,524	58,218,597	(10,784,073)
Net position, end of year	$ 43,395,977	$ 47,434,524	$ (4,038,547)

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

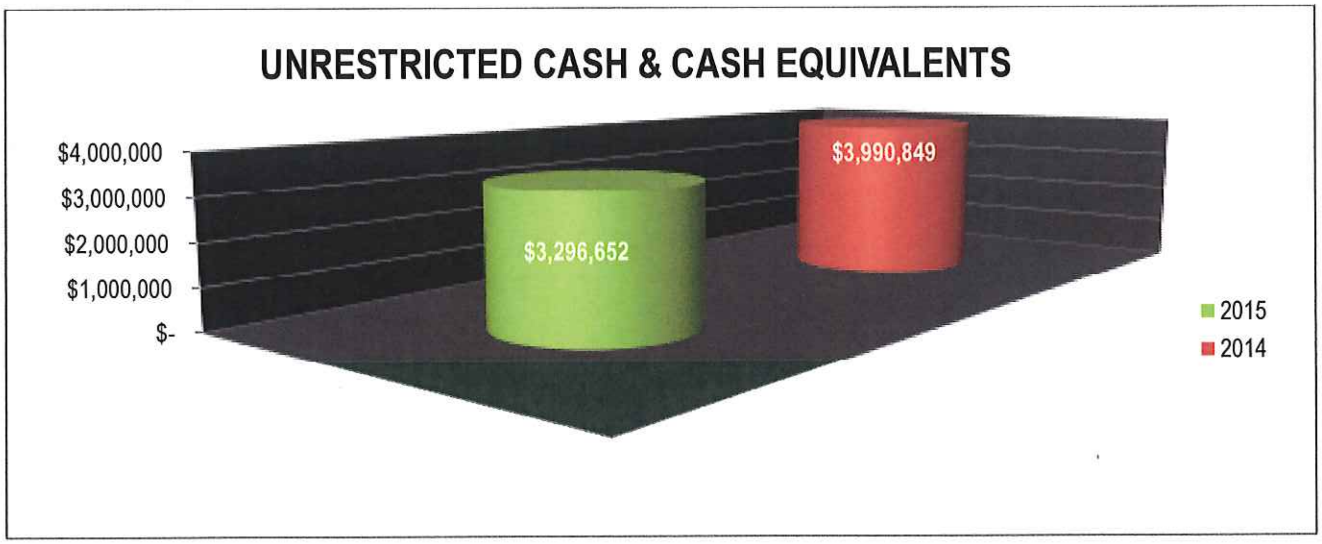




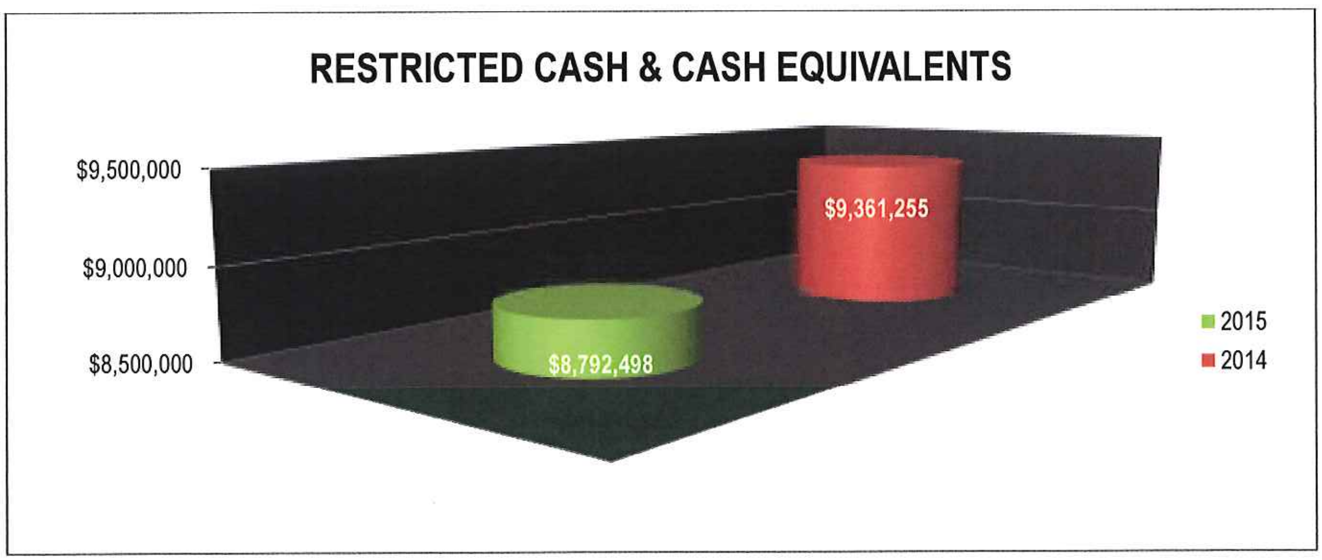
FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

Cash and Cash Equivalents

As of June 30, 2015, cash and cash equivalents consist of cash deposited in the Government Development Bank of Puerto Rico (GDB), which are classified as unrestricted cash and cash equivalents and restricted cash. At the end of fiscal year 2015, the Authority had a decrease of $694,197 in the unrestricted cash and cash equivalents (See graphic below).



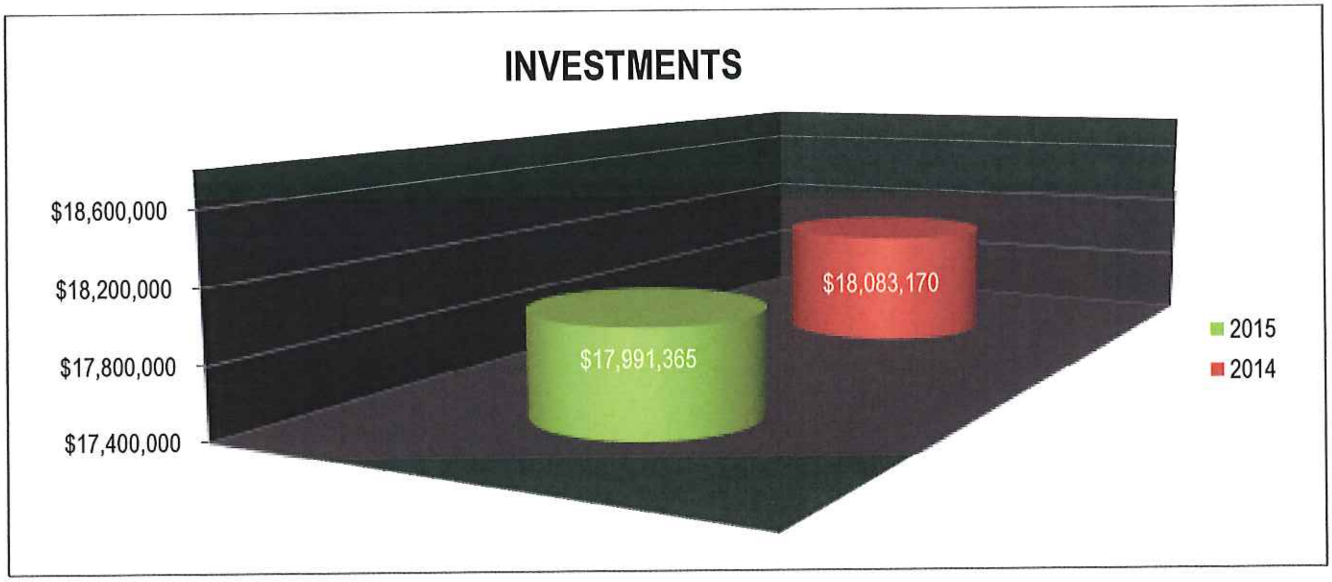
Otherwise, as observed in the graphic below, the Authority's restricted cash decreased from $9,361,255 to $8,792,498 or 6.08% percent. That represents a decrease of $568,757.



FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

Investments

As of June 30, 2015, the Authority's investments decreased from $18,083,170 to $17,991,365 or 0.51% percent. That represents a decrease of $91,805.



CAPITAL ASSETS AND DEBT ADMINISTRATION

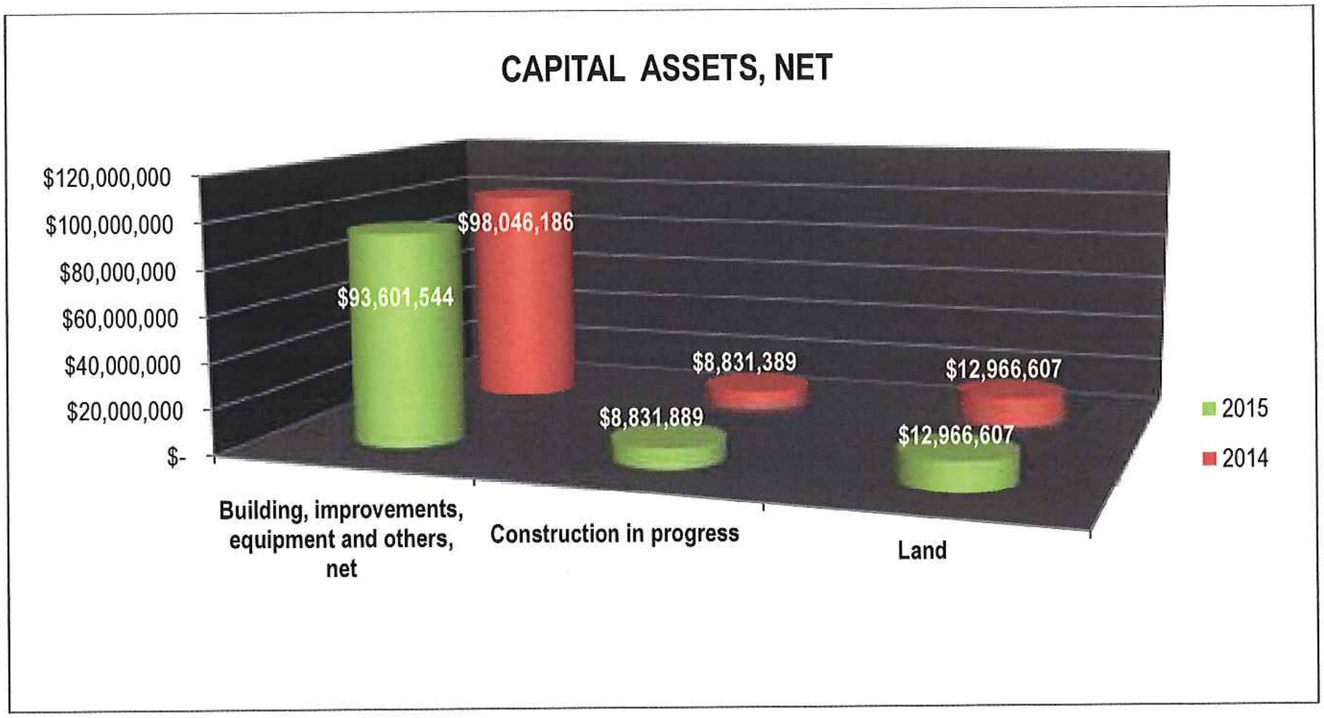
Capital Assets

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 2014-2015, the Authority had $115,400,040 invested in a broad range of capital assets (See Table 3). This amount represents a net decrease, including additions and deductions, of $4,444,142 over the prior year. The decrease in capital assets is mainly related to current year depreciation expense of $5,259,827.

TABLE-3 CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2015	2014	Variance
Land	$ 12,966,607	$ 12,966,607	$ -
Building, improvements, equipment and others, net	93,601,544	98,046,186	(4,444,642)
Construction in progress	8,831,889	8,831,389	500
Total Capital Asset	$115,400,040	$119,844,182	$ (4,444,142)

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)



Debt Administration

The decrease in total liabilities of $652,442 is mainly due to a decrease in accounts payables trade (including due to governmental agencies) of $684,725, an increase in accrued expenses of $2,663,485 and a decrease in total long-term debt by $2,587,192. The decrease in long-term debt was principally caused by the decrease in the line of credit balance of $2,165,753 and a decrease in voluntary termination benefits by $437,024.

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

During the fiscal year ended 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, to build the facilities that allowed the centralization of agencies related 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 the continuing of the development of infrastructure projects directly related with the disposition of solid waste in the Commonwealth of Puerto Rico.

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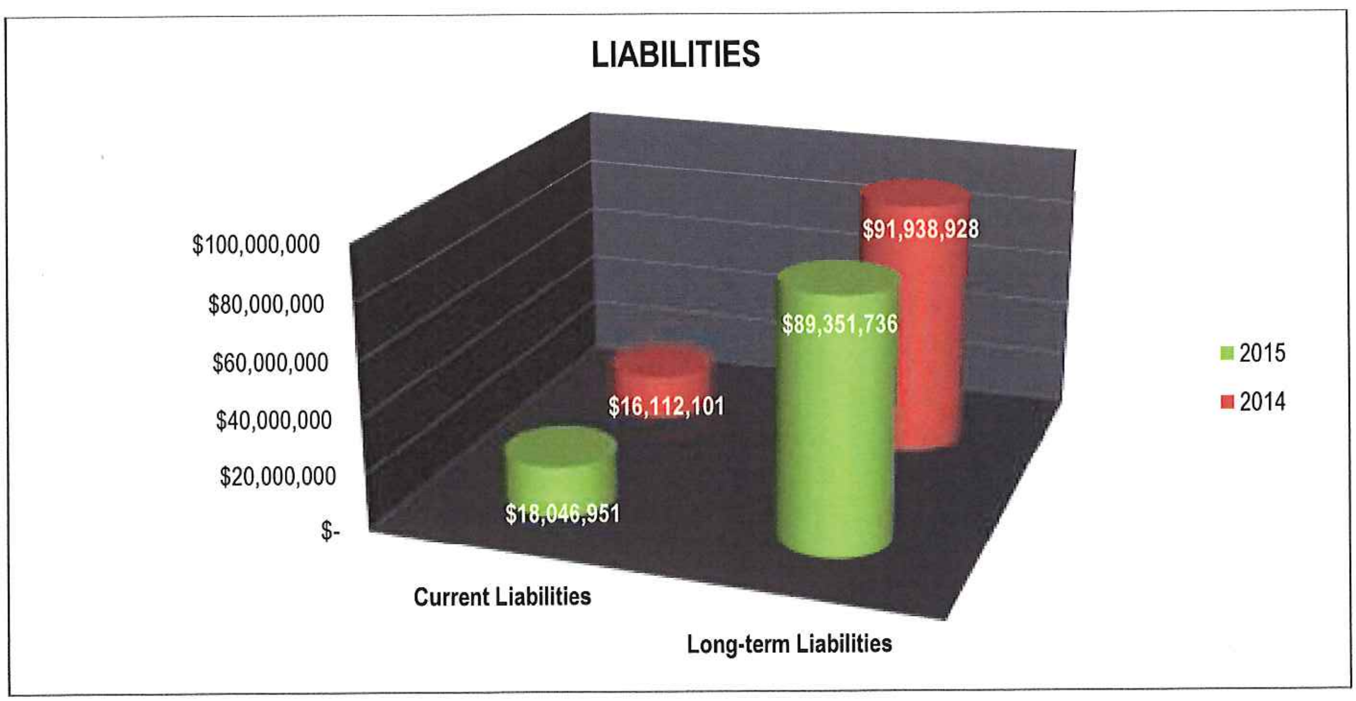
FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (Continued)

TABLE - 4 OUTSTANDING DEBT AT YEAR END

Current liabilities:	2015	2014	Variance
Accounts payable-trade, including due to governmental agencies	$ 9,178,121	$ 9,862,846	$ (684,725)
Accrued compensated absences	258,733	294,856	(36,123)
Accrued expenses	8,153,482	5,489,997	2,663,485
Voluntary termination benefits	456,615	464,402	(7,787)
Total current liabilities	18,046,951	16,112,101	1,934,750
Noncurrent liabilities:			
Bank credit lines	71,861,267	74,027,020	(2,165,753)
Bond payable	7,813,783	7,820,701	(6,918)
Accrued compensated absences	354,398	339,682	14,716
Voluntary termination benefits	4,781,171	5,210,408	(429,237)
Due to other governmental entities	4,541,117	4,541,117	-
Total noncurrent liabilities	89,351,736	91,938,928	(2,587,192)
Total liabilities	$ 107,398,687	$ 108,051,029	$ (652,442)



AUTHORITY'S BUDGET

For the fiscal year 2014-2015, the Authority's budget amounted to $5,724,000, and consisted of Commonwealth legislative resolution of $4,207,000, special state funds of $600,000 and other income of $917,000.

ADOPTION OF GASB STATEMENT NO. 68

The new GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27, was effective for the fiscal year ended June 30, 2015. This Statement requires participants of cost-sharing defined benefit pension plans that are administered through trusts that comply with certain criteria to recognize in their financial statements their proportionate share of the collective net pension liability, net pension expense and deferred outflows/inflows of resources related to pensions. The Authority's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not issued its audited financial statements for the fiscal year ended June 30, 2014 (the plan's measurement date), and as a result, the Authority could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 68. Consequently, the Authority's financial statements do not report or disclose the required information for its pension plan for the fiscal year 2014-15.

CONTACTING THE ADMINISTRATION FINANCIAL MANAGEMENT

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

Assets	
Current assets:	
Cash and cash equivalents	$ 3,296,652
Investments, at fair value	17,991,365
Accounts receivable, net of allowance for doubtful accounts	3,866,019
Restricted funds, cash and cash equivalents	8,792,498
Total current assets	33,946,534
Non current assets:	
Due from Commonwealth of Puerto Rico	404,621
Capital assets, net of accumulated depreciation	115,400,040
Investments in preferred stocks	500,000
Other assets	543,469
Total non-current assets	116,848,130
Total assets	$ 150,794,664
Liabilities and net position	
Current liabilities:	
Current portion of long-term obligations:	
Accrued compensated absences	$ 258,733
Voluntary termination benefits	456,615
Bond payable	228,958
Accounts payable, trade	2,916,217
Accrued liabilities	8,153,482
Due to governmental entities	6,261,904
Total current liabilities	18,275,909
Non-current liabilities:	
Lines of credit	71,861,267
Bond payable	7,584,825
Due to other governmental entities	4,541,117
Accrued compensated absences	354,398
Voluntary termination benefits	4,781,171
Total non-current liabilities	89,122,778
Total liabilities	107,398,687
Net position:	
Net investment in capital assets	43,538,773
Restricted for federal projects	125,591
Restricted for state projects	1,231,600
Unrestricted	(1,499,987)
Total net position	43,395,977
Total liabilities and net position	$ 150,794,664

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

Operating revenues	
Contract revenues	$ 2,615,159
Miscellaneous	11,342
Total operating revenues	2,626,501
Operating expenses	
Depreciation and amortization	5,259,827
Voluntary termination benefits	27,403
General and administrative	2,692,206
Salaries and fringe benefits	2,778,430
Educational campaign	347,254
Insurance	597,638
Repairs and maintenance	448,295
Rent	1,394
Other expenses	7,343
Total operating expenses	12,159,790
Operating loss before non-operating revenues (expenses)	(9,533,289)
Non-operating revenues (expenses)	
Interest and dividend income	370,314
Loss on disposition of capital assets	(9,123)
Interest expense	(5,586,271)
Capital and grant contributions from the Commonwealth of Puerto Rico	10,719,822
Total non-operating revenues (expenses)	5,494,742
Change in net position	$ (4,038,547)
Net position at beginning of fiscal year	47,434,524
Net position at end of fiscal year	$ 43,395,977

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	$ 1,495,065
Cash paid to suppliers	(5,777,466)
Cash paid for salaries and fringes	(2,368,809)
Cash received from other sources	11,342
Net cash used in operating activities	(6,639,868)
Cash flows provided by non-capital financing activities	
Contributions from the Commonwealth of Puerto Rico	10,719,822
Net cash provided by non-capital financing activities	10,719,822
Cash flows from capital and related financing activities	
Proceeds from credit lines and others	849,519
Purchase of property and equipment, and construction of property	(824,808)
Repayment of credit lines	(3,015,272)
Interest paid	(2,814,466)
Net cash used in capital and related financing activities	(5,805,027)
Cash flows from investing activities	
Interest and dividends received	370,314
Decrease on investments	91,805
Net cash provided by investing activities	462,119
Net decrease in cash and cash equivalents	(1,262,954)
Cash and cash equivalents at beginning of fiscal year	13,352,104
Cash and cash equivalents at end of fiscal year	$ 12,089,150
Reconciliation of operating loss to net cash used in operating activities	
Operating loss before non-operating revenues and contributions	$ (9,533,289)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:	
Depreciation and amortization	5,259,827
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(1,120,094)
Other assets	3,948
Increase (decrease) in liabilities:	
Accounts payable	(787,440)
Accrued liabilities	(462,820)
Total adjustments	2,893,421
Net cash used in operating activities	$ (6,639,868)
Reconciliation of cash and cash equivalents with the statement of net position	
Cash and cash equivalents- unrestricted	3,296,652
Cash and cash equivalents- restricted	8,792,498
Total cash and cash equivalents	$ 12,089,150

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 this 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 States 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 operations. Proprietary funds distinguish operating revenues and expenses as those that 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, which 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.

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 the disclosure 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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) Cash Equivalents

Cash equivalents 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 pledged as collateral, if any, are held by the Secretary of the Treasury of the Commonwealth.

i) 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.

j) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Investments (Continued)

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.

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.

j) 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
Buildings	30 years
Building improvements	30 years
Mini transfer stations	30 years
Airplanes	12 years
Project equipment	5 to 10 years
Vehicles	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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Capital Assets (Continued)

Impairment of Capital Assets (Continued)

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.

l) 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.

m) Accounting for Pension Costs

The Authority shall adopted the provisions of GASBS No. 68, *Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASBS No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* which amended GASBS No.68.

The Authority accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, the net pension liability, pension expense and deferred outflows/inflows of resources recognized in the accompanying basic financial statements shall be equal to the Authority's proportionate shares of the collective net pension liability, pension expense and collective deferred outflows/inflows of resources reported for the pension plans' trust by the plan's administrator as of the measurement date.

In addition, if the Authority's annual contributions are less than the statutorily required amounts, a liability is recorded for any unpaid balances.

For the purpose of applying the requirements of GASBS Nos. 68 and 71, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a multi-employer hybrid defined contribution plan in which the employees of the Authority participate.

The Authority is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Accounting for Pension Costs (Continued)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported by the ESR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Authority's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, the management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68.

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 Statement of Net Position, The Authority's net position is segregated into three categories:

a. **Net investment in capital assets:** Represents the component of the net position that consists 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, if any).

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 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 does not meet the definition of net investment in capital assets 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) Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two (2) items that may qualify for reporting in this category:

- **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on the Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
- **Deferred outflows/inflows of resources related to pensions** - Amounts reported for changes in calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between the Authority's contributions and proportionate share contributions; and e) Authority's contributions subsequent to the measurement date.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2015, cash unrestricted and restricted includes certain cash, cash equivalents, certificates of deposit, money market and others, as follows:

Unrestricted Cash and Equivalents

Cash	$ 3,296,652
Total	**$ 3,296,652**

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Restricted Cash and Equivalents

Development of Infrastructure Projects	$ 4,849,433
Financial Assistance	2,289,510
Other Programs	1,653,555
Total	**$ 8,792,498**

4. INVESTMENTS

The following reflects the amortized cost and estimated fair value of investments held as of June 30, 2015. In addition, gross unrealized gains and losses are as follow:

	Cost	Market Value	Unrealized Gain
CD Investment	$ 11,706,544	$ 11,706,544	$ -
Other Securities	6,054,148	6,284,821	230,673
Total	**$ 17,760,692**	**$ 17,991,365**	**$ 230,673**

The maturities of investments and their approximate market value as of June 30, 2015 were as follows:

	Cost	Market Value
Within one (1) year or less	$ -	$ -
After one (1) year through five (5) years	17,760,692	17,991.365
Total	**$ 17,760,692**	**$ 17,991,365**

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, 2015, the Authority's external investment did not have any securities exposed to custodial credit risk and there was no securities lending.

As of June 30, 2015, the balance of the investments in securities exceeds the insured limits but they have been placed in high credit standing institutions and Authority's management 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 does 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, 2015, accounts receivable consisted of the following:

Puerto Rico Department of Natural Environmental Resources	$ 6,363,607
Puerto Rico Environmental Quality Board	4,454,496
Other governmental entities	1,647,057
Municipalities	668,312
Others	2,639,034
Totals	15,772,506
Allowance for doubtful accounts	(11,906,487)
Totals	**$ 3,866,019**

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6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, were as follow:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 12,966,607	$ -	$ -	$ 12,966,607
Construction in progress	8,831,389	500	-	8,831,889
Total capital assets, not being depreciated	21,797,996	500	-	21,798,496
Capital assets, being depreciated:				
Buildings	93,979,993	-	-	93,979,993
Mini transfer stations	42,121,900	-	-	42,121,900
Project equipment	15,875,565	820,500	(4,463,432)	12,232,633
Building improvements	15,009,137	-	-	15,009,137
Furniture and fixtures	7,439,790	3,808	(157,330)	7,286,268
Vehicles	849,130	-	(373,123)	476,007
Leasehold improvements	262,629	-	-	262,629
Total capital assets, being depreciated	175,538,144	824,308	(4,993,885)	171,368,567
Less accumulated depreciation for:				
Buildings	(30,092,998)	(3,132,665)		(33,225,663)
Mini transfer stations	(18,752,942)	(1,404,368)		(20,157,310)
Project equipment	(15,753,229)	(180,864)	4,463,432	(11,470,661)
Building improvements	(4,395,029)	(500,304)		(4,895,333)
Furniture and fixtures	(7,386,001)	(41,626)	148,207	(7,279,420)
Vehicles	(849,130)	-	373,123	(476,007)
Leasehold improvements	(262,629)	-		(262,629)
Total accumulated depreciation	(77,491,958)	(5,259,827)	4,984,762	(77,767,023)
Total capital assets, being depreciated, net	98,046,186	(4,435,519)	(9,123)	93,601,544
Capital assets, net	**$ 119,844,182**	**$ (4,435,019)**	**$ (9,123)**	**$ 115,400,040**

Impairment Loss
Management evaluated the costs incurred in construction in progress and determined various projects to be impaired. The total impairment reserve amounted to $38,345,167 as of June 30, 2015.

6. CAPITAL ASSETS (Continued)

As of June 30, 2015, construction in progress, net of impairment loss reserve, consisted of the following:

Total construction in progress	$ 47,177,056
Reserve for impairment	(38,345,167)
Construction in progress, net as of June 30, 2015	**$ 8,831,889**

7. INVESTMENTS IN PREFERRED 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, 2015, 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 two (2) eligible 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, 2015.

The following summarizes the cost, preferences, special rights and restrictions of the preferred stocks as of June 30, 2015, 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

The balance due to governmental entities as of June 30, 2015, was as follows:

Puerto Rico Electric Power Authority	$ 5,783.929
Puerto Rico Aqueduct and Sewer Authority	175,105
Puerto Rico Department of Natural Environmental Resources	217,165
Retirement System Administration	49,094
Commonwealth's Employees Association	15,782
Puerto Rico Treasury Department	19,327
General Service Administration	1,502
Due to governmental entities – current	**$ 6,261,904**
State Insurance Fund Corporation	$ 4,541,117
Due to other governmental entities – long-term	**$ 4,541,117**

9. PENSION PLAN

General Information about the Pension Plan

As of June 30, 2015, regular employees of the Authority contribute to a cost-sharing multiple employer hybrid defined benefit and defined contribution retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation. The pension plan operates under Act No. 447 of May 15, 1951, as amended, Act No. 305 of September 24, 1999 (System 2000 Reform) and Act No. 3 of April 4, 2013.

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of $200 per month and a maximum of 75% of the average compensation. For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

9. PENSION PLAN (Continued)

Participants under the defined contribution plan established by Reform System 2000 will receive a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return. New participants under the hybrid plan established by Act No. 3 will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The minimum monthly pension for current retirees is $500.

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of $5,000. Therefore, the maximum monthly employee contribution will be $12.50 ($5,000 x .25%).

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to **$444,475**.

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Authority's AUC for the fiscal year 2014-15, amounted to **$66,488**.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

As stated in the provisions of the GASB Statements No. 67 and 68, ESR is required, as the pension plan's administrator, to provide to each of its participating employers audited actuarial and financial information used in the calculation of their proportionate share of the plan's net pension liability, pension expense and deferred outflows/inflows of resources related to pensions as of the measurement date. For the fiscal year ended June 30, 2015, the measurement date is June 30, 2014. In addition, the ESR has to provide all the required actuarial and historical data to be reported in the notes to the financial statements of the Authority and as Required Supplementary Information (RSI).

However, the ESR has not provided to the Authority the required audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. The ESR has informed its participating employers that the audited actuarial and financial data will be available in a future date during the calendar year 2016. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Authority's governmental activities cannot be determined at this time.

10. POSTEMPLOYMENT BENNEFITS

In addition to the pension benefits described in Note 9, the Authority is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Authority is required to finance costs related to the application of certain laws issued by the Commonwealth Government. Those laws granted increases in pensions and other benefits to retired employees of the Authority such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 eliminated certain laws benefits to future retirees.

For the year ended June 30, 2015, the Authority does not made any payments related to these post-employment benefits.

11. ACCRUED LIABILITIES

The balance of accrued liabilities as of June 30, 2015, was as follows:

Interest payable on lines of credit	$ 8,054,737
Bonus payable	51,672
Other accrued liabilities	47,073
Total accrued liabilities at end of year	**$ 8,153,482**

12. CREDIT LINES

On January 4, 2000, the Authority entered into a loan agreement with the Government Development Bank for Puerto Rico (GDB) 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 GDB 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 originally was due 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 it was extended to June 30, 2018. On June 27, 2012, it was extended to June 30, 2040. Per approved budget of the Commonwealth of Puerto Rico for the fiscal year 2001-2002, 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, 2015 amounted to **$27,934,621**.

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 GDB 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 Commonwealth of Puerto Rico, on January 29, 2010 the availability of the credit line was extended to June 30, 2018. On June 19, 2012 it was extended to June 30, 2040.The outstanding balance at June 30, 2015 amounted to **$43,926,644**.

12. CREDIT LINES (CONTINUED)

The Credit lines activity for the year ended June 30, 2015, was as follows:

Non-revolving credit line of $112,000,000:	
Balance at beginning of year	$ 28,250,858
Additions	849,519
Payments	(1,165,756)
Balance at end of year	**$ 27,934,621**
Non-revolving credit line of $75,000,000:	
Balance, beginning of year	$ 45,776,162
Payments	(1,849,516)
Balance at end of year	**$ 43,926,646**
Total line of credit balances at end of year	**$ 71,861,267**

13. 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 Puerto Rico 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 GDB 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.

The bond discount/premium 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 continued to be deferred throughout the remaining term of the non-refundable portion of the bonds. The aggregate debt service requirements of the refunding and non-refundable bonds will be funded with annual appropriations from the Commonwealth.

13. BOND PAYABLE (CONTINUED)

During the year ended June 30, 2012, the 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, 2015 was **$7,813,783** 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 PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the PFC of the PFC Bonds serviced by the bond to the aggregate amount paid by the PFC on all PFC Bonds issued by the PFC. The bonds will be paid from legislative appropriations.

In addition, 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, in the prior fiscal year, due from PFC was decreased for the portion applicable for the interest payment of bond 2011 Series B, for approximately **$179,652** and bond 2012 Series A, for approximately **$71,693**.

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

Year ending June 30,	Principal	Interest	Totals
2016	$ 228,958	$ 428,711	$ 657,669
2017	185,735	422,188	607,923
2018	192,140	415,116	607,256
2019	199,333	407,271	606,604
2020	207,315	398,772	606,087
2021-2025	1,037,601	1,855,026	2,892,627
2026-2030	4,982,197	1,113,199	6,095,396
2031	744,617	20,477	765,094
Total	7,777,896	$ 5,060,760	$ 12,838,656
Add: Premiums on bond refunding	35,887	-	35,887
Total	$ 7,813,783	$ 5,060,760	$ 12,874,543

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14. ACCRUED COMPENSATED ABSENCES

The vested compensated absences liability balance at June 30, 2015 consists of the following activity:

	Balance as of June 30, 2014	Net Change	Balance as of June 30, 2015	Due within One year
Accrued vacations and sick leave	$ 634,538	$ (21,407)	$ 613,131	$ 258,733

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.

Economic incentives were available to eligible employees who had less than 15 years of credited service or who had at least 30 years of credited services and the age for retirement; or for those who have the age for retirement. Economic incentives consisted of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that chose the economic incentive and had less than 15 years of credited service were 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 is the recognition within the Authority's financial statements of a liability of **$5,237,786** in the Statement of Net Position as of June 30, 2015 and a charge of **$27,403** in the Statement of Activities for the year ended June 30, 2015. At June 30, 2015, unpaid long-term benefits granted on this program were discounted at 3.34%.

The voluntary termination benefits liability balance at June 30, 2015 consists of the following activity:

	Balance as of June 30, 2014	Net change	Balances of June 30, 2015	Due within One year
Accrued voluntary termination benefits	$ 5,674,810	$ (437,024)	$ 5,237,786	$ 456,615

16. 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, 2015, 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 Municipality 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 30, 2015, 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.

16. 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.

17. COMMITMENTS

a) Strategic Plan for Recycling

The Authority initiated in years prior to the year ended June 30, 2014, 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 June 2015, the Authority updated the line of credit drawdown schedule and presented disbursements projections for infrastructure projects from July 2015 through June 2016. Total estimated costs amounting to **$29,519,343** 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 include 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.

18. CONCENTRATION CREDIT RISK

a) Cash and Cash Equivalents

As of June 30, 2015, the Authority had all of its cash deposited with GDB for $12,089,150 which is unsecured and uncollateralized. This amount is uncollateralized since by law, the Governmental Development Bank for the Commonwealth of Puerto Rico is 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, 2015 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.

19. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued the following accounting standards that have effective dates after June 30, 2015 for the Authority:

- **GASB Statement No. 72, Fair Value Measurement and Application:** The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value applications guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concept Statements No. 6, *Measurement Elements of Financial Statements*, and other relevant literature. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

- **GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement and Amendments to Certain Provisions of GASB Statements 67 and 68:** The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement established requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016.

19. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans:** The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.*

  It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans an Notes Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016.

- **GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions:** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about the financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement 57, *OPEB Measurements by Agent Employers and Agent Multi-Employers Plans, for OPEB*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017.

- **GASB No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments:** The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy consists of the sources of accounting principles used to prepare the financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the authoritative of GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015.

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19. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB No. 77, Tax Abatement Disclosures:** Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bonds analysts, and others with information they need to evaluate the financial health of governments., makes decisions, and assess accountability. Accordingly, financial statement users need information about certain limitations on government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

  For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

  This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

  Also, tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated.

  The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015.

The impact of the implementation of these statements on the Authority's financial statements, if any, has not yet been determined.

20. SUBSEQUENT EVENTS

Subsequent events were evaluated through December 28, 2015, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except as noted in the following paragraphs.

20. SUBSEQUENT EVENTS (CONTINUED)

Puerto Rico Fiscal and Economic Growth Plan

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth's projected financing gaps. In order to ensure compliance with the FEGP measures, the Working Group proposes the implementation of a Control Board and new budgetary regulations, pursuant to proposed legislations known as the Fiscal Responsibility and Economic Revitalization Act (FRERA). The reform measures proposed by the FEGP, including the creation of the Control Board, have been submitted to the Commonwealth Legislature for review and final approval.

Application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its Instrumentalities

A law project has been submitted to the Congress of the United States of America requesting the application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its instrumentalities. The benefits available under Chapter 9 would permit the Commonwealth to restructure its debt with its bondholders, with the purpose of decreasing the interest costs and debt service requirements that consume a significant part of the Commonwealth's operating budget. During the past months, the Governor and Resident Commissioner of Puerto Rico have been persistently lobbying for the approval of this law project, including various public hearings in Congress, arguing that the Commonwealth will incur in a default of its debt service requirements for the fiscal year 2015-16 citing that both the Governmental Development Bank of Puerto Rico and the Puerto Rico Treasury Department are suffering from severe cash flow shortfalls that put in jeopardy the fulfillment of their debt obligations. The continuing economic and fiscal crisis of the island will seriously affect the amount and quality of services provided to the citizenry and the amount of subsidies and funds provided by the state to the municipalities.