INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Delaware Solid Waste Authority
Dover, Delaware

We have audited the accompanying balance sheets of the Delaware Solid Waste Authority as of June 30, 2003 and 2002, and the related statements of revenues and expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware Solid Waste Authority as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Elko & Associates Ltd.

August 21, 2003

	June 30, 2003	June 30, 2002
ASSETS		
CURRENT ASSETS		
Cash on hand and in banks — Note 2(A)	$ 628,870	$ 467,833
Investments — Note 2(B)	53,479,787	24,364,237
Prepayments and miscellaneous receivables	324,311	257,334
Accounts receivable (less reserve for doubtful accounts of $110,000 and $164,185)	4,760,803	4,339,741
Total Current Assets	59,193,771	29,429,145
RESTRICTED ASSETS		
Cash — trust funds	–	28,257
Investments — Note 2(B)	–	54,256,497
Interest receivable	–	272,103
Total Restricted Assets	–	54,556,857
PROPERTY, PLANT AND EQUIPMENT — Note 4		
Land	19,981,612	19,915,344
Land improvements	114,313,365	114,167,317
Buildings	36,377,125	36,364,939
Equipment and furniture	7,516,761	9,547,743
Vehicles	1,096,430	1,056,576
Total	179,285,293	181,051,919
Less: Accumulated depreciation	103,667,254	98,221,327
	75,618,039	82,830,592
Construction in Progress — Note 4	11,924,707	1,966,867
Total Property, Plant and Equipment	87,542,746	84,797,459
OTHER ASSETS		
Bond issuance costs	–	195,996
Total Other Assets	–	195,996
TOTAL ASSETS	$146,736,517	$168,979,457

The accompanying notes are an integral part of these statements.

	JUNE 30, 2003	JUNE 30, 2002
LIABILITIES AND AUTHORITY'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,684,361	$ 2,391,023
Contracts payable, including retainage	1,195,980	–
Refundable security deposits	53,829	51,735
Accrual for compensated absences	412,114	406,536
Other accrued expenses	230,488	205,213
Accrual for landfill closure and post closure care costs — current portion — Note 5	350,000	320,500
Contract rebate payable — Note 10	9,347,194	9,439,028
Total Current Liabilities	14,273,966	12,814,035
CURRENT LIABILITIES (Payable from Restricted Assets)		
Current portion of bonds payable — Note 6(A)	–	11,383,993
Contracts payable, including retainage	–	683,663
Accrual for bond interest	–	1,005,650
Total Current Liabilities (Payable from Restricted Assets)	–	13,073,306
LONG-TERM OBLIGATIONS		
Bonds payable — Note 6(A)	–	25,998,657
Deferred revenue — Note 6(C)	881,935	878,584
Accrual for landfill closure and post closure care costs — Note 5	40,286,663	36,640,768
Total Long-Term Debt	41,168,598	63,518,009
Total Liabilities	55,442,564	89,405,350
CONTINGENT LIABILITIES		
AUTHORITY'S EQUITY		
Contributed capital — capital grants	47,899,037	47,899,037
Retained Earnings		
Unreserved, designated	16,355,940	15,363,359
Unreserved, undesignated	27,038,976	16,311,711
Total Retained Earnings	43,394,916	31,675,070
Total Authority's Equity	91,293,953	79,574,107
TOTAL LIABILITIES AND AUTHORITY'S EQUITY	$146,736,517	$168,979,457

The accompanying notes are an integral part of these statements.

DELAWARE SOLID WASTE AUTHORITY
STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN RETAINED EARNINGS

	FOR THE YEARS ENDED JUNE 30, 2003	2002
OPERATING REVENUE		
Net user fees: Solid waste	$ 45,789,823	$ 43,723,283
Other income	1,404,725	770,108
Total Operating Revenue	47,194,548	44,493,391
OPERATING EXPENSES		
Salaries and related costs	5,113,418	4,909,506
Professional services	623,100	964,191
Travel	66,414	84,793
Supplies and materials	929,755	907,940
Utilities	651,162	557,517
Contractual services	14,359,640	12,669,263
Landfill closure and post closure care costs	4,179,177	4,339,981
Depreciation expense	7,324,295	7,503,767
Total Operating Expenses	33,246,961	31,936,958
EXCESS OPERATING REVENUES OVER EXPENSES	13,947,587	12,556,433
NON-OPERATING REVENUE		
Net investment income	2,055,632	2,780,211
Miscellaneous income	–	25,928
Total Non-Operating Revenue	2,055,632	2,806,139
NON-OPERATING EXPENSES		
Bond interest expense	637,752	2,159,435
Other interest expense	–	3,022
Amortization of bond issuance costs	50,864	106,715
Other non-operational expenses	144,870	251,755
Loss on defeasance of 1995 bond issue — Note 6(B)	2,049,771	–
Total Non-Operating Expenses	2,883,257	2,520,927
EXCESS REVENUES OVER EXPENSES BEFORE RECOGNITION OF IMPAIRMENT OF ASSETS TO BE DISPOSED OF	13,119,962	12,841,645
CUMULATIVE EFFECT OF APPLICATION OF FASB 144 FOR IMPAIRMENT OF ASSETS TO BE DISPOSED OF — Note 1 and Note 12	(1,400,116)	–
EXCESS REVENUES OVER EXPENSES*	11,719,846	12,841,645
RETAINED EARNINGS — BEGINNING OF YEAR	31,675,070	18,833,425
RETAINED EARNINGS — END OF YEAR	$ 43,394,916	$ 31,675,070

* Excess revenue over expenses is not an indication of net cash retained. Deductions for other expenditures such as bond redemption and capital expenditures resulted in cash retained of $132,780 in 2003 and $95,952 in 2002. See Page 8.

The accompanying notes are an integral part of these statements.

DELAWARE SOLID WASTE AUTHORITY
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED JUNE 30, 2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess revenues over expenses	$ 11,719,846	$ 12,841,645
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities		
Depreciation	7,324,295	7,503,767
Amortization of bond issuance costs	195,996	149,602
Loss from impairment of machinery and equipment	1,400,116	–
Provision for doubtful accounts	80,365	146,875
Loss on disposition of property, plant and equipment	149,551	(2,933)
Gain on sale of investments	(400,947)	(248,617)
Loss on bond defeasance	2,049,771	–
Loss on retirement of debt	–	163,998
(Increase) decrease in accounts receivable	(501,427)	190,721
Decrease in accounts receivable — City of Wilmington	–	164,868
Decrease in interest receivable	272,103	155,540
(Increase) decrease in prepayments and miscellaneous receivables	(66,977)	199,479
Increase (decrease) in accounts payable	293,338	(429,368)
Increase in refundable security deposits	2,094	2,000
Decrease in accrued bond interest	(1,005,650)	(848,346)
Increase in accrual for compensated absences	5,578	21,632
Increase in other accrued expenses	25,275	15,707
Increase in accrual for landfill closure and post closure care costs	3,675,395	3,008,535
Increase (decrease) in contract rebate payable	(91,834)	1,383,184
Increase in contracts payable	512,317	293,022
Increase in deferred revenue	3,351	9,344
Total Adjustments	13,922,710	11,879,010
Net Cash Provided by Operating Activities	25,642,556	24,720,655
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	–	9,000
Proceeds from sale of investments	25,541,894	12,448,900
Purchase of property, plant and equipment	(10,219,133)	(9,031,824)
Net Cash Provided by Investing Activities	15,322,761	3,426,076
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Redemption and defeasance of revenue bonds	(40,832,537)	(27,916,723)
Net borrowing and lease obligations	–	(134,056)
Net Cash Used in Financing Activities	(40,832,537)	(28,050,779)
NET INCREASE IN CASH	132,780	95,952
CASH — BEGINNING OF YEAR (Unrestricted and Restricted)	496,090	400,138
CASH — END OF YEAR (Unrestricted and Restricted)	$ 628,870	$ 496,090
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the years for interest	$ 1,712,730	$ 3,273,775

The accompanying notes are an integral part of these statements.

DELAWARE SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

Note 1 Summary of Significant Accounting Policies

(A) Reporting Entity

The Delaware Solid Waste Authority (the "Authority") is a body politic and corporate constituting a public instrumentality of the State of Delaware established and organized in 1975 under Delaware Code, Title 7, Chapter 64.

The Authority has been designated by the State of Delaware, under this act, as the sole entity, governmental or private, with the responsibility for planning and implementing solid waste, sewage sludge and resource recovery programs and facilities throughout Delaware in accordance with the Statewide Plan for Solid Waste Management.

The Authority is governed by a Board of Directors consisting of seven directors, who are appointed by the Governor with the advice and consent of the Senate.

Currently, the Authority's operations consist of solid waste management facilities in each of Delaware's three counties and it has consolidated the financing and operation of its solid waste disposal facilities into a unitary Statewide system.

(B) Basis of Presentation

The accounts of the Authority are organized and operated entirely as an Enterprise Fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Authority is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user fees.

(C) Restricted Assets

Restricted assets include cash, investments and interest receivable on these investments. These assets are restricted pursuant to various indenture agreements.

(D) Property, Plant and Equipment

All property, plant and equipment are valued at their historical costs. Depreciation is computed over the estimated useful lives of the assets using the straight-line method and is charged to operating expenses. The depreciation expense for the years ended June 30, 2003 and 2002 was $7,324,295 and $7,503,767, respectively. The following useful lives are used to compute depreciation:

Land Improvements	3-20 years
Buildings	5-40 years
Equipment and Furniture	3-20 years
Vehicles	3-5 years

Expenditures for repairs and maintenance are charged to operating expense. The costs of significant improvements and renewals are capitalized. When retired or otherwise disposed of, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference, less any amount realized from disposition, is reflected in net earnings.

It is the Authority's policy to capitalize net interest costs on funds borrowed to finance the construction of fixed assets. For the years ended June 30, 2003 and 2002, the total interest expense was $637,752 and $2,372,728, respectively. No interest cost was capitalized in connection with construction in progress for the year ended June 30, 2003. Net interest cost of $210,271 was capitalized in connection with construction in progress for the year ended June 30, 2002. The Authority's policy is in accordance with the Statement of Financial Accounting Standards #62 which requires the capitalization of interest cost of restricted tax exempt borrowing less any interest earned on investment of the proceeds of this borrowing during the construction period.

(E) Compensated Absences

Vacation and sick leave pay are recorded as an expense when earned by the Authority's employees. As of June 30, 2003 and 2002, accrued vacation and sick leave aggregated $412,114 and $406,536, respectively, and is based on the following criteria.

Employees' unused vacation leave is accumulated to a maximum of two years earned. Upon retirement or termination, employees are paid for all unused accumulated vacation leave at their final rate of pay. The accrued liability is based upon the full amount of accumulated vacation leave.

Employees' unused accumulated sick leave can be used up to the total amount accumulated for future sickness. In the event of termination due to lack of work, employees hired after January 1, 1992 will be paid at the rate of one day for every two days accumulated to the maximum of 90 days at their final rate of pay. In the event of death, employees hired after January 1, 1992 will be paid at the rate of one day for each day accumulated to the maximum of 90 days at their final rate of pay. Employees hired before January 1, 1992 will be paid for every day accumulated with no limitation, at their final rate of pay. Upon retirement, payment shall be made at the rate of one day per each day of unused sick leave accumulated to the maximum of 90 days for all employees despite their hire date. Upon voluntary termination, the employee will forfeit all accumulated sick leave. The Authority has consistently accrued sick leave for only those employees for whom retirement is impending. The accrued liability is based upon the sick leave that would be paid upon impending retirement only.

(F) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

(G) Impairment of Long-Lived Assets to be Disposed of

The Authority has adopted Statement #144 of the Financial Accounting Standards Board (FASB), "Accounting for the Impairment or Disposal of Long-Lived Assets". As prescribed by this statement, long-lived assets which are to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The excess of carrying amount over the fair value less cost to sell is reported as an impairment loss.

The effect of adopting FASB #144 is the recognition of an impairment loss of $1,400,116 for the year ended June 30, 2003 (See Note 12).

Note 2 Cash and Investments

(A) Cash Deposits

At June 30, 2003, the Authority's cash on hand and in banks is categorized as follows:

Petty cash	$ 4,571
Deposits insured by the FDIC and FSLIC, or collateralized by various U.S. Treasury and other government agency securities held by the Depository in the Authority's name	572,449
Uncollateralized deposits	51,850
Cash on hand and in bank	$628,870

The Authority's deposits were collateralized by $472,449 FHR2102 QH CUSIP #3133THGJO maturing June 15, 2023. This security was priced at 100.28305 with a market value of $473,786 at June 30, 2003.

(B) Investments and Investment Risk

The Authority's investments are in U.S. Treasury Notes, U.S. Treasury Bills, U.S. Treasury Notes State and Local Government, Wilmington U.S. Government Mutual Funds, various U.S. Government agency securities and Corporate Bonds and Notes. The investments are carried at cost. It is the Authority's policy generally to hold investments until maturity.

The Authority's investments are categorized as follows to give an indication of the level of risk assumed by the Authority at year end: Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Authority's name. The Authority has no investments that would be included in Category 3.

The Authority's investments are summarized as follows:

	2003		2002	
	Carrying Value	Market Value	Carrying Value	Market Value
U.S. Treasury Obligations (Category 1)	$ 7,356,308	$ 7,498,665	$ 8,218,841	$ 8,363,550
U.S. Government Agency Bonds and Notes (Category 1)	21,240,088	21,645,099	24,539,396	24,817,233
Wilmington U.S. Government Mutual Funds (Category 2)	11,296,700	11,296,700	23,856,447	23,856,447
Corporate Bonds and Notes (Category 2)	13,586,691	13,711,236	22,006,050	22,123,165
Total Investments	$53,479,787	$54,151,700	$78,620,734	$79,160,395

Note 3 Accounts Receivable/Rebate Payable–City of Wilmington

On October 23, 1979, the Authority and the City of Wilmington entered into an Agreement for the processing of sewage sludge. In order to process solid waste and sewage sludge, the Authority issued Revenue Bonds to construct the Delaware Reclamation Plant (DRP). The City of Wilmington paid the Authority for the operational costs of the Sewage Sludge Processing Module (SSPM), plus the debt service attributed to that module.

Because of actions taken by the Delaware Department of Natural Resources and Environmental Control (DNREC), normal operations of the Sewage Sludge Processing Module were suspended as of May 10, 1993.

The Authority and the City of Wilmington negotiated a Restated Sludge Agreement that was approved by Resolution of City Council on September 18, 1997, which terminated the original Agreement between the parties. The terms of the Restated Agreement require the City to continue to pay the debt service on the SSPM. Initially, this payment was approximately $1,673,000 annually, through fiscal year ending June 30, 2003. Due to the early redemption of the remaining 1990 A Bonds, the annual payments for the fiscal years ended June 30, 2003 and June 30, 2002, amount to $1,618,878 and $1,566,500, respectively. The effect of this adjustment reduces the City's total payment from $11,711,548 to $11,550,791. As of June 30, 2003, the City has fulfilled its debt service obligation on the SSPM.

During this period the Delaware Solid Waste Authority will not charge the City any service fees for the disposal of its processed sewage sludge. For a ten-year period beyond 2003, the City will not be charged any service fees for disposal of stabilized sludge that is utilized by the Delaware Solid Waste Authority for landfill operations. On July 1, 1997, the City began reimbursing the Delaware Solid Waste Authority for the cost of Capital Improvements to the Sewage Sludge Processing Module paid to the Raytheon Service Company. Payments at the rate of $25,439 per month will continue until the cost of $2,340,478 has been reimbursed.

Note 4 Property, Plant and Equipment

A summary of net changes in property, plant and equipment for the year ended June 30, 2003 is as follows:

	July 1, 2002	Completed Additions	Deletions	June 30, 2003
Land	$ 19,915,344	$ 66,268	$ –	$ 19,981,612
Land Improvements	114,167,317	534,097	388,049	114,313,365
Buildings	36,364,939	30,696	18,510	36,377,125
Equipment and Furniture	9,547,743	723,256	2,754,238	7,516,761
Vehicles	1,056,576	167,337	127,483	1,096,430
Totals	$181,051,919	$1,521,654	$3,288,280	$179,285,293

The status of the Authority's construction in progress at June 30, 2003 is as follows:

	Expected Completion Date		
Northern Solid Waste Facility			
–Site Improvements	October 2003	$3,326,170	
–Site Improvements-Pine Tree	May 2004	3,774,472	
–Landfill Design	June 2006	3,413,236	
–Road Construction	Ongoing	210,945	
–Preliminary Costs-Land Acquisition		10,008	
Total			$10,734,831
Central Solid Waste Facility			
–Area A/B Capping	April 2005	36,651	
–Preliminary Costs-Land Acquisition		92,352	
Total			129,003
Southern Solid Waste Facility			
–Cell 1 Capping	Ongoing	12,884	
–Cell 2 Capping	Ongoing	42,615	
–Resort Transfer Station	March 2004	591,140	
–Milford Transfer Station	March 2004	411,953	
Total			1,058,692
Renovating — Administration Building	August 2003		2,281
TOTAL CONSTRUCTION IN PROGRESS			$11,924,707

Note 5 Landfill Closure and Post Closure Care Costs

On October 9, 1991, the U. S. Environmental Protection Agency issued its rule, "Solid Waste Disposal Facility Criteria". This rule establishes closure requirements, location restrictions, operating criteria, design criteria, groundwater monitoring and corrective action requirements, post closure care requirements and financial assurance requirements for Municipal Solid Waste Landfills. State governments are primarily responsible for establishing state legislation and related permit programs to implement and enforce the EPA rule and have been given flexibility to tailor requirements to accommodate the wide variety of local conditions that exist.

In addition to operating expenses related to current activities of the landfills, an expense provision and related liability are being recognized based on the future closure costs that will be incurred near or at the date of closure and the post closure care costs at each site for thirty years after closure. The Authority reports a portion of these closure and post closure care costs as an operating expense each year based on landfill capacity used during the year. Accrued landfill closure and post closure care costs, $40,636,664 as of June 30, 2003 and $36,961,268 as of June 30, 2002, represent the cumulative amount reported based on the estimated percentage of landfill capacity used as of those dates. The Authority will recognize the remaining estimated cost of closure and post closure care of $75,712,910 as the remaining estimated capacity is filled. The estimated total current cost of the landfill closure and post closure care of $116,349,573 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of June 30, 2003. However, the actual cost of closure and post closure care may be higher due to inflation, changes in technology, or in landfill laws and regulations. The following is a summary of the Authority's landfills as of June 30, 2003:

Landfill	**Estimated Capacity Used**	**Cumulative Remaining Life**	**Accrued Costs**	**Costs to be Recognized in the Future**
Cherry Island	79.73%	3.2 years	$19,918,039	$ 5,400,990
Central	25.29%	59 years	4,900,291	39,379,786
Southern	29.74%	33 years	11,443,333	30,932,134
Pigeon Point	100.00%	Closed 1985	4,375,000	–
Total			$40,636,663	$75,712,910

The current available remaining capacity of Phase III, IV and V of the Cherry Island Landfill is 1,843,050 tons. This will provide approximately 3.2 years of remaining life to the landfill.

The Authority has a contract with GeoSyntec Consultants to design a system to provide a minimum additional 17,350,000 tons of capacity in Phase III, IV and V. This will extend the cumulative remaining life of the Cherry Island Landfill an additional thirty (30) years.

In addition, in August 2000, the Authority acquired access to additional adjacent land from the U. S. Army Corps of Engineers. This, known as Phase VI, VII and VIII, is projected to add an additional 13,500,000 tons of capacity to the Cherry Island Landfill extending the cumulative remaining life by another twenty-four (24) years. The Authority will have access to this property only after the U. S. Army Corps of Engineers has finished using the site for their dredge spoil disposal activity. It is currently estimated that the Authority will have access to this property in 2010.

Management has increased its estimate of the capacity of Cell 3 of the Southern landfill from 996,400 tons to 1,032,200 tons. This increase is based on actual tonnage placed within the landfill being higher than originally estimated. The additional 35,800 tons of capacity also increases the total site capacity from 9,091,435 tons to 9,127,235 tons and extends its projected remaining life to 33 years, ending in 2036.

A summary of the current year expenditures and accruals is as follows:

	Total	Cherry Island	Central	Southern	Pigeon Point
Balance of accrual, July 1, 2002	$36,961,268	$17,816,598	$4,337,802	$10,480,118	$4,326,750
Current year expenditures:					
Closure costs	(86,245)	–	–	(86,245)	–
Post closure costs	(417,536)	–	–	–	(417,536)
Net Accrual	36,457,487	17,816,598	4,337,802	10,393,873	3,909,214
Balance of accrual, June 30, 2003	40,636,663	19,918,039	4,900,290	11,443,334	4,375,000
Net closure and post closure care costs recognized in current year	$ 4,179,176	$ 2,101,441	$ 562,488	$ 1,049,461	$ 465,786

Included in the computation of Landfill Closure and Post Closure Care Costs as of June 30, 2003, are closure costs for: (1) Pine Tree Corner Transfer Station of $5,100; (2) Cheswold Collection Station of $2,200; and (3) Ellendale, Long Neck, Omar, and Bridgeville Collection Stations, each totaling $1,550. Closure costs for the Pigeon Point Transfer Station of $11,900.

Note 6 Long-Term Debt

(A) Bonds Payable

A summary of the Authority's Solid Waste System Revenue Bonds along with the respective future debt service requirements is as follows:

– Solid Waste System Revenue Bonds, Series of 1992, were issued to provide funds for the Authority's capital improvement program including the design and construction of Phase IV of the Cherry Island Landfill, the construction of the Area D expansion, site development, a spray irrigation program and a leachate evaporation and incineration project all for the Central Solid Waste Management Center, and the engineering, design and construction of an Infectious Waste Facility, and are payable solely from and secured solely by the Revenues derived by the Authority from the disposal of System Solid Waste generated in the State of Delaware, subject to the prior payment of Operating Expenses, and by certain funds pledged under the Trust Indenture. These bonds matured July 1, 2002. Principal retirements amounted to $5,590,000 with interest.

– Solid Waste System Revenue Bonds, Series of 1995, were issued to fund a portion of the Current Capital Improvement Program which includes improvements to the Authority's Northern, Central and Southern Solid Waste Management Centers and renovations to an energy generating facility and are payable solely by the revenues derived by the Authority from the disposal of System Solid Waste generated in the State of Delaware, subject to the prior payment of Operating Expenses, and by certain funds pledged under the Trust Indenture.

On March 10, 2003, the Authority funded an escrow fund (the "Escrow Fund") to be held by the escrow agent, Wilmington Trust Company, which provides for the payment of 100% of the remaining debt service on the Authority's Solid Waste System Revenue Bonds, Series of 1995. As a result, the 1995 bonds are no longer deemed to be outstanding under the Authority's Trust Indenture, dated January 1, 1990, and therefore, the lien of the 1990 Indenture has been defeased, and the Authority no longer has any outstanding debt.

Additionally, the Authority paid the United States Treasury approximately $678,769 in 2000 as a rebate of the positive arbitrage it had earned on the proceeds of the 1995 bonds, and the Authority's arbitrage rebate report indicated that as of June 30, 2002, the Authority had earned an additional $387,575 of positive arbitrage which would have to be rebated in 2005. As a result of the negative arbitrage generated by the Escrow Fund, the Authority will be able to recoup the positive arbitrage earned during earlier periods. These two items provide a total benefit to the Authority of approximately $1,066,344, an amount that largely eliminates the negative arbitrage generated by the Escrow Fund. This return of funds and avoidance of additional arbitrage may not have occurred if not for the Authority's defeasance of the 1995 bonds.

(B) Refunded Bonds

Pursuant to the Governmental Accounting Standards Board Statement #7, "Advance Refundings Resulting in Defeasance of Debt", the Authority does not report defeased/refunded bond funds on its balance sheet.

As of June 30, 2003, the Authority had two outstanding refunded bond issues which were originally reported on its balance sheet. The payment of principal and interest on these bond issues is the responsibility of the escrow agent, the Wilmington Trust Company. The following is the schedule of refunded bonds outstanding as of June 30, 2003:

Refunded Issue	**Date of Issue**	**Amount Outstanding**	**Refunding Issue**
Landfill Refunding Revenue Bonds Series of 1987	3/1/87	$ 2,845,000	Solid Waste System Refunding Revenue Bonds Series B of 1990
Solid Waste System Revenue Bond Series of 1995	11/15/95	$25,965,000	Cash Defeasance

On March 10, 2003, the Authority entered into an escrow agreement with Wilmington Trust Company (the "Escrow Agent") in order to affect an in-substance defeasance of the Solid Waste System Refunding Revenue Bonds, Series of 1995. Required funds were deposited into an irrevocable trust to be used exclusively to service the future debt requirements of the bonds. Cash reserves and the debt service reserve fund were sufficient to fund these required deposits and, therefore, a new bond issue was deemed unnecessary. The transaction costs of this cash defeasance plus the required funds deposited into the escrow account over the book value of the debt at the time of the defeasance amount to $2,049,771.

(C) Deferred Revenues

On February 1, 1990, the Authority entered into an agreement with the Delmarva Power Company which allowed Delmarva Power Company to dispose at the Authority's designated landfill areas up to 72,000 wet tons of fly ash product per year until a total of 1,440,000 wet tons is reached over a period of not less than twenty years and not more than thirty years. In exchange for this right, the Authority received 37.73 acres of land adjacent to the Cherry Island landfill. This land was independently appraised at $864,250 and has been capitalized and included in the Authority's property, plant and equipment at that value. Deferred revenue for the future dumping fees of this fly ash was recorded on the books and records of the Authority equal to the capitalized value of the property received in exchange. The Authority recognizes income each year based on the wet tons actually received, to the maximum of 72,000 tons per year, compared to the total amount of wet tons to be received over the agreed period of time. Delmarva Power Company has not dumped any fly ash at the Authority's designated landfill since the fiscal year ended June 30, 1993. Accordingly, the Authority has not recognized revenue from the dumping of fly ash since the fiscal year ended June 30, 1993. The balance of deferred fly ash income at June 30, 2003 was $788,260.

The Authority also sells tickets to residents of Kent and Sussex Counties. These tickets are used by the residents when they drop off bags of trash at any one of the collection stations in Sussex County or the Cheswold Transfer Station in Kent County. Income from the sale of tickets is recognized by the Authority as the bags of trash are collected. The balance of deferred income from the sale of these tickets at June 30, 2003 and 2002 was $93,675 and $90,324, respectively.

Note 7 Contributed Capital-Capital Grants

The Authority has been the recipient of various grants from both Federal Government Agencies, specifically the Environmental Protection Agency, and the State of Delaware. Those grants received to finance capital expenditures are included in Contributed Capital-Capital Grants. Depreciation on property acquired through these grants is presented as an operating expense and is closed along with other operating expenses directly to retained earnings.

Note 8 Designations of Retained Earnings

Designations are that portion of the Authority's Unreserved Retained Earnings that are not legally required to be segregated but have been designated by the Board of Directors for future capital improvements and for the protection of the Authority, the Authority's assets, employees and bondholders in the event of litigation because of the nature of the Authority's operations. The amount of unreserved retained earnings designated during the year ended June 30, 2003 was $992,581.

Note 9 Pension Plan

The Authority's employees are enrolled in the Delaware State Employees' Pension Plan. The Plan is a contributory defined benefit plan covering substantially all of the Authority's employees. All full time or "regular part-time with fringe" employees are eligible with no age or length of service requirements. Members are fully vested after five years of credited service. For the years ended

June 30, 2003 and 2002, the Authority's payroll covered by the plan amounted to $3,647,969 and $3,516,279, respectively.

Benefits are determined by formula and are based on credited years of service and final average compensation. The plan also includes provisions for early retirement, disability, survivor and death benefits.

Total contributions to the pension plan amounted to $351,689 and $306,233 for the years ended June 30, 2003 and 2002, respectively. There were no unfunded contributions as of June 30, 2003 and 2002.

Note 10 Contract Rebate Payable

On May 1, 1999, the Authority initiated a Differential Disposal Fee Program available to any individual, business, governmental unit, organization, etc., to contract with the Authority to bring all of their solid waste which has been collected in the State of Delaware to Authority facilities.

The term of the contract was from the date of acceptance by the Authority, but not earlier than May 1, 1999, and ran through June 30, 2002. A rebate of $10.00 was paid for each ton of solid waste delivered to Authority facilities and for which the base rate of $58.50 per ton had been paid to the Authority. An additional $8.50 per ton for all tons in excess of 800,000 was set aside in a fund which was divided among those persons who had entered into contracts with the Authority. Each participant's share was based on the percentage of solid waste they had delivered to Authority facilities.

On July 1, 2001, the Authority initiated a second Differential Disposal Fee (DDF) Program. The new DDF Program runs through June 30, 2005. During the fiscal year ended June 30, 2002, both the original DDF, which expired on June 30, 2002, and the new DDF Programs ran concurrently. Participants in the original DDF had the option of remaining in that program or signing up for the new program. First time DDF participants were limited to the new program.

The new DDF Program establishes rebates and "at the gate" user fees for program participants. The user fees and rebates available to DDF participants vary by facility. They are:

1. Cherry Island Landfill–$58.50 per ton for municipal solid waste including dry waste. Rebate $13.50 per ton.

2. Pine Tree Corners Transfer Station–$58.50 per ton for municipal solid waste including dry waste. Rebate $10.00 per ton.

3. Sandtown Landfill in Kent County and Rt. 20 Landfill in Sussex County–$58.50 per ton for municipal solid waste, rebate of $10.00. All dry waste is $40.00 per ton "at the gate".

For the year July 1, 2001 through June 30, 2002, the two (2) rebate programs ran concurrently. Under the first DDF, 46 participants delivered 24,030.56 eligible tons of solid waste to Authority Facilities and, in turn, received rebates in the amount of $578,530. 321 participants in the second DDF Program delivered 729,533.01 eligible tons of solid waste to Authority facilities and, in return, the Authority provided for rebates in the amount of $8,879,761.

For the year July 1, 2002 through June 30, 2003, 319 participants in the second DDF program delivered 767,489.56 eligible tons of solid waste to the Authority's facilities and, in turn, the Authority provided for rebates in the amount of $9,347,194.

Based on prior years' actual tonnage, the Authority estimates that rebate payments over the next two years will be:

July 1, 2003 through June 30, 2004 – $9,350,000
July 1, 2004 through June 30, 2005 – $9,350,000

Note 11 Contingent Liabilities

There is a claim communicated to the Authority by the IT Corporation in the sum of $2,579,227. No litigation has been filed or threatened. The claim arises out of certain work performed by IT Corporation, and various subcontractors, on behalf of the Authority and is based in part on various delays due to adverse weather. General counsel is of the opinion that a significant portion of the claim is unfounded and without any legal basis. It is also anticipated that the Authority will respond to the claim by denying it and making a counteroffer which is significantly less than the claim, and if the matter cannot be resolved amicably, that the Authority will contest the claim vigorously. General counsel has stated that it is difficult to evaluate the likelihood of the outcome and estimate the amount of potential loss although they do believe it is very unlikely that the claim will be upheld at the amount stated. The Authority is holding approximately $751,000 in retainage, but has also assessed a claim against IT Corporation in the amount of $466,000.

In addition to the above-mentioned claim, the following contingencies also exist for which no provision has been made in the financial statements:

The Authority has received Federal and State grants for specific purposes (see Note 7) that are subject to review and audit by the contributing agencies. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be significant.

The Authority makes significant estimates in determining the amount of Unreserved Retained Earnings needed to be designated for the protection of the Authority, the Authority's assets, employees and bondholders in the event of litigation because of the nature of the Authority's operations (see Note 8). Although the Authority has endeavored to designate an adequate amount for this self-insurance, it is not determinable whether or not these amounts would be sufficient in the event of such litigation.

Note 12 Impaired Long-Lived Assets

The machinery and equipment utilized in the operations of the Energy Generating Facility (EGF) is no longer in use and is to be disposed. The net carrying value of the EGF machinery and equipment is $1,800,116. The estimated fair value of these assets less the estimated cost of disposal is $400,000. [See Note 1(G)].