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INDEPENDENT AUDITOR'S REPORT

Board of Directors
HOMECA RECYCLING CENTER CO., INC.
Caguas, Puerto Rico

I have audited the accompanying financial statements of **Homeca Recycling Center Co., Inc.** which comprise the balance sheets as of June 30, 2023 [REDACTED] and the related statements of income, retained earnings, and cash flows for the years then ended. and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

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.

Auditor's Responsibility

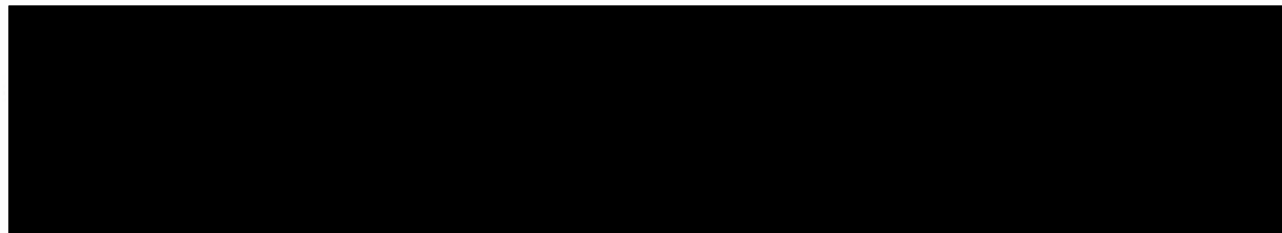
My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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 risk 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Homeca Recycling Center Co., Inc.** as of June 30, 2023 [REDACTED] and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



License No. 4746
Expires December 1, 2026

San Juan, Puerto Rico
February 7, 2024

Stamp Number
2794892
was affixed
to original



HOMECA RECYCLING CENTER CO., INC.

Statement of Income, Retained Earnings and Comprehensive Income

For the Years Ended

	JUNE 30, 2023
<u>REVENUES</u>	
Net Sales	\$ 12,664,280
Cost of Sales	<u>8,390,254</u>
Gross Margin on Sales	4,274,026
<u>OTHER REVENUE</u>	
Other Revenue COVID-19 PPP (Note 9)	<u>0</u>
Total Revenue	<u>4,274,026</u>
<u>GENERAL AND ADMINISTRATIVE EXPENSES</u>	
Salaries and Wages	1,075,891
Payroll Related Taxes and Benefits	304,889
Office Expenses	78,328
Rent Expense	239,183
Repairs and Maintenance	1,373,680
Professional Services	113,746
Interest	83,471
Utilities	53,583
Corporate Taxes	77,837
Depreciation and Amortization	151,212
Insurance Expense	375,225
Bad Debts Expense	0
Other Expenses	<u>138,381</u>
Total Expenses	<u>4,065,426</u>
Income (Loss) Before Income Tax	208,600
Income Tax Expense (Note 3)	<u>2,237</u>
Net Income (Loss)	206,363
Other Comprehensive Loss: (Note 1)	
Unrealized Loss on Available for Sale Securities	788
Retained Earnings— Beginning of year	8,444,081
Dividends	<u>0</u>
Retained Earnings – End of Year	<u>\$ 8,651,232</u>

The Notes to the Financial Statements are an integral part of this Statement.



HOMECA RECYCLING CENTER CO., INC.

Statement of Cash Flows

For the Years Ended

	JUNE 30, 2023
<u>INCREASE (DECREASE) IN CASH:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received-	
From Clients	\$12,579,930
Other Income	0
Cash Paid-	
Payments to Suppliers	(8,208,008)
Salaries, Wages and Payroll Taxes	(1,377,975)
Interest Paid	(83,471)
Income Tax	(2,237)
Other General and Administrative	<u>(2,449,963)</u>
Net Cash Provided (Used) by Operating Activities	<u>458,276</u>
<u>Cash Flows from Investing Activities:</u>	
Property and Equipment Acquisition	<u>(168,859)</u>
Net Cash Used by Investing Activities	<u>(168,859)</u>
<u>Cash Flows from Financing Activities:</u>	
Repayments to Related Parties	(995,786)
Advances from (to) Clients	320,000
Advances (Repayments) of Line of Credit	620,000
Issuance (Repayments) of Long-Term Debt	<u>(55,337)</u>
Net Cash Provided (Used) by Financing Activities	<u>(111,123)</u>
Net Increase (Decrease) in Cash	178,294
Cash-Beginning of Year	<u>86,965</u>
Cash-End of Year	<u><u>\$ 265,259</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

HOMECA RECYCLING CENTER CO., INC.

Statement of Cash Flows

For the Years Ended

**RECONCILIATION OF NET INCOME (LOSS) TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

	<u>JUNE 30, 2023</u>
Net Income (Loss)	<u>\$ 206,363</u>
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	151,212
Bad Debts	0
Decrease (Increase) in Assets-	
Accounts Receivable	(18,649)
Inventory	108,193
Prepaid Expenses	(65,701)
Increase (Decrease) in Liabilities-	
Accounts Payable-Trade	74,053
Accrued Expenses-EPA Fines	0
Accrued Expenses and Taxes	<u>2,805</u>
Net Adjustments	<u>251,913</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 458,276</u>

The Notes to the Financial Statements are an integral part of this Statement.

HOMECA RECYCLING CENTER CO., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Homeca Recycling Center Co., Inc. is a corporation organized under the laws of the Commonwealth of Puerto Rico on April 6, 2001. The main commercial activity is the buying, processing and selling of recyclable material in bulk for export, as well as other related activities. Actually, the Company operates five (5) processing centers in Hormigueros, Ponce, Caguas and Loiza. On December 31, 2007, the Corporation sold its demolition of structures and the removal of hazardous materials business activity to Homeca Recycling and Demolition, Corp., a related corporation. The purpose of this transaction was to segregate the demolition business from the Corporation's major commercial activity which is the processing and selling of recyclable material.

ACCOUNTING METHOD AND USE OF ESTIMATES

The Company financial statements were prepared using the accrual method of accounting. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ACCOUNTS RECEIVABLE

For all trade receivables due to the Company, the current allowance for doubtful accounts is estimated based on percentages of past due accounts and on the periodic analysis of the aging of accounts. Write-off is charged to the allowance when determined fully uncollectible. For 2023, the total account receivable balance was subsequently collected, thus no balance of the reserve was necessary.

INVENTORIES

Inventories are stated at lower of cost or market. Valuation is based on the "first-in; first-out" flow method including production and related costs. Materials are segregated, classified, compacted and packed to be exported. Inventory consists of recyclable materials such as aluminum, bronze, steel and other metals, which are susceptible to market fluctuations. As of balance sheet date, the inventory consists of the following:

(Continues)...



HOMECA RECYCLING CENTER CO., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

<u>Plants</u>	<u>JUNE 30,</u> <u>2023</u>
Hormigueros	\$ 150,964
Caguas	1,582,732
Loiza	1,672,685
Guayama	692,878
Ponce- Mercedita	51,360
Ponce- South Ferrous	737,223
Total Inventories	<u>\$ 4,887,842</u>

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets. Expenditures for repairs and maintenance are expensed as incurred; major additions and betterments are capitalized. During 2023, property and equipment were purchased in the amount of \$168,860. Property and equipment are summarized as follows:

	<u>JUNE 30,</u> <u>2023</u>
Machinery & Equipment	\$6,982,974
Land	4,886,400
	11,869,374
Less: Accumulated Depreciation	5,534,649
Net Property and Equipment	<u>\$6,334,725</u>

MARKETABLE EQUITY SECURITIES

Cost and fair value of available-for-sale equity securities at June 30, 2023, follows:

	<u>Amortized</u> <u>Cost</u>	<u>Gross</u> <u>Unrealized</u> <u>Gain</u>	<u>Gross</u> <u>Unrealized</u> <u>Loss</u>	<u>Fair</u> <u>Value</u>
Available for sale equity securities	\$250,000	\$ 0	(\$165,994)	\$ 84,006

The change in net unrealized holding losses on available for sale equity securities in the amount of (\$166,782) have been charged to other comprehensive income (loss).

LINE OF CREDIT

Two lines of credit provided by a local bank in the total amount of \$900,000 with interest rate from 5% to 6% due in 2025 and 2024. The collateral of said credit facility are three officer's certificates of deposit with the same bank. As of balance sheet date, the balance of the Line of Credit was \$769,874.



HOMECA RECYCLING CENTER CO., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

2. DUE FROM (TO) RELATED PARTIES

The amounts due from (to) related parties comprise net advances provided for working capital in the current year. The amounts consist of the following:

	JUNE 30, 2023
Homeca Recycling and Demolition, Corp.	\$(1,788,158)
Advances from Stockholders	(206,523)
Advances (from) to Employees and Others	367,937
Total	<u>\$(1,626,744)</u>

There is no definite due dates or repayment schedule for these amounts. In relation to Homeca Recycling and Demolition, Corp, since both companies are under the same common management, the final outcome of these related transactions depends on common management decisions.

3. TAX EXEMPTION GRANT

On February 9, 2006, the Company, under the Puerto Rico Industrial Incentive Act No. 135 of December 2, 1997, has been granted a twenty (20) years partial tax exemption for income, property, and municipal taxes on its recycling operations, as follows:

Income	-	7% tax rate	-	October 31, 2003 to October 30, 2023
Property	-	90% exempt	-	January 1, 2004 to December 31, 2023
Municipal	-	60% exempt	-	January 1, 2004 to December 31, 2023

The Corporation records the provision for income tax based on the pre-tax operating income and applying the tax exemption grant. Based on the application of the grant and previous losses, the provision for income tax for 2023 were \$2,237, respectively. The Corporation is in the process of renewal the grant.

The exemption requires the Company to maintain the established levels of employment, services as well as the operations in Puerto Rico.

4. COMMITMENTS

LEASE AGREEMENTS

Company has a rental agreement contract with the Municipality of Ponce for operating space in Puerto del Sur, Ponce Puerto Rico in a monthly payment of \$6,901 with a maturity on June 2024 and a renewal option of an additional five years.

HOMECA RECYCLING CENTER CO., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

5. LONG TERM DEBT

The Long-term debt consists of the following:

	JUNE 30, 2023
3.75% note payable to SBA, payable in monthly installments of \$731 including interest, first payment to be made during 2022, due on May 2051 and secured by stockholders. During 2022 a second PPP loan of \$341,572 was forgave, refer to Note 9.	149,169
7.00% or 3% over prime whichever is greater note payable to local bank, payable in 60 monthly installments of \$7,043.06 plus interest due on December 2024. Secured by the land referred to in Note 1, and by stockholders.	126,775
Total	\$ 275,944
Less: Current Portion	87,099
Long-Term Portion	\$ 188,845

Maturity of these long-term debts for the next five years is as follows:

	JUNE 30, 2023
2023	\$ 0
2024	87,099
2025	44,950
2026	2,692
2027 and thereafter	141,203
	275,944
Less: Current Portion	87,099
Long-Term Portion	\$ 188,845

HOMECA RECYCLING CENTER CO., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

6. INSTALLMENT NOTES PAYABLE

The installment notes payable consist of the following:

Two Notes Payable to CAPEX. Both with interest from 10.21% to 10.24%, payable in monthly installments of \$1,528 and \$2,236 due in February 2025 and October 2023, respectively. Secured by machinery and equipment financed.

Maturity of these long-term debts for the next five years is as follows:

	<u>JUNE 30,</u> <u>2023</u>
2023	\$ 0
2024	28,992
2025	<u>11,768</u>
	40,760
Less: Current Portion	<u>28,992</u>
Long-Term Portion	<u>\$ 11,768</u>

7. ADVANCES FROM CLIENTS

In the normal course of operations, the Company receives advance deposits from clients. These funds are credited to future sales of recyclable material.

HOMECA RECYCLING CENTER CO., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 [REDACTED]

9. SMALL BUSINESS ADMINISTRATION (PPP) LOAN FROM COVID-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (Covid-19) a global pandemic and recommended containment and mitigation measures worldwide. The business operations have been significantly impacted by lockdown measures and the imposition of related public health measures resulting from quarantines, self-isolations, governmental closure orders and partial or full closures of business and government offices.

Covid-19 has negatively impacted and is expected to continue to negatively impact to an extent the Company is unable to predict, the Company's revenues, which are driven primarily by revenues from exports and governmental agencies that have been affected by the lockdown. Accordingly, the Company was closed for one month and when the operations resumed, the Company experienced a decline in their revenues due to the pandemic, which would adversely affect the Company's revenues, liquidity and working capital.

As of the date of this financial statement the Company is operational under safety measures and social distance and a strict protocol approved by the government. In addition, the Company has received a variety of financial help from the government to subsidize its operations and guaranty the continuance of employee salaries under the United States First Coronavirus Cares Act and the Small Business Administration. The extended effect of the pandemic in the financial position and result of operations is unknown at the present time and these financial statements do not contain any adjustments on this matter. However, the Company has taken measures to reduce the financial impact of the pandemic. Among these measures are:

- Expenses control
- Work remotely
- Include new destination countries to export their recyclable materials

As part of the Coronavirus Aid Relief and Economic Security Act (CARES Act), the Company applied and received two loans payable in 24 months at 1% interest named as Paycheck Protection Program (PPP) in the amount of \$334,285 and \$341,572. These loans were used for the payment of payroll costs including health care benefits, rent, utilities and interest in mortgage and other debt obligations. SBA forgave both PPP in a 100% because both were completely used in these expenses. Also, the Company received from SBA a long-term loan in the amount of \$150,000. This was a 30 years loan at 3.75% interest rate paying \$731 including interest [REDACTED].

The success of these measures is only achievable upon the ability of the Company to accomplish the measures, and to the extent of time the pandemic continues in existence.