

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
JUNE 30, 2011

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
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**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
DIRECTORY OF OFFICIALS
JUNE 30, 2011**

BOARD OF DIRECTORS

<u>Member</u>	<u>Position</u>	<u>Entity Represented</u>
Alex Brown	Chairman	Town of Silver City
Jon Saari	Vice-Chairman	Grant County
Edward Encinas	Treasurer	Village of Hurley
Ted Castillo	Member	City of Lordsburg
Charles Kelly	Member	City of Bayard
Richard Bauch	Member	Village of Santa Clara
James Marshall	Member	Town of Silver City
Brett Kasten	Member	Grant County
Vacant	Member	Hidalgo County

ADMINISTRATIVE STAFF

Danny Legarreta	Acting Manager
Diana Temple	Executive Assistant

John A. Ciavarella CPA, PC

Certified Public Accountant

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El Paso, Texas 79912

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INDEPENDENT AUDITOR'S REPORT

Hector Baldaras, State Auditor
And The Board of Directors
Southwest Solid Waste Authority
Silver City, New Mexico

We have audited the accompanying financial statements of the business-type activities of Southwest Solid Waste Authority, as of and for the year ended June 30, 2011, as listed in the table of contents. We have also audited the budget comparison presented as supplementary information for the year ended June 30, 2011 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

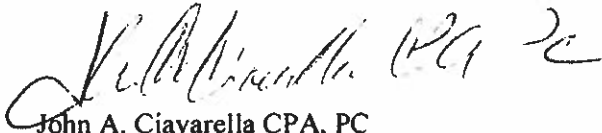
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Authority, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, our opinion, the individual fund financial statement referred to above present fairly, in all material respects, the budgetary comparison for the enterprise fund of the Authority for the year ended June 30, 2011 in conformity with the budgetary basis of accounting more fully described in the footnotes to these financial statements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparison. The accompanying schedules of cash accounts and pledged collateral are presented for purposes of additional analysis and are not a required part of the basic financial statements and other opinion unit listed above. The accompanying schedule of cash accounts and schedule of pledged collateral have been subjected to the auditing procedures applied in the audit of the basic financial statements and other opinion unit listed above and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements and other opinion unit listed above taken as a whole.

A handwritten signature in black ink, appearing to read "John A. Ciavarella CPA PC". The signature is written in a cursive style with a large initial "J" and a stylized "C".

John A. Ciavarella CPA, PC
El Paso, Texas 79912
February 11, 2013

BASIC FINACIAL STATEMENTS

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Current Assets:

Cash	\$ 91,931
Service Receivables-net of allowance for doubtful accounts	219,965
Intergovernmental Receivables Grant County	23,487
NMDFA Legilative Colonias Grant	186,522
Due from Internal Revenue Service	39,565
Total current assets	<u>561,470</u>

Restricted Current Assets:

Cash	355,668
Investments held by fiscal agent	238,698
Total restricted current assets	<u>594,366</u>

Non-Current Assets

Capital Assets	
Capital assets not being depreciated	592,746
Capital assets-net of depreciation	1,683,358
Other Assets	
Loan amortization, net of amortization	13,375
Due from Internal Revenue Service	3,282
Total non-current assets	<u>2,292,760</u>

Total Assets \$ 3,448,597

LIABILITIES

Current Liabilities

Accounts payable	\$ 26,874
Accrued liabilities	18,724
Accrued salaries payable	18,097
Current maturities	
Lease purchase payable	37,732
Notes payable	197,551
Compensated absences payable	70,077
Total current liabilities	<u>369,055</u>

Non-Current Liabilities

Lease purchase payable - net of current maturity	22,848
Notes payable - net of current maturities	1,256,884
Compensated absences payable	23,358
Accrued landfill closure and post-closure liability	440,572
Total non-current liabilities	<u>1,743,662</u>

Total liabilities 2,112,717

NET ASSETS

Invested in capital assets-net of related debt	761,091
Restricted for debt service	238,698
Unrestricted	336,090

Total Net Assets \$ 1,335,880

The notes to these financial statements are an integral part of these financial statements

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

Operating Revenues	
Charges for Services	\$ 1,658,354
Operating Expenses	
Administrative expenses	352,301
Regional landfill	961,980
Recycling program	328,535
Depreciation	391,882
Amortization	<u>2,108</u>
Total operating expenses	2,036,806
Operating income (loss)	(378,452)
Non-Operating Revenues (Expenses)	
Intergovernmental income	
Operational improvement grant	21,888
Special legislative grant - Colonias Initiative	348,717
Interest income	2,579
Interest expense	<u>(61,478)</u>
Total non-operating revenues (expenses)	<u>311,706</u>
Change in net assets	(66,746)
Net assets - beginning of year	1,413,871
Restatement	<u>(11,243)</u>
Net assets - beginning of year restated	1,402,628
Net assets - end of year	<u><u>\$ 1,335,882</u></u>

The notes to these financial statements are an integral part of these financial statements

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Cash Flows From Operating Activities	
Cash received from customers	\$ 1,712,817
Cash payments to suppliers for goods and services	(497,489)
Cash payments to employees for services	(591,742)
Cash payments to employees benefits and payroll taxes	(273,719)
Net cash provided by operating activities	<u>349,867</u>
Cash Flows from Non-Capital Financing Activities:	
Cash received from intergovernmental sources	184,075
Cash expended due to IRS levy	(42,845)
Cash received (expended) from intergovernmental sources	<u>141,230</u>
Cash Flows from Capital Financing Activities	
Acquisition of capital assets	(437,452)
Principal payments on capital debt	(227,076)
Interest on debt	(62,315)
Net cash (used) by capital and financing activities	<u>(726,843)</u>
Cash Flows From Investing Activities	
Interest income	2,729
Cash transferred to debt service	(5,229)
Interest income rolled into certificate of deposit	(1,761)
Net cash provided by investing activities	<u>(4,261)</u>
Net increase (decrease) in cash	(240,007)
Cash and cash equivalents-beginning of year	<u>569,359</u>
Cash and cash equivalents - end of year	<u><u>329,352</u></u>
Displayed as:	
Cash	\$ 91,931
Restricted cash	355,668
Time deposits not considered cash equivalents	(118,247)
	<u><u>\$ 329,352</u></u>

The notes to these financial statements are an integral part of these financial statements

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities	
Operating Income (Loss)	\$ (378,452)
Adjustment to reconcile operating Income (<i>loss</i>) to net	
cash provided by operating activities	
Depreciation	391,882
Amortization	2,108
Bad debts	2,900
Landfill and post-closure expense	254,649
 (Increase) decrease in	
Accounts receivable	18,071
Increase (decrease) in:	
Accounts payable	18,822
Accrued liabilities and salaries payable	14,391
Compensated absences payable	<u>25,495</u>
Total adjustments	<u>728,318</u>
Net cash provided by operating activities	<u><u>\$ 349,867</u></u>

The notes to these financial statements are an integral part of these financial statements

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Southwest Solid Waste Authority (the Authority) was formed on June 30, 1996 by a Joint Powers Agreement entered into by the City of Bayard, Grant County, the Town of Hurley, the Village of Santa Clara, and the Town of Silver City. The City of Lordsburg and Hidalgo County joined the Authority in December 1996. The purpose of this intergovernmental cooperative agreement was to acquire, construct and operate a comprehensive solid waste landfill disposal system for the citizenry of Grant and Hidalgo counties. The Authority is a special district of the State of New Mexico providing municipal solid waste disposal services and recycling services throughout Grant and Hidalgo counties. Proper disposal of solid waste is necessary to protect human health, water, and soil resources.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Authority's accounting policies and procedures are described below.

- A. Financial Reporting Entity:** The accompanying financial statements present the Authority, who is not a component unit to any governmental agency. The Authority, itself, has no component unit entities as defined by applying the criteria set forth in GASB No. 14, "*The Financial Reporting Entity*" and No. 39, "*Determining Whether Certain Organizations Are Component Units.*" These Statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the officials of a primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the reporting entity for financial reporting purposes, management has considered all potential component units. The most primary standard for including or excluding a potential component unit with the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant of these considerations is the ability of financial interdependency. Other considerations of the ability to exercise oversight responsibility include, but are not limited to, the selection for governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. The consideration of this criterion involves whether the activity of the entity benefits the government and or its citizens and whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion to consider in evaluating potential component units for inclusion or exclusion in the reporting entity financial statements is the existence of special financing relationships, regardless of whether or not the Authority has the ability to exercise oversight responsibilities.

Based upon the above considerations as set forth in GASB No. 14 and 39, the Authority has no component units.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: - Continued

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The Authority's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Authority applies Government Accounting Standards Board (GASB) pronouncements as well as all relevant pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the Authority are organized on the basis of a proprietary fund type specifically an enterprise fund. All financial activity is recorded in one enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues and expenses.

Governments have the option to follow subsequent private-sector guidance for their business-type activities and enterprise funds. The Authority has elected not to follow subsequent private-sector guidance.

Enterprise funds account for activities: (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs, such as depreciation or debt service, be recovered with fees and charges rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs, such as depreciation or debt service. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's ongoing operation. The principal operating revenues are charges for services. Operating expenses include the costs of operations, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Grant revenue which is considered non-operating revenue is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets such as total assets net of total liabilities, are segregated into invested in capital assets, net or related debt; restricted; and unrestricted components. The Authority's operating statements present increases (revenues) and decreases (expenses) in net total assets.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: - Continued

- C. Budgets:** The budget for one enterprise fund is prepared by management and approved by the board of directors and the New Mexico Department of Finance and Administration. The manager is responsible for preparing the budget, from requests submitted by department heads. The appropriated budget is prepared by line item within object class, and program; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the board of directors for approval. The proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration (DFA) Local Government Division for approval. DFA certifies a pending budget by July 1st with final certification of the budget, once adopted, it is legally binding.

The budget is prepared on a non-GAAP cash basis, excluding encumbrances, and secures appropriation of funds for only one-year. Carryover funds are re-appropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires the beginning cash balance to be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such an appropriated balance is legally restricted and is, therefore, presented as a reserved portion of the fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local board approval. If a budget increase is required, approval must be obtained from the Department of Finance and Administration. The Authority's level of budgetary control is at the fund level. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

- D. Cash and Cash Equivalents:** The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and time deposits with maturities of three months or less.

State statutes authorize the government to invest in interest bearing accounts with local financial institutions, direct obligation of the state and the U.S Treasury or New Mexico political subdivisions, and the State Treasurer's Investment Pool. New Mexico State Statutes require that financial institutions with public monies on deposit pledge collateral, to the owner of such public monies, held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Authority. The pledged securities remain in the name of the financial institution.

- E. Receivables:** All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- F. Prepaid Items:** Payments to vendors for services that will benefit periods beyond the current fiscal year are recorded as prepaid items.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: - Continued

G. Capital Assets: Capital assets, which include property, plant, equipment, computer hardware and software, furniture, fixtures, and vehicles are valued and reported at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date of donation. The costs of regular maintenance or repair that does not add to the value of the asset or materially extends the life of the related asset are not capitalized and are expensed to operations. The improvements that are capitalized are depreciated over the remaining useful life of the related asset.

The Authority changed its capitalization policy as of June 17, 2005 in accordance with state statutes to those costs of \$5,000 or more with an estimated useful life of one year or more. Previous to this the threshold cost was \$1,000. Those assets capitalized prior to the above date remain the financial records of the Authority.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the asset constructed. Property, plant, equipment, and vehicles are depreciated using the straight-line method over the estimated useful lives as follows:

Buildings	20 years
Equipment, computer hardware software, furniture and fixtures	5-7 years
Building improvements	20 years
Vehicles	5-7 years

H. Compensated absences: Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources is reflected as a liability of the Authority. In accordance with the provisions of the Governmental Accounting Standards Board No 16, "*Accounting for Compensated Absences*", no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. Annual leave is earned according to the following schedule:

<u>Length of employment</u>	<u>Full-Time Employee</u>
1 year	3.39 hrs/pay period
2 years	3.70 hrs/pay period
3 years	4.00 hrs/pay period
4 years	4.31 hrs/pay period
5-14 years	4.62 hrs/pay period
15 yrs +	6.16 hrs/pay period

Annual leave for all employees can be carried over from year to year. There is no limit as to the total number of annual leave hours an employee can earn. Upon termination, any unused annual leave shall be paid by the Authority.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: - Continued

H. Compensated absences: (Continued)

Authority employees accumulate sick leave at a rate of 4.00 hours per pay period. Sick leave for all employees can be carried over from year to year. The maximum accrual on sick leave shall be on thousand (1,000) hours at the end of the calendar year. Employees who have accrued over 1,000 hours sick leave may convert up to forty (40) hours sick leave each year to 40 hours annual leave each year on a none to one basis.

Upon termination, providing the employee is not terminated from employment and leaves in good standing, the employee will be paid one-half the cash equivalent of up to 1,000 hours of accumulated sick leave. If an employee retires from service with the Authority, and is eligible for Social Security or PERA retirement, or both, then the employee shall be paid all accrued sick leave.

- I. Deferred Revenues:** The Authority reports deferred revenue on its statement of net assets, when applicable, deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the Authority receives resources before it has a legal claim to them, as when grant monies are received in advance of the qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized.
- J. Long-Term Obligations:** In the statement of net assets, long-term debt and other long-term obligations are reported as liabilities. Loan issuance costs are deferred and amortized over the life of the loans using the effective interest method.
- K. Net Assets:** Net Assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes on other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant, unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints imposed by creditors, such as through debt covenants; grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: - Continued

L. Net Assets – Continued

Unrestricted - This component of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

M. 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, the reported amounts of revenues, and the disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from these estimates and assumptions.

2. Cash: New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank and savings and loan associations. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by the state Board of Finance, but in no case shall the rate of interest be less than one hundred percent (100%) of the asked price on United States Treasury Bills of the same maturity on the day of deposit. Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer’s investment pool, or in securities that are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the state or the United States, or are backed by the full faith and credit of those governments.

Cash Deposited With Financial Institutions - The Authority maintains cash within financial institutions located in Silver City, New Mexico and Lordsburg, New Mexico. The Authority’s deposits are carried at cost. As of June 30, 2011, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transaction in transit and outstanding checks. The locations and amounts deposited are as follows:

	As <u>Per Institution</u>	Reconciling <u>Items</u>	Per Financial <u>Statements</u>
Cash on hand	\$ 65	\$	\$ 65
Western Bank	577,375	248,087	329,288
Am Bank	118,246	-	118,246
Total Cash Deposits	\$ 695,686	\$ 248,087	\$ 447,599

The amounts reported as cash for the Authority within the financial statements is displayed as:

Statement on Net Assets:	
Cash	\$ 91,931
Restricted cash	355,668
	<u>\$ 447,599</u>

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

2. Cash- (Continued)

The carrying value of the deposits by the respective depositories with the exception of the items in transit equated to the carrying value by the Authority. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the Authority carrying value of the deposits (demand and time deposits).

Such collateral, as permitted by the state statutes is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation which is presently \$250,000 per institution.

	Western Bank	Am Bank
Checking accounts	\$ 333,452	\$ -
Savings and time deposits	243,922	118,246
	<u>577,373</u>	<u>118,246</u>
Less: FDIC coverage	250,000	118,246
	<u>327,373</u>	<u>-</u>
Total Uninsured Public Funds	\$ 327,373	\$ -
Pledged securities	\$ 279,360	\$ -
Collateral requirements (50% of uninsured public funds)	163,687	-
Over (under) collateralization	<u>\$ 115,673</u>	<u>\$ -</u>

A detailed listing of the pledged collateral is contained in the supplemental financial information section of this report.

Custodial Credit Risk (Deposits) - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be lost. The Authority does not have deposit policy for custodial credit risk. As of June 30, 2011, \$327,373 of the Authority's bank balance was exposed to custodial credit risk as follows:

	Western Bank	Am Bank	Total
Uninsured and collateral held by pledging bank's trust department or agent not in Authority's name	<u>\$ 327,373</u>	<u>\$ -</u>	<u>\$ 327,373</u>

3. Restricted Assets: The Authority has restricted cash and investments for particular purposes. A description of the assets restricted, and the purpose of the restriction are described as follows:

Restricted Cash -- The Authority has accumulated cash in the amount of \$355,668. The cash is designated by the Authority to offset the landfill closure and post-closure liability.

Investments held by Fiscal Agent - The Authority has borrowed money from the New Mexico Finance Authority (NMFA) to refinance debt due to the seven governments who created the Authority, and to construct a solid waste disposal facility and recycling center. As part of the agreements, NMFA has retained funds. The funds are placed in the New Mexico Local Government Investment Pool.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

3. Restricted Assets (continued)

As of June 30, 2011, the combined balance of the Authority's debt service accounts within the local government investment pool was \$238,698. The cost and fair market value of the deposits are the same at \$238,698 (the amount of the investment). The State Treasurer's Local Government Investment Pool (LGIP) is not S.E.C. registered. The fund is AAAm by Standards and Poor's. Section 6-10-10.1, NMSA empowers The State Treasurer, with the advice and consent of the state Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government, or by their departments or agencies, and which are either direct obligations of the state or the United States, or are backed by the full faith and credit of those governments. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments.

The LGIP does not have unit shares. Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by The State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the LGIP is voluntary.

Interest Rate Risk: Interest rate risk is the risk that interest rate variations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates. The portfolio's weighted average maturity is a 36-day WAM.

4. Accounts Receivable: - Accounts receivable from operations as of June 30, 2011 is as follows:

Charges for services provided	\$ 242,464
Allowance for doubtful accounts	<u>(22,500)</u>
Services receivables net of allowance for doubtful accounts	<u>\$ 219,964</u>

The Authority's policy is to provide for uncollectible accounts based upon expected defaults.

5. Intergovernmental receivables: - Amounts due from other governments at June 30, 2011 consist of the following:

Grant County	<u>\$ 23,487</u>
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Grant County owes the Authority for gross receipts collected and retained as security for the loan owed to Grant County as shown in the long-term liability section of these financial statements.

NMDFA Legislative Colonias Grant	<u>\$ 186,522</u>
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The Authority along with the New Mexico Department of Finance Administration entered into an agreement to advance as much as \$407,000 as part of an initiative by the Finance Administration to help plan,

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

5. Intergovernmental Receivables (continued)

design, and construct infrastructure improvements to colonias statewide. The Authority intends to use the \$407,000 to help defray the cost of constructing waste disposal cells 7 and 8. The terms of the grant agreement is that the Authority must first incur approved expenditures related to the construction project and then seek reimbursement from the \$407,000 of funds set aside for the project. As of June 30, 2011, the Authority has incurred \$357,948 in costs related to the project and have made requests for reimbursement for this amount. The Authority has received \$171,426 of the \$357,948 requested leaving a receivable of \$186,522 as of June 30, 2011,

The \$357,948 is shown on the schedule of "Capital Assets" as "Work-In-Process" disclosed in Note No. 6 to these financial statements.

6. Capital Assets: Capital assets for the fiscal year ended June 30, 2011 are as follows:

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
Business Activities:				
Capital assets, not being depreciated:				
Work In Process - Landfill Cells 7 & 8		\$ 357,948		\$ 357,948
Land	\$ 234,798	-	-	234,798
Total capital assets not depreciated	234,798	357,948	-	592,746
Other capital assets, being depreciated				
Landfill improvements	1,882,883			1,882,883
Buildings	772,596			772,596
Building improvements	198,136			198,136
Equipment	1,600,754	71,004		1,671,758
Office equipment	11,357			11,357
Office furniture	2,022			2,022
Vehicles	450,931	8,500		459,431
Total other capital assets being depreciated	4,918,679	79,504		4,998,183
Less: Accumulated depreciation				
Landfill improvements	(1,068,394)	(235,309)		(1,303,703)
Buildings	(364,756)	(38,830)		(403,586)
Building improvements	(77,915)	(11,788)		(89,703)
Equipment	(1,103,356)	(83,476)		(1,186,832)
Office equipment	(11,357)			(11,357)
Office furniture	(2,022)			(2,022)
Vehicles	(295,143)	(22,479)		(317,622)
Total accumulated depreciation	(2,922,943)	(391,882)		(3,314,825)
Total capital assets, net of depreciation	1,995,736	(312,378)		1,683,358
Total capital assets	<u>\$ 2,230,534</u>	<u>\$ 45,570</u>	<u>\$ -</u>	<u>\$ 2,276,104</u>

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

7. **Due from Internal Revenue Service:** The Internal Revenue Service levied and garnished \$42,845 from the Authority's operating account in June 2011. This garnishment related to back payroll taxes, interest and penalties dating from 2002 through 2011. The Authority contested this garnishment and has hired a CPA in their region to represent them in this matter. During the subsequent fiscal period, the Internal Revenue Service has acknowledged their error and has refunded \$39,565 of the \$42,845. The Authority is negotiating with the Internal Revenue Service on the remaining \$3,280 and expects to also have this amount refunded in the future.

The \$39,565 is shown as a current asset on the "Statement of Net Assets" and the remaining amount \$3,280 is shown as a "Non-Current" or long-term asset.

8. **Accrued Liabilities:** - Accrued liabilities as of June 30, 2011 consist of the following:

Payroll liabilities-current fiscal year	\$	9,692
New Mexico Gross Receipts tax payable		2,940
Accrued interest payable		6,092
	\$	18,724

9. **Long-Term Obligations:** - Long-term obligations consist of the following as of June 30, 2011:

Lease Purchase Payable: - The Authority has entered into a capital lease agreement to purchase equipment for the landfill operations. The economic substance of the agreement is that the Authority is financing the purchase of the landfill equipment through the lease agreement and, accordingly, is recorded as a liability in accordance with FASB No. 13. The obligation has been recorded in the accompanying financial statements at its present value of the future minimum lease payments discounted by 4.7% annually, as stated in the lease contract. The original acquisition cost of the equipment under the capital lease agreement is \$451,824.

The following is a schedule of future minimum lease payments required under the lease agreement, together with the present value as of June 30, 2011.

Total minimum payments through June 30, 2013	\$	63,001
Less: Amounts representing imputed interest to reduce future minimum lease payments to net present value.		2,421
Net present value of minimum lease payments	\$	60,580

The annual debt service requirements as of June 30, 2011 are as follows:

	Principal	Interest	Total
2012	\$ 37,731	\$ 2,059	\$ 39,790
2013	22,849	362	23,211
	\$ 60,580	\$ 2,421	\$ 63,001

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

9. Long-Term Obligations: - (Continued)

Note Payable to New Mexico Finance Authority No 1.

On May 1, 2003, the Authority entered into an agreement with the New Mexico Finance Authority to borrow \$703,013 to construct a solid waste disposal facility and recycling center. The note bears interest at 3.240% annually, and matures in May 2016. The Finance Authority is charging a .25% administrative fee. The note balance is \$272,577 as of June 30, 2011.

The annual debt service requirements at June 30 of each year are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 50,871	\$ 9,131	\$ 60,002
2013	52,570	7,564	60,134
2014	54,377	5,592	59,969
2015	56,324	4,087	60,411
2016	<u>58,435</u>	<u>2,121</u>	<u>60,556</u>
	<u>\$ 272,577</u>	<u>\$ 28,495</u>	<u>\$ 301,072</u>

Note Payable – New Mexico Finance Authority No 2.

On October 20, 2003, the Authority entered into an agreement with the New Mexico Finance Authority to borrow \$1,732,951 to pay the principal and accrued interest of the nine (9) notes payable due to the seven (7) governments who created the Authority. This note bears interest at 3.080% annually and matures in May 2018. The Finance Authority is charging a .25% administrative fee. The note balance as of June 30, 2011 is \$924,220.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 118,895	\$ 31,579	\$ 150,474
2013	122,745	28,036	150,781
2014	126,880	24,219	151,099
2015	131,319	20,108	151,427
2016	136,124	15,643	151,767
2017-2018	<u>288,257</u>	<u>16,352</u>	<u>304,609</u>
	<u>\$ 924,220</u>	<u>\$ 135,937</u>	<u>\$ 1,060,157</u>

Note Payable – Town of Silver City

On March 29, 2004, the Authority borrowed \$50,000 from the town of Silver City, and on May 5, 2004, the Authority borrowed another \$250,000 from the Town of Silver City for a total of \$300,000. These notes bear interest at 4.8% annually and mature in April 2019. The balance of these notes as of June 30, 2011 is \$135,068.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

9. Long-Term Obligations: - (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 14,743	\$ 6,162	\$ 20,905
2013	15,466	5,438	20,904
2014	16,225	4,679	20,904
2015	17,022	383	17,405
2016	17,857	3,047	20,904
2017-2019	<u>53,754</u>	<u>3,734</u>	<u>57,488</u>
	<u>\$ 135,067</u>	<u>\$ 23,443</u>	<u>\$ 158,510</u>

Note Payable – Grant County

On March 29, 2004, the Authority borrowed \$50,000 from Grant County, and on May 5, 2004, the Authority borrowed another \$150,000 for a total of \$200,000. The notes bear interest at 4.80% annually and mature in June 2019. The balance of the notes is \$122,571 as of June 30, 2011.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 13,041	\$ 5,600	\$ 18,641
2013	13,682	4,959	18,641
2014	14,353	4,288	18,641
2015	15,057	3,584	18,641
2016	15,796	2,845	18,641
2017-2019	<u>50,640</u>	<u>5,283</u>	<u>55,923</u>
	<u>\$ 122,571</u>	<u>\$ 26,559</u>	<u>\$ 149,130</u>

The current-maturities along with the long-term portion of the above note payable obligations as of June 30, 2011 are disclosed in the “Statement of Net Assets” are as follows:

	<u>Current Maturities</u>	<u>Long Term</u>
New Mexico Finance Authority No 1	\$ 50,871	\$ 221,705
New Mexico Finance Authority No 2	118,896	805,324
Town of Silver City	14,743	120,324
Grant County	<u>13,041</u>	<u>109,530</u>
	<u>\$ 197,551</u>	<u>\$ 1,256,883</u>

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

9. Long-Term Obligations – (Continued)

Closure and Post Closure Liability

State and federal laws require that the Authority perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty (30) years after closure. State and Federal laws and regulations require the Authority to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site.

The Authority currently holds a 35.2 acre permit with The New Mexico Environmental Department (NMED) that is set to expire at the end of 2014. The permit is defined as land that may be disturbed and as of June 30, 2011 approximately 42% of the total 35.2 acres capacity has been utilized. The NMED will require another permit renewal prepared and submitted by an independent registered New Mexico Professional Engineer sometime in 2013 to allow the Authority to continue to operate beyond 2014.

The Authority is required by the State of New Mexico Environmental Regulation Board to demonstrate financial assurance for the post-closure costs as mentioned above. In addition to post closure costs, a landfill operation must also set aside contingency funds for closure and groundwater assessment activities in the event that the landfill's normal operating budget is insufficient to cover closure and groundwater assessment activities. The Authority is required to accumulate the proper reserves and restrict sufficient funds to pay for these costs.

The current estimated cost of the landfill closure, assessment and post-closure care of \$1,054,000 is based on the amount that would be paid, if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2011. However, the actual cost of closure and post-closure are may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. This estimate or opinion of total post-closure care (\$1,054,000) was obtained from an engineering firm dated January 6, 2010. The Authority determined that no inflationary adjustment should be made to this \$1,054,000.

The Accrued landfill closure and post closure liability as of June 30, 2011 is \$440,572. This liability is based upon the estimated landfill usage of 42% and the most recent post closure care assessment of \$1,054,000.

The Authority has set aside \$355,668 in restricted funds to meet its requirement to have the \$1,054,000 fully funded by 2014 when the current permit expires. In order to be compliant in its financial assurance requirements; the Authority must set aside an additional \$698,332 by 2014 when the current operating permit expires. To meet this \$698,332, the Authority intends to fund the reserve for closure and post closure with approximately \$232,778 annually which includes interest earnings on the funds. It is the intention of the board of directors of the Authority to petition the New Mexico Environmental Department for an extension of the current permit in the upcoming fiscal year.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

10. Restatement of Net Assets:

During the current fiscal year, the Authority discovered that the closure and post-closure liability as of June 30, 2010 was understated by approximately \$11,243. The Authority has restated its June 30, 2010 net assets by decreasing the balance of \$1,413,271 by \$11,243. The restated net assets balance at June 30, 2010 is \$1,402,628. The June 30, 2010 closure and post-closure liability balance of \$174,680, has been restated to \$185,923 and the closure and post-closure expense increased by the same amount.

The Authority, in the current fiscal year, has decided that the closure and post closure estimate of cost of \$388,180 as of June 30, 2010 should be adjusted by inflation based on the Consumer Price Index (CPI). This estimate of \$388,180 was obtained in 2001 and in the past has not been adjusted by inflation as recommended by GASB 18 and the New Mexico Environmental Department regulations. Based on the CPI index derived from the Bureau of Labor Statistics web site, the cost estimate of \$388,180 would have increased to \$477,950 from 2001 to June 30 2010 by adjusting for inflation.

In addition to this, the Authority revised their estimate of landfill capacity down from 45% to 38.9% as of June 30, 2010. These two revisions in the estimate of land fill closure costs and capacity as of June 30 2010 has resulted in a restatement of the land fill closure liability from \$174,680 to \$185,923. Therefore, the net assets of the Authority as of June 30, 2010, have been reduced by \$11,243 as a result of this restatement, however the Authority has decided not to reissue its financial statements for the fiscal year ending June 30, 2010 as this amount is not considered material.

11. Pension Plan - Public Employees Retirement Association:

Plan Description: Substantially all of the Authority's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10 Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publically available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also on PERA website at www.pera.state.nm.us.

Funding Policy: Plan members are required to contribute 7% (ranges from 4.0% to 16.5% depending upon the plan – i.e., state general, municipal police, municipal fire, municipal detention officer) of their gross salary. However, the governing board has elected to be responsible for making contribution of seventy-five percent (75%). The net effect of the election requires employees to contribute 1.75% of their gross salary. The Authority would normally be required to contribute 7% (ranges from 7% to 25.72% depending upon the plan); however, due to the election to remit 5.25% of the employee's share, the amount contributed by the Authority is 12.25% of the gross covered salary. The contribution requirements of plan members and the Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Authority's contributions to PERA for the fiscal years ending June 30, 2011, 2010, and 2009 were \$62,483, \$70,343, and \$58,065 respectively, which equal the amount of the required contributions.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

12. Post-Employment Benefits (State Retiree Health Care Plan):

The New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RCHA), provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RCHA was established under Chapter IV, Article 7C, NMSA 1978. The Authority has elected not to participate in the post-employment health insurance plan.

13. Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has joined together with other local governments in the state and obtained insurance through the New Mexico Self-Insured Fund for its general insurance coverage, and all risks of loss is transferred.

14. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

15. Excess of Actual Expenditures over Budget

For the year ended June 30, 2011, actual expenditures exceeded those of the legally adopted budget by \$152, 871. The actual expenditures exceeded budgeted due to the Authority not revising its legally adopted budget for the capital outlay for the costs of expanding cells 7 & 8.

16 Subsequent Events:

As mentioned in Note 4 above, the Authority obtained a legislative grant to help defray the costs of building Cells 7 & 8. The Authority has a current operating permit that expires at the end of 2014 for a total of 12 cells. Cell number 6 was at about 80% of capacity as of June 30, 2011 and its use would cease when it reached its height restricted capacity as regulated by the New Mexico Environmental Department (NMED). . Construction of Cells 7 & 8 commenced in spring of 2011.

Subsequent to June 30, 2011, the NMED inspected the construction of the new Cells 7 & 8 and found design flaws, and the lack of oversight of the construction by an independent New Mexico licensed engineering firm as required by the New Mexico Solid Waste Rules 20.9.4.13-15. The NMED at that time determined that the Authority must not begin to use these newly constructed cells until such time as they are repaired, the design problems are remedied under the oversight of an independent engineering firm, and then re-inspected by the NMED. The repairs were completed in March 2012 and an inspection was completed at that time by the NMED. On July 11, 2012, the permit to begin using cells 7 & 8 was approved based on the recommendation of the NMED consulting engineer. The Authority has expended approximately \$900,000 to date on construction of cells 7 & 8 which includes around \$400,000 to make the necessary remedial repairs.

INDIVIDUAL FUND STATEMENT

SOUTHWEST SOLID WASTE AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

	*	*		Variance With Final Budget Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Operating Revenues				
Charges for Services	\$ 1,564,000	\$ 1,564,000	\$ 1,712,817	\$ 148,817
Operating Expenses				
Administration	370,000	371,000	348,917	22,083
Regional Landfill	881,100	882,500	691,558	190,942
Recycling Program	364,992	371,000	322,475	48,525
Total operating expenses	<u>1,616,092</u>	<u>1,624,500</u>	<u>1,362,950</u>	<u>261,550</u>
Operating Income	(52,092)	(60,500)	349,867	410,367
Non-Operating Revenue (Expenses):				
Special Legislative Grant to build Cells 7&8	0	0	162,195	162,195
Operation Improvement Grant	25,840	25,840	21,880	(3,960)
IRS Levy	0	0	(42,845)	(42,845)
Interest Income	3,000	3,000	2,729	(271)
Capital Outlay	(50,000)	(60,000)	(437,452)	(377,452)
Debt Service	(295,264)	(295,264)	(289,389)	5,876
Total non-operating revenue (expenses)	<u>(316,424)</u>	<u>(326,424)</u>	<u>(582,882)</u>	<u>(256,458)</u>
Net Change in Cash Balance	(368,516)	(386,924)	(233,015)	153,909
Cash Balance - Beginning of Year	685,842	685,842	685,842	-
Increase in debt service reserve			(5,229)	(5,229)
Cash Balance - End of Year	<u>\$ 317,326</u>	<u>\$ 298,918</u>	<u>\$ 447,598</u>	<u>\$ 148,680</u>

* Budget was approved by the Authority board but never approved and certified in accordance with regulations adopted by NMDFA-LGD

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
RECONCILIATION OF BUDGETARY COMPARISON SCHEDULE AND
STATEMENT OF REVENUES, EXPENDITURES, AND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

Sources of Operating Resources:	
Actual amounts(budgetary basis)"operating revenues" from the budgetary comparison schedule.	\$ 1,712,817
Differences - Budget to GAAP:	
Accrual of revenue and associated receivables that are considered an inflow or revenues for budgetary purposes but not for financial reporting purposes.	(43,490)
Current year's bad debts and the related increase in allowance for doubtful accounts are not considered an inflow or revenues for budgetary basis, but is considered a reduction of revenue for financial reporting purposes.	(2,900)
The Authority reduces charges for services revenue by the amount paid for governmental gross receipts taxes for the budgetary basis of accounting. For financial reporting purposes, the taxes due are accrued at year-end.	<u>(8,073)</u>
Total operating revenues as reported on the statement of revenues expenses, and changes in net assets	<u>\$ 1,658,354</u>
 Uses & Outflows of Operating Resources:	
Actual amounts (budgetary basis) "operating expenses" from the budgetary comparison schedule.	\$ 1,362,950
Differences - Budget to GAAP:	
The Authority budgets for claims and expenses paid during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are expenses for financial reporting purposes.	18,821
The Authority budgets for salaries, payroll taxes, and employee benefits paid for during the current accounting period. Accrual for salaries. Payroll taxes and employee benefits are not included in the budgetary basis, however they are for financial reporting purposes.	6,393
The Authority does not budget for the projected landfill closure and post-closure expenses as a current year expenditure. For financial reporting purposes, the Authority has recognized the current year's projected expense.	254,652
Depreciation expense is not considered an outflow of operating resources for budgetary basis but considered an expense for financial reporting expense	391,882
Amortization of loan fees is not considered an outflow of operating resources for budgetary basis, however it is considered an expense for financial reporting purposes.	<u>2,108</u>
Total operating expenses as reported on the statement of revenues, expenses, and net assets	<u>\$ 2,036,806</u>

The notes to these financial statements are an integral part of these financial statements

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
RECONCILIATION OF BUDGETARY COMPARISON SCHEDULE AND STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDING JUNE 30, 2011

Sources/Inflows of Non-Operating Resources	
Actual amounts (budgetary basis) "non-operating revenues" from budgetary comparison schedule	\$ 186,804
Accrual of interest revenues and associated receivables that are considered an inflow or revenues for budgetary basis but are considered revenue for financial purposes	(151)
Accrual of colonias grant that is not considered an inflow or revenues for budgetary basis but are considered revenue for financial purposes	<u>186,531</u>
Total non-operating revenues as reported on the statement of revenues, expenses, and changes in net assets	<u><u>\$ 373,184</u></u>
Uses/outflows of non-operating resources	
Actual amounts (budgetary basis) "non-operating expenses" from budgetary comparison schedule	\$ 769,686
Differences - Budget to GAAP	
For budgetary purposes, the Authority accounts for the principal payment as a reduction of debt expenditure. For financial reporting purposes, the payment of debt is reflected as a reduction of a liability	(227,072)
The Authority budgets for the capital outlay as a non-operating use of resources. For financial reporting, the capital expenditures are capitalized on the statement of net assets	(437,452)
Accrual of IRS levy that is considered as an expenditure for budgetary basis but are considered an asset for financial purposes	(42,845)
The Authority does not budget accrued interest expense. The amount accrued interest is reflected as a non-operating expense for financial reporting purposes.	<u>(839)</u>
Total non-operating expenses are reported on the statement of revenues, expenses, and changes in net assets	<u><u>\$ 61,478</u></u>

The notes to these financial statements are an integral part of these financial statements

SUPPLEMENTARY FINANCIAL INFORMATION

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
SCHEDULE OF CASH ACCOUNTS
AND PLEDGED COLLATERAL
JUNE 30.2011**

Financial institution Account Description	Type of Account	Institution Balance	Reconciling Balance	Reconciled Balance
Western Bank PO Box 490 Lordsburg, NM 88045-0490				
AW Solid WATE Authority	Checking	333,452	(248,087)	85,365
AW Solid WATE Authority	Savings	397,276	28,434	425,709
AW Solid WATE Authority	Savings	17,739	(11,250)	6,489
		<u>\$ 748,466</u>	<u>\$ (230,903)</u>	<u>\$ 517,563</u>
Am Bank PO Box 2677 Silver City, NM 88062-2677				
	Time Deposit	<u>\$ 118,246</u>	<u>\$ -</u>	<u>\$ 118,246</u>

Schedule of Pledged Collateral

Western Bank PO Box 490 Silver City, NM 88045-0490		Pledged Collateral		
Security	CUSIP	Maturity	Par Value	Market Value
Carlsbad NM BRH	1427223AY1	8/1/16	<u>\$ 250,000</u>	<u>\$ 279,360</u>

The holder of the security pledged by Western Bank is the Federal Home Loan Bank of Dallas: Attn: Securities Safekeeping Department, P.O. Box 619026, Dallas, Texas 75261-9026

ADDITIONAL INDEPENDENT AUDITORS' REPORT

John A. Ciavarella CPA, PC

Certified Public Accountant

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Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Governmental Auditing Standards

Hector Baldaras, State Auditor,
Board of Directors
Southwest Solid Waste Authority
Silver City, New Mexico

We have audited the financial statement of the business-type activities of Southwest Solid Waste Authority (The Authority), as of and for the year ended June 30, 2011, and the budgetary comparison for the year ended, and have issued our report thereon dated February 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis of designing our auditing procedures for the purposes of expressing our opinions on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material: 2011-05.

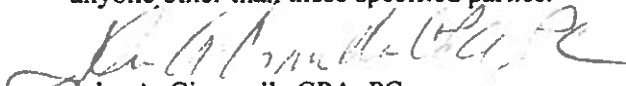
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2010-02, 2011-04, 2011-6, & 2011-07.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* paragraph 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA which are described in the accompanying schedule of findings and questioned costs as items: 2010-01, 2011-01, 2011-02, 2011-03.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

The report is intended solely for the information and use of the board of directors, management, others within the Authority, the New Mexico State Auditor, New Mexico Department of Finance and Administration of Local Government Division, and is not intended to be and should not be used by anyone other than these specified parties.



John A. Ciavarella CPA, PC

El Paso, Texas
February 11, 2013

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION II – FINDINGS-FINANCIAL STATEMENTS

CURRENT STATUS OF PRIOR YEAR FINDINGS

Item 2010-01 – Travel and Per Diem – Compliance & Other Deficiency

Statement of Condition – During the course of the audit, we performed tests of travel and per diem expenditures. Our sample size was eleven transactions, which were randomly selected throughout the fiscal year, and contained the following discrepancies:

- We noted five expenditures in the first part of the fiscal year which required mileage reimbursement. Of those five expenditures, all five had the incorrect mileage reimbursement calculated. However, we also noted that an additional expenditure was subsequently made to correct the original amount. This correction was due to the finding being presented to the administrative staff after completion of the audit for fiscal year ending June 30, 2010. The remaining expenditures reviewed were calculated using the correct rate. These amounts were properly paid back to the employee in a subsequent disbursement. There was no unpaid travel and per diem at the end of the fiscal year.
- We noted that during the first part of the fiscal year, the administrative staff was not using the travel and reimbursement form for the mileage and per diem reimbursement requests. The Authority was using their purchase requisition form for the mileage and per diem reimbursement requests. Subsequent to the findings being presented for fiscal year audit of June 30, 2010, the administrative staff utilized the travel and reimbursement form properly.

These finding were similar to those noted during the fiscal year audit ending June 30, 2010. We noted that subsequent to the presentation of the audit findings for that year, the Authority utilized the proper travel and reimbursement form and paid the correct amount for travel and per diem.

Criteria – The New Mexico Department of Finance and Administration has issued regulations in the form of Title 2, Chapter 42, Part 2, Travel and Per Diem Regulations Governing the Per Diem and Mileage Act of the New Mexico Administrative Code. The rule was issued in accordance with Section 10-8-1 to 10-8-8 NMSA 1978.

An emergency amendment (“HR 336 amended Section 10-8-4 D NMSA 1978 of the Per Diem and Mileage Act) issued by the New Mexico Department of Finance and Administration in June 2009 increased the then current statutory mileage reimbursement rate of \$0.32 per mile up to a new maximum statutory reimbursement rate equivalent to the Internal Revenue Service standard mileage rate “set January 1st of the previous year.” The IRS rate on January 1, 2009 (“the previous year”) was \$.55 per mile. Therefore, this emergency amendment to the Rule states the local government shall, effectively immediately, reimburse local public bodies, local public officers and employees for mileage accrued in the use of a privately owner vehicle in the discharge of official duties at a rate of eighty percent (80%) of the \$.55 per mile.

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CURRENT STATUS OF PRIOR YEAR FINDINGS (Continued)

Item 2010-01 – Travel and Per Diem- Compliance & Other Deficiency (Continued)

Cause – The Authority did not implement the changes to the mileage reimbursement rates as per the New Mexico Department of Finance and Administration for the first half of the current fiscal year nor was the required travel and per diem reimbursement form utilized during that same time period. However, the Authority did use the proper reimbursement mileage rate and utilized a travel reimbursement form subsequent to the same audit finding being presented for fiscal year ending June 30, 2010.

Effect – Non-compliance with the state of New Mexico Travel and Per Diem Act subjects officials and employees to penalties as required by state statutes.

Recommendation – We recommend the Authority administrative personnel review the New Mexico Department of Finance and Administration memorandum concerning the increase in mileage reimbursement rates. Further we recommend that the administrative staff review the required IRS standard mileage rates annually in order to utilize the correct rate for mileage reimbursement.

Management response and planned corrective action - The agency will continue to implement the auditor's recommendation. A system will be designed to assure compliance.

Item 2010-02- Depositing of Cash Receipts (Checks and Cash) - Significant Deficiency

Statement of Condition - During the course of the audit for fiscal year ending June 30, 2011, we performed tests of the cash receipts records (checks from customers and cash). We selected 25 days of deposit transactions throughout the year and traced deposit items back to the initial date of receipt. During our testing, we noted 23 instances where the daily activity was not deposited at the bank within one business week. Of those 25 instances, there were 4 instances where the daily activity was not deposited within one month after the money was received by the Authority. The variance amount is the cash receipt that was not deposited within one business week and amounted to \$20,869. However, all cash receipts were deposited by the end of the fiscal year ending June 30, 2011.

This is a repeat finding as listed in the June 30, 2010 Section Findings – Financial Statements.

Criteria – New Mexico State Statutes Section 6-6-3 provides that every local body shall keep all books and records, and accounts in their respective offices in the form prescribed by the local Government Division of the Department of Finance and Administration. Within Title 2, Part 5, Public Finance Accounting by Government Entities of the New Mexico Administrative Code, the Department of Finance and Administration requires all accounting systems, including subsidiary systems, record transactions timely, completely, and accurately. Furthermore, internal controls are established to safe guard the assets of the Authority. Once the funds are receipted into the accounting system, the transaction becomes a part of the accounting system and the monies should be deposited within one business day.

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SOUTHWEST SOLID WASTE AUTHORITY
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FOR THE YEAR ENDED JUNE 30, 2011**

CURRENT STATUS OF PRIOR YEAR FINDINGS (Continued)

Item 2010-02- Depositing of Cash Receipts- Significant Deficiency (continued)

Criteria (continued) – Within Title 2, Chapter 20, Part 5, Public Finance Accounting by Government Entities of the New Mexico Administration Code, the Department of Finance and Administration requires all accounting systems, including subsidiary systems, record transactions timely, completely, and accurately.

In addition to this, internal controls are established to safe guard the assets of the Authority. Once funds (checks and money) are receipted into the accounting system, the transaction becomes a part of the accounting system and the receipts should be deposited within one day.

Cause – Management believed that staff was depositing receipts (checks and cash) on a timely basis and failed to follow up concerning the timeliness of depositing of the Authority's receipts from customers.

This is a repeat finding from June 30, 2010 audit, and due to the number of instances noted, we believe it is a significant deficiency that should be brought to the attention of the governing board of directors.

Effect – Untimely deposits of the Authority's monies (checks and cash) could allow an employee to misappropriate the Authority's assets. This situation could allow an employee to divert the money to their use and replenish that customer account with another misappropriation. Furthermore, by not depositing the monies (checks or cash), the accounting records would be incorrect.

Recommendation – As noted in last year finding, accounting procedures should be established to ensure that when receipts of the Authority arrive in the mail or received in cash from a customer, a daily receipts log should be established that notes the date, the amount and source of funds received (checks or cash). In addition to this the date of deposit should be noted along with the other information mentioned. This log should be reviewed by staff supervisor at least once a week to insure timely notation of funds received and date of deposit.

Management response and planned corrective action – A complete review of the cash reporting system will be undertaken to assure that funds received by the agency will be deposited in a timely manner.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

CURRENT YEAR FINDINGS

Item 2011-01 – Late Audit – Compliance & Other Deficiency

Statement of Condition – The audit report for the fiscal year ending June 30, 2011 was due to the New Mexico State auditor’s office by December 1, 2011. The report was submitted on February 6, 2013.

Criteria - New Mexico State Statutes Section 12-6-12 requires the state auditor to promulgate reasonable regulations to carry out the duties of the office. New Mexico Administrative Code Title 2, Part 2, *Audits of Government Entities Requirements for Contracting and Conducting Audits of Agencies* require that the Authority submit its audit report by December 1st following the fiscal year at June 30th.

Cause – The fiscal year audit of the Authority ending June 30, 2011 is a first year audit for the auditing firm. Subsequent to the audit contract being approved by the New Mexico State Auditor, the auditing firm contacted the Authority to determine when audit planning could commence. Management of the Authority informed the audit firm that traditionally a local CPA who prepares and makes the accrual entries to the books and records to comply with GAAP and GASB requirements traditionally does not have those accruals (audit package) ready until mid October.

The audit package was made available on or around November 10, 2011. It must be pointed out that even preliminary audit planning was almost impossible until the audit package was complete. This put the auditing firm in a tight time frame to complete the audit and prepare the audit report for the first time. This proved to be impossible due to only approximately seven to ten working days available in late November when most of the administrative staff would be taking time off from their work duties. The auditing firm notified the Authority and the New Mexico State Auditor in writing on November 21, 2011 that the deadline of December 1 would not be met and the audit would be late.

Effect – Delays in submission of the audit report affect the reporting of financial information to other state agencies and local governments.

Recommendation – We recommend that the Authority complete all GAAP and GASB year end entries (audit package) no later than sixty (60) days post fiscal year end June 30th. An audit firm in subsequent years could arrange to perform preliminary procedures and testing in advance of the audit package being complete. The accelerated completion of the year end accruals (audit package) would enable all proper auditing procedures being performed in a timely fashion along with formatting audit work papers and completion of audit report by its December 1st deadline. The auditing firm also suggests that the local CPA who makes the year end accruals also prepare the accrual to cash adjustments in order for the auditing firm to complete its requirement of determining whether the actual expenditures exceeded the expenditure as shown on final fiscal year budget. This is a very time consuming process for the auditing firm to perform. This accrual to cash process has to be approved by responsible and knowledgeable Authority personnel if the auditing firm performs this task due to independence rules.

Views of Responsible Officials and Planned Corrective Actions Response – This was the first year audit of the agency by John A. Ciavarella CPA, PC. An existing relationship between the auditor and the agency’s staff had not been established. This caused for a definite communication gap of the audit scheduling. Expectations were not met, scheduling not well defined, and appointments were rescheduled.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

CURRENT YEAR FINDINGS - Continued

Item 2011-01 – Late Audit – Compliance & Other Deficiency (Continued)

It is the agency's intention to have audit reports completed timely. This is a very important aspect of the financial well-being of the agency. This agency has always been committed to this task.

To accomplish this, the agency will review the entire audit process. An audit schedule will be set up and adhered to starting with the audit procurement process. Once the auditor is selected and detail schedule will be structured to establish dates and expected completion tasks. This process will encompass the entire audit process from entrance appointment through date of auditor's report. This process will be discussed and signed off by the agency and the auditor.

Item 2011-02 – Late New Mexico Taxation and Revenue Department CRS Reports – Compliance & Other Deficiency

Statement of Condition – During the course of the audit we reviewed and tested the Authority's compliance and remittance of gross receipts collected from customers and employee withholding from the prior month. We noted two months reports were filed late.

Criteria – The New Mexico Taxation and Revenue Department places taxpayers on a reporting cycle based on the nature of the entities operations. In the case of the Authority, the CRS reports are due on the 25th of each month to report the collection of the prior month gross receipts tax and employee withholding.

Cause – Due to turnover in the related staff position responsible for this function, two CRS reports were as much as 60 days late. We should note that when this staff position was filled all late reports were filed and the remainder of the fiscal year the CRS reports were timely filed.

Effect – Non-compliance with the state of New Mexico Taxation and Revenue Department requirements will subject the Authority to fines and penalties as required by state statute.

Recommendation – We recommend the Authority administrative staff develop a monthly due date schedule that includes the New Mexico Gross Receipts Tax filing and the person that prepares and reviews the forms initial and date the schedule to indicate compliance with the regulations.

Views of Responsible Officials and Planned Corrective Actions Response - The agency has developed a monthly due date schedule for filing the New Mexico Gross Receipts Tax Reports. This process should assure that future monthly filings will be accomplished timely.

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND RESPONSES
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CURRENT YEAR FINDINGS (Continued)

Item 2011-03 – Untimely Payroll Form 941 Tax Deposits – Compliance & Other Deficiency

Statement of Condition - During the course of our expanded auditing procedures related to payroll, we noted two instances of late federal payroll (form 941) tax deposits. The Authority is a semi-weekly depositor, which means that the total federal taxes deducted from the employees pay along with the Authority's matching requirement is due within 3 banking days subsequent to the payroll pay date.

We noted that the federal payroll (form 941) deposit for the payroll date of September 30, 2010 in the amount of \$1,758.32 was due on October 5, 2010 but was paid on October 20, 2010. We noted that the federal payroll (form 941) deposit for the payroll date of June 24, 2011 in the amount of \$6,098.91 was due on June 28, 2010 but was paid on July 13, 2011.

Criteria – Internal Revenue Regulations require any employer to make timely tax deposits. The Internal Revenue Service has strict regulations on making the required federal tax deposit which consists of the employee federal tax, social security, and Medicare deductions withheld from employee payroll along with the employer matching portion of these items.

Cause – In most cases the reason for not making the required payroll tax deposit timely is usually due to oversight by management. In addition to this, not making the required tax deposits may be an indication of cash flow problems when the payroll tax deposits are to be paid.

Effect - These late deposits subject the Authority to costly fines and penalties assessed by the Internal Revenue Service.

Recommendation – The Authority personnel responsible for the payroll administration should be diligent in making the required federal payroll tax deposits on a timely basis. As a precautionary procedure, the Authority should make the requisite tax deposit the same day as payroll is paid to the employees.

Views of Responsible Officials and Planned Corrective Actions Response – The two instances of late filing were staff oversight. The agency has developed a payroll processing due date schedule to assure timely payroll tax payments. It includes depositing the amounts due electronically on the payroll date.

**STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

CURRENT YEAR FINDINGS (Continued)

Item 2011-04 – Non-compliance with the State of New Mexico and the Authority Procurement Policy – Significant Deficiency

Statement of Condition - We expanded our procedures in the area of expenditures to review all items that cost \$5,000 or more. In addition to this we used statistical sampling on all remaining items that cost less than \$5,000.

During our review, we noted one expenditure of \$23,900 that the Authority personnel obtained the required three (3) quotes, however the expenditure was made without obtaining a bid either through an invitation for bid (IFB) or through a request for proposal (RFP). This expenditure was made in violation of the New Mexico Procurement Code and that of the Authority.

Criteria – The Authority has developed a procurement policy that complies with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978). The Authority procurement policy states that employees are to adhere to the threshold levels for obtaining bids or sealed bids and proposals in compliance with the New Mexico Procurement Code unless the board of directors has approved a lower threshold through its policy.

The Authority procurement policy for small purchases states that employees are to obtain at least three quotes for the purchase of goods and non-professional services exceeding \$1,500 and up to \$20,000. Any expenditure for goods and non-professional services above \$20,000 must be obtained through a competitive bidding process.

Cause – The Authority employee responsible for this expenditure was either not aware of this procurement policy or ignored it.

Effect – Non compliance with the New Mexico Procurement Code, Sections 13-1-28 through 13-1-199 NMSA 1978 imposes civil and misdemeanor criminal penalties for its violation.

Recommendation - The Authority has a very well defined procurement policy that complies with the New Mexico Procurement Code. The Authority utilizes a requisition form that documents all of the requirements for small purchases and has sections that list the purchase order, chart of account coding, and space set aside to document the three required vendors contacted to obtain quotes. However, this form does not document when the requirement must be met for obtaining an invitation for bid (IFB) or request for proposal (RFP). We feel that this form should be updated to reflect when the expenditure must be made meeting the IFB and RFP requirements as stated in the Authority's procurement policy.

Views of Responsible Officials and Planned Corrective Actions Response – The purchase requisition form has been revised as recommended by the auditor. The agency makes every effort to follow procedures as defined in the procurement policy. In this one instance, controls were overridden to accomplish this purchase. It has been determined that this particular procurement situation involved no conflict of interest, no bribe or kick back. The Board of Directors has been made aware of this event.

**STATE OF NEW MEXICO
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FOR THE YEAR ENDED JUNE 30, 2011**

CURRENT YEAR FINDINGS (Continued)

Item 2011-5- Construction of Landfill Cells 7 & 8 – Material Deficiency

Statement of condition

The Authority received a colonias grant for the New Mexico Department of Finance and Administration to help finance the construction of landfill cells 7 & 8. The construction of the base cell liners commenced in the spring of 2011 after a contract with a construction and development company was approved by the board of directors of the Authority.

The scope of the work was to be completed as described in the specifications and drawings designed by an independent New Mexico licensed engineer who would act as the representative of the Authority and would assume the duties and responsibilities assigned to the engineer in completion of the work in accordance with the contract documents.

The contract was in the amount of \$345,019 which would include mobilization, furnish and install a geosynthetic clay liner, furnish and install a geomembrane liner, furnish HDPE pipe.

An Authority employee, did not allow the licensed engineer to oversee the construction of the cells as called for in the contract documents and used the engineer's preliminary drawings which were not date stamped, and did not have the seal and signature of the engineering firm. The construction and development company utilized these preliminary drawings to commence the work on the cell construction without the supervision of the independent licensed engineer. The employee substituted himself as the supervising engineer during this part of the construction phase.

Billing documents indicate that the construction and development company had completed approximately 95% of the work stated in the contract by June 14, 2011.

Subsequent to June 30, 2011, the New Mexico Environmental Department made a site visit to inspect the construction of the cell liners for Cells 7 & 8 and found numerous construction flaws with the installation of the cell liners at that time.

Criteria – As per 20.9.4.14 of the New Mexico Solid Waste rules and regulations, the construction and installation of all liners and final covers shall be done in accordance with a quality control plan approved in the permit for construction. All testing and evaluation of liners shall be certified by a professional engineer licensed in New Mexico and experienced in liner installation, and shall be completed prior to the placement of the protective cover. All field testing of liners and final covers shall be the responsibility of an individual experienced in liner or cover installation and soils or geotextile engineering

Cause - The New Mexico Environmental Department (NMED) at that time cited the fact that the liners were installed without the supervision of a licensed New Mexico engineer and that the plans and drawing utilized were preliminary and not date stamped by the appropriate licensed engineer. The NMED considers that the construction flaws noted during inspection were the result of lack of proper supervision by a licensed engineer or engineering firm and that the plans and drawings followed by the cell liner construction company were not complete as noted above.

**STATE OF NEW MEXICO
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CURRENT YEAR FINDINGS (Continued)

Item 2011-5- Construction of Landfill Cells 7 & 8 – Material Deficiency (Continued)

Effect – The New Mexico Environmental Department (NMED) will not allow the Authority to commence utilizing cells 7 & 8 until such time as the construction flaws noted in the inspection mentioned above are repaired and remedied. The Authority to be able to repair and remedy the construction flaws noted by the NMED and to be able to open these cells for accepting solid waste, has utilized a different professional engineering firm to oversee a new contract with a different liner construction company to reinstall the HDPE liner for cells 7 & 8. When the cell liners have are reinstalled and the flaws are remedied, the total cost of this project from start to completion may exceed \$900,000. The original estimate for construction of cells 7 & 8 would have been much lower than the estimated \$900,000 when complete if the rules and regulations of NMED were followed.

The Authority estimates the completion date of the repairs for cells 7 & 8 to be May of 2012.

The financial effect of the construction flaws noted originally by NMED is that an additional cost of more than \$400,000 has been incurred to repair and make cells 7 & 8 ready to accept solid waste.

Recommendation - We recommend that the Authority, its board of directors, and employees follow all applicable New Mexico Environmental Department rules and regulations at all times.

Management response and planned corrective action - The agency received authorization from the New Mexico Environmental Department on July 11, 2012 to begin the use of Cell Number 7 for permanent waste disposal.

It has always been the agency's intent to follow the New Mexico Environmental Department's rules and regulations. The agency will follow the auditor's recommendation.

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CURRENT YEAR FINDINGS (Continued)

Item 2011-6-Financial Assurance for Closure/Post Closure – Significant Deficiency

Statement of condition

The Authority has obtained only two estimates (2001 and 2009) in the last ten (10) years or opinions of the cost in current dollars, to hire a third party to close the largest area of the facility ever requiring closure under 20.9.6 NMAC at any time during the life of the landfill. This estimated cost should include estimated costs for an independent project manager and contract administration.

Criteria – Section 20.9.10.9 of the New Mexico Solid Waste Rules state the operator of a solid waste landfill in the state of New Mexico shall file a copy of the estimate with the New Mexico Environmental Department (NMED) annually along with proof of financial assurance and shall notify the department that copies have been placed in the operating record.

This portion of the rules and regulations of NMED also state that during the active life of the facility, the operator shall adjust the closure estimate for inflation, installation of final cover material on any areas at final grade and any other factors affecting closure costs. A copy of the adjusted closure cost estimate shall be placed in the operating record. The owner or operator shall increase the amount of financial assurance if changes to the closure plan conditions increase the maximum closure at any time during the remaining life by over three (3) percent of the current financial assurance amount.

Cause – It appears that the Authority has obtained an independent assessment or opinion of Landfill Closure and Post Closure cost only twice in a ten year period. The authority has designated two bank accounts as restricted for the financial assurance requirement under the above mentioned regulations, however only one account is styled for “Financial Assurance.” The time deposit account that has not been styled as for Financial Assurance is just in the name of the Authority.

Effect – The Authority has approved the 2009 current closure estimate in early 2010 to be used in the June 30, 2011 fiscal audit. It must be noted that there has been little or no inflation during the period June 30, 2010 through June 30, 2012.

In addition to this the time deposit account that is not styled as restricted for financial assurance could possibly be diverted to a use other than that of financial assurance if not restyled for “Financial Assurance.”

Recommendation – We recommend that the Authority follow the New Mexico Environmental Department (NMED) rules and regulations at all times. In addition to this the time deposit account not styled as restricted for financial assurance be done so as soon as possible.

Management response and planned corrective action – An annual estimate report will be submitted to the New Mexico Environmental Department (NMED) to document proof of financial assurance. This will include obtaining current cost for projected closure cost of the facility and calculation the effect of inflation on this cost estimate. Account styling will be implemented to assure financial assurance accounts are in agreement with financial assurance documents.

**STATE OF NEW MEXICO
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FOR THE YEAR ENDED JUNE 30, 2011**

Item 2011-7-Budget Procedures not Followed – Significant Deficiency

Statement of Condition

The Authority adopted a budget for fiscal year ending June 30, 2011 with the approval of its board of director's; however it did not submit it to the New Mexico Department of Finance and Administration (NMDFA) for their approval and certification.

The Authority started the construction of a new capital improvement project. The current budget did not reflect this project, thus the expenditures on capital improvements was in excess of that budgeted. In addition, the legislative grant a source of funding for the project was not included in the budget nor was the IRS levy. The result of these omissions was that the Authority overspent their legally adopted budget of expenses by \$152,872.

Criteria – The Authority follows the procedures that are promulgated by the New Mexico Department of Finance and Administration, Local Government Division (NMDFA LGD) including the budget process.

Effect – The Authority is not in compliance with the state requirements as per 6-6-2 of the NMSA 1978 statutes.

Cause – Frequent change in personnel.

Recommendation – The Authority should prepare a budget for each fiscal year and submit it to the New Mexico Department of Finance on or before June 1, make corrections, revisions and amendments to the proposed budgets as may be necessary to meet requirements of law by July 31 of each year. The Authority should monitor its budget to actual and amend the budget as new funding or capital improvements are identified to manage their financial condition effectively.

Management response and planned corrective actions – The Authority's accounting personnel including Diana Temple, Dora Medina, along with Board Chairman, Alex Brown met on January 31, 2013 with Paul Ludi of the New Mexico Department of Finance and Administration (NMDFA). At this meeting, it was acknowledged that the fiscal year June 30, 2011 and 2012 budgets and quarterly reports were never sent to the NMDFA. The delinquent budgets, quarterly reports, and minutes indicating the board of director's approval were then submitted and discussed with Mr. Paul Ludi of the NMDFA. Mr. Ludi agreed that the NMDFA would review the FY 2011 and FY 2012 budget reports and issue a retroactive approval for these years. The FY 2013 budget for the Authority has been submitted to the NMDFA and approved as of the date of these financial statements. The Authority will continue to monitor this matter and assure that the proper budgeting procedures in accordance with the state requirements as per 6-6-2 of the 1978 NMSA statutes will be followed in the future.

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

Exit Conference

The audit report for the fiscal year ended June 30, 2011, was discussed during the exit conference held on February 6, 2013. Present for the Authority was Alex Brown, chairman board of directors: Danny Legarreta, acting landfill manager, Diana Temple, executive assistant, Dora Medina budget analyst, and Carney Foy CPA, consultant. Present for the auditing firm was John A. Ciavarella, CPA

Financial Statement Presentation

The auditing firm John A. Ciavarella CPA, PC prepared the audit report that contains the financial statements and notes to the financial statements of the Authority as of and for the year-end June 30, 2011. The Authority engaged Carney Foy CPA to perform all accruals and deferrals to adjust the general ledger as necessary in order to present financial statements in accordance with generally accepted accounting principles. This accountant also performed all depreciation calculations for the Authority.