STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2012

FIERRO & FIERRO, P.A.
Certified Public Accountants • 527 Brown Road • Las Cruces, NM 88005 • (575) 525-0313 • FAX (575) 525-9708

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
Table of Contents
June 30, 2012

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
DIRECTORY OF OFFICIALS
JUNE 30, 2012

Board of Directors

Member	*Position*	*Entity Represented*
Alex C. Brown	Chairman	Town of Silver City
Jon Saari	Vice-Chairman	Grant County
Edward Encinas	Treasurer	Town of Hurley
Richard Bauch	Member	Village of Santa Clara
Brett Kasten	Member	Grant County
Charles Kelly	Member	City of Bayard
James Marshall	Member	Town of Silver City
Vacant	Member	Hidalgo County

Administrative Staff

Danny Legarreta	Acting Manager
Diana Temple	Executive Assistant

FIERRO & FIERRO, P.A. CERTIFIED PUBLIC ACCOUNTANTS

Ed Fierro, CPA • Rose Fierro, CPA

527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.com

Independent Auditors' Report

Hector H. Balderas, State Auditor
and
Board of Directors
Southwest Solid Waste Authority
Silver City, New Mexico

We have audited the accompanying basic financial statements of Southwest Solid Waste Authority (Authority), as of and for the year ended June 30, 2012, as listed in the table of contents. We have also audited the schedule of revenues, expenditures and changes in cash balance budget (non-GAAP budgetary basis) with reconciliation to GAAP presented as supplementary information, 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 the 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 financial position of the Authority as of June 30, 2012, and the changes in its financial position and its cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparison schedule referred to above present fairly, in all material respects, the budgetary comparison of the Authority for the year ended June 30, 2012 in conformity with the budgetary basis of accounting more fully described in Note 1C, 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 July 23, 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 agreements 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 or 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 omitted the management's discussion and analysis that is required to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparison. The accompanying schedule of cash accounts and schedule of pledged collateral on pages twenty-six and twenty-seven are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management, and was derived from, and related directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting, and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Fierro + Fierro, P.A.

Fierro & Fierro, P.A.
Las Cruces, New Mexico

July 23, 2013

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

Assets:		
Current assets:		
Cash	$	118,674
Receivables, net of allowances for doubtful accounts:		
Accounts		270,192
Intergovernmental		31,807
Total current assets		420,673
Noncurrent assets:		
Restricted cash		182,705
Restricted investments		233,000
Capital assets:		
Capital assets, not being depreciated		1,064,879
Other capital assets, being depreciated		1,323,295
Unamortized debt issuance costs		11,267
Total noncurrent assets		2,815,146
Total assets	$	3,235,819
Liabilities:		
Current liabilities:		
Accounts payable	$	115,372
Accrued salaries		17,715
Accrued liabilities		19,859
Accrued interest payable		5,210
Current maturities of liabilities:		
Notes payable		204,462
Capital lease payable		26,062
Compensated absences		22,050
Total current liabilities		410,730
Noncurrent liabilities:		
Notes payable		1,052,422
Compensated absences		33,081
Landfill closure and post-closure		771,968
Total noncurrent liabilities		1,857,471
Total liabilities		2,268,201
Net Assets:		
Invested in capital assets, net of related debt		1,105,228
Unrestricted		(137,610)
Total net assets		967,618
Total liabilities and net assets	$	3,235,819

The accompanying notes 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, 2012

Operating Revenues:		
Charges for services (net of provision of $10,600 for doubtful accounts)	$	1,621,723
Operating Expenses:		
Personnel services		863,787
Depreciation		365,063
Landfill closure and post-closure		339,331
Fuel		188,169
Repairs and maintenance		106,511
Insurance		46,134
Supplies		32,895
Utilities		23,430
Professional services		20,859
Monitoring wells		16,273
Transfer stations		16,585
Administrative		13,448
Recycle disposal fees		11,946
Training and continuing education		5,104
Amortization		2,108
Total operating expenses		2,051,643
Operating (loss)		(429,920)
Non-Operating Revenues (Expenses):		
Miscellaneous income		11,018
Interest income		3,034
Interest expense and other charges		(56,537)
Total non-operating revenues (expenses)		(42,485)
(Loss) before contributions		(472,405)
Capital contributions		58,283
Change in net assets		(414,122)
Net assets, beginning of year		1,335,880
Restatement		45,860
Net assets, beginning of year, restated		1,381,740
Net assets, end of year	$	967,618

The accompanying notes 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, 2012

Cash Flows From Operating Activities:	
Cash received from customers	$ 1,562,297
Cash payments to employees for services	(846,861)
Cash payments to suppliers for goods and services	(476,597)
Net cash provided by operating activities	238,839
Cash Flows from Non-Capital Financing Activities:	
Cash refund from Internal Revenue Service	39,565
Miscellaneous cash revenues	13,484
Net cash provided by non-capital financing activities	53,049
Cash Flows From Capital and Related Financing Activities:	
Capital contributions	244,805
Acquisition of capital assets	(402,157)
Principal payments on capital debt	(232,069)
Interest and other charges on capital debt	(57,419)
Net cash (used) by capital and related financing activities	(446,840)
Cash Flows From Investing Activities:	
Redemption of investments	6,770
Interest income	3,034
Purchase of investments	(2,620)
Net cash provided by investing activities	7,184
Net (decrease) in cash	(147,768)
Cash and cash equivalents, beginning of year	329,352
Cash and cash equivalents, end of year	$ 181,584
Displayed as:	
Cash	$ 118,674
Restricted cash	182,705
Time deposits not considered cash equivalents	(119,795)
	$ 181,584

The accompanying notes 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, 2012

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating (Loss)	$ (429,920)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	365,063
Landfill closure and post-closure	331,396
Bad debts	10,600
Amortization	2,108
Write-off IRS tax levy refund	1,636
Refund reduction of expense	(2,466)
Change in Assets and Liabilities:	
(Increase) in accounts receivable	(60,827)
(Increase) in intergovernmental receivable	(6,674)
Increase in accounts payable	13,522
(Decrease) in accrued salaries	(382)
Increase in payroll taxes liability	9,752
(Decrease) in accrued sales tax	(2,525)
Increase in compensated absences	7,556
Total adjustments	668,759
Net cash provided by operating activities	$ 238,839

The accompanying notes are an integral part of these 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 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 government's accounting policies are described below:

A. Reporting Entity

In evaluating how to define the reporting entity for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the reporting entity was made by applying the criteria set forth in GAAP. 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 manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of 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. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, the Authority has no component units.

B. Basis of Presentation and Accounting

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation and Accounting (continued)

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this limitation. The Authority has elected not to follow subsequent private-sector guidance.

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.

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 of related debt; restricted; and unrestricted components. The Authority's operating statements present increases (revenues) and decreases (expenses) in net total assets.

C. Budgets

The budget 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgets (continued)

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 by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding.

The budget is prepared on the non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year.

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 expenses, 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 total fund level.

For the current fiscal year, the Authority failed to obtain DFA approval of the budget. Further, the Authority budgeted a deficit cash balance at the end of the fiscal year and expended amounts greater than the budgetary authority.

D. Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as certificates of deposit.

State statutes authorize the government to invest in interest bearing accounts with local financial institutions, direct obligations 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, in an amount not less than 50% of the uninsured 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. Inventory

Inventories consist of supplies held for consumption and are recorded at the lower of cost or market on a first in, first out basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the current fiscal year, are recorded as prepaid items.

H. Restricted Assets

Certain long-term assets are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purposes such as funds set aside for future closure and post-closure liability.

I. 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 normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Prior to June 17, 2005, the Authority defined capital assets as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Effective June 17, 2005, in accordance with state statutes, the Authority changed its capitalization threshold to include only assets with a cost of $5,000 or more. All assets capitalized prior to June 17, 2005 that are property of the Authority remain on the financial and accounting records of the Authority.

Major outlay 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 assets 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 and software, furniture, and fixtures	5-7 years
Building improvements	20 years
Vehicles	5-7 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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, Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Annual leave is earned according to the following schedule:

Length of Employment	Full-Time Employee
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 to 9 years	4.62 hrs/pay period
10 to 14 years	5.62 hrs/pay period
15 years +	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.

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 one 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 one 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.

K. 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 prior to the incurrence of 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. 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.

M. 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 or 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.

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

N. Cash Flows

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments, including restricted cash with maturity of three months or less when purchased, to be cash equivalents.

O. 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 at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH

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 or 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 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 which 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 Lordsburg, New Mexico and in Silver City, New Mexico. The Authority's deposits are carried at cost.

As of June 30, 2012, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

	Per Institution	Reconciling Items	Per Financial Statements
Cash on hand	$ -	$ 65	$ 65
Western Bank	215,919	(34,400)	181,519
AmBank	119,795	-	119,795
Total cash deposits	$ 335,714	$ (34,335)	$ 301,379

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

Statement of Net Assets:	
Cash	$ 118,674
Restricted cash	182,705
	$ 301,379

Except for items in transit, the carrying value of deposits by the respective depositories 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 certificates of deposit).

2. CASH (continued)

Cash Deposited With Financial Institutions (continued)

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.

	Western Bank	AmBank
Checking accounts	$ 146,498	$ -
Savings and time deposits	69,421	119,795
Total cash deposits	215,919	119,795
Less: FDIC coverage	215,919	119,795
Total uninsured public funds	$ -	$ -
Pledged securities	$ 250,000	$ -
Collateral requirements (50% of uninsured public funds)	-	-
Over (under) collateralization	$ 250,000	$ -

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

According to the Federal Deposit Insurance Corporation, public unit deposits are owned by the public unit. Time deposits, savings deposits, and interest bearing money market accounts at a public institution in the same state will be insured up to $250,000 in aggregate and separate from the $250,000 coverage for public unit demand deposits at the same institution.

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 returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2012, none of the Authority's bank balance of $335,714 was exposed to custodial credit risk.

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:

Restricted Cash

The Authority has accumulated cash in the amount of $182,705. The cash is designated by the Authority to offset the landfill closure and post-closure liability.

3. RESTRICTED ASSETS (continued)

Investments Held by Fiscal Agent

At June 30, 2012, the restricted investments are composed of the following:

Debt service	$	31,530
Debt reserve		201,470
	$	233,000

Bank of Albuquerque, N.A.

The Authority has cash, in the amount of $31,530, invested at the Bank of Albuquerque, N.A., Trust Department, Albuquerque, New Mexico. The cash is invested as part of note agreements and covenants the Authority has with the New Mexico Finance Authority. The cash is invested in an Invesco premier U.S. Government Money Portfolio fund. The fund is composed of 64.4% government agency debt; 34.9% other repurchase agreements; .6% Treasury debt; and .1% variable rate demand notes. The market value at June 30, 2012, reflected by the trust department is $31,530. The investments are valued at fair market value based on quoted market prices, as of the valuation date. The fund is rated AAA_m by Standard and Poor's.

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 the 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 Invesco Premier U.S. Government Money Portfolio fund weighted average maturity is 42.83-day WAM.

Bank of New York Mellon Trust Company

The Authority has entered into two loan agreements with the New Mexico Finance Authority (Authority). As part of the agreements, the Authority has placed debt reserves into an account at the Bank of New York Mellon Trust Company.

The Authority's reserve funds, in the amount of $201,470, are invested at the trust company in Federated Government Obligations Fund. That fund invests primarily in short-term U.S. Treasury and government securities. The market value at June 30, 2012, reflected by the trust department, is $201,470. The investments are valued at fair value based on quoted market prices as of the valuation date. The Federated Government Obligations Fund is rated AAA_m by Standard and Poor's.

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 the securities held in a portfolio will decline if market interest rates rise.

3. RESTRICTED ASSETS (continued)

Interest Rate Risk (continued) – 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 Federated Government Obligations Fund No. 5's weighted average maturity is 49-day WAM. The Authority does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012, consisted of the following:

Charges for services	$ 303,292
Allowance for doubtful accounts	(33,100)
	$ 270,192

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

5. INTERGOVERNMENTAL RECEIVABLE

The amount due from other governments at June 30, 2012, consisted of the following:

Grant County	$ 30,161
Internal Revenue Service	1,646
	$ 31,807

The Authority anticipates that the receivables will be collected in full, and no allowance for doubtful accounts has been recorded.

6. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2012:

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	$ 234,798	$ -	$ -	$ 234,798
Construction in progress	357,948	472,133	-	830,081
Total capital assets, not being depreciated	592,746	472,133	-	1,064,879

6. CAPITAL ASSETS (continued)

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
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	1,671,758	5,000	-	1,676,758
Office equipment	11,357	-	-	11,357
Office furniture	2,022	-	-	2,022
Vehicles	459,431	-	-	459,431
Total other capital assets, being depreciated	4,998,183	5,000	-	5,003,183
Less accumulated depreciation:				
Landfill improvements	(1,303,703)	(208,196)	-	(1,511,899)
Buildings	(403,586)	(38,030)	-	(441,616)
Building improvements	(89,703)	(11,789)	-	(101,492)
Equipment	(1,186,832)	(83,861)	-	(1,270,693)
Office equipment	(11,357)	-	-	(11,357)
Office furniture	(2,022)	-	-	(2,022)
Vehicles	(317,622)	(23,187)	-	(340,809)
Total accumulated depreciation	(3,314,825)	(365,063)	-	(3,679,888)
Other capital assets, net	1,683,358	(360,063)	-	1,323,295
Total capital assets, net	$ 2,276,104	$ 112,070	$ -	$ 2,388,174

7. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2012, consisted of the following:

Health insurance	$ 17,539
NM income tax withheld	1,012
State unemployment tax	851
NM governmental sales tax	415
Federal payroll tax	42
	$ 19,859

8. LONG-TERM OBLIGATIONS

During the fiscal year, the Authority discovered that compensated absences related to accrued sick leave had been incorrectly reflected as a liability. The Authority has restated the beginning of year balance compensated absences liability.

Changes in long-term debt during the year ended June 30, 2012, were as follows:

	Balance 06/30/11	Restatement	Restated Balance 06/30/11	Additions	Deletions	Balance 06/30/12	Amounts Due Within One Year
Lease purchase payable	$ 60,580	$ -	$ 60,580	$ -	$ (34,518)	$ 26,062	$ 26,062
Notes payable	1,454,435	-	1,454,435	-	(197,551)	1,256,884	204,462
Landfill closure and post-closure costs	440,572	-	440,572	331,396	-	771,968	-
Compensated absences	93,435	(45,860)	47,575	25,277	(17,721)	55,131	22,050
	$ 2,049,022	$ (45,860)	$ 2,003,162	$ 356,673	$ (249,790)	$ 2,110,045	$ 252,574

Lease Purchase Payable

The Authority has entered into a capital lease agreement to purchase equipment. The economic substance of the agreement, is that the Authority is financing the purchase of the asset through the lease agreement and, accordingly, is recorded as a liability within the Authority's accounting records. The obligation under the capital lease agreement has been recorded in the accompanying financial statements at its present value of future minimum lease payments discounted at 4.70% annually, as stated in the contract. Included in capital assets, is equipment acquired under the capital lease with an acquisition cost of $176,824.

The following is a schedule of future minimum lease payments, together with the present value as of June 30, 2012.

Total minimum payments through June 30, 2013	$ 26,527
Less amounts representing imputed interest necessary to reduce future lease payments to net present value.	465
Present value of minimum lease payments	$ 26,062

Annual debt service requirements are as follows:

Due in the year ended June 30:

	Principal	Interest	Total
2013	$ 26,062	$ 465	$ 26,527

8. LONG-TERM OBLIGATIONS (continued)

Note Payable – 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. This 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 $221,706 at June 30, 2012.

Annual debt service requirements are as follows:

Due in the year ended June 30:

	Principal	Interest	Total
2013	$ 52,570	$ 7,564	$ 60,134
2014	54,377	5,892	60,269
2015	56,324	4,087	60,411
2016	58,435	2,121	60,556
	$ 221,706	$ 19,664	$ 241,370

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 is $805,325 at June 30, 2012.

Annual debt service requirements are as follows:

Due in the year ended June 30:

	Principal	Interest	Total
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	141,337	10,784	152,121
2018	146,920	5,568	152,488
	$ 805,325	$ 104,358	$ 909,683

8. LONG-TERM OBLIGATIONS (continued)

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 $250,000 from the Town of Silver City for a total of $300,000. These notes bear interest at 4.80% annually and mature in April 2019. The balance of the notes is $120,324 at June 30, 2012.

Annual debt service requirements are as follows:

Due in the year ended June 30:

	Principal	Interest	Total
2013	$ 15,465	$ 5,439	$ 20,904
2014	16,225	4,679	20,904
2015	17,022	3,882	20,904
2016	17,857	3,047	20,904
2017	18,733	2,171	20,904
2018-2019	35,022	1,562	36,584
	$ 120,324	$ 20,780	$ 141,104

Note Payable – Grant County

On March 29, 2004, the Authority borrowed $50,000 from Grant County, and on May 5, 2004, the Authority borrowed $150,000 from Grant County 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 $109,529 at June 30, 2012.

Annual debt service requirements are as follows:

Due in the year ended June 30:

	Principal	Interest	Total
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	16,572	2,069	18,641
2018-2019	34,069	1,591	35,660
	$ 109,529	$ 19,336	$ 128,865

8. LONG-TERM OBLIGATIONS (continued)

Landfill Closure and Post-Closure Costs

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. 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. These requirements are known as "financial assurance" for closure, assessment and post-closure activities. Only the post-closure groundwater monitoring costs are a certain cost. Normally, closure and assessment costs will be funded from the normal operating budget; therefore, the estimated financial assurance costs are recognized as a liability. The estimated liability for landfill closure, assessment, and post-closure care costs is $771,968 as of June 30, 2012, which is based on forty-five percent (43.70%) usage (filled) or the landfill. As of June 30, 2012, the Authority has set aside cash in the amount of $182,705 for the liability.

The total current estimated cost of the landfill closure, assessment and post-closure care is $1,766,518, which 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, 2012. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The Authority is required by the state of New Mexico Environmental Regulation Board to demonstrate financial assurance for the post-closure costs.

9. RESTATEMENT OF NET ASSETS

During the current fiscal year, the Authority discovered that compensated absences as of June 30, 2011 were overstated by $45,860. The error related to the inclusion of accrued sick leave that had not vested. The net assets at June 30, 2011, in the amount of $1,335,880 have been increased by $45,860. The restated net assets at June 30, 2011 are $1,381,740.

10. EXCESS EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2012, the Authority's appropriations were $2,012,451. During the year, the Authority expended $2,090,103, thereby exceeding the appropriations by $77,652. The Authority will establish procedures to ensure appropriate controls over the purchasing process, including timely budget adjustments where required.

11. 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).

11. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

Plan Description (continued)

The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement 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, publicly 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 available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 7% (ranges from 3.83% to 16.65% depending upon the plan – i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fires, municipal detention officer) of their gross salary. However, the governing board has elected to be responsible for making contributions of seventy-five percent (75%) of the employees' member contributions to PERA. 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 7.0% to 25.72% depending upon the plan); however, due to the election to remit 5.25% of the employees share the amount remitted 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, 2012, 2011 and 2010 were $58,502, $62,483, and $70,343, respectively, which equal the amount of the required contributions for each fiscal year.

12. POST-EMPLOYMENT BENEFITS

The Retiree Health Care Act, Chapter IV, Article 7C, NMSA 1978 provides a comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Authority has elected not to participate in the post-employment health insurance plan.

13. CONSTRUCTION COMMITMENTS

As of June 30, 2012, the Authority was completing construction on two landfill cells. With the exception of one vendor, all construction costs had been paid. The remaining contract not completed totaled $110,291, of which $50,291 had been paid, thus leaving a construction commitment of $60,000.

14. 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, a public entity risk pool currently operates as a common risk management and insurance program for local governments. The Authority pays an annual premium to New Mexico Self-Insured Fund for its general insurance coverage, and all risk of loss is transferred.

15. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by 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.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Operating Revenues:						
Charges for services, net	$ 1,675,147	$ 1,675,147	$ 1,562,297	$ 59,426	$ 1,621,723	$ (112,850)
Operating Expenses:						
Personnel services	1,066,800	953,086	846,861	16,926	863,787	106,225
Depreciation	-	-	-	365,063	365,063	-
Landfill closure and post-closure	5,000	7,000	7,935	331,396	339,331	(935)
Fuel	155,000	155,000	171,748	16,421	188,169	(16,748)
Repairs and maintenance	142,329	142,392	104,247	2,264	106,511	38,145
Insurance	50,000	45,000	46,035	99	46,134	(1,035)
Supplies	44,200	44,200	31,938	957	32,895	12,262
Utilities	22,000	22,000	22,377	1,053	23,430	(377)
Professional services	31,500	74,500	14,411	6,448	20,859	60,089
Monitoring wells	9,000	9,000	16,005	268	16,273	(7,005)
Transfer stations	29,000	29,000	16,288	297	16,585	12,712
Administrative	27,000	27,000	11,275	2,173	13,448	15,725
Recycle disposal fees	15,000	15,000	11,946	-	11,946	3,054
Training and continuing education	9,500	9,500	5,104	-	5,104	4,396
Amortization	-	-	-	2,108	2,108	-
Rent	-	10,000	17,288	(17,288)	-	(7,288)
Total operating expenses	1,606,329	1,542,678	1,323,458	728,185	2,051,643	219,220
Operating income (loss)	68,818	132,469	238,839	(668,759)	(429,920)	106,370
Non-Operating Revenues (Expenses):						
Refund payroll tax levy	-	-	39,565	(39,565)	-	39,565
Miscellaneous income	-	-	13,484	(2,466)	11,018	13,484
Interest income	-	-	10	3,024	3,034	10
Capital outlay	(68,200)	(74,509)	(402,157)	402,157	-	(327,648)
Debt service - principal	(295,264)	(295,264)	(232,069)	232,069	-	63,195
Interest expense and other charges	-	-	(57,419)	882	(56,537)	(57,419)
Funding of closure/post-closure	(100,000)	(100,000)	(75,000)	75,000	-	25,000
Total non-operating revenues (expenses)	(463,464)	(469,773)	(713,586)	671,101	(42,485)	(243,813)
Capital contributions	43,392	43,392	244,805	(186,522)	58,283	201,413
Net change	(351,254)	(293,912)	(229,942)	$ (184,180)	$ (414,122)	63,970
Cash balance, beginning of year	91,931	91,931	91,931			-
Redemption of investments	-	-	6,770			6,770
Transfer from financial assurance account	-	-	249,915			249,915
Cash balance, end of year	$ (259,323)	$ (201,981)	$ 118,674			$ 320,655

Explanation of Differences:

Change in receivables	$ 60,827
Change in Grant County receivable	6,674
Change in grant receivable	(186,522)
Change in IRS receivable	(39,565)
Change in accounts payable	(13,522)
Change in accrued salaries	382
Change in accrued payroll liabilities	(9,752)
Change in accrued sales taxes	2,525
Change in accrued interest payable	882
Change in compensated absences	(7,556)
Change in lease purchase	34,518
Change in long-term debt	197,551
Transfer to financial assurance account	75,000
Interest income earned by investments	3,024
Capital outlay	402,157
Depreciation	(365,063)
Landfill closure and post-closure	(331,396)
Bad debts	(10,600)
Amortization of debt issuance costs	(2,108)
Write-off - IRS receivable	(1,636)
	$ (184,180)

SUPPLEMENTAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2012

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
Western Bank P.O. Box 490 Lordsburg, NM 88045-0490				
SW Solid Waste Authority	Checking	$ 146,498	$ (34,400)	$ 112,098
SW Solid Waste Authority	Savings	6,511	-	6,511
SW Solid Waste Authority	Savings	62,910	-	62,910
		$ 215,919	$ (34,400)	$ 181,519
AmBank P.O. Box 2677 Silver City, NM 88062-2677	Time Deposit	$ 119,795	$ -	$ 119,795

STATE OF NEW MEXICO
SOUTHWEST SOLID WASTE AUTHORITY
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2012

Western Bank
P.O. Box 490
Lordsburg, NM 88045-0490

Security	CUSIP	Maturity	Par Value
Carlsbad NM BRH	142723AY1	08/01/16	$ 250,000

The holder of the security pledged by Western Bank is the Federal Home Loan Bank of Dallas, Attn: Securities Safekeeping Department, 8500 Freeport Parkway South, Suite 100, Irving, TX 75063.

ADDITIONAL INDEPENDENT AUDITORS' REPORT

FIERRO & FIERRO, P.A. CERTIFIED PUBLIC ACCOUNTANTS

Ed Fierro, CPA • Rose Fierro, CPA

527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.com

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

Hector H. Balderas, State Auditor
and
Board of Directors
Southwest Solid Waste Authority
Silver City, New Mexico

We have audited the basic financial statements and budgetary comparison presented as supplementary information of Southwest Solid Waste Authority (Authority), as of and for the year ended June 30, 2012, and have issued our report thereon dated July 23, 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 *Government 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 for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose 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 responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness, and another deficiency that we consider to be a significant deficiency.

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 deficiency described in the accompanying schedule of findings and responses to be a material weakness. The material weakness is identified as item 2011-01.

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 deficiency described in the accompanying schedule of findings and responses to be a significant deficiency. The significant deficiency is identified as item 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 laws, 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*, and which are described in the accompanying schedule and responses as items 2011-01, 2011-06, and 2011-07.

We noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as items 2010-01, 2011-03, 2011-04, 2012-01, 2012-02, 2012-03 and 2012-04.

The Authority's responses to the finding identified in our audit are 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.

This 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 Legislature, New Mexico Department of Finance and Administration Local Government Division, and is not intended to be and should not be used by anyone other than these specified parties.

Fierro + Fierro, P.A.

Fierro & Fierro, P.A.
Las Cruces, New Mexico

July 23, 2013

SECTION II – FINDINGS – FINANCIAL STATEMENTS

Item 2010-01 – Other – Travel and Per Diem

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

- There was one instance where an employee did not receive correct partial day per diem. The total amount not reimbursed to the employee was $8.
- There was one instance where a board member was paid a stipend payment **and** mileage for attending the same board meeting. The members have the option of a stipend payment or mileage, but not both.
- There were two instances where the employees did not complete the travel reimbursement form correctly. The dates and time are not complete.
- There was one instance where the mileage rate was incorrect. The total amount overpaid to the employee was $22.10.
- There was one instance where the employee was paid for a partial day per diem that was not required. The total amount overpaid to the employee was $12.
- There were eleven instances where there was no documentation to support travel.
- There were two instances where the travel reimbursement form was not approved by the authorized supervisor.

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.

Section 2.42.2.8B provides guidance regarding the per diem computation. In particular, subsection one discusses the partial day per diem computation methods.

Section 2.48.2.8B (2) provides guidance regarding partial day reimbursement when the return is made from overnight travel.

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

Cause – The Authority staff lacks a complete understanding of the Per Diem and Mileage Act in order to process the travel forms correctly.

Recommendation – We recommend the Authority staff review the Per Diem and Mileage Act to ensure compliance with the Act. We recommend the Authority provide training to their employees concerning the Per Diem and Mileage Act.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2010-01 – Other – Travel and Per Diem (continued)

Views of Responsible Officials and Planned Corrective Actions – Staff will review the Mileage and Per Diem Regulations to ensure that all travel regulations are being followed properly. The Authority Staff will also have follow up training with all the employees of the Authority, as to ensure they understand their responsibilities as well.

Item 2011-01 – Material Weakness – Submission of Audit Report

Statement of Condition – The audit report for the fiscal year ended June 30, 2012, was due to the New Mexico State Auditor's office by December 1, 2012. The audit report was submitted on July 30, 2013 to the Office of the New Mexico State Auditor.

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

In an effort to assist in compliance with the timely filing of audit reports, Governor Susana Martinez signed Executive Order 2013-006 on May 2, 2013, establishing uniform funding criteria, grant management, oversight requirements for grants of state capital outlay appropriations by state agencies to other entities. The executive order has instructed the Department of Finance and Administration (DFA) to establish uniform funding criteria for a grantee to be eligible for a grant from the state of New Mexico. One such requirement is "*a grantee's annual audit for the most recently concluded fiscal year must be a public record pubic record pursuant to NMSA 1978, Section 12-6-5(A).*"

Effect – Prior to the signing of Executive Order 2013-006, there were little consequences in submitting a late audit report. The executive order has given DFA legal authority to reject or delay funding of state capital outlay. While the Authority does not receive state capital outlay on an annual basis, from time to time, they are awarded such funding as demonstrated by the recent grant award of $407,000. Continual delays in submitting the audit report, as required by the New Mexico State Auditor's office, could jeopardize future capital outlay funding.

Cause – The audit report for the fiscal year ended June 30, 2011, was not completed and made a matter of public record until April 29, 2013; thus, not allowing the commencement of the audit fieldwork for the fiscal year ended June 30, 2012, until June 2013. There were many reasons for the delay of the audit, as explained in the prior year's report and, by the accounting staff of the Authority. The most compelling explanation, and one the Authority can control for missing the December 1st deadline, is completion of the year-end accounting processes in a timely manner. The prior year's auditor explained he did not receive all the year-end records until mid-November. If that claim is valid, the completion of the report by December 1st is nearly impossible.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2011-01 – Material Weakness – Submission of Audit Report (continued)

Recommendation – We recommend all documents, supporting schedules, year-end adjustments, and accounting records requested by the auditor, are ready for audit within sixty days after year-end. Furthermore, we recommend the Authority to arrange an audit start day as soon as the auditor's schedule will allow.

Views of Responsible Officials and Planned Corrective Actions – Staff will ensure that all documentation required by the Auditor is available in a timely basis. The Authority has already awarded an RFP to the Auditor for FY 2013 and will be ready when his schedule allows.

Item 2011-03 – Other – Untimely Payroll Tax Deposits and Report

Statement of Condition – During the course of the audit, we performed tests of the Authority's quarterly payroll tax reports. Our testing included federal tax deposits made by electronic funds transfer, which are made by using the Electronic Federal Tax Payment System (EFTPS), and the quarterly filing of the reports. The following discrepancies were discovered:

- There were three instances where the federal payroll tax payments, using the EFTPS program, were filed late. The Internal Revenue Service's Circular E publication states that the potential late filing penalty assessment would be $461.40.
- There was one instance where Form 941 report was filed late.

Criteria – The United States Department of the Treasury, Internal Revenue Service (IRS) requires timely filing of Form 941 reports one month after the end of the quarter. Furthermore, the IRS requires timely depositing of social security, Medicare taxes (both the employee and employer portions), and the employees' federal income taxes withheld. The Authority is a semi-weekly depositor of the taxes, which usually requires the taxes to be remitted to the IRS within three days after paying their employees.

Effect – Failure to deposit payroll taxes subjects the Authority to penalties imposed by the IRS.

Cause – This particular finding is repeated from the previous year's audit report; however, due to the delay in completing the 2011 audit, time elapsed without corrective action taken by the accounting staff. Computer issues, and no internet access, contributed to the untimely filing.

Recommendation – In the previous year's audit report, the Authority responded that they have developed a payroll processing due data schedule to ensure the timely payroll tax payments. We recommend the accounting staff review their procedures, and verify they are complying with the IRS requirements for the remittance of payroll taxes. If the Authority does not have internet access the payments can be made via telephone.

Views of Responsible Officials and Planned Corrective Actions – The agency did not receive a penalty for untimely reporting. Staff will be establishing a deadline schedule of all reporting, and assure that all deadlines are met. Each staff member will check that the deadlines have been met.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2011-04 – Other – Procurement Code

Statement of Condition – During our testing of the Authority's procurement process, we discovered the following deviations of the New Mexico Procurement Code:

- A construction vendor was awarded a bid amount of $66,880 for materials for the construction of cells seven and eight of the landfill. The vendor was actually paid $67,132, an overage of $252. A change order was not prepared or executed.
- Another construction vendor was awarded a bid amount of $218,932 for the purchase and installation of a secondary liner for cells seven and eight of the landfill. The vendor was actually paid $219,715, an overage of $783. A change order was not prepared or executed.

Criteria – The purpose of the New Mexico Procurement Code [Sections 13-1-28 through 13-1-199 NMSA 1978] is to provide for the fair and equitable treatment of all persons involved in public procurement, to maximize the purchasing value of public funds and to provide safeguards for maintaining a procurement system of quality and integrity. Section 13-1-143 allows the local public body to adjust any contractor award, if the body reasonable finds that such price was increased because the contractor-furnished cost or pricing data was inaccurate, incomplete or not current as of the date specified.

Effect – The Authority violated the procurement code by remitting payment in excess of awarded costs without proper documentation for price adjustments and board approval.

Cause – The vendor was overpaid $252 as a result of an improper conversion of tons to cubic yards. This was a one-time instance. In regards to the overpayment of $783, Authority staff failed to obtain a change order to document the reasons for the change.

Recommendation – We recommend the Authority staff review the provisions of the procurement code in regards to construction contracts, and establish processes to ensure compliance with the code.

Views of Responsible Officials and Planned Corrective Actions – The Authority will review all future payment applications to ensure that no change orders are required. The engineer on the project did not feel that a change order was required because these amounts were due to minor volume calculations, and were such minor dollar amounts.

Item 2011-06 – Other – Financial Assurance for Closure/Post Closure

Statement of Condition – Federal and state 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 cost associated for the closure and post-closure requirements are reflected as expenses during the years of operation, rather than at the time the landfill is closed.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2011-06 – Other – Financial Assurance for Closure/Post Closure (continued)

Statement of Condition (continued) – Within the permit for operations of the solid waste landfill, and regulations issued by the state of New Mexico Environmental Department (Department), the Authority is required to maintain cash reserves that fund the anticipated closure and post-closure liability.

As of June 30, 2012, the Authority failed to fund the required closure and post-closure liability. Additionally, during the fiscal year, the Authority withdrew $249,915 from the cash reserves, designed for the anticipated closure and post-closure liability, without the prior authorization of the Secretary of the Department. As of June 30, 2012, the Authority's resolution, issued in 2004 regarding the landfill assurance cash accounts, is outdated and does not align with the current closure and post-closure liability.

Criteria – The Department has issued rules and regulations in the form of the administrative code (NMAC) to govern the operation of the landfill. Within the permit issued, by the Department to the Authority, references are made to the administrative code and particular sections of the code that deal with different aspects of the operations. Section 20.9.10 NMAC details the financial assurance requirements that the Authority must adhere to. Section 20.9.10.20A NMAC requires the Authority to create reserve accounts that must be funded annually. Funding of the reserve fund shall be in conformance with the formulas specified in Section 20.9.10.14 NMAC. At June 30, 2012, the Authority requirement for cash reserves is $730,985, while the cash set aside in the reserve accounts is $182,705; thus causing a shortfall of $548,280.

Section 20.9.10.20A NMAC requires a resolution of the governing body be created to specifying the use of the funds only for purposes of closure, post-closure care, phase I or phase II assessments, or corrective action for the facility. The Authority's resolution, dated 2004, does not allow for any withdrawals of cash reserves other than for closure or post-closure care. Further, as required by Section 20.9.10.20A NMAC and the resolution passed by the governing board, withdrawal of the funds must have prior approval by the Secretary of the Department.

Effect – Failure to comply with the Department regulations could jeopardize the operations of the landfill. The Department could levy fines and penalties for not complying with their regulations and, in an extreme scenario, the Department could deny the renewal of the operations permit.

Cause – When the Town of Silver City, Grant County and the other governing members of the Authority created the Authority, the members underfunded the necessary capital to provide sufficient working capital for operations, and the purchase of heavy capital equipment needed to operate. Furthermore, the Town of Silver City and Grant County required that cash advanced, or equipment transferred, to the Authority be repaid in the form of debt payments that accrue interest. The combination of those two events left the Authority struggling to perform operations, and purchase large capital equipment that consumed cash reserves, resulting in the Authority not meeting its financial assurance requirement. The Authority failed to obtain annual cost estimations as to the closure and post-closure liability, until the past two years.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2011-06 – Other – Financial Assurance for Closure/Post Closure (continued)

Cause (continued) – As the years passed, the anticipated cost escalated with inflation and the Authority was unaware of the most current estimates. To further complicate the matters, critical management errors in judgment occurred during the construction of landfill cells seven and eight. The mismanagement has been documented in the audit report for the fiscal year ended June 30, 2011, in audit finding 2011-05. Because of the mismanagement, the Authority was forced to utilize $250,000 of the reserve accounts during the current fiscal year.

Recommendation – In order to be in compliance with Section 20.9.10.14 NMAC, the Authority must immediately fund the deficit cash reserves assurance accounts. We recommend the governing members fund the deficit with cash transfers; the Town of Silver City and Grant County supplying the majority of the cash. The transfers should be allocated based upon each government's usage of the landfill.

As the Authority goes forward, serious consideration should be given to increase the landfill fees. The cost of the closure and post-closure must be funded as the landfill is utilized. The Authority's governing board has the responsibility to ensure the financial assurance obligation is met, as waste is accepted into the landfill. If the governing board is reluctant to raise rates, then it has the responsibility to devise a formula that subsidizes the operations from the member governments, in order that the Authority properly funds the financial assurance as required by the Department.

Views of Responsible Officials and Planned Corrective Actions – As a condition of the sludge permit, the Authority's staff was required to meet with the Solid Waste Bureau. During this meeting, a plan to update the financial assurance estimates was developed, and we will continue to meet with the bureau to monitor our progress. During the same meeting, Authority staff did make the bureau aware of the transfer of funds from the financial assurance and our plan to replace the funds. Authority staff was unaware of the requirement that the cabinet secretary had to approve the transfer, so the Bureau staff explained the requirements. The Authority staff will follow all Environment Department requirements in the future.

Auditing Firm Response – The Authority's response failed to address the funding of the deficit balance within the financial assurance accounts. The Authority has informed us that they are attempting to refinance their debt and place $250,000 into the financial assurance accounts. While that would assist in helping with the deficit borrowing cash is not going to solve the underlining problem. The Authority is not generating sufficient cash reserves from operations.

The Authority has been in operation since 1996 and as of June 30, 2012 the total amount of cash set aside for the closure and post closure is $182,705. Under the present rate structure, and the existing working capital, the Authority will not save sufficient cash to fund the closure and post-closure liability. Within Section 20.9.10 NMAC there are several methods to provide assurance to the Department that the proper funding is being accumulated.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2011-06 – Other – Financial Assurance for Closure/Post Closure (continued)

Auditing Firm Response (continued) – While some of the options, such as local government financial test (Section 209.10.19 NMAC), would work in different situations (such as the Town of Silver City or Grant County owning the landfill), the only method for the Authority to meet financial assurance, is the funding of the local government reserve fund as described in Section 20.9.10.20 NMAC.

The Authority faces two significant problems; (1) how to fund the current deficit and (2) how to fund the future liability. The Authority's Board of Directors and management must address the problem.

Item 2011-07 – Significant Deficiency – Authorized Budget and Required Reporting Documents

Statement of Condition – The following items were noted regarding the legally adopted budget and reporting information required by the state of New Mexico:

- The original and final 2012 budget, prepared by the Authority, was not submitted to the New Mexico Department of Finance and Administration (DFA) for approval.
- The Authority failed to submit quarterly reports for the fiscal year to the DFA Local Government Division (LGD).
- The Authority failed to make the final 2012 approved budget a part of the minutes of the Authority.
- Both the original and final 2012 budget reflected expenditures in excess of beginning cash and anticipated revenues for the fiscal year. The original budget reflected beginning cash of $91,931 and anticipated revenues of $1,718,539 for a total of $1,810,470. The Authority projected expenditures to be $2,069,793 resulting in a negative cash balance of $259,323. The final budget reflected beginning cash of $91,931 and anticipated revenues of $1,718,539 for a total of $1,810,470. The Authority projected expenditures to be $2,012,451 resulting in a negative cash balance of $201,981.
- The final budget authorized the Authority to expend $2,012,451 during the fiscal year ended June 30, 2012. During the fiscal year, the Authority expended $2,090,103, thereby exceeding the authorized authority by $77,652.

On January 31, 2013, the Authority's accounting personnel and Board chair met with the LGD to discuss the delinquent reports and budgets. The Authority was instructed to submit the delinquent budgets and the quarterly reports. The Authority had hoped for retroactive approval of the delinquent 2012 budget. As of the day of the exit conference, the Authority had not received approval.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2011-07 – Significant Deficiency – Authorized Budget and Required Reporting Documents (continued)

Criteria – Section 6-6-2A NMSA 1978 requires the Authority to furnish and file with the LGD on or before June 1st a proposed budget for the next fiscal year. Once the budget is approved by LGD it becomes binding on the Authority. Section 6-6-2F NMSA 1978 states that periodic financial reports are at least quarterly to the LGD. Section 6-6-5 NMSA 1978 requires the Authority to make the final approved budget part of the minutes of Board of Directors. Section 6-6-2K NMSA 1978 authorizes the LGD to prescribe the form for all budgets. LGD requires that projected expenditures for the fiscal year cannot exceed beginning cash balances along with anticipated revenues. Section 6-6-6 NMSA 1978 states the approved budget becomes binding upon all officials and governing authorities and no governing authority or official shall allow or approve claims in excess of the budget.

Effect – Section 6-6-6 NMSA 1978 states that checks issued in excess of the authorized budget shall be a liability against the officials so allowing or paying those claims or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials. Section 6-6-10 NMSA 1978 states that any official who allows expenditures in excess of the authorized budgetary restrictions shall be deemed guilty of a misdemeanor and upon conviction thereof shall be punished by a fine of not more than $500 or by imprisonment for not more than six months or both and upon conviction under the section the position shall be declared vacant.

As discussed in Item 2011-01 *Submission of Audit Report*, Governor Susana Martinez signed executive order 2013-006 on May 2, 2013, establishing uniform funding criteria, grant management, oversight requirements for grants of state capital outlay appropriations by state agencies to other entities. Within the executive order paragraph 2A states DFA shall establish criteria for a grantee to be eligible for a state grant. In addition to the requirement stating that the audit report must be submitted on a timely basis there is provision that states "*the grantee must have a budget approved by its oversight agency (if any) for the current fiscal year and be in compliance with any financial reporting requirements.*"

Cause – The Authority's accounting personnel failed to submit the budget and the quarterly reports to LGD. The governing board failed to determine and follow-up on the status of the approved budget and document the approval at a public meeting.

Recommendation – We recommend the Authority establish operating procedures to ensure that the necessary documents are prepared and submitted to the LGD on a timely basis. Additionally, we recommend the Authority's accounting personnel present the approved budget to the Board of Directors in a public meeting and seek the Board's approval of the budget, and that approval, should be documented within the official minutes of the governing board.

Views of Responsible Officials and Planned Corrective Actions – The Authority will establish operating procedures to ensure that the necessary documents are prepared and submitted to the LGD on a timely basis. Additionally, the Authority's accounting personnel will present the approved budget to the Board of Directors in a public meeting and seek the Board's approval of the budget, and that approval, should be documented within the official minutes of the governing board.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-01 – Other – Agency Credit Cards

Statement of Condition – The Authority has two credit cards held in its name: a Wal-Mart card used to purchase office and cleaning supplies; and a Chevron card used to fuel company vehicles on out-of-town travel. For the fiscal year ended June 30, 2012, we tested fifty-one transactions for items purchased with the Wal-Mart card, and nineteen transactions tested for fuel purchased with the Chevron card. The following discrepancies were noted:

- There were eight instances where vehicle fuel, purchased with the Chevron credit card, had no receipt or other form of support attached to the payment voucher. Additionally, no purchase orders or requisitions were completed for the fuel purchases. The total amount expended, with no supporting documentation, was $445.78. Additionally, the Authority is not maintaining a vehicle usage log to document the number of miles between refueling for each vehicle.

Criteria – Section 6-6-3(A) NMSA 1978 requires every local public body shall *"keep all the books, records and accounts in their respective offices in the form prescribed by the local government division"* of the New Mexico Department of Finance and Administration. This would require the Authority to maintain accounting records, such as cancelled invoices or receipts that provide substantiation for the expenditure of public funds, in order to be in compliance with New Mexico State Statutes. The Authority has established accounting procedures for the purchase of goods and services paid for with checks. Such procedures include purchase orders, purchase requisitions and the retention of the original invoice. All items are necessary in order to remit payment to the vendor. The Authority has not established procedures that apply to the use of the credit cards for fuel purchases.

Effect – The purpose of requiring a purchase order is to ensure sufficient funds are available for the purchase. Not complying with the established internal control procedures could allow purchases to be made that cannot be paid with the established appropriation. Not maintaining an invoice or receipt, could call into question whether the Authority received the goods or services. In order to render payment, the Authority must insure the goods and services have been received. By not having an accurate and complete reconciliation of credit card transactions, fuel could be purchased for vehicles that don't belong to the Authority, without any knowledge of Authority staff.

Cause – The Authority's accounting personnel is composed of two individuals and, given their normal duties, they did not have sufficient time to ensure all fuel receipts were accounted for on a monthly basis. Additionally, the staff assumed the credit card statement would provide sufficient supporting documentation to support the purchase.

Recommendation – We recommend the Authority review its policies and procedures concerning the authorized use of its credit cards. After such review, all necessary changes or adjustments should be instituted as soon as possible.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-01 – Other – Agency Credit Cards (continued)

Views of Responsible Officials and Planned Corrective Actions – The credit cards are used only for fuel for out of town travel. The Authority will train staff on the requirements of returning receipts for travel. The card was used for travel so an estimate was on the travel form, so no purchase order should have been required.

Item 2012-02 – Other – Stale Checks

Statement of Condition – During our review of the Authority's year-end bank reconciliations, we discovered the Authority has six stale checks, totaling $1,276.68, on its outstanding check register. The six checks where dated on various days in 2010. The Authority failed to void outstanding checks, which have been outstanding greater than 365 days, as per the Authority's bank account policies.

Criteria – The Authority's cash policy is to investigate old outstanding checks. Stop payments are issued as required, and replacement checks are reissued after appropriate documentation has been collected. After the annual review of all checks over a year old is completed, they are voided.

Once the checks are voided, and the owner of the funds cannot be located, the funds are subject to the Unclaimed Property Act. Section 7-8A of the New Mexico State Statutes, *The Uniform Unclaimed Property Act (1995)*, sets forth the processes and requirements of a holder of property (Authority) to report to the administrator annually by November 1st for the prior period ending July 1st of that year. It also specifies the notification requirements to the property owner.

Effect – The Authority is in non-compliance with their policy and procedures concerning the voiding of stale checks. Additionally, the Authority has failed to comply with the Uniform Unclaimed Property Act. Monies owed to vendors, others, and employees of the Authority, should be paid timely. Non-compliance with New Mexico State Statutes subjects the Authority to penalties and punishment defined by state statute.

Cause – The accounting staff failed to adhere to the cash policy established by the Authority by voiding the stale checks. The staff was unaware of the requirements of the Uniform Unclaimed Property Act.

Recommendation – We recommend the Authority review their outstanding check register as of the end of each month, to determine which checks meet the requirements of the cash policy. Once the checks are voided, and the owner of the funds cannot be located, the funds should be remitted to the State as required by the Uniform Unclaimed Property Act.

Views of Responsible Officials and Planned Corrective Actions – Staff will review and void all outstanding checks.

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-03 – Other – Board of Directors Official Minutes

Statement of Condition – During the review of the Authority's Board of Directors board minutes, we discovered five instances where draft copies of the minutes were not prepared and ready for approval at the subsequent Board of Directors regular meeting.

- The board minutes for the meeting held on June 13, 2011, were not presented and approved until November 16, 2011.
- The board minutes for the meetings held on February 22, 2012, April 13, 2012, May 7, 2012, and June 6, 2012, were not presented and approved until November 20, 2012.

Criteria – Section 10-15-1G NMSA 1978, commonly known as the Open Meetings Act, requires that draft minutes be prepared within ten working days after the meeting, and be approved, amended or disapproved at the next meeting where a quorum is present.

Effect – Noncompliance with the Open Meetings Act places the Authority officials in jeopardy of punishment defined by state statutes.

Cause – The Authority was experiencing management changes and the board meetings were not held on a regular basis.

Recommendation – We recommend the Authority implement administrative procedures to ensure compliance with New Mexico State Statutes. Furthermore, we recommend the Authority seek training regarding the proper maintenance of the official board meetings in order to meet the requirements of the Open Meetings Act.

Views of Responsible Officials and Planned Corrective Actions – The Authority will implement administrative procedures to ensure compliance with New Mexico State Statutes. The Authority will also seek training regarding the proper maintenance of the official board meetings in order to meet the requirements of the Open Meetings Act.

Item 2012-04 – Other – Violation of the New Mexico Constitution

Statement of Condition – During our review of purchases made using the Wal-Mart credit card, we discovered $383 of purchases for candy, coffee, sugar, and food for meals. The sample size was eleven purchases through the year that totaled $3,867. Such purchases are considered donations and, as such, are in violation of the anti-donation clause, New Mexico Constitution Article IX, Section 14.

Criteria – New Mexico Constitution Article IX, Section 14 states, *"neither the state, nor any county, school district, or municipality, except as otherwise provided in this constitution, shall directly or indirectly lend or pledge its credit, or make any donation to or in aid of any person, association or public or private corporation. A donation within the meaning of this provision is a "gift", an allocation or appropriation of something of value, without consideration."*

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-04 – Other – Violation of the New Mexico Constitution (continued)

Effect – Noncompliance with the state constitution could subject the Authority to sanctions defined within state statutes.

Cause – The staff did not believe the purchase of such items were in violation of the state constitution.

Recommendation – We recommend the Authority discontinue the practice of purchasing snacks and miscellanea for the employees.

Views of Responsible Officials and Planned Corrective Actions – The Authority will discontinue the practice of purchasing snacks and miscellanea for the employees, although we believe that when staff is required to remain on the premises for required training during their lunch break, that we should be able to provide lunch.

STATUS OF PRIOR YEAR'S FINDINGS

Item 2010-01 – Other – Travel and Per Diem

The prior year's auditor noted that the mileage reimbursement was incorrectly calculated. During the current year, we noted problems within the travel and per diem reimbursements. The audit finding is not considered resolved and is repeated as Item 2010-01.

Item 2010-02 – Significant Deficiency – Depositing of Cash Receipts

The prior year's auditor noted that the Authority was not depositing cash receipts within one business day. He also noted that four transactions were deposited several weeks after the receipt of cash. During our testing of cash receipts, we noted the Authority placed a great deal of effort to make timely deposits of cash receipts. While there were a few deposits deposited a three or four days after receipt of the cash, the majority of our test items revealed deposits were made within two working days. The audit finding is considered resolved.

Item 2011-01 – Other – Submission of the Audit Report

The audit report for the fiscal year ended June 30, 2011 was submitted to the New Mexico State Auditor fifteen months late and was approved on April 29, 2013. The audit for the current year did not begin until June 2013 which is seven months after the due date. The audit finding has been modified and repeated as Item 2011-01. For the current fiscal year, the audit finding is considered a material weakness in internal control and a compliance issue.

Item 2011-02 – Other – Late NM Taxation and Revenue Department CRS Reports

The prior year's auditor noted two monthly CRS reports had not been filed timely to the New Mexico Taxation and Revenue Department. During the current fiscal year, all reports were filed on a timely basis. The prior year's finding is considered resolved.

STATUS OF PRIOR YEAR'S FINDINGS (continued)

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

The prior year's auditor noted two instances of late federal payroll tax deposits for the fiscal year ended June 30, 2011. During our tests of compliance with deposit requirements and filing of the payroll reports for the current fiscal year, we noted some late deposits and one instance were the report was filed late. The finding has been modified and is repeated as Item 2011-03.

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

The prior year's auditor noted an instance where the Authority expended $23,900 without seeking competitive bids. During the current year, we noted errors in the purchase of goods and services on two separate occasions. The audit finding is modified and repeated as Item 2011-04. For the current fiscal year, the audit finding is considered a compliance issue and not a significant deficiency in internal control.

Item 2011-05 – Material Weakness – Construction of Landfill Cell 7 and 8

The prior year's auditor noted that the construction of two landfill cells had been mismanaged. The mismanagement caused the Authority to double the cost of the construction. While the errors caused additional working capital to be absorbed unnecessarily, the construction has been completed and approved by the New Mexico Environment Department. The finding is considered resolved.

Item 2011-06 – Significant Deficiency – Financial Assurance for Closure/Post Closure

The prior year's auditor noted the Authority had not filed an annual cost estimate for landfill closure and post closure with the New Mexico Environment Department. The Authority received a revised cost estimate for 2012 and 2013 and those were filed with the Department; however, the Authority has not funded the required financial assurance for the landfill closure and post-closure liability. The audit finding has been modified and repeated as Item 2011-06. For the current fiscal year, the finding is considered a compliance matter rather than a significant deficiency in internal control.

Item 2011-07 – Significant Deficiency – Authorized Budget and Reporting Documents

The prior year's auditor noted the Authority failed to have proper approval from the state of New Mexico for its budget for the fiscal year ended June 30, 2011. Similar problems existed for the budget for the fiscal year ended June 30, 2012; therefore, the audit finding has been modified and repeated as Item 2011-07.

EXIT CONFERENCE

The audit report for the fiscal year ended June 30, 2012, was discussed during the exit conference held on July 26, 2013. Present for the Authority was Alex Brown, chairman board of directors; and Diana Temple, executive assistant. Present for the auditing firm was Ed Fierro, CPA.

FINANCIAL STATEMENT PREPARATION

The auditing firm of Fierro & Fierro, P.A., Certified Public Accountants, prepared the audit report that contains the financial statements and notes to the financial statements of the Authority as of and for the year ended June 30, 2012. The Authority engaged another certified public accountant 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. The accountant also performed all depreciation calculations for the Authority.