

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
INDEPENDENT AUDITORS' REPORT
AND ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2008

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INTRODUCTORY SECTION

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**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Annual Financial Report
June 30, 2008**

Official Roster
June 30, 2008

<u>Name</u>	<u>Title</u>
<u>Board of Directors</u>	
Billy Moore	Chairman
Larry Carver	Vice-Chairman and Secretary / Treasurer
Jay Azua	Member
Tom Trujillo	Member
Lance Allgood	Member
Josie Chavez	Member
Tony Gallegos	Member
<u>Administrative Officials</u>	
Kit Southern	Executive Director

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
 FOR THE YEAR ENDED JUNE 30, 2008
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FINANCIAL SECTION

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Griego Professional Services, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Northwest New Mexico Regional Solid Waste Authority
And
Mr. Hector H. Balderas
New Mexico State Auditor

We were engaged to audit the accompanying basic financial statements of the Northwest New Mexico Regional Solid Waste Authority (the Authority), as of and for the year ended June 30, 2008. We were also engaged to audit the statement of revenue and expenses – budget to actual, presented as supplemental information, as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Authority's management.

We were not able to obtain sufficient records to complete our audit procedures. As a result, we were not able to verify or correct many balances on the financial statements. We were also unable to sufficiently test the internal controls of the Authority.

Because we were not able to satisfy ourselves concerning the balances on the financial statements or the internal controls of the Authority as explained in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010 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, and 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.

For the year ended June 30, 2008, the Authority has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements and budgetary comparisons. The supplemental schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Griego Professional Services, LLC

Albuquerque, New Mexico
October 28, 2010

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2008

Exhibit A-1

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,551,987
Accounts receivable, net of allowance for doubtful accounts	704,167
Investments - restricted	1,682,901
Operations inventory	82,835
Prepaid expenses	8,863
Deferred charge - revenue bond issuance costs	18,924
Total Current Assets	4,049,677
Noncurrent Assets	
Capital assets	12,776,701
Less: accumulated depreciation	(5,972,496)
Total Noncurrent Assets	6,804,205
Other Assets	
Deferred charge - revenue bond issuance costs	117,242
Total other assets	117,242
Total Assets	\$ 10,971,124

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2008

Exhibit A-1

	Governmental Activities
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 435,274
Wages, payroll taxes and benefits payable	26,274
Gross receipts taxes payable	23,161
Environmental GRT payable	47,553
Accrued interest and fees	33,475
Current maturities of accrued compensated absences	38,750
Current maturities of bonds payable	521,054
Current maturities of capital leases payable	114,078
Total Current Liabilities	1,239,619
Long-Term Liabilities	
Bonds payable, net of current maturities	3,781,869
Capital Leases payable, net of current maturities	369,271
Unamortized bond premium	25,475
Estimated liability for landfill closure costs	1,522,000
Total Long-Term Liabilities	5,698,615
Total Liabilities	6,938,234
Net Assets	
Invested in capital assets, net of related debt	2,017,933
Restricted for:	
Debt service	903,595
Landfill closure	779,306
Unrestricted	332,056
Total Net Assets	4,032,890
Total Liabilities and Net Assets	\$ 10,971,124

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

Exhibit B-1

<i>Operating Revenues:</i>	
Tipping fees	\$ 3,197,503
Miscellaneous income	12,534
Special projects revenue	151,335
<i>Total operating revenues</i>	<u>3,361,372</u>
<i>Operating Expenses:</i>	
Personnel services	845,304
Employee benefits	389,431
Contractual services	59,975
Repairs and maintenance	405,425
Landfill closure / postclosure	334,840
Insurance	52,753
Utilities	37,367
Fuel and travel	453,517
Supplies	89,094
Rent	237,131
Depreciation	641,059
Other	57,593
<i>Total operating expenses</i>	<u>3,603,489</u>
<i>Operating income</i>	<u>(242,117)</u>
<i>Non-operating revenues (expenses)</i>	
Interest income	101,514
Debt service - interest	(250,806)
<i>Total non-operating revenues (expenses)</i>	<u>(149,292)</u>
<i>Net income before contributions</i>	(391,409)
<i>Contributions of capital</i>	<u>600,394</u>
<i>Change in net assets</i>	<u>208,985</u>
<i>Net assets beginning of year</i>	<u>3,823,905</u>
<i>Net assets end of year</i>	<u><u>\$ 4,032,890</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

Exhibit C-1
 Page 1 of 2

<i>Cash Flows from Operating Activities</i>	
Cash received from customers	\$ 3,285,605
Cash payments to suppliers for goods and services	(1,252,860)
Cash payments to employees for services	(1,030,814)
<i>Net cash provided by operating activities</i>	<u>1,001,931</u>
 <i>Cash Flows from Capital and Related Financing Activities</i>	
Capital contributed by members	600,394
Purchase of capital assets	(1,332,110)
Repayment of long-term debt, less issuance of new debt	(193,204)
Interest and fees paid on long-term debt	(250,806)
<i>Net cash provided by capital and related financing activities</i>	<u>\$ (1,175,726)</u>
 <i>Cash Flows from Investing Activities</i>	
Interest on investments and deposits	104,552
<i>Net cash provided by operating activities</i>	<u>\$ 104,552</u>
<i>Net increase in cash and cash equivalents</i>	(69,243)
<i>Cash and cash equivalents, beginning of period</i>	<u>3,304,131</u>
<i>Cash and cash equivalents, end of period</i>	<u><u>\$ 3,234,888</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

Exhibit C-1
Page 2 of 2

<i>Operating income</i>	<u>\$ (242,117)</u>
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>	
Depreciation	640,145
Increase in landfill closure and postclosure cost estimate	334,840
Changes in assets and liabilities	
Accounts receivable	(75,767)
Operations inventory	(44,103)
Prepaid expenses	(425)
Accounts payable	388,536
Accrued expenses	(51,546)
Other noncurrent liability	53,947
Accrued interest	(1,579)
<i>Total adjustments</i>	<u>1,244,048</u>
<i>Net cash provided by operating activities</i>	<u><u>\$ 1,001,931</u></u>

The accompanying notes are an integral part of these financial statements.

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. Summary of Significant Accounting Policies

Northwest New Mexico Regional Solid Waste Authority was established on June 1, 1993, under a joint powers agreement entered into by the County of McKinley, the City of Gallup, the County of Cibola, the City of Grants, and the Village of Milan. It was the desire of the parties to form a Bi-County, regional solid waste disposal authority in order to fully comply with the Solid Waste Act, to provide for disposition of solid waste by establishing modern, and where possible, state of the art facilities for recycling and disposition of solid waste. Each entity of this agreement contributes two dollars per person, based on Census numbers. This is recorded as contributed capital. The term of the joint powers agreement is forty years and may be renewed. The Authority has no component units.

The financial statements of the Northwest New Mexico Regional Solid Waste Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the Northwest New Mexico Regional Solid Waste Authority's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB-14.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government:

1. Is entitled to the organization's resources;
2. Is legally obligated or has otherwise assumed the obligation to financial the deficits of, or provide financial support to the organization; or
3. Is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

The Northwest New Mexico Regional Solid Waste Authority did not have any component units during the fiscal year ended June 30, 2008.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. Summary of Significant Accounting Policies (Continued)

B. *Business-Type Activities*

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

C. *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Property taxes are recognized as revenues in the year for which they are levied.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred. Billed water and sanitation services receivables are recorded at year-end once operations begin.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues are charges to customers who purchase or use or directly benefit from the goods or services provided by the Authority.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. Summary of Significant Accounting Policies (Continued)

C. *Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)*

The proprietary fund is accounted for on a cost of services of "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and net assets components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority reports its proprietary fund as a major governmental fund.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Authority's enterprise fund is charges for customer services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. *Assets, Liabilities and Net Assets or Equity*

Cash and Temporary Investments: The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Authority to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the Authority are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Encumbrances: Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures in order to reserve that portion of the applicable appropriation, is not employed.

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

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. Summary of Significant Accounting Policies (Continued)

D. *Assets, Liabilities and Net Assets or Equity, continued*

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Capital Assets: Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Auto	3 years
Landfill Startup Costs	20 years
Landfill	100 years
Transfer Station	20 years
Buildings	30 and 40 years
Equipment and Machinery	5,7,10, and 15 years

Compensated Absences: Full time employees of the Authority are entitled to accumulate vacation and sick leave. Leave is granted according to a graduated leave schedule, depending on length of service, the employee's hire date and the employee's employment status. Upon termination, employees will be paid for accrued annual leave, but not for sick leave.

Long-term Obligations: In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Net Assets: In the Statement of Net Assets, net assets are displayed in three components:

Invested in capital assets, net of related debt: Consists of capital assets including restricted 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.

Restricted Net Assets: Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net assets are restricted for "debt service or capital projects."

Unrestricted Net Assets: All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. Summary of Significant Accounting Policies (Continued)

D. *Assets, Liabilities and Net Assets or Equity, continued*

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates affecting the Authority's financial statements include management's estimate of the useful lives of capital assets.

E. *Risk Management*

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters. The Authority is insured through a commercial insurance agency for all insurable risks and employee benefits. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage.

F. *Revenues*

The Authority opened the McKinley County transfer station on October 1, 1996. The tipping fee at this site is \$36.31 per ton, with a minimum charge of \$5.00. The Red Rock landfill was opened by the Authority on January 2, 1996. The tipping fee at this site is \$29.24 per ton with a minimum charge of \$5.00. The Authority opened the Cibola County transfer station in July 1997. The tipping fee at this site is \$36.31 per ton, with a minimum charge of \$5.00. The Authority operates all convenience centers in McKinley and Cibola Counties. The Authority considers tipping fees and other solid waste related revenue as operating revenue.

G. *Budgets and Budgetary Accounting*

The annual budget is adapted based on the cash basis of accounting. An annual appropriated budget was adopted for the proprietary fund. The budget was approved by resolution by the Board of Directors and the New Mexico Department of Finance and Administration. Any amendments would be approved by both the Board of Directors by resolution and the New Mexico Department of Finance and Administration. Formal budgetary integration is employed as a management control device during the year for the proprietary fund. The budgetary control is performed by the Authority at the fund level.

NOTE 2. Cash and Investments

State statutes authorize the investment of Authority funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Authority properly followed State investment requirements as of June 30, 2008.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Authority. Deposits may be made to the extent that they are insured by an agency of the United States 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.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2. Cash and Investments – (Continued)

Excess of funds may be temporarily invested 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.

The collateral pledged is listed on Schedule I of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, Authority or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

All of the investments of the Authority at June 30, 2008, were in short-term investments with a maturity date within a year of the date acquired by the Authority or in the State Treasurer's pooled investments. The investments are stated at cost, which also approximates market value.

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2008, \$1,376,615 of the Waste Authority's deposits of \$1,578,422 was exposed to custodial credit risk. \$882,378 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Waste Authority's name and \$494,237 was uninsured and uncollateralized. As of June 30, 2008, the carrying amount of these deposits was \$1,551,287.

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Authority for a least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico, Office of the State Auditor's requirements in reporting the insured portion of the deposits.

	<u>First Community Bank</u>	<u>First Federal Bank</u>	<u>Wells Fargo Bank</u>	<u>Total</u>
Total amounts of deposits	\$ 1,386,471	\$ 546	\$ 191,405	\$ 1,578,422
FDIC coverage	<u>(100,000)</u>	<u>(546)</u>	<u>(101,261)</u>	<u>(201,807)</u>
Total uninsured public funds	<u>1,286,471</u>	<u>—</u>	<u>90,144</u>	<u>1,376,615</u>
Pledged collateral held by pledging bank's trust department or agent but not in agency's name	<u>792,234</u>	<u>—</u>	<u>90,144</u>	<u>882,378</u>
Uninsured and uncollateralized	<u>\$ 494,237</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 494,237</u>
Collateral requirement (50% of uninsured public funds)	\$ 643,236	—	\$ 45,072	\$ 688,308
Pledged security	<u>792,234</u>	<u>—</u>	<u>99,362</u>	<u>891,596</u>
Total under (over) collateralized	<u>\$ (148,998)</u>	<u>\$ —</u>	<u>\$ (54,290)</u>	<u>\$ (203,288)</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2. Cash and Investments – (Continued)

Credit Risk. The Authority has no formal policy on managing credit risk. State law limits investments to United States Government obligations, commercial paper with A-1 or better ratings, corporate bonds with a BBB+ or better ratings, asset backed obligations with an AAA or better rating, or repurchase agreements.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority’s investment in a single issuer. The Authority has no formal policy limiting the amount of investments or deposits at any single institution or with any single issuer.

Investments. As of June 30, 2008, the Authority had the following investments:

New Mexico Finance Authority; Bond Sinking Fund	\$ 120,003
State Treasurer; Closure Sinking Fund	779,306
Bank of Albuquerque, New Mexico, Investment Account	<u>783,592</u>
	<u>\$ 1,682,901</u>

The investments held at the New Mexico Finance Authority and the Bank of Albuquerque are restricted for debt service. The investments held by the State Treasurer are restricted for landfill closure costs.

The closure sinking fund is invested with the State Treasurer Local Government Investment Pool (LGIP), which is not SEC registered. The State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Section 6-10-10 I through 6-10-10 P and Sections 6-10-10-1 A and E, NMSA 1978. The investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP investments are monitored by the same investment committee and the same policies and procedure that apply to all other state investments.

LGIP does not have unit shares. Per Section 6-10-10.1 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in this pool is voluntary. The independent auditors’ report, together with the financial statements, the accompanying notes to the financial statements, and the independent auditors’ report on compliance and internal controls are available from the New Mexico State Treasurer. 2019 Galisteo Street, Building K, Santa Fe, New Mexico 87504, upon written request.

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. The LGIP’s policy is to invest in securities with an average maturity of less than 182 days, or a 0.5 yearly average term. At June 30, 2008, the Authority’s investment of New MexiGROW LGIP had a credit risk rating of AAAM and a 46-day WAM.

NOTE 3. Accounts Receivable

Accounts receivable are comprised of amounts due from credit customers. These receivables are shown net of allowance for doubtful accounts. A summary of accounts receivable at June 30, 2008, is as follows:

Accounts receivable – credit customers	\$ 735,198
Allowance for doubtful accounts	<u>(31,031)</u>
Accounts receivable, net	<u>\$ 704,167</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4. Inventory

The operations inventory consists of filters, hoses, and miscellaneous parts needed on a regular basis for repair and maintenance of all Authority owned vehicles, trucks, and equipment. The inventory also includes stock fuel and lubricants. Upon receipt of the items, they are entered into current inventory stock at cost. When an item is used, it is deducted from the current stock. The Authority uses the First-In First-Out (FIFO) method for inventory valuation.

NOTE 5. Prepaid Expenses

The Authority has insurance policies that are paid in advance and are expensed monthly. The portion of insurance expense not used by June 30, 2008 is \$8,863.

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2008 follows.

	Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	Balance <u>June 30, 2008</u>
Capital Assets:					
Capital assets not being depreciated:					
Construction in progress	\$ 5,558	\$ —	\$ —	\$ (5,558)	\$ —
Total assets not being depreciated	<u>5,558</u>	<u>—</u>	<u>—</u>	<u>(5,558)</u>	<u>—</u>
Capital assets being depreciated:					
Landfill start-up costs	6,363,144	91,322	—	—	6,454,466
Landfill	776,214	—	—	—	776,214
Transfer station	2,068,103	—	—	—	2,068,103
Buildings	339,859	149,275	—	—	489,134
Furniture, fixtures & equipment	1,838,582	1,065,345	—	—	2,903,927
Vehicles	<u>53,131</u>	<u>31,726</u>	<u>—</u>	<u>—</u>	<u>84,857</u>
Total assets being depreciated	<u>11,439,033</u>	<u>1,337,668</u>	<u>—</u>	<u>—</u>	<u>12,776,701</u>
Total assets	<u>\$ 11,444,591</u>	<u>\$ 1,337,668</u>	<u>\$ —</u>	<u>\$ (5,558)</u>	<u>\$ 12,776,701</u>
Less Accumulated Depreciation:					
Landfill, transfer station & buildings	\$ 4,336,497	\$ 470,475	\$ —	\$ (914)	\$ 4,806,058
Furniture, fixtures & equipment	963,903	3,595	—	—	967,498
Vehicles	<u>31,951</u>	<u>166,989</u>	<u>—</u>	<u>—</u>	<u>198,940</u>
Total accumulated depreciation	<u>\$ 5,332,351</u>	<u>\$ 641,059</u>	<u>\$ —</u>	<u>\$ (914)</u>	<u>\$ 5,972,496</u>
Net Capital Assets	<u>\$ 6,112,240</u>	<u>\$ 696,609</u>	<u>\$ —</u>	<u>\$ (4,644)</u>	<u>\$ 6,804,205</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7. Long-Term Debt

During the year ended June 30, 2008, the following changes occurred in the liabilities reported in the statement of net assets:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Amount Due Within One Year
NMFA 1996	\$ 365,949	\$ —	\$ 41,085	\$ 324,864	\$ 42,318
NMFA 1995 Refunding	3,922,000	—	424,000	3,498,000	440,000
NMFA 1998	614,881	—	134,822	480,059	38,735
Lease Purchase	76,646	—	55,672	20,974	20,974
Compactor	—	500,000	37,625	462,375	93,104
Compensated Absence	49,673	45,125	56,048	38,750	38,750
Total Long-Term Debt	\$ 5,029,149	\$ 545,125	\$ 749,252	\$ 4,825,022	\$ 673,881

The Authority received a bond-funded loan in the amount of \$7,380,000 and cash funded loans in the amount of \$745,500 and \$1,615,353 from the New Mexico Finance Authority in prior years. These funds were used for the construction of a solid waste disposal facility and the various items associated with that facility, including transfer stations in McKinley and Cibola Counties.

The obligations are payable first from tipping fees generated by the Authority. Secondly, the governmental entities, pursuant to the debt agreements, have pledged the environmental gross receipts tax revenues, and the governmental entities grant a security interest therein for the payment of principal of, premium, if any, and interest on, and any other amounts due under the loans, subject to the uses thereof permitted by, and the priorities set forth. The loans constitute an irrevocable and first lien, but not necessarily an exclusive first lien, on the pledged revenues as set forth herein and therein.

The governmental entities have agreed to jointly exercise common powers and contributions in proportion to the percentage of the total population. This results in the following percentages:

City of Gallup	26%
City of Grants	10
Village of Milan	2
Cibola County	20
McKinley County	<u>42</u>
Total	100%

The bond-funded loan outstanding at year-end is in the amount of \$3,498,000, with an effective interest rate of 5.8822% and terms involving semi-annual payments for 20 years.

Annual debt service requirements to maturity for the bond funded loan, including interest and administrative fees of \$723,061 are as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 440,000	\$ 166,983	606,983
2010	458,000	149,444	607,444
2011	474,000	129,685	603,685
2012	497,000	106,367	603,367
2013	520,000	82,520	602,520
2014-2018	<u>1,109,000</u>	<u>88,062</u>	<u>1,197,062</u>
Total	<u>\$ 3,498,000</u>	<u>\$ 723,061</u>	<u>\$ 4,221,061</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7. Long-Term Debt (Continued)

One cash funded loan outstanding at year-end is in the amount of \$324,864, with an effective interest rate of 3% and terms involving semi-annual payments for 20 years.

Annual debt service requirements to maturity for the cash funded loan, including interest and administrative fees of \$40,062 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 42,318	\$ 9,728	\$ 52,046
2010	43,588	8,458	52,046
2011	44,895	7,151	52,046
2012	46,242	5,804	52,046
2013	47,630	4,417	52,047
2014-2018	<u>100,191</u>	<u>4,504</u>	<u>104,695</u>
Total	<u>\$ 324,864</u>	<u>\$ 40,062</u>	<u>\$ 364,926</u>

Another cash funded loan outstanding at year-end is in the amount of \$480,059, with an effective interest rate of 3.8% to 5.18% and terms involving semi-annual payments for 20 years.

Annual debt service requirements to maturity for the cash funded loan, including interest and administrative fees of \$144,233 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 38,735	\$ 24,139	\$ 62,874
2010	40,464	22,323	62,787
2011	42,308	20,389	62,697
2012	44,275	18,327	62,602
2013	46,374	16,128	62,502
2014-2018	<u>267,903</u>	<u>42,927</u>	<u>310,830</u>
Total	<u>\$ 480,059</u>	<u>\$ 144,233</u>	<u>\$ 624,292</u>

In 2006, the Authority entered into a lease purchase agreement for the lease purchase of two heavy duty trucks to be used in operations. The purchase price of the trucks was \$175,210.

The lease obligation outstanding at year-end is in the amount of \$20,974, with an effective interest rate of 9% and terms involving monthly payments for 3 years.

Annual debt service requirements to maturity for the lease obligation, including interest of \$249 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 20,974	\$ 249	\$ 21,223
Total	<u>\$ 20,974</u>	<u>\$ 249</u>	<u>\$ 21,223</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7. Long-Term Debt (Continued)

In 2008, the Authority entered into a lease purchase agreement for the lease purchase of a compactor to be used in operations. The purchase price of the compactor was \$778,245; the authority financed \$500,000.

The lease obligation outstanding at year-end is in the amount of \$462,375, with an effective interest rate of 4.4% and terms involving monthly payments for 5 years.

Annual debt service requirements to maturity for the lease obligation, including interest of \$49,032 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 93,104	\$ 18,482	\$ 111,586
2010	97,284	14,302	111,586
2011	101,652	9,934	111,586
2012	106,216	5,370	111,586
2013	<u>64,120</u>	<u>944</u>	<u>65,064</u>
Total	<u>\$ 462,375</u>	<u>\$ 49,032</u>	<u>\$ 511,407</u>

Authority employees are paid for vacation time and absence due to sickness by prescribed formulas. The employees accrue sick and vacation leave each pay period. Employees must be employed by the Authority for one year to accrue vacation leave. Vacation leave vests with employees, sick leave does not. Vested benefits as of June 30, 2008 were \$38,750. Vested benefits are calculated using the employee pay rates and applicable employer payroll taxes.

NOTE 8. Operating Leases

In 2004, the Authority entered into a lease agreement for a compactor to be used in operations. Terms of this agreement require the Authority to make 9 equal semi-annual payments of \$37,117, and one final payment of \$148,243, for a total of \$482,296.

In 2005, the Authority entered into a lease agreement for a scraper and backhoe loader to be used in operations. Terms of this agreement require the Authority to make 58 equal monthly payments of \$8,322, and one final payment of \$234,010, resulting in total payments of \$716,686.

In 2005, the Authority entered into a lease agreement for a track-type tractor to be used in operations. Terms of this agreement require the Authority to make 58 equal monthly payments of \$5,885, and one final payment of \$132,349, resulting in total payments of \$473,679.

NOTE 9. Economic Dependence – Customer Base

The Authority's five largest customers account for approximately 64% of the tipping fee revenue as of June 30, 2008. These customers are City of Gallup, McKinley Paper Company, Navajo Sanitation, Waste Management and the Zuni Transfer Station.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10. Closure and Post Closure Care Costs

State and federal laws and regulations require that the Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the fixture closure and post closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post closure care costs has a balance of \$1,522,000 as of June 30, 2008, which is based on 100% usage of the landfill. The estimated total current cost of the landfill closure and post closure care of \$1,522,000 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2008.

Subsequent to year-end, the Authority greatly increased the capacity of the landfill, and was issued a permit renewal for that expansion. Revised estimates are being prepared to determine estimated remaining life and future closure and post closure care costs considering the expansion.

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 closure and post closure care financial assurance requirements are not being met. As of June 30, 2008, the landfill was at 100% capacity and maintained a \$1,522,000 liability for closure and post closure care costs. However, the Authority's restricted investment with the New Mexico State Treasurer's Office carried a balance of \$779,306, a shortage of \$742,694. This investment is in U.S. Government Securities, and the investment is restricted for the payment of closure and post closure care costs.

NOTE 11. Risk Management

The Authority is exposed to various risks of loss related to torts; theft or damage to and destruction of assets, errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE 12. PENSION PLAN - Public Employees Retirement Association

Plan Description. Substantially all of the Northwest New Mexico Regional Solid Waste Authority's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit 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. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico, 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. The Authority is affiliated under Municipal General Member Coverage Plan 3. Plan members are required to contribute 13.15% of their gross salary. The Northwest New Mexico Regional Solid Waste Authority is required to contribute 9.15% of the gross covered salary. The Authority passed a resolution electing to be responsible for making contributions of 75% of the employees' member contributions. The contribution requirements of plan members and the Northwest New Mexico Regional Solid Waste Authority are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of legislature.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 12. PENSION PLAN - Public Employees Retirement Association (continued)

The Northwest New Mexico Regional Solid Waste Authority's contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were \$65,576, \$55,564, and \$69,076 for employer's contributions and \$45,629, \$79,854 and \$48,064 for employee's contributions respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 13. Post-Employment Benefits – State Retiree Health Care Plan

The Authority has elected not to participate in the retiree health care program.

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SUPPLEMENTARY INFORMATION

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO
Northwest New Mexico Regional Solid Waste Authority
Schedule of Collateral Pledged by Depository
June 30, 2008

Schedule I

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Fair / Par Market Value June 30, 2008</u>	<u>Name and Location of Safekeeper</u>
Wells Fargo	FNCL 884134 31410BHK3 6.00%, Due 05/01/36	\$ 99,362	Federal Reserve Bank
1st Community Bank	FFCB Agency Note 31331Q7A9 3.75% Due 8/4/09	126,043	Federal Reserve Bank
1st Community Bank	FHR 2802 NK 31394YP24 4.50% Due 7/15/23	360,283	Federal Reserve Bank
1st Community Bank	FHR 2763 JD 31394TKF1 3.50% Due 10/15/18	305,908	Federal Reserve Bank
		<u>\$ 891,596</u>	

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Northwest New Mexico Regional Solid Waste Authority
Schedule of Deposits and Investments
June 30, 2008

Schedule II

<u>Bank Account Type/Name</u>	<u>1st Community Bank</u>	<u>Wells Fargo</u>	<u>1st Federal Bank</u>	<u>Bank of Albuquerque</u>	<u>NM State Treasurer</u>	<u>Totals</u>
Deposit Accounts:						
FCB Operating	\$ 425,663	\$ -	\$ -	\$ -	\$ -	\$ 425,663
FCB ERGT	960,808	-	-	-	-	960,808
WF Operating	-	83,091	-	-	-	83,091
WF ERGT	-	107,052	-	-	-	107,052
FFB Checking	-	-	546	-	-	546
Total On Deposit	<u>\$1,386,471</u>	<u>\$190,143</u>	<u>\$ 546</u>	<u>\$ -</u>	<u>\$ -</u>	1,577,160
Investment Accounts:						
NM Finance Authority	\$ -	\$ -	\$ -	\$ 783,592	\$ -	\$ 783,592
Wells Fargo - CD	-	1,261	-	-	-	1,261
NM State Treasurer	-	-	-	-	899,309	899,309
Total On Deposit	<u>\$ -</u>	<u>\$ 1,261</u>	<u>\$ -</u>	<u>\$ 783,592</u>	<u>\$899,309</u>	1,684,162
Reconciling Items						(27,134)
Petty Cash						700
Reconciled Cash and Investments, June 30, 2008						<u>\$ 3,234,888</u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
BUDGET (NON-GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

Schedule III

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<i>Operating Revenues:</i>				
Tipping fees	\$ 3,425,000	\$ 3,425,000	\$ 3,197,503	\$ (227,497)
Miscellaneous income	14,000	14,000	12,534	(1,466)
Special projects revenue	720,000	720,000	151,335	(568,665)
<i>Total operating revenues</i>	<u>4,159,000</u>	<u>4,159,000</u>	<u>3,361,372</u>	<u>(797,628)</u>
<i>Operating Expenses:</i>				
Personnel services	701,400	701,400	845,304	(143,904)
Employee benefits	617,900	617,900	389,431	228,469
Contractual services	695,000	695,000	59,975	635,025
Repairs and maintenance	520,000	520,000	405,425	114,575
Landfill closure / postclosure	-	-	334,840	(334,840)
Insurance	70,000	70,000	52,753	17,247
Utilities	53,000	53,000	37,367	15,633
Fuel and travel	328,000	328,000	453,517	(125,517)
Supplies	46,500	46,500	89,094	(42,594)
Rent	330,000	330,000	237,131	92,869
Depreciation	-	-	641,059	(641,059)
Other	34,500	34,500	57,593	(23,093)
<i>Total operating expenses</i>	<u>3,396,300</u>	<u>3,396,300</u>	<u>3,603,489</u>	<u>(207,189)</u>
<i>Operating income</i>	<u>762,700</u>	<u>762,700</u>	<u>(242,117)</u>	<u>(1,004,817)</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	76,000	76,000	101,514	25,514
Debt service - interest	(210,000)	(210,000)	(250,806)	(40,806)
<i>Total non-operating revenues (expenses)</i>	<u>(134,000)</u>	<u>(134,000)</u>	<u>(149,292)</u>	<u>(15,292)</u>
<i>Net income before contributions</i>	628,700	628,700	(391,409)	(1,020,109)
<i>Contributions of capital</i>	<u>880,000</u>	<u>880,000</u>	<u>600,394</u>	<u>(279,606)</u>
<i>Change in net assets</i>	<u>\$ 1,508,700</u>	<u>\$ 1,508,700</u>	<u>\$ 208,985</u>	<u>\$ (1,299,715)</u>

The accompanying notes are an integral part of these financial statements

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COMPLIANCE SECTION

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Griego Professional Services, LLC

Certified Public Accountants

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*

Board of Directors
Northwest New Mexico Regional Solid Waste Authority
And
Mr. Hector H. Balderas
New Mexico State Auditor

We were engaged to audit the accompanying basic financial statements of the Northwest New Mexico Regional Solid Waste Authority (the Authority), as of and for the year ended June 30, 2008 and have issued our report thereon dated October 28, 2010. Because we were not able to satisfy ourselves concerning the balances on the financial statements as explained in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above. Except as discussed in the preceding sentence, 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

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 agency'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. (FS 02-04, FS 05-01, FS 06-01, FS 06-04, FS 07-01, FS 07-02, FS 07-03, FS 07-06, FS 07-07, FS 07-08, FS 07-09, FS 08-01, FS 08-02, FS 08-03, FS 08-04, FS 08-05, FS 08-06, FS 08-07, FS 08-08, FS 08-09, FS 08-10, FS 08-11 and FS 08-13)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items FS 02-04, FS 06-04, FS 07-01, FS 07-09 to be material weaknesses.

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 of findings and responses as items FS 07-02, FS 07-05, FS 08-02, FS 08-08, FS 08-11, FS 08-12 and FS 08-13.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Office of the State Auditor, and the Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

Grigo Professional Services, LLC

Albuquerque, New Mexico
October 28, 2010

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008

Schedule IV

Section I – Summary of Audit Results

Financial Statements:

1. Type of auditors' report issued	Disclaimer
2. Internal control over financial reporting:	
a. Material weakness identified?	Yes
b. Significant deficiency identified not considered to be a material weakness?	Yes
c. Control deficiency identified not considered to be a significant deficiency?	No
d. Noncompliance material to financial statements noted?	No

Section II – Financial Statement Findings

FS 02-04: Internal Controls Receipts

Criteria: Per the State of New Mexico Manual of Model Accounting Practices, Section FIN2.1-8 and Sections 6-10-2, 3, 13, NMSA 1978, State agencies must log or receipt all monies received at the time received, and shall document all monies received either with a pre-numbered receipt, or by entering them in a cash receipt log, that specifies the amount and date of the receipt, the source of revenue, and complete account coding information. Additionally, state agencies must deposit all monies received with the STO or with the authorized banking institution by the close of the next business day after receipt. Also, the amount deposited must be verified by an individual independent of the personnel who had access to the monies and/or deposit. Finally all monies collected by state agencies should be adequately safeguarded to ensure that they are deposited with the STO or with an authorized banking institution.

Condition: During our test work of cash receipts, we noted the following:

- 10 out of 20 receipts contained improper or no supporting documentation indicating from who and when the money was received
- 3 out of 20 receipts did not appear to receipt individual transactions, a total receipt was issued at the end of the day as a total cash collection

Cause: The Waste Authority has not emphasized the issuance or maintenance of adequate supporting documentation in cash receipt files.

Effect: The Waste Authority has incomplete files and it is difficult and or impossible to determine who money was received from, what it was received for, when it was received and when it was deposited.

Auditor's recommendation: We recommend the Waste Authority implement an appropriate receipting process which includes issuing all required documents and maintaining adequate files. This will decrease the threat of misappropriation and improper posting to the general ledger.

Management's Response: NWNMRSWA has implemented the recommended procedures. Proper supporting documentation is required for all cash receipt transactions.

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FS 05-01: Travel and Per Diem

Criteria: The Per Diem and Mileage Act requires agencies to keep records of travel expenses relating to mileage reimbursement and per diem reimbursements in order for the agencies to prove that they are following the per diem and mileage act.

Condition: During our testwork, we pulled a sample of five transactions and the client could not provide supporting documentation for any of the five transactions.

Cause: The Solid Waste Authority did not keep the supporting documentation available.

Effect: The Solid Waste Authority is not following the Mileage and Per Diem Act and is unable to prove their compliance.

Auditor's Recommendation: We recommend that the Solid Waste Authority maintain supporting documentation for all transactions in accordance with requirements.

Management's Response: NWNMRSWA will revise its policy to be in compliance with the NM Travel & Per Diem Act. All documentation must be attached before payment is made and will require supervisor signature for approval.

FS 06-01: Segregation of Duties

Criteria: Strong internal controls require that the individual evaluating the credit worthiness of potential customers should not be the same person who performs the billing and payment application function.

Condition: During our evaluation of the internal controls over accounts receivable we found that the person who processes accounts receivable billing and payment application also is responsible for performing credit checks on customers.

Cause: All accounts receivable functions have been entrusted to a single individual.

Effect: An employee could approve a credit account for a customer who is not credit worthy. They could then cover up the mistake by falsifying the accounts receivable accounts. The employee could also give accounts to fictitious customers and then use the accounts to misappropriate funds.

Auditor's Recommendation: The person approving credit accounts should not also have the ability to process billings and payments on accounts receivable. Incompatible duties should be segregated to mitigate fraud risks.

Management Response: Credit checks, account receivables and account payables are now all being performed by different individuals.

FS 06-04: Internal controls over Sales, Accounts Receivable and Cash Collections

Criteria: State Auditor Rule 2.2.2.10 I, and Section 12-6-5, NMSA 1978, requires good accounting practices to be followed. Properly designed and implemented internal controls are essential for good accounting practices.

Condition: During our review of the internal controls over the sales, accounts receivable and cash collections cycle we noted the following weaknesses:

- One person is present when cash is accepted at the scales. The Authority does not have a mechanism which would prevent a scale operator from not recording a cash sale and stealing the cash.
- One person is present when cash is received at the transfer stations. The Authority does not have a mechanism which would prevent a transfer station operator from not recording a cash sale and stealing the cash.
- The Authority does not maintain dual control over cash received by the accounting department at the main office.

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- Accounts receivable write-off does not require an approval.
- One person opens the mail which contains accounts receivable checks.

Cause: The Authority has a small staff which makes it difficult to have two people present when some accounting functions are performed.

Effect: Cash could be stolen and the internal controls in place would likely not detect the fraud.

Auditor's Recommendation: The Authority may want to consider implementing the following:

- Put up signs in the scale houses which state that each person should get a receipt. The Authority may want to offer free services to anyone who reports not receiving a receipt. The Authority may want to implement the same procedures at the transfer stations along with pre-numbered and pre printed receipt books.
- A person separate from the billing and payment posting function should approve accounts receivable write-offs.
- Two people should open the mail and make a list of checks received. The list of the checks received should be posted to accounts receivable, and the checks should be prepared for deposit by a separate person.
- Two people should be present when cash is processed in the accounting department.

Management Response: 1) The Authority currently has dual control, 2) Required by the board of Directors if over \$500. Approved by Director under \$500, 3) Signs have been placed in all facilities stating that transactions are free if receipt is not given to customer, 4) Two people are required to open all mail, 5) Two individuals are required to be present while handling cash.

FS 07-01: Internal Controls - Disbursements

Criteria: According to NMSA 1978 Section 6-6-3, the solid waste authority is expected to conform to the rules and regulations that they have adopted relating to internal controls. Supporting documentation should be maintained for all transactions of the Authority.

Condition: During our testwork, we found that the client could not provide supporting documentation for 58 out of 143 disbursements, all totaling up to \$1,460,918 of known costs out of \$4,118,889. We were unable to determine the amount of some disbursements so the amount of missing documentation is actually higher.

Cause: The client did not keep the records available, mainly because of turnover and the new employees were unaware of what the former employees did with the documentation.

Effect: The Solid Waste Authority is not in compliance with State requirements for internal controls. Not being in compliance with these requirements places the authority at risk for fraud or misuse of funds.

Auditor's Recommendation: We recommend that the Solid Waste Authority must maintain all documentation on file to show all evidence of disbursements in accordance with requirements to show there was no wrong doing or misuse of the Authority's funds.

Management's Response: The accounts payable personnel will require supporting documentation for disbursement requests.

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FS 07-02: PERA Reports and Deductions

Criteria: State Audit Rule 2.2.2.10 1 and Section 12-6-5, NMSA 1978 requires good accounting practices to be followed. Payroll should be reviewed sufficiently to ensure it does not contain errors in PERA. Supporting documentation for transactions must be maintained on file. Also, the Authority should have written documentation as to how much, if any, of the employees' PERA contributions will be made by the Authority.

Condition: The Authority could not provide the PERA reports for seven of the twenty-six pay periods of the fiscal year to ensure the correct payments were paid and recorded. Also, it appears that the Authority is making a portion of the employees' contributions, but we were not able to verify that with anything in writing or even verbally from Authority personnel.

Cause: The Waste Authority has experienced significant turnover in the past few years. During this time, supporting documentation was misfiled and/or lost and was not located prior to the audit process being completed. Also, personnel are unaware of what percent of employee PERA contributions are made by the Authority and this does not appear to be documented.

Effect: The Authority is not in compliance with State Auditor rule 2.2.2.10 1 or 12-6-5, NMSA 1978 for the fiscal year ended June 30, 2008 and could be assessed penalties because of it. Also, the Authority could be making too much or too little in contributions to PERA on behalf of their employees.

Auditor's Recommendation: The Authority must ensure that all appropriate documentation is maintained as required. They also should maintain written documentation of how much of employee contributions to PERA the Authority will make.

Management Response: NWNMRSWA will develop written documentation for how much is being contributed by the employee and employer. Third party is responsible for making contributions; we are performing audits on Third party.

FS 07-03: Accounts Receivable

Criteria: State Auditor Rule 2.2.2.10 I, and Section 12-6-5, NMSA 1978, requires good accounting practices to be followed. Unapplied credits should be applied to the oldest outstanding balance. Also, delinquent receivables should be evaluated and possibly written off.

Condition: In our subsequent receipts and the related accounts receivable testwork we noted the following:

- The Authority has unapplied billing credits at year-end.
- The accounts receivable listing contains very old balances that have not been evaluated as to whether they should be written off

Cause: The Authority does not review unapplied credits regularly and apply them to delinquent balances. The Authority also does not periodically review and write off uncollectible balances.

Effect: The aging report showing time delinquent for receivables is incorrect. It also shows delinquent balances that are not likely going to be collected.

Auditor's Recommendation: The Authority should review unapplied credits on a monthly basis and apply them to the oldest delinquent balance, and periodically review delinquent receivable balances and write them off as needed.

Management Response: We are reviewing all accounts on a monthly basis; all dormant accounts have been written off as uncollectible after all options have been exhausted.

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FS 07-05: Late Audit Report

Criteria: According to State Auditor Rule NMAC 2.2.2.9.A, the audited financial statements are due by December 1 following the fiscal year-end, thus requiring the June 30, 2008 report to be filed by December 1, 2008.

Condition: The Authority's audit report for the year ended June 30, 2008 was not submitted to the State Auditor by the required due date, December 1, 2008.

Cause: The books and records were not reconciled until after the due date.

Effect: The Authority is not in compliance with State Auditor rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2008. The users of the financial statements such as legislators, creditors, bondholders, and state and federal grantors do not have timely audit reports and financial statements to help them with decision making. As a result, the Authority may be denied grants, loans, bonds, or other financial incentives.

Auditor's Recommendation: The Authority must ensure their books and records are reconciled and audited in time to meet the required audit due date.

Management Response: Previous auditors (Porch and Associates) terminated their contract with NWNMRSWA causing delays to issue the 2008 audit report. NWNMRSWA was required to hire new auditor, we upgraded our software to ensure reconciliation weekly.

FS 07-06: Disaster Recovery Plan

Criteria: Section 12-6-5. NMSA 1978, requires the annual financial and compliance audit of agencies to detail any violation of law or good accounting practices found by the audit. An adequate disaster recovery plan is a requirement of continuing operations after a disaster.

Condition: The disaster recovery plan in place is inadequate for the size and operations of the Authority. A disaster recovery plan should be a map for reestablishing operations after a disaster. This map should include details of, at a minimum, the following:

- What hardware and software are in place and which vendors may be used to replace the hardware and software.
- Potential off-site locations for running operations.
- Names and telephone numbers of critical operations personnel that should be contacted during a disaster.
- Backup and recovery procedures for data
- The locations of the offsite data backups.
- A detailed list of instructions to be followed in order to reestablish operations.

Cause: The Authority has not developed a detailed disaster recovery plan.

Effect: The Authority may not be able to continue operations in the event of a disaster.

Auditor's Recommendation: We recommend that the Authority prepare a detailed disaster recovery plan.

Management Response: 1) New scale and financial software has been purchased with proper back-up system 2) Transfer stations could sustain operations for a day or two. 3) We have an affirmative action plan in place with all phone numbers, and steps to take in case of emergency.

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FS 07-07: Preparation of Financial Statements

Criteria: The Authority's accounting staff should have training and experience necessary to prepare the Authority's financial statements. SAS 112 indicates that a lack of qualifications to prepare the financial statements is a control deficiency.

Condition: The Auditing Standards Board has issued *Statement on Auditing Standards No. 112, Communicating Internal Control Related Matters Identified in and Audit* (SAS 112). The new standard provides guidance to auditors on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. The standard requires the auditor to evaluate identified control deficiencies and determine whether these deficiencies, individually or in combination, are significant deficiencies or material weaknesses.

SAS 112 provides examples of circumstances that may be control deficiencies, significant deficiencies or material weaknesses (these terms are defined in the report on internal control above). One of the examples provided by SAS 112 is:

Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting function lack the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

The auditor prepares the financial statements for the Authority because Authority's staff does not have the training or experience to prepare financial statements.

Cause: The Authority's accounting staff has not been trained on Governmental Accounting Standards and the related procedures to prepare financial statements

Effect: The Authority's management and accounting staff may not be able to detect errors in reporting or financial presentation if they exist. Management may not be qualified to review the financial statements prepared by the auditor.

Auditor's Recommendation: We recommend that Authority employees who participate in the accounting function obtain training in governmental accounting and the preparation of financial statements.

Management Response: We are continuing to provide training for employees in governmental accounting and with our new software it provides financial statements, we are continuing to audit and reconcile our books.

FS 07-08: Bank Reconciliations

Criteria: Proper internal controls procedures require all bank accounts to be reconciled on a monthly basis. Reconciled bank statements are to be reviewed by the appropriate personnel and submitted to the governing council for approval. The bank reconciliations should include the detail of outstanding items.

Condition: During our audit we noted that bank reconciliations did not have evidence of being properly reviewed or performed timely during fiscal year 2008. Also two of five bank reconciliations did not provide appropriate detail of outstanding items noted in the bank reconciliation.

Cause: The CPA reviews reconciliations monthly, however she does not sign off and date that she reviews the bank reconciliations and therefore, there does not appear to be implementation of internal controls to protect the Waste Authority from possible fraud or misstatement. Also the bank reconciliations are not dated as of completion. Finally, bank reconciliations do not include a detailed listing of outstanding items.

Effect: The Waste Authority's books and records are at risk for containing material misstatements (intentional or unintentional) that are not detected timely. Financial institutions limit the amount of time account holders have to notify the institution regarding errors in an account. After the time limit has passed the account holder is responsible for losses, not the financial institution. Therefore, the Waste Authority could be liable for losses if the bank is not notified in a timely manner. Additionally, without a detailed listing of outstanding items, it is not possible to adequately review the bank reconciliations. For example, there is no way to review for stale dated items (outstanding items more than a year old).

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Auditor's Recommendation: We recommend the preparer sign and date the bank reconciliations once they have been properly completed and the reviewer sign and date when reviewed. Bank reconciliations should be performed no later than 30 days after each month end. The reconciliations should be reported to the governing council as completed each month. All supporting documentation (list of outstanding items) for bank reconciliations must to be maintained with the reconciliation.

Management's Response: NWNMRSWA will implement the procedures are recommended by the auditors.

FS 07-09: Accounts Receivable Adjustments

Criteria: State Auditor Rule 2.2.2.10 J, and Section 12-6-5, NMSA 1978, requires good accounting practices to be followed. Adjustments to accounts receivable accounts should be approved by a person other than the person entering the adjustment.

Condition: During our testwork over accounts receivable, we found that adjustments to accounts could be made without approval. The accounting department does not have a requirement that when adjustments of accounts receivable are made, the adjustments must be approved by a second person.

Cause: The Authority does not have a policy requiring approval of adjustments to payments received.

Effect: Money could be stolen through the manipulation of the accounts receivable records through credits and adjustments.

Auditor's Recommendation: The Authority should consider a policy requiring the approval of all adjustments and credits.

Management Response: NWNMRSWA will implement a policy that requires two signatures on adjustments and credits.

FS 08-01: Internal Controls-Payroll

Criteria: Immigration Reform & Control Act of 1986 requires all employees hired after November 6, 1986 to complete a form I-9 within 3 days of hire. This form is to be retained for either three years after the date of hire or one year after the date of termination, which ever is later. Also, to ensure employees are paid the correct hourly or salary amount, insurance is being correctly deducted according to the rates, PERA is being correctly deducted, contracts or documents supporting compensation must be included in the employee personnel files.

Condition: During our test work of personnel files, GPS noted the following:

- All of the employees who were eligible for PERA (12 in our sample of 20) were having PERA incorrectly deducted; employee contributions were being deducted at 3.23% when they should have been deducted at 13.15%. It appears that the Authority is contributing a portion of the employee contributions, but we were unable to verify this.
- Insurance rates were unavailable for the current fiscal year so it was not possible for us to test the correctness of the insurance deductions for all employees for the current fiscal year.
- All 20 of the employees tested either did not have an I-9 on file or the I-9 on file was not correctly filled out.

Cause: The Authority has not properly maintained personnel files with the required employee documentation (I-9s and insurance rates) and they have been incorrectly deducting PERA for all eligible employees which means the Authority may be paying more than they should be.

Effect: The Solid Waste Authority is not in compliance with the Immigration Reform and Control Act of 1986. The Solid Waste Authority could be subject to penalties. Not having supporting documentation is a serious failure of internal control procedures and could result in various legal complications in the event of noncompliance with a contract.

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Auditors' Recommendations: We recommend the Solid Waste Authority obtain all required information and retain the necessary documents in the employees' personnel files. In the future, the Solid Waste Authority should make periodic checks to ensure all required information is being maintained and that they are correctly deducting the amounts for PERA.

Management's Response: It is currently being maintained with all proper documentation.

FS 08-02: Credit Cards

Criteria: Section 6-5-8, NMSA 1978 requires that all claims for payment of public money shall be made upon a public voucher which shall be accompanied by supporting invoices and documentation required by the division. Also according to Section 6-5-9(I) NMSA 1978, "Except for gasoline credit cards used solely for operation of official vehicles, telephone credit cards used solely for official business and procurement cards, none of the appropriations contained in the General Appropriation Act of 2007 may be expended for payment of agency-issued credit card invoices."

Condition: During our testwork of credit cards, we noted 3 credit card transactions out of 5 that we tested were not supported by adequate documentation. Also one of the two credit card transactions tested was for items other than gasoline or telephone services.

Cause: The Solid Waste Authority was purchasing items not allowed to be purchased with credit cards and did not maintain supporting documentation.

Effect: The Solid Waste Authority is not in compliance with Section 6-5-8, NMSA 1978.

Auditor's Recommendation: We recommend that the Solid Waste Authority maintain supporting documentation for all transactions as required by standards. Also the Solid Waste Authority may only use the credit cards for gas or telephone services.

Management's Response: The NWNMRSWA does not utilize state issued credit cards; the Executive Director is the only one issued a bank credit card. All documentation is required for reconciliation monthly.

FS 08-03: Cash – Lack of Supporting Documentation

Criteria: NMAC 6.20 2.14: Protection of records requires that the administrator and every other custodian of public records shall carefully protect and preserve such records from deterioration, mutilation, loss or destruction and, whenever advisable, shall cause them to be properly repaired and renovated. All paper, ink and other materials used in public offices for the purposes of permanent records shall be of durable quality.

Condition: During our testwork of cash we noted 2 of 13 bank statements which the client was unable to furnish for our inspection.

Cause: The Waste Authority has experienced significant turnover in the past few years. During this time, supporting documentation was misfiled and/or lost and was not located prior to the audit process being completed

Effect: Records were not properly maintained resulting in a violation of NMAC 6 20 2.14. The lack of controls over bank statements could cause confidential information to be seen by unauthorized individuals as well as create non-compliance with State Statutes.

Auditor's Recommendation: We recommend that personnel in charge of documents review the proper procedures for maintaining documents, and seek to establish better controls over the handling of these documents.

Management's Response: NWNMRSWA has and will establish better controls over bank statements and they are available electronically now.

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FS 08-04: Accounts Receivable – Lack of Supporting Documentation

Criteria: NMAC 6.20 2.14: Protection of records requires that the administrator and every other custodian of public records shall carefully protect and preserve such records from deterioration, mutilation, loss or destruction and, whenever advisable, shall cause them to be properly repaired and renovated. All paper, ink and other materials used in public offices for the purposes of permanent records shall be of durable quality.

Condition: During our test of accounts receivable we noted 2 of 12 items in which the client was unable to furnish supporting documentation for our inspection. These items totaled \$62,294.

Cause: The Waste Authority has experienced significant turnover in the past few years. During this time, supporting documentation was misfiled and/or lost and was not located prior to the audit process being completed

Effect: Records were not properly maintained resulting in a violation of NMAC 6 20 2.14. The failure to maintain records properly and completely may result in the Waste Authority incorrectly posting a receipt and charging a vendor twice, as well as create non-compliance with State Statutes.

Auditor's Recommendation: We recommend that personnel in charge of documents review the proper procedures for maintaining documents, and seek to establish better controls over the handling of these documents.

Management's Response: Account receivable personnel will establish better controls of account receivable documents.

FS 08-05: Inventory – Lack of Internal Controls

Criteria: Good accounting practices require all reports to be accurately compiled and reviewed for accuracy.

Condition: During our test of inventory we noted incorrect calculation of the inventory valuation report. The miscalculation totaled \$484.

Cause: The Waste Authority has not implemented a policy for the review of the inventory valuation report.

Effect: Inventory records were not properly compiled or reviewed for accuracy which could result in the over or under-statement of inventory.

Auditor's Recommendation: We recommend that personnel in charge of the documents implement procedures that include a review of the inventory report.

Management's Response: An individual has been assigned to inventory control, and inventory is being performed annually.

FS 08-06: Compensated Absences

Criteria: The Waste Authority's compensated absences policy states that an employee may carry over a balance of a maximum of 280 hours of vacation time at January 1st of each year. The policy also states that the maximum amount of vacation time an employee can earn in one calendar based on the employee's date of hire is 160 hours a year.

Condition: During the review of the compensated absence spreadsheet it was noted that 3 of 34 employees vacation balances did not agree to the benefits policy per the Waste Authority's employee handbook. These employees had a balance considerably higher than the policy stated was allowable and higher than what an employee could earn in one year.

Cause: Internal controls were not maintained to provide reasonable assurance that employees carried only the maximum number of hours allowed.

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Effect: The Waste Authority provided an inaccurate balance of compensated absences at June 30, 2008. An inaccurate calculation of compensated absences could result in a material misstatement of the liability. Also the Waste Authority could compensate an employee incorrectly based on the inaccurate reports.

Auditor's Recommendation: Management should review the spreadsheet and assure that compensated absences are appropriately calculated throughout the year.

Management's Response: Spreadsheet is compiled biweekly and given to director for his review.

FS 08-07: Lease Agreements: Lack of supporting documentation

Criteria: NMAC 6.20 2.14: Protection of records requires that the administrator and every other custodian of public records shall carefully protect and preserve such records from deterioration, mutilation, loss or destruction and, whenever advisable, shall cause them to be properly repaired and renovated. All paper, ink and other materials used in public offices for the purposes of permanent records shall be of durable quality.

Condition: During our test work of rental expense, we noted the Solid Waste Authority was unable to provide all rental agreements to tie to rental expense in the general ledger.

Cause: The Waste Authority was unable to locate or overlooked agreement of supporting documentation. Internal controls and policies and procedures were not in place to ensure all agreements entered into by the Waste Authority were maintained to support financial transactions.

Effect: Records were not properly maintained resulting in a violation of NMAC 6 20 2.14. Not maintaining proper supporting documentation of financial agreements entered by the Waste Authority may result in unsupported cash disbursements and or possible fraudulent activities as the Waste Authority may not be able to justify or deny payment to vendors.

Auditor's Recommendation: We recommend that the Waste Authority review all supporting documentation and retain all documents to ensure compliance with NMAC 6.20.2.24 (c).

Managements Response: NWNMRSWA will retain all documents of lease and rental agreements.

FS 08-08: Procurement

Criteria: Section 13-1-104 of the State Procurement Code requires that all contracts equal to or in excess of \$20,000 must have a sealed bid sent to the governmental agency. The invitation of the bids must be advertised 10 days prior to the date of the opening of the bids.

Condition: During our testwork of bids, we found that of the three bids tested that amounted to \$218,883 there were no sealed bids for the contracts.

Cause: The Solid Waste Authority did not follow the State Procurement Code with their significant contracted services.

Effect: The Solid Waste Authority is not in compliance with Section 13-1-104 of the State Procurement Code.

Auditor's Recommendation: We recommend that the Solid Waste Authority follow all procurement requirements to ensure they receive goods and services at the best possible price and to ensure compliance with procurement requirements.

Management's Response: NWNMRSWA will implement and follow NM state procurement regulations to procure goods and services.

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FS 08-09: Payroll Advances: Lack of Internal Controls

Criteria: Good internal control practices as well as state requirements mandate that a service be rendered before an amount is paid out.

Condition: During the audit, we noted the Waste Authority had several inactive payroll advances that had yet to be repaid as of 7/1/07. During the year two additional payroll advances were given to employees. These loans were not repaid as of 6/30/08, leaving an ending balance of \$1,000. The client was unable to provide supporting documentation for these amounts, and did not believe the amounts would be repaid.

Cause: Internal controls and policies and procedures were not in place to ensure services were performed prior to payments rendered.

Effect: Not maintaining proper internal control practices may result in unjustified cash disbursements and or possible fraudulent activities as the Waste Authority may not be able to justify or acquire repayment of loans from employees resulting in a loss for the Waste Authority.

Auditor's Recommendation: We recommend that the Waste Authority enact policies to prohibit the issuance of loans to employees.

Management's Response: Payroll advances are not allowed to anyone.

FS 08-10: Capital Assets

Criteria: Per NM Statute 2.20.1.8 Fixed Asset Accounting System: Agencies should implement systematic and well-documented methods for accounting for their fixed assets.

Condition: During the audit, we noted the Waste Authority was missing supporting documentation for capital asset additions that they had purchased during the year. Also the Authority had capital assets recorded in the repairs and maintenance accounts, which were not capitalized.

Cause: The Waste Authority has experienced significant turnover in the past few years. During this time, supporting documentation was misfiled and/or lost and was not located prior to the audit process being completed. Also, the Authority did not perform a review of expense accounts to ensure all capital assets were appropriately capitalized.

Effect: Records were not properly maintained resulting in a violation of NM Statute 2.20.1.8. Not maintaining proper supporting documentation of financial agreements entered by the Waste Authority may result in unsupported cash disbursements and or possible fraudulent activities as the Waste Authority may not be able to justify or deny payment to vendors. Also because there were assets in repairs and maintenance that should have been classified as capital assets, capital assets were understated.

Auditor's Recommendation: We recommend that the Waste Authority review all supporting documentation and retain all documents to ensure compliance with NM Statute 2.20.1.8 and that they review all repairs and maintenance to ensure assets aren't being incorrectly coded.

Management's Response: NWNMRSWA will review all purchases and code correctly as an expense or capitalized property.

FS 08-11: CRS Late Payments

Criteria: Per NMAC Statute 3.1.4.10 CRS payments must be paid when due.

Condition: During the audit, we noted the Waste Authority had paid their CRS payments late for the year and also there was one payment from June 2006 that was made in July 2009, three years late.

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Cause: The Waste Authority has experienced significant turnover in the past few years. During this time, supporting documentation was misfiled and/or lost and so timely payments were not made.

Effect: CRS payments were not paid on time thus resulting in penalties and interest being charged to the Solid Waste Authority.

Auditor's Recommendation: We recommend that the Waste Authority review all CRS bills to ensure all are paid on time.

Management's Response: CRS payments are currently being made on time and we are auditing the workers comp payment being made by a third party.

FS 08-12: Landfill Financial Assurance

Criteria: Entities operating municipal landfills must meet financial assurance requirements for the payment of closure and post closure care costs.

Condition: As of June 30, 2008, the landfill was at 100% of then permitted capacity. Total closure and post closure care costs were estimated to be \$1,522,000, but the authority had only set aside \$779,306, a shortage of \$742,694.

Cause: The Waste Authority was setting aside funds into a reserve account based on number of years to the end of post closure care requirements rather than based on the capacity of the landfill.

Effect: The landfill was at 100% capacity of the permitted space but did not have 100% of closure and post closure care costs set aside to fund future costs. The Authority is not in compliance with financial assurance requirements.

Auditor's Recommendation: The Authority must fully fund and meet financial assurance requirements. On future landfill expansions, they should set aside funds for financial assurance based on the capacity of the landfill so that funds are available to cover costs when needed.

Management's Response: The Authority was in the process of renewing their permit for the facility. The permit renewal would be for up to 20 years. The 20 year time frame would be adequate to fully fund the required financial assurance, which is monitored by the NMED.

FS 08-13 Budgetary Conditions

Criteria: Sound financial management and 6-6-6 NMSA 1978 require that budgets not be exceeded at the legal level of control. For NWNMRSWA, the fund is the legal level of control.

Condition: The Authority had actual expenditures which exceeded budgetary authority by \$207,189.

Cause: The Authority did not submit the appropriate budgetary transfers to DFA to alleviate the over-expenditure.

Effect: The Authority is in non compliance with New Mexico law, and the control established by the use of budgets has been compromised.

Auditor's Recommendation: The Authority should establish a policy of budgetary review at year-end, and submit the necessary budget adjustments to DFA.

Management's Response: The Authority will make future budget adjustments as needed.

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Section III – Prior Year Audit Findings

FS 02-04 Cash Receipts – *Repeated and Revised*
FS 05-01 Travel and Per Diem – *Repeated and Revised*
FS 06-01 Segregation of Duties – *Repeated and Revised*
FS 06-02 Pledging of Collateral for Public Money – *Resolved*
FS 06-04 Internal Controls over Sales, Accounts Receivable and Cash Collection – *Repeated and Revised*
FS 07-01 Cash Disbursement and Procurement – *Repeated and Revised*
FS 07-02 PERA Withholding and Reporting – *Repeated and Revised*
FS 07-03 Accounts Receivable – *Repeated and Revised*
FS 07-04 Capital Assets – *Resolved*
FS 07-05 Due Date of Audit Report – *Repeated and Revised*
FS 07-06 Disaster Recovery Plan – *Repeated and Revised*
FS 07-07 Preparation of Financial Statements – *Repeated and Revised*
FS 07-08 Bank Reconciliations – *Repeated and Revised*
FS 07-09 Accounts Receivable Adjustments – *Repeated and Revised*

Section IV – Other Disclosures

Auditor Prepared Financials

The financial statements presented in this report were prepared by the auditors, Griego Professional Services, LLC.

Exit Conference

The contents of this report were discussed on October 28, 2010. The following individuals were in attendance.

Northwest New Mexico Regional Solid Waste Authority

Billy Moore, Executive Director
Larry Carver, Board Chairman
Martha Briggs, Consultant

Griego Professional Services, LLC

Monica Yapple, CPA