

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
INDEPENDENT AUDITORS' REPORT
AND ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2009

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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, 2009**

Official Roster
June 30, 2009

<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 South	Executive Director

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
 FOR THE YEAR ENDED JUNE 30, 2009
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FINANCIAL SECTION

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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, 2009. 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, 2009 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 August 18, 2011 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, 2009, 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
August 18, 2011

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2009

Exhibit A-1

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,045,011
Accounts receivable, net of allowance for doubtful accounts	564,666
Investments - restricted	1,694,216
Operations inventory	56,539
Prepaid expenses	8,892
Deferred charge - revenue bond issuance costs	18,924
Total Current Assets	3,388,248
Noncurrent Assets	
Capital assets	13,689,600
Less: accumulated depreciation	(6,655,395)
Total Noncurrent Assets	7,034,205
Other Assets	
Deferred charge - revenue bond issuance costs	98,318
Total other assets	98,318
Total Assets	\$ 10,520,771

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, 2009

Exhibit A-1

	Governmental Activities
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 402,385
Wages, payroll taxes and benefits payable	45,500
Civil penalties payable	90,000
Gross receipts taxes payable	14,391
Environmental GRT payable	61,621
Accrued interest and fees	29,333
Current maturities of accrued compensated absences	51,771
Current maturities of bonds	619,393
Current maturities of capital leases	97,284
Total Current Liabilities	1,411,678
Long-Term Liabilities	
Bonds Payable, net of current maturities	3,239,217
Capital Leases payable, net of current maturities	271,987
Unamortized bond premium	21,746
Estimated liability for landfill closure costs	1,753,180
Total Long-Term Liabilities	5,286,130
Total Liabilities	6,697,808
Net Assets	
Invested in capital assets, net of related debt	2,806,324
Restricted for:	
Debt service	845,392
Landfill closure	848,824
Unrestricted	(677,577)
Total Net Assets	3,822,963
Total Liabilities and Net Assets	\$ 10,520,771

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
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B-1

<i>Operating Revenues:</i>	
Tipping fees	\$ 3,466,898
Special projects revenue	177,655
<i>Total operating revenues</i>	<u>3,644,553</u>
 <i>Operating Expenses:</i>	
Personnel services	1,320,021
Employee benefits	342,083
Contractual services	438,321
Repairs and maintenance	579,442
Insurance	53,388
Utilities	31,998
Supplies	87,535
Rent	347,553
Depreciation	682,899
Other	195,766
Increase (decrease) in landfill liability	231,180
<i>Total operating expenses</i>	<u>4,310,186</u>
 <i>Operating income</i>	 <u>(665,633)</u>
 <i>Non-operating revenues (expenses)</i>	
Interest income	44,009
Debt service - interest	(207,850)
<i>Total non-operating revenues (expenses)</i>	<u>(163,841)</u>
 <i>Net income before contributions</i>	 (829,474)
 <i>Contributions of capital</i>	 <u>619,547</u>
 <i>Change in net assets</i>	 <u>(209,927)</u>
 <i>Net assets beginning of year</i>	 <u>4,032,890</u>
 <i>Net assets end of year</i>	 <u><u>\$ 3,822,963</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, 2009

Exhibit C-1
 Page 1 of 2

<i>Cash Flows from Operating Activities</i>	
Cash received from customers	\$ 3,784,054
Cash payments to suppliers for goods and services	(2,203,446)
Cash payments to employees for services	(1,056,543)
<i>Net cash provided by operating activities</i>	<u>524,065</u>
 <i>Cash Flows from Capital and Related Financing Activities</i>	
Capital contributed by members	619,547
Purchase of capital assets	(912,899)
Repayment of long-term debt, less issuance of new debt	(558,391)
Interest and fees paid on long-term debt	(211,992)
<i>Net cash provided by capital and related financing activities</i>	<u>\$ (1,063,735)</u>
 <i>Cash Flows from Investing Activities</i>	
Interest on investments and deposits	44,009
<i>Net cash provided by operating activities</i>	<u>\$ 44,009</u>
<i>Net increase in cash and cash equivalents</i>	(495,661)
<i>Cash and cash equivalents, beginning of period</i>	<u>3,234,888</u>
<i>Cash and cash equivalents, end of period</i>	<u><u>\$ 2,739,227</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, 2009

Exhibit C-1
 Page 2 of 2

<i>Operating income</i>	<u>\$ (665,633)</u>
<i>Adjustments to reconcile operating income</i>	
<i>to net cash provided by operating activities</i>	
Depreciation	682,899
Increase in landfill closure and postclosure cost estimate	231,180
Changes in assets and liabilities	
Accounts receivable	139,501
Operations inventory	26,296
Prepaid expenses	(29)
Accounts payable	(32,889)
Accrued expenses	114,524
Other noncurrent liability	28,216
<i>Total adjustments</i>	<u>1,189,698</u>
<i>Net cash provided by operating activities</i>	<u><u>\$ 524,065</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, 2009

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, 2009.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009

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, 2009

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, 2009

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 and the estimated liability for landfill closure costs.

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, 2009.

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, 2009

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. This coverage has increased to \$250,000 for time and savings deposits as well as demand deposits until December 31, 2013. Additionally, until December 31, 2009, all deposits in non-interest bearing transaction accounts (such as non-interest bearing checking accounts) at participating institutions are fully guaranteed, regardless of dollar amount.

All of the investments of the Authority at June 30, 2009, 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, 2009, \$368,658 of the Authority's deposits of \$1,057,791 was exposed to custodial credit risk as it was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Authority's name. As of June 30, 2009, the carrying amount of these deposits was \$1,045,572.

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>Wells Fargo Bank</u>	<u>Total</u>
Total amounts of deposits	\$ 1,056,530	\$ 1,261	\$ 1,057,791
FDIC coverage	<u>(687,872)</u>	<u>(1,261)</u>	<u>689,133</u>
Total uninsured public funds	<u>368,658</u>	<u>—</u>	<u>368,658</u>
Pledged collateral held by pledging bank's trust department or agent but not in agency's name	<u>368,658</u>	<u>—</u>	<u>368,658</u>
Collateral requirement (50% of uninsured public funds)	184,329	—	184,329
Pledged security	<u>471,481</u>	<u>—</u>	<u>471,481</u>
Total under (over) collateralized	<u>\$ (287,152)</u>	<u>\$ —</u>	<u>(287,152)</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009, the Authority had the following investments:

New Mexico Finance Authority; Bond Sinking Fund	\$	61,944
State Treasurer; Closure Sinking Fund		848,824
Bank of Albuquerque, New Mexico, Investment Account		<u>782,187</u>
	<u>\$</u>	<u>1,692,955</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, 2009, the Authority’s investment of New MexiGROW LGIP had a credit risk rating of AAAM and a 43-day WAM.

NOTE 3. Accounts Receivable

Accounts receivable are comprised of amounts due from credit customers in the amount of \$441,424 and an EGRT (environmental gross receipts tax) receivable in the amount of \$123,242. Amounts are considered fully collectible by management, so no allowance for doubtful accounts has been recorded.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009 is \$8,892.

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2009 follows.

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance June 30, 2009</u>
Capital Assets:					
Capital assets not being depreciated:					
Construction in progress	\$ —	\$ 591,747	\$ —	\$ —	\$ 591,747
Total assets not being depreciated	<u>—</u>	<u>591,747</u>	<u>—</u>	<u>—</u>	<u>591,747</u>
Capital assets being depreciated:					
Landfill start-up costs	6,454,466	58,800	—	—	6,513,266
Landfill	776,214	179,340	—	—	955,553
Transfer station	2,068,103	—	—	—	2,068,103
Buildings	489,134	—	—	—	489,134
Furniture, fixtures & equipment	2,903,927	73,162	—	—	2,977,090
Vehicles	<u>84,857</u>	<u>9,850</u>	<u>—</u>	<u>—</u>	<u>94,707</u>
Total assets being depreciated	<u>12,776,701</u>	<u>321,152</u>	<u>—</u>	<u>—</u>	<u>13,097,853</u>
Total assets	<u>\$ 12,776,701</u>	<u>\$ 912,899</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,689,600</u>
Less Accumulated depreciation	<u>\$ 5,972,496</u>	<u>\$ 682,899</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,655,395</u>
Net Capital Assets	<u>\$ 6,804,205</u>	<u>\$ 230,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,034,205</u>

Note: The Waste Authority does not book depreciation by function.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7. Long-Term Debt

During the year ended June 30, 2009, the following changes occurred in the liabilities reported in the statement of net assets:

	Balance <u>June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2009</u>	Amount Due <u>Within One Year</u>
NMFA 1996	\$ 324,864	\$ —	\$ 42,919	\$ 281,945	\$ 43,588
NMFA 1995 Refunding	3,498,000	—	362,659	3,135,341	535,341
NMFA 1998	480,059	—	38,735	441,324	40,464
Lease Purchase	20,974	—	20,974	—	—
Compactor	462,375	—	93,104	369,271	97,284
Compensated Absences	38,750	60,288	47,267	51,771	51,771
Total Long-Term Debt	<u>\$ 4,825,022</u>	<u>\$ 60,288</u>	<u>\$ 605,658</u>	<u>\$ 4,279,652</u>	<u>\$ 768,448</u>

The Authority received a bond-funded loan in the amount of \$5,576,000 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 \$3,135,341, 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 of \$528,352 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 535,341	\$ 141,799	677,140
2011	474,000	123,185	597,185
2012	497,000	101,052	598,052
2013	520,000	78,447	598,447
2014	541,000	55,451	596,451
2015-2018	<u>568,000</u>	<u>28,418</u>	<u>596,418</u>
Total	<u>\$ 3,135,341</u>	<u>\$ 528,352</u>	<u>\$ 3,663,694</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7. Long-Term Debt (Continued)

One cash funded loan outstanding at year-end is in the amount of \$281,945, 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 of \$27,805 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 43,588	\$ 7,754	\$ 51,342
2011	44,896	6,555	51,451
2012	46,242	5,320	51,562
2013	47,630	4,049	51,679
2014	49,059	2,739	51,798
2015	<u>50,530</u>	<u>1,390</u>	<u>51,920</u>
Total	<u>\$ 281,945</u>	<u>\$ 27,805</u>	<u>\$ 309,750</u>

Another cash funded loan outstanding at year-end is in the amount of \$441,324, 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 of \$114,233 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 40,464	\$ 21,220	\$ 61,684
2011	42,308	19,387	61,695
2012	44,275	17,431	61,706
2013	46,374	15,342	61,716
2014	48,595	13,133	61,728
2015-2019	<u>219,308</u>	<u>27,721</u>	<u>247,029</u>
Total	<u>\$ 441,324</u>	<u>\$ 114,233</u>	<u>\$ 555,557</u>

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 \$369,271, 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 \$30,549 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 97,284	\$ 14,302	\$ 111,585
2011	101,652	9,934	111,585
2012	106,216	5,370	111,585
2013	<u>64,120</u>	<u>944</u>	<u>65,064</u>
Total	<u>\$ 369,271</u>	<u>\$ 30,549</u>	<u>\$ 399,820</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7. Long-Term Debt (Continued)

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, 2009 were \$51,771. 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, 2009. These customers are City of Gallup, McKinley Paper Company, Navajo Sanitation, Waste Management and the Zuni Transfer Station.

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 \$1,753,180 as of June 30, 2009, which is based on 100% usage of the landfill. The estimated total current cost of the landfill closure and post closure care of \$1,753,180 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, 2009.

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, 2009, the landfill was at 100% capacity and maintained a \$1,753,180 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 \$848,824, a shortage of \$904,356. This investment is in U.S. Government Securities, and the investment is restricted for the payment of closure and post closure care costs.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 (PERA) (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 for the plan. 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.

The Northwest New Mexico Regional Solid Waste Authority's employee and employer contributions to PERA for the fiscal year ending June 30, 2009 were unobtainable.

The Northwest New Mexico Regional Solid Waste Authority's contributions to PERA for the fiscal years ending June 30, 2008 and 2007 were \$65,576 and \$55,564 for employer's contributions and \$45,629 and \$79,854 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.

SUPPLEMENTARY INFORMATION

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO

Schedule I

Northwest New Mexico Regional Solid Waste Authority

Schedule of Collateral Pledged by Depository

June 30, 2009

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Fair / Par Market Value June 30, 2009</u>	<u>Name and Location of Safekeeper</u>
1st Community Bank	FFCB Agency Note 31331Q7A9 3.75% Due 8/4/09	125,390	Federal Reserve Bank
1st Community Bank	FNR 2006-75 CM 31394V3D0 6.5% Due 12/25/33	<u>346,091</u>	Federal Reserve Bank
		<u>\$ 471,481</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, 2009

Schedule II

<u>Bank Account Type/Name</u>	<u>1st Community Bank</u>	<u>Wells Fargo</u>	<u>Bank of Albuquerque</u>	<u>NM State Treasurer</u>	<u>Totals</u>
Deposit Accounts:					
FCB Operating	\$ 437,872	\$ -	\$ -	\$ -	\$ 437,872
FCB ERGT	460,968	-	-	-	460,968
FCB EAA	157,689	-	-	-	157,689
Total On Deposit	<u>\$1,056,529</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,056,529</u>
Investment Accounts:					
NM Finance Authority	\$ -	\$ -	\$ 782,187	\$ -	\$ 782,187
Wells Fargo - CD	-	1,261	-	-	1,261
NM State Treasurer	-	-	-	910,768	910,768
Total On Deposit	<u>\$ -</u>	<u>\$ 1,261</u>	<u>\$ 782,187</u>	<u>\$910,768</u>	1,694,216
Reconciling Items					(12,218)
Petty Cash					700
Reconciled Cash and Investments, June 30, 2009					<u>\$ 2,739,227</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, 2009

Schedule III

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<i>Operating Revenues:</i>				
Tipping fees	\$ -	\$ 3,650,000	\$ 3,466,898	\$ (183,102)
Miscellaneous income	-	1,500	65,058	63,558
Special projects revenue	-	810,614	112,597	(698,017)
<i>Total operating revenues</i>	<u>-</u>	<u>4,462,114</u>	<u>3,644,553</u>	<u>(817,561)</u>
<i>Operating Expenses:</i>				
Personnel services	-	1,616,432	1,320,021	296,411
Employee benefits	-	-	342,083	(342,083)
Contractual services	-	448,472	438,321	10,151
Repairs and maintenance	-	1,433,000	579,442	853,558
Landfill closure / postclosure	-	-	231,180	(231,180)
Insurance	-	80,000	53,388	26,612
Utilities	-	12,500	31,998	(19,498)
Fuel and travel	-	8,320	-	8,320
Supplies	-	12,000	87,535	(75,535)
Rent	-	343,200	347,553	(4,353)
Depreciation	-	-	682,899	(682,899)
Other	-	210,211	195,766	14,445
<i>Total operating expenses</i>	<u>-</u>	<u>4,164,135</u>	<u>4,310,186</u>	<u>(146,051)</u>
<i>Operating income</i>	<u>-</u>	<u>297,979</u>	<u>(665,633)</u>	<u>(963,612)</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	-	100,000	44,009	(55,991)
Debt service - interest	-	(210,000)	(207,850)	2,150
<i>Total non-operating revenues (expenses)</i>	<u>-</u>	<u>(110,000)</u>	<u>(163,841)</u>	<u>(53,841)</u>
<i>Net income before contributions</i>	<u>-</u>	<u>187,979</u>	<u>(829,474)</u>	<u>(1,017,453)</u>
<i>Contributions of capital</i>	<u>-</u>	<u>880,000</u>	<u>619,547</u>	<u>(260,453)</u>
<i>Change in net assets</i>	<u>\$ -</u>	<u>\$ 1,067,979</u>	<u>\$ (209,927)</u>	<u>\$ (1,277,906)</u>

The accompanying notes are an integral part of these financial statements

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COMPLIANCE SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *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, 2009 and have issued our report thereon dated August 18, 2011. Because we were not able to satisfy ourselves concerning the balances on the financial statements, 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 deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies 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 08-07, FS 08-08, FS 08-10 and FS 08-11)

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 and FS 08-12.

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.



Albuquerque, New Mexico
August 18, 2011

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

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 – Repeated and Revised

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:

- 1 out of 20 receipts contained no supporting documentation indicating who and when the money was received from, (total of \$76 out of \$79,605 tested)
- 9 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 (total of \$3,301 out of \$79,605 tested)
- 5 out of 20 receipts were not deposited within 24 hours (total of \$1,431 out of \$79,605 tested)

Cause: The Solid Waste Authority has not emphasized timely depositing of funds and has not maintained adequate supporting documentation in cash receipt files.

Effect: The Solid 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. Also, untimely deposits leave the Solid Waste Authority vulnerable to misappropriation of funds.

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

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009

Schedule IV

Management's Response:

1. Cash tickets at the transfer stations are computer generated with name, time/date/weight, and customer signatures are required. Cash tickets at the Convenience Centers are numerical with date, name, amount, clerk's signature required. The software in use at the end of 2009 was changed in June of 2010. The convenience centers are in rural locations, that do not have electricity and so they cannot use computers to generate tickets.
2. All individual transactions have receipts issued, which are numbered. Cash transactions are paid at the time of service. AR transactions are billed monthly with individual receipt numbers being listed on the invoices or statements.
3. Monies are deposited daily, as received. The transfer stations forward the daily deposits on the next working day to the Accounting office and the Convenience Centers send their monies biweekly to the Accounting Office. The Convenience Centers are open only 2 days a week and the till monies are nominal.

FS 05-01: Travel and Per Diem – Repeated and Revised

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 documentation for one of the five which amounted to \$96. Also an employee was given per diem of \$150 for a conference trip when it appears that he should have been given per diem of \$250.

Cause: The Solid Waste Authority did not maintain adequate supporting documentation and did not follow proper internal controls to ensure that appropriate amounts are paid to employees for per diem.

Effect: The Solid Waste Authority is not following the Mileage and Per Diem Act and cannot show compliance when supporting documentation is not available. They are also noncompliant by not reimbursing employees appropriate per diem amounts.

Recommendation: We recommend that the Solid Waste Authority maintain adequate supporting documentation and that employees are trained on the appropriate per diem amounts that employees are to be reimbursed.

Management's Response: Federal reimbursement rates are currently being paid. Receipts are required prior to reimbursement checks being issued. A reimbursement travel form has been developed which requires the signature of the Supervisor and Executive Director before a check is issued to the employee.

FS 06-1: Segregation of Duties - Repeated and Revised

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.

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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 are currently being performed by the Compliance Officer. A signature by one member of the management team consisting of the Executive Director, Operations Manager or the Accountant is required for approving the customer for credit.

FS 06-4: Internal controls over Sales, Accounts Receivable and Cash Collections - Repeated and Revised

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.
- 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.

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Management Response:

1. Signs have been posted at all locations stating that if you don't receive a receipt the transaction is free. All hand written receipts are pre numbered and reconciled. The rural locations for the Convenience Centers prohibit electronic surveillance cameras and economics prohibit hiring a second clerk for observation.
2. The Authority now requires two employees to be present when cash is reconciled to reports and deposits are verified.
3. Accounts receivable write-offs are now done with the following approvals, administration can write off up to \$5000. Board approves write offs over \$5000. Signatures are required for any amount over \$100.00.
4. Two employees are opening the mail and a log is being kept of all A/R checks, bills and correspondence.

FS 07-01: Internal Controls – Disbursements – Repeated and Revised

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 of cash disbursements, individually significant disbursements, credit cards, travel & per diem and capital assets we found that the client could not provide supporting documentation for 52 transactions out of 204 transactions, totaling \$1,793,824 out of \$5,839,726.

Cause: The Authority did not maintain adequate supporting documentation, 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 maintain adequate supporting documentation for all disbursements.

Management's Response: The following documentation is now required prior to checks being issued for purchases, travel and per diem and capital assets: Purchasing Requisitions (numbered), receipts, invoices and or statements and reimbursement travel forms with signatures.

FS 07-2: PERA Reports and Deductions – Repeated and Revised

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 deductions. 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 any 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 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, 2009 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.

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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:

1. Pay Day, the company contracted to process payroll for the Authority provides spread sheets reflecting individual and company payments for PERA for each payroll cycle.
2. The Board passed Resolution 2010-9 on November 18, 2011 authorizing payment of 9.86% of the employee paid portion of PERA.

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:

1. The Accounts Receivable balances were reviewed and corrected as necessary in June of 2010. The unapplied billing credits are now being reviewed monthly. The Accounts receivable balances are reviewed monthly.
2. Delinquent account receivable balances are written off only after extensive efforts have been made to collect the monies owed.

FS 07-5: Late Audit Report - Repeated and Revised

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, 2009 report to be filed by December 1, 2009.

Condition: The Authority's audit report for the year ended June 30, 2009 was not submitted to the State Auditor by the required due date, December 1, 2009.

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

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Effect: The Authority is not in compliance with State Auditor rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2009. 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: Account statements are being reconciled monthly so that reporting requirements and filing deadlines can be met, and discrepancies are identified and corrected in a timely manner.

FS 07-6: Disaster Recovery Plan - Repeated and Revised

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. Management has implemented procedures for the backup and storage of data in an onsite fire proof safe.
2. Names and contact numbers are available to all management personnel for emergency purposes and is reviewed annually.
3. A detailed list of instructions for emergency procedures is part of the safety training policy.

FS 07-7: Preparation of Financial Statements - Repeated and Revised

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.

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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:

1. The accounting staff has attended GASB training seminars meeting continuing Ed requirements. We have also attended the State Auditors seminar.
2. The Authority has relied on the Auditors to prepare financial statements in the past, and will continue to work with them to produce the necessary Financial Statements, in a timely manner.

FS 07-8: Bank Reconciliations – Repeated and Revised

Criteria: Proper internal controls procedures require all bank accounts to be reconciled to the general ledger on a monthly basis. Reconciled bank statements are to be reviewed by the appropriate personnel and submitted to the governing council for approval.

Condition: During our audit we noted that bank reconciliations did not have evidence of being properly reviewed or performed timely during fiscal year 2009. One of four bank accounts was not reconciled to the general ledger at year end, for a total difference of \$6,100.

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 Solid Waste Authority from possible fraud or misstatement. Also the bank reconciliations are not dated as of completion. Finally, the bank statements are reconciled but differences to the general ledger are not investigated.

Effect: The Solid 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 Solid Waste Authority could be liable for losses if the bank is not notified in a timely manner. Additionally, if the reconciliations are not agreed to the general ledger, it is possible that bank errors may exist, or that there are errors in the general ledger that may go uncorrected.

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Auditor's Recommendation: We recommend the preparer initial or sign and date the bank reconciliations once they have been properly completed and the reviewer initial or 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 for bank reconciliations needs to be maintained on hand. Any differences between the bank reconciliation and the general ledger should be investigated and resolved.

Management's Response:

1. Timely reconciliations of all bank accounts are being completed before the monthly Board meetings (third Thursday of the month), so that budget reporting can be accomplished.
2. Reconciled statements are signed and dated by the Executive Director and the Office Accountant.
3. Any discrepancies between the General Ledger and the Account Statements are identified and corrected prior to actual reconciliation.

FS 07-9: Accounts Receivable Adjustments – Repeated and Revised

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 unauthorized credits and adjustments.

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

Management Response:

1. A/R reports are printed and distributed to Management weekly showing payments and balances.
2. The Assistant Accountant informs the Management (Accountant and/or Executive Director) of the amount and the customer before making entries for credits or adjustment to account balances.

FS 08-01: Internal Controls-Payroll – Repeated and Revised

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, whichever is later. Also, to ensure employees are paid the correct hourly or salary amount, insurance is being correctly deducted according to the current rates, PERA is being accurately deducted, contracts or documents supporting compensation and deductions must be included in the employees' personnel files.

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

- Five out of five employees tested had incorrect amounts for PERA deducted from their paychecks. It appears that the Authority may be paying a percent of the employee portion of PERA, but this could not be confirmed verbally or through written documentation.

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- On five out of twenty employees tested, we were unable to recalculate gross pay based on hours worked and authorized rates included in employee personnel files.
- Three out of twenty employees tested either did not have an insurance authorization / waiver form or had one that was not accurately completed.
- Three out of twenty employees tested did not have an I-9 on file.
- One out of twenty employees tested should have been paid for 84 hours and was only paid for 80. This resulted in the employee being underpaid \$67.98 for the pay period.

Cause: The Authority was unaware that the employees had incomplete files. McKinley County was performing the Authority's payroll functions for the first part of the year and Payday, Inc. was performing the Authority's payroll functions for the second part of the year. The Authority was not carefully reviewing payroll before it was processed to ensure accuracy, and was not maintaining personnel files that were in agreement with current pay rates and other documentation.

Effect: The Authority is not in compliance with the Immigration Reform and Control Act of 1986 or with New Mexico State Statutes. The Authority could be subject to penalties or possibly legal action. Not having correct supporting documentation for employee pay rates and deductions is a serious failure of internal control procedures and could result in various legal complications in the event of noncompliance with a contract.

Auditors' Recommendations: We recommend the Authority obtain all required information and retain the necessary documents in the employees' personnel files as well as review all supporting documentation for payroll processed. In the future, the Authority should make periodic checks to ensure all required information is being maintained.

Management's Response:

1. The Board passed a resolution to pay in addition to the 9.15% of PERA that is required, 9.85% of the employee portion. Also the authority has worked with Pay Day, to ensure that PERA is not being paid on the Overtime wages.
2. Payroll reports and employee pay rates are updated and reconciled quarterly with the 941's.
3. Employee files are being maintained in accordance with State and Federal requirements, and reviewed quarterly.
4. Proper signatures on documents are obtained when an employee is hired, and files are reviewed semiannually.
5. Employees are required to fill out time sheets and supervisors are required to sign the time sheets prior to payroll being submitted.
6. Payroll submission is now a 3 step process; timesheets are submitted to supervisor for review and signatures, timesheets are reviewed prior to and after data entry for accuracy, payroll reports are edited prior to and after final processing for accuracy. If discrepancies are found corrections are made.

FS 08-02: Credit Cards – Repeated and Revised

Criteria: Section 6-5-9(1) 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 of 5 the credit card transactions tested were for items other than gasoline or telephone services.

Cause: The Solid Waste Authority was purchasing items not allowed to be purchased with a credit card other than a state authorized procurement card.

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

Auditor's Recommendation: We recommend the Solid Waste Authority follow state statutes and only use the credit cards for gas or telephone services, and obtain a procurement card for other purchases as authorized.

Management's Response: The Agency does not have access to state authorized procurement cards. The existing credit cards are used for business purchases that have prior authorization through purchasing requisitions or management approval. Many vendors will not accept debit cards. The credit cards are paid monthly, and all receipts are required to be submitted prior to processing payments. Only management has access to the credit card.

FS 08-03: Cash – Lack of Supporting Documentation – Repeated and Revised

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 1 of 10 bank statements which the client was unable to furnish for our inspection.

Cause: The Solid 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: All documents are archived in a waterproof storage facility, which is locked. All current documents are kept in locked filing cabinets. Also Operating Account records are archived on electronic storage media and kept in a fire proof safe.

FS 08-07: Lease Agreements: Lack of supporting documentation - Repeated and Revised

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 to the general ledger.

Cause: The Solid Waste Authority was unable to locate or overlooked agreements which would have served as supporting documentation. Internal controls and policies and procedures were not in place to ensure all agreements entered into by the Solid 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 Authority may result in unsupported cash disbursements and or possible fraudulent activities as the Solid Waste Authority may not be able to justify or deny payment to vendors.

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

Managements Response: The Authority has obtained supporting documentation and reconciled all rental agreements to the general ledger.

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FS 08-08: Procurement - Repeated and Revised

Criteria: NMSA 1978, Chapter 13, Article 1 provides state statutes regarding public purchases and property, which the Solid Waste Authority is required to follow.

Condition: During our testwork of procurement, we were not provided with supporting documentation that the Authority followed the procurement code for any large purchases made during the year ended June 30, 2009.

Cause: The Solid Waste Authority did not follow the State Procurement Code for large purchases made during the year. If they did follow the procurement code, they did not maintain supporting documentation to show compliance.

Effect: The Solid Waste Authority is not in compliance with NMSA 1978, Section 13, Article 1; the State Procurement Code.

Auditor's Recommendation: We recommend that the Solid Waste Authority personnel become familiar with and follow all the State Procurement Code requirements.

Management's Response:

1. The Authority will review State Procurement codes and develop and implement policies to come into compliance with code requirements.
2. Currently contracts and purchases in excess of \$10,000 are advertised for bid.
3. The Purchasing Requisition form clearly states the process required to be followed for a graduated purchasing scale.

FS 08-10: Capital Assets – Repeated and Revised

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 our test work of capital assets and repairs & maintenance, we noted the following:

- Supporting documentation for several expenditures could not be provided for our review. The specific amounts have been included in finding FS 07-07. We were not able to determine whether these items were properly capitalized, or properly expensed.
- A voided check totaling \$13,600 was included in fixed asset additions.
- Two out of the fourteen repairs & maintenance transactions that were tested should have been capitalized but instead were expensed. The two transactions totaled \$14,430.

Cause: The Authority was unaware that supporting documentation was missing. They were also unaware that they had included the voided check in the fixed asset additions and that two transactions were expenses instead of capitalized. The Authority did not carefully review their capital assets listing or their repairs & maintenance expenses.

Effect: The Authority's capital assets were not fairly stated. We were not able to determine whether these items were properly capitalized, or properly expensed.

Auditors' Recommendations: We recommend the Authority periodically review the repairs and maintenance detail to check for capital assets that were inappropriately expensed. The Authority should also review, at least annually, the capital asset additions to ensure their accuracy and validity.

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Management's Response:

1. The Authority has developed a 3 step procedure so that expenditures for capital assets are identified and capitalized, and expenses are properly expensed.
2. The prior capitalization and depreciation reports are being reviewed and corrected.

FS 08-11: CRS Late Payments - Repeated and Revised

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

Condition: During the audit, we noted the Solid Waste Authority had paid at least half of their monthly CRS payments late during the year and also there was one payment from June 2006 that was made in July 2009, three years late. We also noted at least \$1,070 in penalties and interest that were assessed and paid during FY2009.

Cause: The 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 Solid Waste Authority timely file and make payments on all monthly CRS-1 forms.

Management's Response: The Authority has come into compliance by filing and paying NMGRT online and on time.

FS 08-12: Landfill Financial Assurance - Repeated and Revised

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, 2009, the landfill was at 100% of then permitted capacity. Total closure and post closure care costs were estimated to be \$1,753,180, but the authority had only set aside \$848,824, a shortage of \$904,356.

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 is currently depositing \$48,500 annually into the post closure account. We are not required to have the entire amount of the estimated \$1,753,180 cost on deposit, as the amount required for the estimated closure cost is reevaluated annually and will drop as the cells are closed. The monthly deposit meets the New Mexico State Environmental Department requirement.

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Section III – Prior Year Audit Findings

FS 02-04 Internal Controls Receipts – *Repeated and Revised*
FS 05-01 Travel and Per Diem – *Repeated and Revised*
FS 06-01 Segregation of Duties – *Repeated and Revised*
FS 06-04 Internal Controls over Sales, Accounts Receivable and Cash Collection – *Repeated and Revised*
FS 07-01 Internal Controls - Disbursements– *Repeated and Revised*
FS 07-02 PERA Reports and Deductions – *Repeated and Revised*
FS 07-03 Accounts Receivable – *Repeated and Revised*
FS 07-05 Late 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*
FS 08-01 Internal Controls – Payroll – *Repeated and Revised*
FS 08-02 Credit Cards – *Repeated and Revised*
FS 08-03 Cash – Lack of Supporting Documentation – *Repeated and Revised*
FS 08-04 Accounts Receivable – Lack of Supporting Documentation – *Resolved*
FS 08-05 Inventory – Lack of Internal Controls – *Resolved*
FS 08-06 Compensated Absences – *Resolved*
FS 08-07 Lease Agreements – Lack of Supporting Documentation – *Repeated and Revised*
FS 08-08 Procurement – *Repeated and Revised*
FS 08-09 Payroll Advances – Lack of Internal Controls – *Resolved*
FS 08-10 Capital Assets – *Repeated and Revised*
FS 08-11 CRS Late Payments – *Repeated and Revised*
FS 08-12 Landfill Financial Assurance – *Repeated and Revised*
FS 08-13 Budgetary Conditions – *Resolved*

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 August 18, 2011. The following individuals were in attendance.

Northwest New Mexico Regional Solid Waste Authority
Billy Moore, Executive Director
Larry Carver, Board Chairman
Martha Briggs, Accountant

Griego Professional Services, LLC
Monica Yapple, CPA