

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
INDEPENDENT AUDITORS' REPORT
AND ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010

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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, 2010**

Official Roster
June 30, 2010

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

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
 FOR THE YEAR ENDED JUNE 30, 2010
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FINANCIAL SECTION

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Griego Professional Services, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities of the Northwest New Mexico Regional Solid Waste Authority (the Authority), as of and for the year ended June 30, 2010. We have also audited the statement of revenue and expenses – budget to actual, presented as supplemental information, as of and for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities of the Authority, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2012 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, 2010, 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.

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Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparisons. The additional schedules listed as “other supplemental information” in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grigo Professional Services, LLC

Albuquerque, New Mexico
May 8, 2012

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2010

Exhibit A-1

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 770,477
Accounts receivable, net of allowance for doubtful accounts	506,711
Investments - restricted	1,689,451
Operations inventory	60,411
Prepaid expenses	9,685
Deferred charge - revenue bond issuance costs	18,924
Total Current Assets	3,055,659
Noncurrent Assets	
Capital assets	14,472,547
Less: accumulated depreciation	(7,379,334)
Total Noncurrent Assets	7,093,213
Other Assets	
Deferred charge - revenue bond issuance costs	79,395
Total other assets	79,395
Total Assets	\$ 10,228,267

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, 2010

Exhibit A-1

	Governmental Activities
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 101,841
Wages, payroll taxes and benefits payable	60,167
Civil penalties payable	67,500
Gross receipts taxes payable	16,221
Environmental GRT payable	22,795
Accrued interest and fees	26,442
Current maturities of accrued compensated absences	62,797
Current maturities of bonds	561,203
Current maturities of capital leases	221,341
Total Current Liabilities	1,140,307
Long-Term Liabilities	
Bonds Payable, net of current maturities	2,678,013
Capital Leases payable, net of current maturities	170,404
Unamortized bond premium	18,018
Estimated liability for landfill closure costs	1,146,490
Total Long-Term Liabilities	4,012,925
Total Liabilities	5,153,232
Net Assets	
Invested in capital assets, net of related debt	3,462,252
Restricted for:	
Debt service	787,699
Landfill closure	901,752
Unrestricted	(76,668)
Total Net Assets	5,075,035
Total Liabilities and Net Assets	\$ 10,228,267

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, 2010

Exhibit B-1

<i>Operating Revenues:</i>	
Tipping fees	\$ 3,525,512
Special projects revenue	637,667
<i>Total operating revenues</i>	<u>4,163,179</u>
 <i>Operating Expenses:</i>	
Personnel services	1,637,994
Employee benefits	337,666
Contractual services	131,014
Repairs and maintenance	133,932
Insurance	57,318
Utilities	32,741
Supplies	118,564
Rent	209,616
Depreciation	734,988
Other	207,924
Increase (decrease) in landfill liability	(590,935)
<i>Total operating expenses</i>	<u>3,010,822</u>
 <i>Operating income</i>	 <u>1,152,357</u>
 <i>Non-operating revenues (expenses)</i>	
Interest income	14,180
Debt service - interest	(189,304)
<i>Total non-operating revenues (expenses)</i>	<u>(175,124)</u>
 <i>Net income before contributions</i>	 977,233
 <i>Contributions of capital</i>	 <u>585,649</u>
 <i>Change in net assets</i>	 <u>1,562,882</u>
 <i>Net assets beginning of year</i>	 3,822,963
 <i>Restatement</i>	 (310,810)
<i>Net assets beginning of year - restated</i>	<u>3,512,153</u>
 <i>Net assets end of year</i>	 <u>\$ 5,075,035</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 CASH FLOWS
YEAR ENDED JUNE 30, 2010

Exhibit C-1

<i>Cash Flows from Operating Activities</i>	
Cash received from customers	\$ 4,221,134
Cash payments to employees and suppliers	<u>(3,217,390)</u>
<i>Net cash provided by operating activities</i>	<u>1,003,744</u>
 <i>Cash Flows from Capital and Related Financing Activities</i>	
Capital contributed by members	585,649
Purchase of capital assets	(782,947)
Repayment of long-term debt, less issuance of new debt	(596,920)
Interest and fees paid on long-term debt	<u>(192,195)</u>
<i>Net cash provided by capital and related financing activities</i>	<u>\$ (986,413)</u>
 <i>Cash Flows from Investing Activities</i>	
Interest on investments and deposits	14,180
<i>Net cash provided by operating activities</i>	<u>\$ 14,180</u>
<i>Net increase in cash and cash equivalents</i>	31,511
<i>Cash and cash equivalents, beginning of period</i>	<u>2,739,227</u>
<i>Prior Period Adjustment</i>	<u>(310,810)</u>
<i>Cash and cash equivalents, end of period</i>	<u><u>\$ 2,459,928</u></u>
 <i>Operating income</i>	
	<u>\$ 1,152,357</u>
 <i>Adjustments to reconcile operating income to net cash provided by operating activities</i>	
Depreciation	723,939
Increase in landfill closure and postclosure cost estimate	(606,690)
Changes in assets and liabilities	
Accounts receivable	57,955
Operations inventory	(3,872)
Prepaid expenses	(793)
Accounts payable	(300,544)
Accrued expenses	(44,829)
Other noncurrent liability	26,221
<i>Total adjustments</i>	<u>(148,613)</u>
<i>Net cash provided by operating activities</i>	<u><u>\$ 1,003,744</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, 2010

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, 2010.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010

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, 2010

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, 2010

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 \$42.00 per ton, with a minimum charge of \$7.00. The Red Rock landfill was opened by the Authority on January 2, 1996. The tipping fee at this site is \$35.00 per ton with a minimum charge of \$7.00. The Authority opened the Cibola County transfer station in July 1997. The tipping fee at this site is \$42.00 per ton, with a minimum charge of \$7.00. 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, 2010.

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, 2010

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, 2010, 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, 2010, 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). As of June 30, 2010, the carrying amount of deposits was \$770,818. 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	\$ 804,730	\$ 1,301	\$ 806,031
FDIC coverage	<u>(804,730)</u>	<u>(1,301)</u>	<u>806,031</u>
Total uninsured public funds	<u>—</u>	<u>—</u>	<u>—</u>
Collateral requirement (50% of uninsured public funds)	—	—	—
Pledged security	<u>—</u>	<u>—</u>	<u>—</u>
Total under (over) collateralized	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010, the Authority had the following investments:

New Mexico Finance Authority; Bond Sinking Fund	\$ 83
State Treasurer; Closure Sinking Fund	901,753
Bank of New York, New York, Investment Account	<u>786,314</u>
	<u>\$ 1,688,150</u>

The investments held at the New Mexico Finance Authority and the Bank of New York 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, 2010, 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 \$506,711. 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, 2010

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, 2010 is \$9,685.

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2010 follows.

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital Assets:					
Capital assets not being depreciated:					
Construction in progress	\$ 591,747	\$ —	\$ 591,747	\$ —	\$ —
Total assets not being depreciated	<u>591,747</u>	<u>—</u>	<u>591,747</u>	<u>—</u>	<u>—</u>
Capital assets being depreciated:					
Landfill start-up costs	6,513,266	217,763	—	—	6,731,028
Landfill	955,553	717,876	—	—	1,673,429
Transfer station	2,068,103	—	—	—	2,068,103
Buildings	489,134	—	—	—	489,134
Furniture, fixtures & equipment	2,977,090	558,081	—	(119,024)	3,416,146
Vehicles	94,707	—	—	—	94,707
Total assets being depreciated	<u>13,097,853</u>	<u>1,493,719</u>	<u>—</u>	<u>(119,024)</u>	<u>14,472,547</u>
Total assets	<u>\$ 13,696,600</u>	<u>\$ 1,493,719</u>	<u>\$ 591,747</u>	<u>\$ (119,024)</u>	<u>\$ 14,472,547</u>
Less Accumulated depreciation	<u>\$ 6,655,395</u>	<u>\$ 737,189</u>	<u>\$ —</u>	<u>\$ (13,250)</u>	<u>\$ 7,379,334</u>
Net Capital Assets	<u>\$ 7,034,205</u>	<u>\$ 737,189</u>	<u>\$ 591,747</u>	<u>\$ 124,376</u>	<u>\$ 7,093,213</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, 2010

NOTE 7. Long-Term Debt

During the year ended June 30, 2010, the following changes occurred in the liabilities reported in the statement of net assets:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amount Due Within One Year
NMFA 1996	\$ 281,945	\$ —	\$ 43,588	\$ 238,357	\$ 44,896
NMFA 1995 Refunding	3,135,341	—	535,341	2,600,000	474,000
NMFA 1998	441,324	—	40,464	400,860	42,308
1 st Community Loan	—	202,835	83,055	119,780	119,780
Compactor	369,271	—	97,306	271,965	101,561
Compensated Absences	51,771	48,130	37,104	62,797	62,797
Total Long-Term Debt	\$ 4,279,652	\$ 250,965	\$ 836,858	\$ 3,693,759	\$ 845,342

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	42
Total	100%

The bond-funded loan outstanding at year-end is in the amount of \$2,600,000, with an effective interest rate of 5.8822% and terms involving semi-annual payments for 20 years.

Annual debt service requirements to maturity for the bond funded loan, including interest of \$386,553 are as follows:

Fiscal Year	Principal	Interest	Total
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	568,000	28,418	596,418
2016-2020	—	—	—
Total	<u>\$ 2,600,000</u>	<u>\$ 386,553</u>	<u>\$ 2,986,553</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7. Long-Term Debt (Continued)

One cash funded loan outstanding at year-end is in the amount of \$238,357, 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 \$20,052 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	50,530	1,390	51,920
2016-2020	—	—	—
Total	<u>\$ 238,357</u>	<u>\$ 20,052</u>	<u>\$ 258,409</u>

Another cash funded loan outstanding at year-end is in the amount of \$400,860, 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 \$93,013 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	50,946	10,793	61,739
2016-2020	168,362	16,928	185,290
Total	<u>\$ 400,860</u>	<u>\$ 93,013</u>	<u>\$ 493,873</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 \$271,965, 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 \$16,247 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	101,561	9,934	111,495
2012	106,240	5,370	111,610
2013	64,164	944	65,107
2014	—	—	—
Total	<u>\$ 271,965</u>	<u>\$ 16,247</u>	<u>\$ 288,212</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7. Long-Term Debt (Continued)

In 2010, the Authority entered into a loan agreement for the purchase two commercial vehicals and the payoff off of the compactor. The total amount of the loan was \$202,835.

The loan obligation outstanding at year-end is in the amount of \$119,780, with an effective interest rate of 6% and terms involving monthly payments for 1 year.

Annual debt service requirements to maturity for the lease obligation, including interest of \$16,247 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	119,780	2,451	122,231
Total	\$ 119,780	\$ 2,451	\$ 122,231

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, 2010 were \$62,797. Vested benefits are calculated using the employee pay rates and applicable employer payroll taxes.

NOTE 8. Operating Leases

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, 2010. These customers are City of Gallup, McKinley Paper Company, Navajo Sanitation, Waste Management and the Zuni Transfer Station.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 \$194,903 as of June 30, 2010, which is based on 17% usage of the landfill. The estimated total current cost of the landfill closure and post closure care of \$1,146,490 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, 2010.

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, 2010, the landfill was at 17% capacity and maintained a \$1,146,490 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 \$901,752, a shortage of \$244,738. 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, 2010

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 Authority's contributions to PERA for the fiscal years ending June 30, 2010, 2009 and 2008 were \$184,626, \$88,139, and \$65,576, respectively, which equal the amount of the required contributions for each fiscal year.

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

Plan Description. The Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and / or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque NM 87107.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer’s RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premiums to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.3% of each participating employee’s annual salary; each participating employee was required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

Also, employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Authority’s contribution to the RHCA for the year ended June 30, 2010 was \$180,258, which equals the required contributions for each year. The amounts contributed in 2009 and 2008 were not available.

NOTE 14. Restatement of Net Assets

Restatements to prior periods were made in the total amount of \$310,810. This amount was the result of bank loan liability acquired in 2010 that was not recorded in the prior year in the amount of \$202,835. A restatement was also made to capital assets in the net amount of \$107,975 to record assets that were not previously maintained in the capital asset listing as well as a reduction in capital assets for the removal of the tire wall per the Authority’s request.

OTHER SUPPLEMENTAL INFORMATION

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO
Northwest New Mexico Regional Solid Waste Authority
Schedule of Deposits and Investments
June 30, 2010

Schedule I

<u>Bank Account Type/Name</u>	<u>1st Community Bank</u>	<u>Wells Fargo</u>	<u>Bank of New York</u>	<u>Totals</u>
Deposit Accounts:				
FCB Operating	\$ 439,616	\$ -	\$ -	\$ 439,616
FCB ERGT	206,049	-	-	206,049
FCB EAA	159,066	-	-	159,066
Total On Deposit	<u>\$ 804,731</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 804,731</u>
Investment Accounts:				
NM Finance Authority	\$ -	\$ -	\$ 1,688,150	\$ 1,688,150
Wells Fargo - CD	-	1,301	-	1,301
Total On Deposit	<u>\$ -</u>	<u>\$ 1,301</u>	<u>\$ 1,688,150</u>	1,689,451
Reconciling Items				(35,214)
Petty Cash				960
Reconciled Cash and Investments, June 30, 2010				<u>\$ 2,459,928</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, 2010

Schedule II

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<i>Operating Revenues:</i>				
Tipping fees	\$ 3,850,000	\$ 3,850,000	\$ 3,525,512	\$ (324,488)
Miscellaneous income	1,500	1,500	35,796	34,296
Special projects revenue	422,870	422,870	601,871	179,001
<i>Total operating revenues</i>	<u>4,274,370</u>	<u>4,274,370</u>	<u>4,163,179</u>	<u>(111,191)</u>
<i>Operating Expenses:</i>				
Personnel services	1,602,323	1,602,323	1,637,994	(35,671)
Employee benefits	458,000	458,000	337,666	120,334
Contractual services	200,000	200,000	131,014	68,986
Repairs and maintenance	705,000	705,000	133,932	571,068
Landfill closure / postclosure	-	-	(590,935)	590,935
Insurance	80,000	80,000	57,318	22,682
Utilities	36,000	36,000	32,741	3,259
Supplies	30,000	95,000	118,564	(23,564)
Rent	300,000	300,000	209,616	90,384
Depreciation	725,000	725,000	734,988	(9,988)
Other	238,500	238,500	207,924	30,576
<i>Total operating expenses</i>	<u>4,374,823</u>	<u>4,439,823</u>	<u>3,010,822</u>	<u>1,429,001</u>
<i>Operating income</i>	<u>(100,453)</u>	<u>(165,453)</u>	<u>1,152,357</u>	<u>1,317,810</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	100,000	100,000	14,180	(85,820)
Debt service - interest	(210,000)	(210,000)	(189,304)	20,696
<i>Total non-operating revenues (expenses)</i>	<u>(110,000)</u>	<u>(110,000)</u>	<u>(175,124)</u>	<u>(65,124)</u>
<i>Net income before contributions</i>	(210,453)	(275,453)	977,233	1,252,686
<i>Contributions of capital</i>	<u>750,000</u>	<u>750,000</u>	<u>585,649</u>	<u>(164,351)</u>
<i>Change in net assets</i>	<u>\$ 539,547</u>	<u>\$ 474,547</u>	<u>\$ 1,562,882</u>	<u>\$ 1,088,335</u>

The accompanying notes are an integral part of these financial statements

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COMPLIANCE SECTION

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Griego Professional Services, LLC

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the governmental activities and the related budgetary comparisons presented as supplemental information of the Northwest New Mexico Regional Solid Waste Authority (the Authority), as of and for the year ended June 30, 2010 and have issued our report thereon dated May 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. (FS 02-04, FS 06-01, FS 07-01, FS 07-02, FS 07-06, FS 07-07, FS 08-01 and FS 08-11) A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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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 07-05 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.

Grigo Professional Services, LLC

Albuquerque, New Mexico
May 8, 2012

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2010

Section I – Summary of Audit Results

Financial Statements:

1. Type of auditors' report issued	Unqualified
2. Internal control over financial reporting:	
a. Material weakness identified?	No
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?	Yes

Section II – Financial Statement Findings

FS 02-04: Internal Controls Receipts – Significant Deficiency – Revised and Repeated

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 were not traceable to the GL, totaling \$103.64
- 4 out of 20 receipts were not deposited within 24 hours, totaling \$31.58

Effect: Untimely deposits leave the Waste Authority vulnerable to misappropriation of funds.

Cause: The Waste Authority has not emphasized timely depositing of funds.

Auditor's recommendation: We recommend the 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.

Management's Response: All cash deposits are being recorded in the GL. We are depositing monies on a daily basis, except the Convenience Center receipts, which are deposited bimonthly, due to very rural locations of the Cibola County Convenience Centers.

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FS 06-01: Segregation of Duties – Significant Deficiency – Repeated

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

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

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

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

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

Management Response: All new credit accounts must be approved by one of the Management Team, consisting of the Executive Director, Operations Manager or the Accountant, insuring that all accounts are legitimate.

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

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 disbursements, individually significant, credit cards, accounts payable and fixed assets we found that the client could not provide supporting documentation for 11 out of 100 transactions totaling \$17, 949.82. There was also one transaction out of 100, in which the Authority made an overpayment of \$3,573 on an invoice. The invoice was for \$397.76 and they paid \$3970.76

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.

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

Auditor's Recommendation: We recommend that the solid waste authority must keep all documentation on file to show all evidence of disbursements until after the audit is completed in order to show there was no wrong doing or misuse of the authority's monies.

Management's Response: All supporting documents are filed for future reference in a securely locked container for inspection. All invoices, statements and receipts are reconciled before checks are issued to vendors.

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FS 07-02: PERA Reports and Deductions – Significant Deficiency – Revised and Repeated

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

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

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

Effect: The Authority is not in compliance with State Auditor rule 2.2.2.10 1 or 12-6-5, NMSA 1978 for the fiscal year ended June 30, 2010 and could be assessed penalties because of it. Also, the Authority could be making too much or too little in contributions to PERA on behalf of their employees.

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

Management Response: The Board of the NWNMRSWA passed a resolution affirming the payment of the 9.15% of the employee's portion of the total 13.15% PERA Contribution. A permanent file for PERA contributions has been established and is updated for each payroll.

FS 07-05: Late Audit Report – Non-Compliance – Repeated

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, 2010 report to be filed by December 1, 2009.

Condition: The Authority's audit report for the year ended June 30, 2010 was not submitted to the State Auditor by the required due date, December 1, 2010.

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

Effect: The Authority is not in compliance with State Auditor rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2010. 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: Due to the two previous fiscal year audits being filed late the subsequent audits are also late. Management is diligently striving to become current on our audits.

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FS 07-06: Disaster Recovery Plan – Significant Deficiency – Repeated

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: Management has worked to update the Disaster Recovery Plan to become sufficiently prepared for a disaster. This includes contact information for management, instructions for establishing operations after an emergency or disaster and sufficient backup of data for retrieval.

FS 07-07: Preparation of Financial Statements – Significant Deficiency – Repeated

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

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

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

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

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

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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: The new Accountant has taken continuing education classes to come into compliance with this requirement.

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

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 rates, PERA is being correctly deducted, contracts or documents supporting compensation must be included in the employee personnel files.

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

- One out of twenty employees tested had insurance rates held at single rate instead of family rate.
- One out of twenty employees tested did not have an I-9 on file.
- One out of twenty employees tested did not have contract on file.

Cause: The cause is unknown and appears to be an isolated incident.

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 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: All employment forms are currently reviewed annually to ensure that they are completed correctly.

FS 08-11: CRS Late Payments – Significant Deficiency – Repeated

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

Condition: During the audit, we noted the Waste Authority had paid several CRS payments late during the year. There was one payment from June 2006 that was made in July 2009, three years late. Penalties and interest totaled \$1,516.

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

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

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

Management's Response: CRS payments are being made timely and online as required by the NM Tax and Revenue Department.

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FS 08-12: Landfill Financial Assurance – Non-Compliance – 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, 2010, the landfill was at 17% of the permitted capacity. Total closure and post closure care costs were estimated to be \$1,146,490 but the authority had only set aside \$901,752, a shortage of \$244,738.

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 17% capacity of the permitted space but did not have 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: Management is meeting the NMED requirement to have a Post Closure Account sufficient to meet the estimated closure cost and is depositing \$48,600 annually to the account to meet the requirement. Cells 1-7 were closed as of 6/30/10 and at any one time only three cells would require closure.

Section III – Prior Year Audit Findings

- FS 02-04: Internal Controls Receipts – *Revised and Repeated*
- FS 05-01: Travel and Per Diem – *Resolved*
- FS 06-01: Segregation of Duties – *Repeated*
- FS 06-04: Internal controls over Sales, Accounts Receivable and Cash Collections – *Resolved*
- FS 07-01: Internal Controls – Disbursements – *Revised and Repeated*
- FS 07-02: PERA Reports and Deductions – *Revised and Repeated*
- FS 07-05: Late Audit Report – *Repeated*
- FS 07-06: Disaster Recovery Plan – *Repeated*
- FS 07-07: Preparation of Financial Statements – *Repeated*
- FS 07-08: Bank Reconciliations – *Resolved*
- FS 07-09: Accounts Receivable Adjustments – *Resolved*
- FS 08-01: Internal Controls-Payroll – *Revised and Repeated*
- FS 08-02: Credit Cards – *Resolved*
- FS 08-03: Cash – Lack of Supporting Documentation – *Resolved*
- FS 08-07: Lease Agreements: Lack of supporting documentation – *Resolved*
- FS 08-08: Procurement – *Resolved*
- FS 08-10: Capital Assets – *Resolved*
- FS 08-11: CRS Late Payments – *Repeated*
- FS 08-12: Landfill Financial Assurance – *Revised and Repeated*

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Section IV – Other Disclosures

Auditor Prepared Financials

Griego Professional Services, LLC assisted in the preparation of the financial statements presented in this report. The Authority's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements

Exit Conference

The contents of this report were discussed on May 8, 2012. 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

J.J. Griego, CPA