

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL
SOLID WASTE AUTHORITY
INDEPENDENT AUDITORS' REPORT
AND ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

INTRODUCTORY SECTION

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Annual Financial Report
June 30, 2012

Official Roster

<u>Name</u>	<u>Title</u>
<u>Board of Directors</u>	
Larry Carver	Chairman
Josie Blea	Treasurer
Sara Keeler	Vice-Chairman
Lance Allgood	Member
Tony Gallegos	Member
Cecil Garcia	Member
Joe Murietta	Member
Carol Muskett	Member
<u>Administrative Officials</u>	
Billy Moore	Executive Director
Martha Briggs	Accountant

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2012
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas
New Mexico State Auditor

Board of Directors
Northwest New Mexico Regional Solid Waste Authority

We have audited the accompanying financial statements of the business-type activities of the Northwest New Mexico Regional Solid Waste Authority (Authority), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison statement presented as supplementary information as for and for the year ended June 30, 2012, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the budgetary comparison 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 March 27, 2013, on our consideration of the Authority 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.

Management has omitted the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparison. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary 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 financial statements as a whole.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

March 27, 2013

**BASIC
FINANCIAL STATEMENTS**

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

Exhibit A-1

	Business-Type Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 2,180,423
Accounts receivable, less allowance for uncollectible amounts of \$24,577	481,434
Investments - restricted	1,330,964
Operations inventory	80,780
Prepaid expenses	12,539
Deferred charge - bond issuance costs	10,598
Total Current Assets	4,096,738
Noncurrent Assets	
Capital assets	14,768,786
Less: accumulated depreciation	(8,675,230)
Net capital assets	6,093,556
Deferred charge - bond issuance costs	95,384
Total Noncurrent Assets	6,188,940
Total Assets	\$ 10,285,678

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, 2012

Exhibit A-1

	Business-Type Activities
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 44,924
Wages, payroll taxes, and benefits payable	76,055
Gross receipts taxes payable	7,768
Accrued interest and fees	3,439
Current maturities of accrued compensated absences	51,998
Current maturities of loans	292,710
Current maturities of capital leases	64,164
Total Current Liabilities	541,058
Long-Term Liabilities	
Loans payable, net of current maturities	2,987,922
Estimated liability for landfill closure costs	177,463
Total Long-Term Liabilities	3,165,385
Total Liabilities	3,706,443
Net Assets	
Invested in capital assets, net of related debt	2,748,760
Restricted for:	
Debt service	329,009
Landfill closure	1,001,955
Unrestricted	2,499,511
Total Net Assets	6,579,235
Total Liabilities and Net Assets	\$ 10,285,678

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B-1

<i>Operating Revenues:</i>	
Tipping fees	\$ 3,688,009
Miscellaneous income	57,091
State revenue - special projects	15,763
<i>Total operating revenues</i>	3,760,863
 <i>Operating Expenses:</i>	
Personnel services	1,324,436
Employee benefits	506,747
Contractual services	81,554
Repairs and maintenance	354,025
Insurance	72,962
Utilities	62,647
Supplies	134,042
Fuel and Oil	573,910
Rent	8,485
Depreciation	748,824
Other	106,353
Increase (decrease) in landfill liability	(111,838)
<i>Total operating expenses</i>	3,862,147
<i>Operating loss</i>	(101,284)
 <i>Non-operating revenues (expenses)</i>	
Interest income	7,359
Loss on refunding of bonds	(49,909)
Loss on disposal of assets	(24,232)
Donated capital assets	131,130
Debt service - interest	(204,453)
<i>Total non-operating revenues (expenses)</i>	(140,105)
<i>Net loss before contributions</i>	(241,389)
<i>Contributions of capital</i>	665,069
<i>Change in net assets</i>	423,680
<i>Net assets beginning of year</i>	6,155,555
<i>Net assets end of year</i>	\$ 6,579,235

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
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit C-1

<i>Cash Flows from Operating Activities</i>	
Cash received from customers	\$ 3,647,221
Cash payments to employees and suppliers	(3,330,796)
<i>Net cash provided by operating activities</i>	<u>316,425</u>
 <i>Cash Flows from Capital and Related Financing Activities</i>	
Capital contributed by members	665,069
Purchase of capital assets	(218,462)
Repayment of long-term debt, less issuance of new debt	496,379
Interest and fees paid on long-term debt	(222,763)
<i>Net cash provided by capital and related financing activities</i>	<u>720,223</u>
 <i>Cash Flows from Investing Activities</i>	
Interest on investments and deposits	7,359
<i>Net cash provided by investing activities</i>	<u>7,359</u>
 <i>Net increase in cash and cash equivalents</i>	 <u>1,044,007</u>
 <i>Cash and cash equivalents, beginning of period</i>	 2,467,380
 <i>Cash and cash equivalents, end of period</i>	 <u>\$ 3,511,387</u>
 <i>Operating loss</i>	 <u>\$ (101,284)</u>
 <i>Adjustments to reconcile operating loss to net cash provided by operating activities</i>	
Depreciation	748,824
Increase in landfill closure and postclosure cost estimate	(111,838)
Changes in assets and liabilities	
Accounts receivable	(113,642)
Operations inventory	190
Prepaid expenses	(1,865)
Other noncurrent assets	(87,058)
Accounts payable	7,506
Accrued expenses	(20,536)
Other noncurrent liabilities	(3,872)
<i>Total adjustments</i>	<u>417,709</u>
 <i>Net cash provided by operating activities</i>	 <u>\$ 316,425</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies

Northwest New Mexico Regional Solid Waste Authority (the “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 contributed 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 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 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 made 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 benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for government 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 exists if the primary government:

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

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Some organizations are included as component units because of their fiscal dependence on the primary government. An organization is fiscally dependent on the primary government if 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 Authority did not have any component units during the fiscal year ended June 30, 2012.

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.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

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.

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.

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 OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

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.

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: Per Section 12-6-10 NMSA 1978, capital assets are defined 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 asset 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	7 years
Landfill	20 years
Landfill – Land	99 years
Transfer Station	20 years
Buildings	30 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.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

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 included 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.”

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.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

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 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 property followed State investment requirements as of June 30, 2012.

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.

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 \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. Additionally, all deposits in non-interest bearing transaction accounts (such as non-interest bearing checking accounts) at participating institutions were fully guaranteed, regardless of dollar amount.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. Cash and Investments (Continued)

All of the investments of the Authority at June 30, 2012 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 the state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). As of June 30, 2012, \$30,316 of the Authority's bank balance of \$768,466 was exposed to custodial credit risk as the amount was uninsured and the collateral was held by the pledging bank's trust department, but not in the Authority's name. The carrying amount of deposits was \$671,402, and the total cash on hand plus undeposited cash was \$4,008. 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 at 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.

	Washington Federal Bank	US Bank	Grants State Bank	Total
Total amount of deposits	\$ 150,876	\$ 337,274	\$ 280,316	\$ 768,466
FDIC Coverage*	<u>(150,876)</u>	<u>(337,274)</u>	<u>(250,000)</u>	<u>(738,150)</u>
Total uninsured public funds	<u>-</u>	<u>-</u>	<u>30,316</u>	<u>30,316</u>
Collateral requirement (50% of uninsured public funds)	-	-	15,158	15,158
Pledged security	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Total under (over) collateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (34,842)</u>	<u>\$ (34,842)</u>

*Per section 343 of the Dodd-Frank Act, all funds in a "noninterest-bearing transaction account" are insured in full by the Federal Deposit Insurance Corporation from December 31, 2010 through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules.

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, but is not susceptible to concentration of credit risk.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. Cash and Investments (Continued)

Investments

As of June 30, 2012, the Authority had the following investments:

Certificate of Deposit, US Bank	\$ 1,069
Certificate of Deposit, Washington Federal Bank	851,781
Savings Account, Washington Federal Bank	150,046
State Treasurer; Landfill Closure Fund and Reserve Acct	511
Bank of New York, NMFA Investment Accounts	<u>1,832,570</u>
	<u>\$ 2,835,977</u>

Some of the investments held at the Bank of New York are restricted for debt service (\$328,625). The investments held by the State Treasurer are restricted for landfill closure costs (\$128) and for debt service (\$384). The Washington Federal Bank accounts are restricted for landfill closure costs (\$1,001,827)

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 O 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 procedures 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, 2012, the Authority's investment of New MexiGROW LGIP had a credit risk rating of AAAM and a 60-day WAM(R) and an 83-day WAM(F).

NOTE 3. Accounts Receivable

Accounts receivable are comprised of amounts due from credit customers in the amount of \$506,011, less \$24,577 that is considered uncollectible and is included as an allowance for doubtful accounts. The net amount of accounts receivable at June 30, 2012 is \$481,434.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012 is \$12,539.

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2012 follows:

	<u>Balance</u> <u>07-01-11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance</u> <u>06-30-12</u>
Capital Assets:					
Capital assets being depreciated:					
Construction in Progress	\$ -	\$ 933	\$ -	\$ -	\$ 933
Capital assets being depreciated:					
Landfill	8,373,415	-	-	-	8,373,415
Transfer stations	1,440,855	-	-	-	1,440,855
Buildings	513,645	73,570	-	-	587,215
Furniture, fixtures & equipment	4,067,232	346,589	(175,210)	-	4,238,611
Vehicles	<u>122,257</u>	<u>5,500</u>	<u>-</u>	<u>-</u>	<u>127,757</u>
Total assets being depreciated	<u>14,517,404</u>	<u>425,659</u>	<u>(175,210)</u>	<u>-</u>	<u>14,767,853</u>
Total assets	<u>\$14,517,404</u>	<u>\$ 426,592</u>	<u>\$ (175,210)</u>	<u>\$ -</u>	<u>\$14,768,786</u>
Less accumulated depreciation:					
Landfill	4,731,023	387,749	-	-	5,118,772
Transfer stations	993,765	72,043	-	-	1,065,808
Buildings	186,566	19,112	-	-	205,678
Furniture, fixtures & equipment	2,019,346	255,328	(73,978)	-	2,200,697
Vehicles	<u>69,683</u>	<u>14,592</u>	<u>-</u>	<u>-</u>	<u>84,275</u>
Total accumulated depreciation	<u>\$ 8,000,383</u>	<u>\$ 748,824</u>	<u>\$ (73,978)</u>	<u>\$ -</u>	<u>\$ 8,675,230</u>
Net capital assets	<u>\$ 6,517,021</u>	<u>\$ (322,232)</u>	<u>\$ (101,232)</u>	<u>\$ -</u>	<u>\$ 6,093,556</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7. Long-Term Debt

During the year ended June 30, 2012, the following changes occurred in the liabilities reported in the statement of net assets:

	Balance <u>07-01-11</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>06-30-12</u>	Due within <u>one year</u>
Loans:					
NMFA 1996 Loan	\$ 193,461	\$ -	\$ 193,461	\$ -	\$ -
NMFA 1995 Refunding Loan	2,126,000	-	2,126,000	-	-
NMFA 1998 Loan	358,552	-	358,552	-	-
NMFA Refunding Loan	<u>-</u>	<u>3,280,632</u>	<u>-</u>	<u>3,280,632</u>	<u>292,710</u>
Total Loans	2,678,013	3,280,632	2,678,013	3,280,632	292,710
Capital Leases:					
Compactor Capital Lease	170,404	-	106,240	64,164	64,164
Compensated Absences	<u>52,142</u>	<u>83,120</u>	<u>83,264</u>	<u>51,998</u>	<u>51,998</u>
Total Long-Term Debt	<u>\$ 2,900,559</u>	<u>\$ 3,363,752</u>	<u>\$ 2,867,517</u>	<u>\$ 3,396,794</u>	<u>\$ 408,872</u>

NMFA Refunding Loan

During the year ended June 30, 2012, the Authority issued \$3,280,632 in refunding bonds, with a blended interest rate of 1.623 percent, to advance refund \$2,090,496 of outstanding bonds, with interest rates ranging from 3.0 to 5.8822 percent. This advance refunding was undertaken to reduce debt service payments in the short term to improve operational cash flow. The refunding also resulted in net present value savings of \$36,362. Finally, the refunding provided additional funds to allow the Authority to construct a new waste disposal cell.

The refunding loan balance outstanding at year-end is in the amount of \$3,280,632, with a blended interest rate of 1.623% and terms involving semi-annual interest payments, annual principal payments, with the final payment due in May 2022.

Annual debt service requirements to maturity for the refunding loan, including interest of \$295,204 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 292,710	\$ 37,829	\$ 330,539
2014	319,906	40,683	360,589
2015	321,154	39,435	360,589
2016	323,016	37,572	360,588
2017	325,730	34,859	360,589
2018-2022	<u>1,698,116</u>	<u>104,826</u>	<u>1,802,942</u>
Total	<u>\$ 3,280,632</u>	<u>\$ 295,204</u>	<u>\$ 3,575,836</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7. Long-Term Debt (continued)

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

The lease obligation outstanding at year-end is in the amount of \$64,164, with an effective interest rate of 4.4% and terms involving monthly payments for five years.

Annual debt service requirements to maturity for the lease obligation, including interest of \$927 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	64,164	927	65,091

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, 2012 were \$51,998. Vested benefits are calculated using the employee pay rates and applicable employer payroll taxes.

NOTE 8. Economic Dependence – Customer Base

The Authority’s five largest customers account for approximately 68% of the tipping fee revenue as of June 30, 2012. These customers are City of Gallup, Bio Pappel, Coronado Wrecking & Salvage, Navajo Sanitation and Waste Management.

NOTE 9. Closure and Post Closure Care Costs

State and federal laws and regulations require the Authority to place a final cover on its regional landfill site when it stops accepting waste to perform certain maintenance and monitoring functions at the site for 30 years after closure. Closure and postclosure care costs are recognized throughout the initial 20-year period of operation 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 \$177,463 as of June 30, 2012, which is based on 17.74% usage of the landfill. The Agency will recognize the remaining estimated cost of closure and postclosure care (total of \$1,000,560) between the date of the balance sheet and the date the landfill stops accepting waste. The estimated total current cost of the landfill closure and post closure care of \$1,000,560 is based on the amount that would be paid if all equipment, facilities and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2012. Actual costs may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

In accordance with GASB Statement No. 18, the estimated total current cost of closure and post-closure care is applied to the percentage of the landfill consumed to date (17.74% as of June 30, 2012), resulting in a liability for landfill closure costs of \$177,463 as of June 30, 2012.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9. Closure and Post Closure Care Costs (continued)

The Agency is required by State and Federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. Management believes the Agency is in compliance with these requirements, and, at June 30, 2012, investments of \$1,001,827 are held for these purposes. These are reported as restricted assets on the balance sheet. The Agency expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill uses or from future tax revenue.

NOTE 10. 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 11. 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 (9.86%). 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, 2012, 2011 and 2010 were \$190,430, \$183,954 and \$184,626, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12. 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.

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 premium 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 ending June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee was required to contribute 0.917% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY2013	2.000%	1.000%

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12. Post-Employment Benefits – State Retiree Health Care Plan (continued)

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 contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$18,906, \$13,665 and \$17,214, respectively, which equal the required contributions for the years.

NOTE 13. Related Party Transactions

During the year ended June 30, 2012, the Authority purchased fuel and supplies from a related party, Carver Oil Company. Expenditures related to this vendor totaled \$537,520 during the year ended June 30, 2012 and amounts payable at year end were \$1,019.

NOTE 14. Contingent Liabilities

Lawsuits – The Authority is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Authority's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

NOTE 15. Subsequent Events

Subsequent to year end, the Authority opened a new landfill cell and expanded the landfill capacity. The Authority also transferred its payroll processing to a new outside company.

OTHER SUPPLEMENTAL INFORMATION

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF DEPOSITS AND INVESTMENTS
JUNE 30, 2012

Schedule I

<u>Bank Account Type / Name</u>	<u>US Bank</u>	<u>Grants State Bank</u>	<u>Washington Federal Bank</u>	<u>New Mexico LGIP Fund</u>	<u>Bank of New York</u>	<u>Totals</u>
Deposit Accounts:						
US Bank Operating, non-interest bearing	\$ 337,274	\$ -	\$ -	\$ -	\$ -	\$ 337,274
EGRT, interest bearing	-	280,316	-	-	-	280,316
EAA, interest bearing	-	-	150,876	-	-	150,876
Total On Deposit	<u>\$ 337,274</u>	<u>\$ 280,316</u>	<u>\$ 150,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>768,466</u>
Reconciling Items						(97,064)
Reconciled Deposit Accounts						<u>\$ 671,402</u>
Investment Accounts:						
NMFA Refunding Loan	\$ -	\$ -	\$ -	\$ -	\$ 59,159	\$ 59,159
NMFA Refunding Loan	-	-	-	-	328,625	328,625
NMFA Refunding Loan	-	-	-	-	1,444,785	1,444,785
Certificate of Deposit - 12 Month	-	-	851,781	-	-	851,781
Savings Account	-	-	150,046	-	-	150,046
LGIP - Post Closure Invest	-	-	-	128	-	128
LGIP - Reserve Fund	-	-	-	384	-	384
Certificate of Deposits	1,069	-	-	-	-	1,069
Total On Deposit	<u>\$ 1,069</u>	<u>\$ -</u>	<u>\$ 1,001,827</u>	<u>\$ 511</u>	<u>\$ 1,832,569</u>	<u>2,835,977</u>
Reconciling Items						-
Reconciled Investment Accounts						<u>\$ 2,835,977</u>
Petty Cash and Undeposited Funds						4,008
Reconciled Cash and Investments, June 30, 2012						<u>\$ 3,511,387</u>

STATE OF NEW MEXICO

Schedule II

NORTHWEST NEW MEXICO

REGIONAL SOLID WASTE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS, BUDGET TO ACTUAL (NON GAAP BASIS)

FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<i>Operating Revenues:</i>				
Tipping fees	\$ 3,720,000	\$ 3,720,000	\$ 3,688,009	\$ (31,991)
Miscellaneous income	35,000	35,000	57,091	22,091
Special projects revenue	300,000	300,000	15,763	(284,237)
<i>Total operating revenues</i>	<u>4,055,000</u>	<u>4,055,000</u>	<u>3,760,863</u>	<u>(294,137)</u>
<i>Operating Expenses:</i>				
Personnel services	1,200,000	1,200,000	1,324,436	(124,436)
Employee benefits	750,000	750,000	506,747	243,253
Contractual services	405,000	155,000	81,554	73,446
Repairs and maintenance	260,000	365,000	354,025	10,975
Insurance	150,000	150,000	72,962	77,038
Utilities	47,000	47,000	62,647	(15,647)
Supplies	137,500	137,500	134,042	3,458
Fuel and Oil	600,000	600,000	573,910	26,090
Rent	200,000	10,000	8,485	1,515
Depreciation	-	-	748,824	(748,824)
Other	1,281,500	1,281,500	106,353	1,175,147
Increase (decrease) in landfill liability	-	-	(111,838)	111,838
<i>Total operating expenses</i>	<u>5,031,000</u>	<u>4,696,000</u>	<u>3,862,147</u>	<u>833,853</u>
<i>Operating loss</i>	<u>(976,000)</u>	<u>(641,000)</u>	<u>(101,284)</u>	<u>539,716</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	2,000	2,000	7,359	5,359
Loss on refunding of bonds	-	-	(49,909)	-
Loss on disposal of assets	-	-	(24,232)	-
Donated capital assets	-	-	131,130	131,130
Debt service - interest	(130,503)	(267,655)	(204,453)	63,202
<i>Total non-operating revenues (expenses)</i>	<u>(128,503)</u>	<u>(265,655)</u>	<u>(140,105)</u>	<u>199,691</u>
<i>Net loss before contributions</i>	(1,104,503)	(906,655)	(241,389)	739,407
<i>Contributions of capital</i>	<u>660,000</u>	<u>660,000</u>	<u>665,069</u>	<u>5,069</u>
<i>Change in net assets</i>	<u>\$ (444,503)</u>	<u>\$ (246,655)</u>	<u>\$ 423,680</u>	<u>\$ 744,476</u>

COMPLIANCE SECTION

**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**

Mr. Hector H. Balderas
New Mexico State Auditor

Board of Directors
Northwest New Mexico Regional Solid Waste Authority

We have audited the financial statements of the business-type activities and the budgetary comparison presented as supplementary information of the Northwest New Mexico Regional Solid Waste Authority (Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated March 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 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 of this section 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 as items FS 02-04, FS 07-01, FS 07-06, FS 08-01, FS 2011-01 and FS 2012-01, which we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as item FS 07-05.

We also noted certain matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as finding FS 2012-02.

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 management, the Board of Directors, the New Mexico State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance and Administration and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

March 27, 2013

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Reference Number: FS 02-04

Type of Finding: Significant Deficiency

Description: Internal Controls-Receipts

CONDITION

The Authority has un-deposited cash that was entered into their financial software system on June 28, June 29, and June 30, 2012; the monies were not deposited into the banking institution by the close of the next business day. The deficiency was noted in nine of nine transactions reviewed totaling \$3,408.

CRITERIA

Per Section 6-10-3, NMSA 1978, state agencies must deposit all monies received with the authorized banking institution before the close of the next succeeding business day after the receipt of the money.

EFFECT

Untimely deposits leave the Authority vulnerable to misappropriations of funds.

CAUSE

The remote locations of the Authority make it difficult to comply with laws related to depositing public funds.

RECOMMENDATION

We recommended that the Authority implement controls to ensure monies are deposited into a banking institution by the close of the next business day.

MANAGEMENT RESPONSE

Management has striven to make the deposits timely. However, when we utilize the night drop at the bank, the deposits are posted next business day. We are currently making the deposits daily, as the cash is received in the accounting office.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)

Reference Number: FS 07-01

Type of Finding: Significant Deficiency

Description: Internal Controls – Disbursements

CONDITION

During our evaluation of the internal controls over disbursements we found that certain members of management have access to the entire software function of disbursements, have access to check stock, and are signers on the bank accounts. In addition we noted one invoice for \$24,510 that did not contain a secondary approval or board approval as required per Authority policy.

CRITERIA

Strong internal controls require that segregation of duties or compensating controls are in place to deter and detect fraud.

EFFECT

An employee could initiate a purchase, approve the purchase, and pay for the purchase. The Authority is at a higher risk for fraud or errors occurring.

CAUSE

Employees have been given access to key functions of a cycle without segregation of duties or compensating controls. The size of the Authority makes it difficult to maintain proper separation.

RECOMMENDATION

Management should implement compensating controls to prevent a single employee from having too much access. Individuals of management should have restricted access to the financial system as well as limited access to check stock.

MANAGEMENT RESPONSE

Multiple signatures are being obtained on all invoices over \$10,000. Management has placed check stock in a secure locked cabinet with limited access. Keys are in a separate locked drawer.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)

Reference Number: FS 07-05

Type of Finding: Non-compliance

Description: Late Audit Report

CONDITION

The Authority's audit report for the year ended June 30, 2012 was not submitted to the State Auditor by the required due date of December 1, 2012.

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, 2012 report to be filed by December 1, 2012.

EFFECT

The Authority is not in compliance with State Auditor Rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2012. 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.

CAUSE

The Authority experienced turnover and complications with the previous audit contract, causing their audit to not be completed timely.

RECOMMENDATION

The Authority must ensure their records are complete and audited in time to meet the required audit due date.

MANAGEMENT RESPONSE

Management has strived to get all late audits completed so that the 2013 audit will be filed timely.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)

Reference Number: FS 07-06

Type of Finding: Significant Deficiency

Description: Disaster Recovery Plan

CONDITION

Although a disaster recovery plan was implemented, it should also be a map for reestablishing finance and accounting operations after a disaster. This map should include details of, at a minimum, the following:

- 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 financial operations.

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 financial operations after a disaster.

EFFECT

The Authority may not be able to continue operations in the event of a disaster or financial data corruption or loss.

CAUSE

The Authority's disaster recovery plan is in progress.

RECOMMENDATION

The Authority should prepare a detailed disaster recovery plan that includes the above mentioned key components, with a focus on financial system and accounting operations.

MANAGEMENT RESPONSE

Management is developing a plan to store digitized backups of all financial data off site and concurrently developing a plan for implementation of reestablishment of financial operations in case of a disaster.

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NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)**

Reference Number: FS 08-01

Type of Finding: Significant Deficiency

Description: Internal Controls - Payroll

CONDITION

During our review of ten payroll transactions; the following errors were noted.

1. For eight items, the approval of pay was by Human Resources who also has access to input pay rates into the system.
2. We noted two employee were overpaid \$131, based on the employee manual these employees should have received straight time for working a holiday and received compensatory time on an hour by hour basis. They should not have been paid overtime for time in excess of 40 hours a week as these hours were not truly worked.

CRITERIA

Salaries, wages and related payroll expenditures constitute a major portion of Authority expenditures. Therefore, payroll preparation and processing are important functions that require complete and effective internal controls that allow management or employees in the normal course of performing their assigned functions, to prevent, or correct misstatements on a timely basis. These requirements include maintenance of records that provide adequate support for payroll expenditures and account distribution. The Authority's Employee Manual indicates "employees may not take paid leave and earn paid overtime in the same work week or the designated work period" and "where substitutions are not possible, employees who are required to work on a Holiday but not more than 40 hours in a work week shall earn compensatory leave credits on an hour for hour basis."

EFFECT

The lack of internal controls for payroll could potentially result in unallowable expenditures, errors in employees' pay, and misstatements of expenditures for financial reporting purposes.

CAUSE

The Authority's review process did not catch these errors.

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SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)

Reference Number: FS 08-01

RECOMMENDATION

To strengthen controls over payroll processing, the Authority should ensure payroll registers are properly supported. Individual timesheets should include the dates and hours worked and should be prepared for each classified employee. In addition, employee personnel files should include documentation necessary to support the employees' pay. The Authority may consider assigning payroll oversight responsibility to a key individual to ensure controls are operating as designed.

MANAGEMENT RESPONSE

In an effort to eliminate mistakes, there is currently a 2-step process for entering payroll. HR enters the data and the Accountant is reviewing and approving the actual payroll processing. We have also changed payroll companies, in an effort to better communicate and eliminate errors. The employee policy manual is being updated to correctly reflect the actual policy and procedures that are in place.

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SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)

Reference Number: FS 2011-01

Type of Finding: Significant Deficiency

Description: Internal Controls – Journal Entries

CONDITION

During our test work of journal entries, 25 of 25 tested did not have secondary approval.

CRITERIA

According to Section 6-6-3 NMSA 1978, the Authority is expected to conform to the rules and regulations that they have adopted relating to internal controls.

EFFECT

The lack of segregation of duties, strong secondary review, and compensating controls leaves the Authority susceptible to errors or fraud.

CAUSE

The Authority experienced turnover in key management positions and did not have the necessary controls implemented.

RECOMMENDATION

The Authority should have another member of management or someone from the Governing Board review journal entries for propriety.

MANAGEMENT RESPONSE

Management will subsequently have a second person review and sign for Journal Entries.

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SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Cont'd)

Reference Number: FS 2012-01

Type of Finding: Significant Deficiency

Description: Capital Assets

CONDITION

During our testwork over repairs and maintenance expenditures, we noted two assets totaling \$14,146 were not properly capitalized in FY 2012.

CRITERIA

According to Section 12-6-10 NMSA 1978, agencies are required to capitalize equipment that costs over \$5,000.

EFFECT

The Authority's capital assets could be misstated if assets are not properly capitalized which could mislead the users of the financial statements.

CAUSE

One of the purchases was split into two payments and was overlooked by the Authority. The second purchase was just not caught when capitalizing the assets.

RECOMMENDATION

The Authority should ensure to have proper procedures in place to guarantee assets are properly capitalized at year end.

MANAGEMENT RESPONSE

Management will review all expenses over \$5,000 to determine if they need to be capitalized, and will enter them appropriately.

STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Concl'd)

Reference Number: FS 2012-02

Type of Finding: Other Matters

Description: Outdated Personnel Policies

CONDITION

We noted the Authority does not have an up to date personnel policies manual that is followed and enforced. Many informal changes have been made to procedures, however they have not been placed in writing or board approved.

CRITERIA

Proper internal controls require the personnel policies manual be kept up to date with the current practices of the entity in order to communicate and encourage adherence to Authority policies; prevent possible confusion or misunderstandings among personnel; and provide a measure of liability protection to the Authority in case of employ legal challenges of Authority actions.

EFFECT

The outdated policies could cause confusion for the employees on what policies should be followed and enforced. The Authority is also susceptible to a legal liability as the polices being practiced are not supported by the current policy manual.

CAUSE

There has been turnover throughout the Authority in recent years and the personnel policies manual was overlooked.

RECOMMENDATION

The Authority's management should work with legal counsel and the board to update and approve the personnel policies.

MANAGEMENT RESPONSE

Management is developing an updated personnel policy and will implement as soon as possible.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

Status of Prior Year Findings**Finding Reference****Status**

FS 02-04 Internal Controls – Receipts	Modified and Repeated.
FS 07-01 Internal Controls – Disbursements	Modified and Repeated.
FS 07-02 PERA and RHCA Reports and Deductions	Resolved.
FS 07-05 Late Audit Report	Modified and Repeated.
FS 07-06 Disaster Recovery Plan	Modified and Repeated.
FS 08-01 Internal Controls – Payroll	Modified and Repeated.
FS 2011-01 Internal Controls – Journal Entries	Modified and Repeated.
FS 2011-02 Procurement	Resolved.
FS 2011-03 Violation of Criminal Statute in Connection with Financial Affairs	Resolved.
FS 2011-04 Discussion of Audit Prior Final Approval	Resolved.
FS 2011-05 Travel and Per Diem	Resolved.
FS 2011-06 Over Expenditure of Budget	Resolved.

Exit Conference:

An exit conference was held on April 2, 2013 in a closed meeting, in which the contents of this report were discussed with the following.

**Northwest New Mexico Regional Solid
Waste Authority**

Larry Carver, Chairman
Billy Moore, Executive Director
Martha Briggs, Accountant

Heinfeld, Meech & Co., P.C.

Audrey J. Jaramillo, CPA, CFE, Partner