



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE
AUTHORITY**

FINANCIAL STATEMENTS

For The Year Ended June 30, 2018

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
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As of June 30, 2018**

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STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Official Roster
As of June 30, 2018

BOARD OF DIRECTORS

| <u>Name</u> | <u>Agency Represented</u> | <u>Title</u> |
|----------------------|---------------------------|---------------------|
| Larry Carver | Village of Milan | Chairman |
| Dezirie Gomez | McKinley County | Vice-Chairman |
| Linda Garcia | City of Gallup | Secretary-Treasurer |
| Robert Windhorst | Cibola County | Member |
| Martin "Modey" Hicks | City of Grants | Member |
| Carol Bowman-Muskett | McKinley County | Member |
| Dennis Romero | City of Gallup | Member |

ADMINISTRATIVE OFFICIALS

| <u>Name</u> | <u>Title</u> |
|---------------|--------------------|
| Billy Moore | Executive Director |
| Martha Briggs | Accountant |

INDEPENDENT AUDITOR'S REPORT

Board of Directors
State of New Mexico
Northwest New Mexico Regional Solid Waste Authority
and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Northwest New Mexico Regional Solid Waste Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2018, and the respective changes in financial position and, where applicable, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the 2018 beginning balance of net position has been restated due to implementation of GASB 75.

Other Matters

Required Supplemental Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America 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 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.

Accounting principles generally accepted in the United States of America require that the Schedules related to PERA/RHC contributions and Net Pension/OPEB Liabilities, listed as “*Required Supplemental Information*” as identified in the table of contents be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Authority’s financial statements and the budgetary comparisons. The “*Other Supplemental Information*” as identified in the table of contents required and presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional *schedules, listed as “Other Supplemental Information” in the table of contents, required by Section 2.2.2 NMAC*, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional

schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2018 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 audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, professional font.

Hinkle + Landers, P.C.
Albuquerque, NM
September 27, 2018

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF NET POSITION
As of June 30, 2018**

| | 2018 |
|---|----------------------|
| ASSETS | |
| Current Assets | |
| Cash and cash equivalents - unrestricted | \$ 1,426,751 |
| Cash and cash equivalents - restricted | 442,388 |
| Accounts receivable, net of allowance for doubtful accounts amount of \$- | 571,806 |
| Insurance proceeds receivable | 85,622 |
| Investments - restricted | 1,242,556 |
| Operations inventory | 107,727 |
| Prepaid expenses | 32,750 |
| Total Current Assets | 3,909,600 |
| Non-current Assets | |
| Capital assets | 20,063,242 |
| Less: accumulated depreciation | (12,616,712) |
| Net capital assets | 7,446,530 |
| Total Non-current Assets | 7,446,530 |
| Total Assets | 11,356,130 |
| Deferred Outflows of Resources | |
| Pension deferral | 499,719 |
| OPEB deferral | 28,502 |
| Total Deferred Outflows of Resources | 528,221 |
| Total Assets and Deferred Outflows of Resources | \$ 11,884,351 |
| LIABILITIES AND NET POSITION | |
| Current Liabilities | |
| Accounts payable | \$ 30,996 |
| Wages, payroll taxes, and benefits payable | 55,600 |
| Gross receipts taxes payable | 10,786 |
| Accrued interest and fees | 4,554 |
| Unearned revenue | 9,355 |
| Compensated absences-current portion | 89,019 |
| Current maturities of loans | 439,391 |
| Total Current Liabilities | 639,701 |
| Long-Term Liabilities | |
| Loans payable, net of current maturities | 1,035,898 |
| Compensated absences-non-current | 22,255 |
| Estimated liability for landfill closure costs | 342,122 |
| Net pension liability | 1,955,322 |
| Net OPEB liability | 1,403,459 |
| Total Long-Term Liabilities | 4,759,056 |
| Total Liabilities | 5,398,757 |
| Deferred Inflows of Resources | |
| Pension deferral | 154,018 |
| OPEB deferral | 319,424 |
| Total Deferred Inflows of Resources | 473,442 |
| Net Position | |
| Net investment in capital assets | 5,971,241 |
| Restricted for: | |
| Debt service | 409,320 |
| Landfill closure | 1,275,624 |
| Unrestricted | (1,644,033) |
| Total Net Position | 6,012,152 |
| Total Liabilities and Net Position, Deferred Inflows of Resources and Net Position | \$ 11,884,351 |

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 POSITION
For The Year Ended June 30, 2018**

| | |
|---|---------------------|
| <i>Operating Revenues:</i> | |
| Tipping fees | \$ 4,401,304 |
| Special projects | 100,000 |
| Miscellaneous income | 121,313 |
| <i>Total operating revenues</i> | <u>4,622,617</u> |
| <i>Operating Expenses:</i> | |
| Personnel services | 1,887,211 |
| Employee benefits | 548,311 |
| Contractual services | 100,455 |
| Repairs and maintenance | 439,647 |
| Insurance | 187,953 |
| Utilities | 86,725 |
| Supplies | 167,889 |
| Fuel and oil | 408,045 |
| Rent of equipment | 136,536 |
| Depreciation | 714,945 |
| Other | 274,880 |
| Increase (decrease) in landfill liability | 19,916 |
| <i>Total operating expenses</i> | <u>4,972,513</u> |
| <i>Operating loss</i> | <u>(349,896)</u> |
| <i>Non-operating revenues (expenses)</i> | |
| Interest income | 15,274 |
| Gain (loss) on disposal of assets | 5,390 |
| Insurance proceeds | 303,151 |
| Debt service - interest | (36,334) |
| <i>Total non-operating revenues (expenses)</i> | <u>287,481</u> |
| <i>Net loss before contributions</i> | (62,415) |
| <i>Contributions of capital</i> | <u>607,641</u> |
| <i>Change in net position</i> | <u>545,226</u> |
| <i>Net position, beginning of year</i> | <u>7,134,014</u> |
| Restatement | (1,667,088) |
| <i>Net position, beginning of year - restated</i> | <u>5,466,926</u> |
| <i>Net position end of year</i> | <u>\$ 6,012,152</u> |

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2018**

| | |
|---|--------------------------------|
| <i>Cash Flows from Operating Activities</i> | |
| Cash received from customers | \$ 4,422,866 |
| Cash payments to employees and suppliers | (4,054,435) |
| <i>Net cash provided (used) by operating activities</i> | <u>368,431</u> |
| <i>Cash Flows from Capital and Related Financing Activities</i> | |
| Capital contributed by members | 607,641 |
| Purchase of capital assets | (1,834,836) |
| Proceeds from insurance proceeds | 303,151 |
| Proceeds from debt issuance | - |
| Repayment of long-term debt | (467,991) |
| Interest and fees paid on long-term debt | (37,052) |
| <i>Net cash provided (used) by capital and related financing activities</i> | <u>(1,429,087)</u> |
| <i>Cash Flows from Investing Activities</i> | |
| Purchase of investments | (30,525) |
| Sale of investments | - |
| Interest on investments and deposits | 11,771 |
| <i>Net cash provided (used) by investing activities</i> | <u>(18,754)</u> |
| <i>Net increase (decrease) in cash and cash equivalents</i> | <u>(1,079,410)</u> |
| <i>Cash, restricted cash and cash equivalents, beginning of period</i> | 2,948,549 |
| <i>Cash, restricted cash and cash equivalents, end of period</i> | \$ <u><u>1,869,139</u></u> |
| <i>Operating loss</i> | \$ (349,896) |
| <i>Adjustments to reconcile operating loss to net cash provided (used) by operating activities</i> | |
| Pension expense | 136,827 |
| OPEB expense | 55,795 |
| Depreciation | 714,945 |
| Increase in landfill closure and postclosure cost estimate | 19,917 |
| Changes in assets and liabilities | |
| Accounts receivable | (199,468) |
| Deferred revenue | (283) |
| Operations inventory | (2,730) |
| Prepaid expenses | (13,240) |
| Accounts payable | (6,259) |
| Accrued expenses | 1,517 |
| Compensated absences | 11,306 |
| <i>Total adjustments</i> | <u>718,327</u> |
| <i>Net cash provided (used) by operating activities</i> | <u>\$ 368,431</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
For the Year Ended June 30, 2018

NOTE 1—NATURE OF ACTIVITIES

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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 GAAP. The basic, but not the only, criterion for including a potential component unit with the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluation potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities.

Based upon the application of these criteria, the Authority has no component units.

B. Business Type Activities

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities and Changes in Net Position) 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 Position 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

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2018

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.

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 position components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy is 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, Deferred Outflows, Less Liabilities, Deferred Inflows, and Net Position 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
For the Year Ended June 30, 2018**

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.

E. 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

F. 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

G. Prepaid Items

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

H. 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 costs 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:

| <u>Asset Type</u> | <u>Years</u> |
|-------------------------|---------------|
| Auto | 7 |
| Landfill | 20 |
| Landfill - Land | 99 |
| Transfer Station | 20 |
| Buildings | 30 |
| Equipment and Machinery | 5,7,10 and 15 |

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2018

I. 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. Vested benefits are calculated using the employee pay rates and applicable employer payroll taxes.

J. Long-term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

K. Net Position

In the Statement of Net Position, net position is displayed in three components:

Net investment in capital investments

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 position

Consists of net position 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 position are restricted for "debt service or capital projects."

Unrestricted net position

All other items of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

L. 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.

M. 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.

N. 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 convenience centers in Cibola County. 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
For the Year Ended June 30, 2018

O. 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.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. The Northwest New Mexico Regional Solid Waste Authority has the following deferred outflows of resources during fiscal year 2018.

| <u>Deferred Outflows of Resources</u> | |
|---------------------------------------|-------------------|
| | 2018 |
| Pension deferrals | \$ 499,719 |
| OPEB deferral | 28,502 |
| Total deferred outflows of resources | \$ 528,221 |

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position/fund balance that applied to a future period and so will not be recognized until then. The Northwest New Mexico Regional Solid Waste Authority has the following deferred outflows of resources during fiscal year 2018.

| <u>Deferred Inflows of Resources</u> | |
|--------------------------------------|-------------------|
| | 2018 |
| Pension deferrals | \$ 154,018 |
| OPEB deferral | 319,424 |
| Total deferred inflows of resources | \$ 473,442 |

Q. Postemployment Benefits Other Than Pensions (OPEB)

Postemployment Benefits Other Than Pensions (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 3—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, 2018.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2018

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 statements.

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 deposits.

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 in the table of contents 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.

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority has adopted its own formal policy on managing custodial credit risk, the requirements of which exceeds state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

The Authority's policy requires 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 100% of the amount on deposit with the institution that is considered uninsured, and the collateral is held by pledging bank's trust department in the Bank's name. The schedule listed below will meet the State of New Mexico, Office of the State Auditor's requirements as well as the requirements of the Authority's policy in reporting the insured portion of the deposits.

| | Washington Federal Bank | US Bank | Grants State Bank | Total |
|---|--|--------------------|----------------------------------|--------------------|
| Total amount of deposits | \$ 1,584,830 | 83,844 | 1,032,501 | 2,701,175 |
| FDIC coverage | (250,000) | (83,844) | (250,000) | (583,844) |
| Total uninsured public funds | <u>\$ 1,334,830</u> | <u>-</u> | <u>782,501</u> | <u>2,117,331</u> |
| Collateral requirement (100% of uninsured public funds) | \$ 1,334,830 | - | 782,501 | 2,117,331 |
| Pledged security | <u>1,900,000</u> | - | <u>1,686,369</u> | <u>3,586,369</u> |
| Total under (over) collateralized | <u>\$ (565,170)</u> | <u>-</u> | <u>(903,868)</u> | <u>(1,469,038)</u> |

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Depository accounts in financial institutions which are exposed to custodial credit risk are as follows:

| | <u>Washington Federal Bank</u> | <u>Grants State Bank</u> | <u>Total</u> |
|-----------------------------------|--|----------------------------------|---------------------------|
| Total amount of deposits | \$ 1,584,830 | 1,032,501 | 2,617,331 |
| FDIC coverage | <u>(250,000)</u> | <u>(250,000)</u> | <u>(500,000)</u> |
| Total uninsured public funds | 1,334,830 | 782,501 | 2,117,331 |
| Pledged security | <u>1,900,000</u> | <u>1,686,369</u> | <u>3,586,369</u> |
| Total under (over) collateralized | \$ <u><u>(565,170)</u></u> | <u><u>(903,868)</u></u> | <u><u>(1,469,038)</u></u> |

Additionally, the Authority has accounts restricted for debt service which are managed by the New Mexico Finance Authority (NMFA) and are on deposit with the State Treasurer's office in the name of NMFA for the benefit of the Authority.

These accounts are exposed to custodial credit risk as follows:

| | <u>NMFA</u> |
|-----------------------|--------------------------|
| Reserve Funds Payable | \$ 329,913 |
| Debt Service Funds | <u>79,407</u> |
| Total NMFA Funds | \$ <u><u>409,320</u></u> |

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.

B. Fair Values Measurement (GASB 72)

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement Number 72, Fair Value Measurement and Application. This statement changes the definition of fair value and adds new disclosure requirements. GASB 72 is effective for periods beginning after June 15, 2015 (i.e., financial statements for June 30, 2016, and beyond).

The Authority holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Authority's mission, the Authority determines that the disclosures related to these investments only need to be disaggregated by major type. The Authority chooses a table format for the fair value disclosures.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach: this uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach: this technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach: this approach converts future amounts (such as cash flows) into a current discounted amount.

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Each of these valuation techniques requires inputs to calculate a fair value. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

GASB 72 establishes a hierarchy of inputs to the valuation techniques listed above

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy's three levels are as follows:

Level 1

Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. (Examples: equity securities traded on an open market, actively traded mutual funds, and US treasuries)

Level 2

Are significant other observable inputs

- a) Quoted prices for similar assets or liabilities in active markets.
- b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
- c) Inputs other than quoted prices that are observable for the asset or liability, such as:
 - 1. Interest rates and yield curves observable at commonly quoted intervals,
 - 2. Implied volatilities, and
 - 3. Credit spreads.
- b) Market-corroborated inputs.

(Examples: a bond valued using market corroborated inputs such as yield curves, a bond valued using matrix pricing, and an interest rate swap valued using the LIBOR swap rate observed at commonly quoted intervals for the full term of the swap)

Level 3

Are significant unobservable inputs for an asset or liability (Examples: Commercial real estate valued using a forecast of cash flows based on a university's own data and an interest rate swap valued using data that is neither directly observable nor corroborated by observable market data)

The Authority has the following recurring fair value measurements as of June 30:

| | | <u>Level 1</u> |
|--|----|----------------|
| Washington Federal Bank - Certificate of Deposit | \$ | 1,242,556 |
| Total | \$ | 1,242,556 |

C. Washington Federal Bank

The Washington Federal Bank accounts are restricted for landfill post-closure and closure costs.

State of New Mexico 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 amount of which is considered uninsured and the collateral is held by pledging bank's trust department in the Bank's name. 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.

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| | Washington Federal Bank |
|---|--|
| Depository account | \$ 309,206 |
| Certificate of deposit | 1,242,556 |
| Money market account | <u>33,068</u> |
| Total Washington Federal Bank accounts | 1,584,830 |
| FDIC coverage | <u>(250,000)</u> |
| Total uninsured public funds | <u>\$ 1,334,830</u> |
| | |
| Collateral requirement (100% of uninsured public funds) | \$ 1,334,830 |
| Pledged security | <u>1,900,000</u> |
| Total under (over) collateralized | <u>\$ (565,170)</u> |

D. Credit Quality Risk

This is the risk related to the credit worthiness of the institution. The Authority's investments in Washington Federal Bank are unrated.

E. Custodial Credit Risk

This is the risk that in the event of the failure of the bank, the Authority will not be able to recover the value of its investment. The Authority is exposed to custodial credit risk as follows:

| | Washington Federal Bank |
|--|--|
| Depository account | \$ 309,206 |
| Certificate of deposit | 1,242,556 |
| Money market account | <u>33,068</u> |
| Total Washington Federal Bank accounts | 1,584,830 |
| FDIC coverage | <u>(250,000)</u> |
| Total uninsured public funds | 1,334,830 |
| Pledged security | <u>1,900,000</u> |
| Total under (over) collateralized | <u>\$ (565,170)</u> |

F. Interest Rate Risk

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investment maturities for the Authority's Washington Federal Bank accounts are one year or less.

NOTE 4—ACCOUNTS RECEIVABLE

Accounts receivable are comprised of amounts due from credit customers in the amount of \$571,806, less \$- that is considered uncollectible and is included as an allowance for doubtful accounts. The net amount of accounts receivable at June 30, 2018 is \$657,428.

NOTE 5—INVENTORY

The operation 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

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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 6—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, 2018 is \$32,750.

NOTE 7—CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2018 follows:

| <u>Capital Asset Description</u> | <u>Balance June 30, 2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments</u> | <u>Balance June 30, 2018</u> |
|--|----------------------------------|------------------|------------------|--------------------|----------------------------------|
| Capital assets not being depreciated: | | | | | |
| Construction in progress | \$ 100,511 | 1,200,394 | - | (1,300,905) | - |
| Total capital assets not being depreciated | 100,511 | 1,200,394 | - | (1,300,905) | - |
| Capital assets being depreciated: | | | | | |
| Landfill | 10,062,438 | - | - | 1,253,520 | 11,315,958 |
| Transfer stations | 1,570,726 | 196,745 | (30,880) | 47,385 | 1,783,976 |
| Buildings | 596,947 | 128,372 | - | - | 725,319 |
| Furniture, fixtures and equipment | 5,631,598 | 219,129 | (5,667) | - | 5,845,060 |
| Vehicles | 302,733 | 90,196 | - | - | 392,929 |
| Total capital assets being depreciated | 18,164,442 | 634,442 | (36,547) | 1,300,905 | 20,063,242 |
| Less accumulated depreciation: | | | | | |
| Landfill | (7,145,455) | (255,287) | - | - | (7,400,742) |
| Transfer stations | (1,387,123) | (26,776) | 15,615 | - | (1,398,284) |
| Buildings | (305,554) | (21,928) | - | - | (327,482) |
| Furniture, fixtures and equipment | (2,906,053) | (372,376) | 1,322 | - | (3,277,107) |
| Vehicles | (174,519) | (38,578) | - | - | (213,097) |
| Total accumulated depreciation | (11,918,704) | (714,945) | 16,937 | - | (12,616,712) |
| Total capital assets (net) | \$ 6,346,249 | 1,119,891 | (19,610) | - | 7,446,530 |

Depreciation expense for the year ended June 30, 2018 was \$714,945. The Authority constructed a new cell in the landfill for \$1,299,310 which has not been placed into service and is not being depreciated.

NOTE 8—LONG-TERM DEBT

During the year ended June 30, 2018, the following changes occurred in the liabilities reported in the statement of net position:

| | <u>2017</u> | <u>Additions</u> | <u>Retirements</u> | <u>Restatement</u> | <u>2018</u> | <u>Due within one year</u> |
|-----------------------------|---------------------|------------------|--------------------|--------------------|------------------|--------------------------------|
| NMFA loan | \$ 1,698,116 | - | (328,954) | - | 1,369,162 | 333,264 |
| Compactor loan | 245,164 | - | (139,037) | - | 106,127 | 106,127 |
| Compensated absences | 99,968 | 92,250 | (80,944) | - | 111,274 | 89,019 |
| Net pension liability | 2,273,475 | 318,443 | (636,596) | - | 1,955,322 | - |
| Net OPEB liability | - | 82,385 | (346,014) | 1,667,088 | 1,403,459 | - |
| Total Long-Term Debt | \$ 4,316,723 | 493,078 | (1,531,545) | 1,667,088 | 4,945,344 | 528,410 |

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NMFA Refunding Loan

The refunding loan balance outstanding at June 30, 2018 is with a blended interest rate of 1.623% and terms involving semi-annual interest payments, annual principal payments, with the final payment due May 1, 2022.

Compactor Loan

The compactor loan balance outstanding at June 30, 2018 is with an interest rate of 3.2% and terms involving monthly interest payments and principal payments, with the final payment due April 1, 2019.

Annual debt service requirements to maturity for the refunding loan are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|---------------------|-----------------|------------------|
| 2019 | \$ 439,391 | 28,580 | 467,971 |
| 2020 | 338,696 | 21,893 | 360,589 |
| 2021 | 344,962 | 15,627 | 360,589 |
| 2022 | 352,240 | 8,348 | 360,588 |
| 2023 | - | - | - |
| Total | <u>\$ 1,475,289</u> | <u>74,448</u> | <u>1,549,737</u> |

NOTE 9—ECONOMIC DEPENDENCE – CUSTOMER BASE

The Authority's five largest customers account for the following in tipping fee revenue as of June 30, 2018.

| <u>Top 5 Customers</u> | <u>Percentage</u> |
|------------------------|-------------------|
| McKinley Paper | 20% |
| City of Gallup | 18% |
| Waste Management | 13% |
| Navajo Sanitation | 6% |
| CHM2 | 5% |
| Total | <u>62%</u> |

NOTE 10—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 post-closure care costs are recognized throughout the initial 20-year period of operation based on the amount of the landfill used during the year.

In accordance with GASB Statement No. 18, the estimated liability for landfill closure and post closure care costs has a balance of \$342,122 as of June 30, 2018, which is based on 25.37% usage of the landfill. The Authority will recognize the remaining estimated cost of closure and post-closure care of \$1,239,315 between the date of the statement of net position and the date the landfill stops accepting waste. The remaining estimated cost of closure and post closure care 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, 2018. Actual costs may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The Authority 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 Authority is in compliance with these requirements, and, at June 30, 2018, investments of \$1,242,556 and money market accounts of \$33,068 totaling \$1,275,624 are held for these purposes. These are reported as restricted assets on the statement of net position. The Authority 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

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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 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 AND POST EMPLOYMENT BENEFITS

Summary of Significant Accounting Policies

Pensions—For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA's. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description—*Public Employees Retirement Fund* is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits provided –Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II – The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention

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officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

Contributions—See PERA’s publicly available financial report and comprehensive annual financial report obtained at <http://saonm.org/> using the Audit Report Search function for agency 366, for the employer and employee contribution rates in effect for fiscal year 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Municipal General Division; At June 30, 2018, the Authority reported a liability of \$1,955,322 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. The Authority’s proportion of the net pension liability was based on a projection of the Authority’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the Authority’s proportion was 0.14%, which was an increase of -% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the Authority recognized PERA Fund Division; Municipal General Division pension expense of \$246,543. At June 30, 2018, the Authority reported PERA Fund Division; Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

| <u>Municipal General Division</u> | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 76,832 | 100,145 |
| Changes of assumptions | 90,169 | 20,206 |
| Net difference between projected and actual earnings on pension plan investments | 160,422 | - |
| Change in proportion and differences between the Authority’s contributions and proportionate share of contributions | 48,623 | 33,667 |
| The Authority contributions subsequent to the measurement date | <u>123,673</u> | - |
| Total | <u>\$ 499,719</u> | <u>154,018</u> |

\$123,673 was reported as deferred outflows of resources related to pensions resulting from the Authority’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30: | Amount |
|------------------------|-------------|
| 2019 | \$ (79,067) |
| 2020 | (165,045) |
| 2021 | (24,798) |
| 2022 | 46,882 |
| 2023 | - |
| Thereafter | - |

Actuarial assumptions—The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------------|--|
| Actuarial valuation date | June 30, 2016 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percent of Pay, Open |
| Amortization period | Solved for based on statutory rates |
| Asset valuation method | 4 Year Smoothed Market Value |
| Actuarial assumptions | |
| Investment rate of return | 7.51% annual rate, net of investment expense |
| Projected benefit payment | 100 years |
| Payroll growth | 2.75% for first 9 years, then 3.25 annual rate |
| Projected salary increases | 2.75% to 14.00% annual rate |
| Includes inflation at | Includes inflation at 2.25% for the first 10 years and 2.75% thereafter |
| Mortality assumption | RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA. |
| Experience study dates | July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2016 (economic) |

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2018. These assumptions were adopted by the Board use in the June 30, 2017 actuarial valuation.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>All Funds - Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------------|--------------------------|---|
| Global Equity | 43.50% | 7.39% |
| Risk Reduction & Mitigation | 21.50% | 1.79% |
| Credit Oriented Fixed Income | 15.00% | 5.77% |
| Real Assets | 20.00% | 7.35% |
| Total | <u>100.00%</u> | |

Discount rate—A single discount rate of 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the Authority’s proportionate share of the net pension liability to changes in the discount rate – The following presents the Authority’s proportionate share of the net pension liability calculated using the discount rate of 7.51 %, as well as what the employer name’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51 %) or 1-percentage-point higher (8.51 %) than the current rate:

| <u>PERA Fund Division - Municipal General Division</u> | <u>1% Decrease (6.51%)</u> | <u>Current Discount Rate (7.51%)</u> | <u>1% Increase (8.51%)</u> |
|--|--------------------------------|--|--------------------------------|
| The Authority's proportionate share of the net pension liability | \$ <u>3,064,636</u> | \$ <u>1,955,322</u> | \$ <u>1,032,773</u> |

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued PERA financial reports, available at <http://www.nmpera.org/>.

NOTE 13—POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN AND OPEB LIABILITY

General Information About The OPEB

Plan Description

Employees of the NW NM Regional Solid Waste Authority are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended

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(NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico. NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA's financial information is included with the financial presentation of the State of New Mexico.

Benefits Provided

The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

Employees Covered By Benefit Terms

At June 30, 2017, the Fund's measurement date, the following employees were covered by the benefit terms:

| | |
|--|----------------|
| Plan membership | |
| Current retirees and surviving spouses | 51,208 |
| Inactive and eligible for deferred benefit | 11,478 |
| Current active members | <u>97,349</u> |
| | <u>160,035</u> |
| Active membership | |
| State general | 19,593 |
| State police and corrections | 1,886 |
| Municipal general | 21,004 |
| Municipal police | 3,820 |
| Municipal FTRE | 2,290 |
| Educational Retirement Board | <u>48,756</u> |
| | <u>97,349</u> |

Contributions

Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Fund. The Authority's contributions to the RHCA for the years ended June 30, 2018, 2017 and 2016 were \$28,502, \$25,573 and \$25,687, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the NW NM Regional Solid Waste Authority reported a liability of \$1,403,459 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The NW NM Regional Solid Waste Authority's proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the NW NM Regional Solid Waste Authority's proportion was 0.03097 percent.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2018

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$55,795. At June 30, 2018 the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| Municipal General Division | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | 53,857 |
| Changes of assumptions | - | 245,377 |
| Difference between actual and projected earnings on OPEB plan investments | - | 20,190 |
| The Authority contributions made after the measurement date | 28,502 | - |
| Total | <u>\$ 28,502</u> | <u>319,424</u> |

Deferred outflows of resources totaling \$28,505 represent NW NM Regional Solid Waste Authority contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

| Year Ended June 30: | Amount |
|------------------------|-----------|
| 2019 | \$ 67,912 |
| 2020 | 67,912 |
| 2021 | 67,912 |
| 2022 | 67,912 |
| 2023 | 47,776 |
| Thereafter | - |

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

| | |
|---------------------------------|--|
| Actuarial valuation date | June 30, 2017 |
| Actuarial cost method | Entry Age Normal, level percent of pay, calculated on individual employee basis |
| Asset valuation method | Market value of assets |
| Actuarial assumptions | |
| Investment rate of return | 7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation |
| Inflation | 2.50% for ERB, 2.25% for PERA |
| Payroll growth | 2.75% for first 9 years, then 3.25 annual rate |
| Projected salary increases | 3.50% |
| Health care cost trend rate | 8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare and medical plans |

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2018**

Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follow:

| <u>All Funds - Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------------|---|
| U.S. core fixed income | 4.10% |
| U.S. equity - large cap | 9.10% |
| Non U.S. - emerging markets | 12.20% |
| Non U.S. - developed equities | 9.80% |
| Private equity | 13.80% |
| Credit and structured finance | 7.30% |
| Real estate | 6.90% |
| Absolute return | 6.10% |
| U.S. equity - small/ mid cap | 9.10% |

Discount Rate

The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

| <u>RHC Fund Division - Municipal General Division</u> | <u>1% Decrease (2.81%)</u> | <u>Current Discount Rate (3.81%)</u> | <u>1% Increase (4.81%)</u> |
|--|--------------------------------|--|--------------------------------|
| The Authority's proportionate share of the net OPEB liability | \$ <u>1,193,739</u> | \$ <u>1,403,459</u> | \$ <u>1,566,989</u> |

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2018**

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in NMRHCA's audited financial statements for the year ended June 30, 2017.

Payable Changes in the Net OPEB Liability

At June 30, 2018, NW NM Regional Solid Waste Authority reported a payable of \$638 for outstanding contributions due to NMRHCA for the year ended June 30, 2018.

NOTE 14—RELATED PARTY TRANSACTIONS

During the year ended June 30, 2018, the Authority purchased fuel and supplies from a related party, Carver Oil Company. Expenditures related to this vendor totaled \$448,960 during the year ended June 30, 2018, and amounts payable at year end were \$2,243.

NOTE 15—RESTATEMENT

The following restatement was made:

| Description | 2018 |
|--|----------------|
| GASB Statement No. 75 requires a restatement of Net OPEB Liability and RHC Deferred Outflows. As a result, Deferred Outflows and Net OPEB Liability were restated. | \$ (1,667,088) |
| Total restatement | \$ (1,667,088) |

NOTE 16—EVALUATION OF SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Authority recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Authority's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Authority has evaluated subsequent events through September 27, 2018 which is the date the financial statements were available to be issued.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
PROPORTIONATE SHARE OF NET PENSION LIABILITY OF PERA FUND DIVISION
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
PERA FUND DIVISION; MUNICIPAL GENERAL DIVISION
Last 10 Fiscal Years*

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|------------------------|----------------------|----------------------|----------------------|
| | Measurement Date as of | | | |
| | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
| The Authority's proportion of the net pension liability (asset) (%) | 0.14% | 0.14% | 0.15% | 0.13% |
| The Authority's proportionate share of the net pension liability (asset) (\$) | \$ <u>1,955,322</u> | <u>2,273,475</u> | <u>1,515,106</u> | <u>1,039,103</u> |
| The Authority's covered payroll | \$ <u>1,444,752</u> | <u>1,335,937</u> | <u>1,401,400</u> | <u>1,236,057</u> |
| The Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 135.34% | 170.18% | 108.11% | 84.07% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.74% | 69.18% | 76.99% | 81.29% |

* *Governmental Accounting Standards Board Statement 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Authority is not available prior to fiscal year 2015, the year the statement's requirements became effective.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
PERA FUND DIVISION; MUNICIPAL GENERAL DIVISION
Last 10 Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 |
|--|--------------|-----------|-----------|-----------|
| Contractually required contribution | \$ 123,673 | 119,648 | 121,116 | 116,914 |
| Contributions in relation to the contractually required contribution | 123,673 | 119,648 | 121,116 | 116,914 |
| Contribution deficiency (excess) | \$ - | - | - | - |
| The Authority's covered payroll | \$ 1,352,023 | 1,444,752 | 1,335,937 | 1,401,400 |
| Contributions as a percentage of covered payroll | 9.15% | 8.28% | 9.07% | 8.34% |

* *Governmental Accounting Standards Board Statement 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Authority is not available prior to fiscal year 2015, the year the statement's requirements became effective.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2018

Changes of Benefit Terms: The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CAFR. <https://www.saonm.org>

Changes of Assumptions: The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2017 report is available at <http://www.nmpera.org/>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
PROPORTIONATE SHARE OF NET OPEB LIABILITY OF RHC FUND DIVISION
RETIREE HEALTH CARE ASSOCIATION (RHC) PLAN
RHC FUND DIVISION; MUNICIPAL GENERAL DIVISION
Last 10 Fiscal Years*

| | | 2018 |
|---|----|---|
| | | Measurement Date as of June 30, 2017 |
| The Authority's proportion of the net OPEB liability (%) | | 0.03097% |
| The Authority's proportionate share of the net OPEB liability | \$ | 1,403,459 |
| The Authority's covered payroll | \$ | 1,290,101 |
| The Authority's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | | 108.79% |
| Plan fiduciary net position as a percentage of the total pension liability | | 11.34% |

* *Governmental Accounting Standards Board Statement 75* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Authority is not available prior to fiscal year 2018, the year the statement's requirements became effective.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
RETIREE HEALTH CARE ASSOCIATION (RHC) PLAN
RHC FUND DIVISION; MUNICIPAL GENERAL DIVISION
Last 10 Fiscal Years*

| | | | |
|--|----|-----------|--|
| | | 2018 | |
| Contractually required contribution | \$ | 98,344 | |
| Contributions in relation to the contractually required contribution | | 49,358 | |
| Contribution deficiency (excess) | \$ | 48,986 | |
| The Authority's covered payroll | \$ | 1,290,101 | |
| Contributions as a percentage of covered payroll | | 3.83% | |

* *Governmental Accounting Standards Board Statement 75* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Authority is not available prior to fiscal year 2018, the year the statement's requirements became effective.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF DEPOSITS AND INVESTMENTS
As of June 30, 2018**

| <u>Name/Account Type</u> | <u>Balance Per Bank June 30, 2018</u> | <u>Add Deposits in Transit</u> | <u>Less Outstanding Checks</u> | <u>Balance Per Books June 30, 2018</u> |
|--|---|--|--|--|
| Depository Accounts: | | | | |
| US Bank | | | | |
| Operating, non-interest bearing checking | \$ 47,967 | - | (103) | 47,864 |
| Payroll, non-interest bearing checking | 53,380 | - | (18,434) | 34,946 |
| Cash Bond, interest bearing savings | 1,033 | - | - | 1,033 |
| Grants State Bank | | | | |
| EGRT, interest bearing checking | 457,149 | - | (48,415) | 408,734 |
| Grants State Bank Operating | 728,561 | 6,024 | (110,817) | 623,768 |
| Washington Federal | | | | |
| EAA, interest bearing savings | 309,244 | - | (38) | 309,206 |
| Total Depository Accounts | 1,597,334 | 6,024 | (177,807) | 1,425,551 |
| Restricted Accounts: | | | | |
| NMFA Refunding Loan - Reserve Account | 329,913 | - | - | 329,913 |
| NMFA Refunding Loan - Debt Service Account | 79,407 | - | - | 79,407 |
| Landfill Post Closure - Money Market | 33,068 | - | - | 33,068 |
| Total Restricted Accounts - NMFA | 442,388 | - | - | 442,388 |
| Petty Cash and Undeposited Funds | 1,200 | - | - | 1,200 |
| Total Cash and Cash Equivalents | 2,040,922 | 6,024 | (177,807) | 1,869,139 |
| Washington Federal-Restricted | | | | |
| Landfill Post Closure - Certificate of Deposit | 1,242,556 | - | - | 1,242,556 |
| Total Washington Federal | 1,242,556 | - | - | 1,242,556 |
| Total Investments | \$ 1,242,556 | - | - | 1,242,556 |

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
REGIONAL SOLID WASTE AUTHORITY
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
As of June 30, 2018**

| <u>Name of Depository</u> | <u>Description of Pledged Collateral</u> | <u>Market / Par Value June 30, 2018</u> | <u>Name and Location of Safekeeper</u> |
|----------------------------------|--|---|--|
| Grants State Bank | Gadsden NM ISD #16 CUSIP #362550MN2 2% , Due 08/15/2020 | \$ <u>200,716</u> | The Independent Bankers Bank Dallas TX |
| Grants State Bank | Gallup McKinley Co NM SD #1 BQ CUSIP #364010RH3 2%, Due 08/01/2019 | <u>50,151</u> | The Independent Bankers Bank Dallas TX |
| Grants State Bank | LOS LUNAS NM SD#1 BQ CUSIP #545562QE3 2%, Due 07/15/2018 | <u>100,028</u> | The Independent Bankers Bank Dallas TX |
| Grants State Bank | Grant Co NM Gross Receipts Tax CUSIP #387770BM1 3%, due 07/01/2021 | <u>154,892</u> | The Independent Bankers Bank Dallas TX |
| Grants State Bank | Grant Co NM Gross Receipts Tax CUSIP #387770BN9 3%, due 07/01/2022 | <u>161,250</u> | The Independent Bankers Bank Dallas TX |
| Grants State Bank | Grants & Cibola CNTYS NM SD #1 CUSIP #388240HA4 2% Due 10/01/2021 | <u>231,044</u> | The Independent Bankers Bank Dallas TX |
| Grants State Bank | Grants & Cibola CNTYS NM SD #1 CUSIP #388240HB2 2% Due 10/01/2022 | <u>240,060</u> | The Independent Bankers Bank Dallas TX |
| Grants State Bank | Ventana W NM Public IMPT DIST CUSIP #92276PAP3 4% Due 8/1/2021 | <u>267,625</u> | The Independent Bankers Bank Dallas TX |
| Grants State Bank | Ventana W NM Public IMPT DIST CUSIP #92276PAQ1 4% Due 8/1/2022 | <u>280,603</u> | The Independent Bankers Bank Dallas TX |
| Total, Grants State Bank | | \$ <u>1,686,369</u> | |
| Washington Federal | FNMA PL#BC2636 CUSIP #3140EW4W2 3%, Due 11/1/2046 | <u>1,900,000</u> | |
| Total, Washington Federal | | \$ <u>1,900,000</u> | |
| Total Pledged Collateral | | \$ <u><u>3,586,369</u></u> | |

INDEPENDENT AUDITOR'S 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
State of New Mexico
Northwest New Mexico Regional Solid Waste Authority
and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the 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, the financial statements of the business-type activities of Northwest New Mexico Regional Solid Waste Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A *significant deficiency* is as 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 charge with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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

September 27, 2018

**Independent Auditor's Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
On Based On An Audit Of Financial Statements Performed In
Accordance With *Government Auditing Standards*,
continued**

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
Albuquerque, NM
September 27, 2018

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Schedule of Findings and Responses
For the Year Ended June 30, 2018**

| <u>Reference #</u> | <u>Finding</u> | <u>Status of Current and Prior Year Findings</u> | <u>Type of Finding</u> |
|--------------------------------------|--|--|----------------------------|
| Prior Year Findings | | | |
| NONE | | | |
| Current Year Findings | | | |
| NONE | | | |
| * Legend for Type of Findings | | | |
| A | Material Weakness in Internal Control Over Financial Reporting | | |
| B | Significant Deficiency in Internal Control Over Financial Reporting | | |
| C | Other Matters Involving Internal Control Over Financial Reporting | | |
| D | Non-compliance with State Audit Rule, NM State Statutes Annotated 1978 and other NM Administrative Code or other entity compliance | | |

PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS

None

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO REGIONAL SOLID WASTE AUTHORITY
Exit Conference
For the Year Ended June 30, 2018

An exit conference was held in a closed session on September 27, 2018. Present at the exit conference were:

For the Northwest New Mexico Regional Solid Waste Authority:

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

For Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE, CGMA, Managing Shareholder
Jacob Conner, Audit Manager

PREPARATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements of the Authority have been prepared by Hinkle + Landers, P.C., the Authority's independent public auditors, however, the financial statements are the responsibility of management.