



Certified Public Accountants

ricci&company llc

**NORTH CENTRAL SOLID WASTE
AUTHORITY**

FINANCIAL STATEMENTS

JUNE 30, 2005



NORTH CENTRAL SOLID WASTE AUTHORITY

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NORTH CENTRAL SOLID WASTE AUTHORITY

Official Roster

Board of Directors

<u>Title</u>	<u>Entity</u>	<u>Representative</u>
Chairman	Rio Arriba County	Lorenzo Valdez
Chairman (Alt.)	Rio Arriba County	Tomas Campos
Vice Chairman	Santa Clara Pueblo	Bernadino (Dino) Chavarria
Vice Chairman (Alt.)	Santa Clara Pueblo	Adrian Garcia
Secretary	City of Espanola	Jim Romero
Secretary (Alt.)	City of Espanola	Leroy Archuleta
Director	Okay Owingeh Pueblo	Lawrence Cata
Director (Alt.)	Okay Owingeh Pueblo	Charles Lujan

Independent Auditors' Report

Board of Directors
North Central Solid Waste Authority
and
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying basic financial statements of the North Central Solid Waste Authority (NCSWA) as of and for the nine months ended June 30, 2005, as listed in the accompanying table of contents. We have also audited the schedule of revenues, expenses and changes in net assets – budget and actual listed as supplementary information in the table of contents. These financial statements and schedule are the responsibility of NCSWA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 NCSWA as of June 30, 2005, and the changes in its financial position and its cash flows for the nine months then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparison schedule referred to above presents fairly, in all material respects, the budgetary comparison of NCSWA for the nine months ended June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis (MD&A), although not a required part of the basic financial statements, however, established by GASB Statement 34 as required supplementary information (RSI).

Board of Directors
North Central Solid Waste Authority
and
Mr. Hector Balderas
New Mexico State Auditor

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009, on our consideration of NCSWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise NCSWA's basic financial statements and the budgetary comparison schedule. The accompanying schedules of pledged collateral and deposit accounts and investments as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Ricci & Company, LLC

Albuquerque, New Mexico
September 30, 2009

FINANCIAL STATEMENTS

NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2005

ASSETS

Current Assets

Cash	\$ 71
Accounts receivable	117,565
Total current assets	<u>117,636</u>

Noncurrent Assets

Capital assets, net	<u>1,200,139</u>
Total noncurrent assets	<u>1,200,139</u>

Total assets	<u><u>\$ 1,317,775</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Bank overdraft	\$ 7,705
Accounts payable	265,890
Accrued payroll liabilities	49,499
Accrued paid time off	<u>102,104</u>
Total current liabilities	<u>425,198</u>

Net Assets

Investment in capital assets	\$ 1,261,154
Unrestricted	<u>(368,577)</u>
Total net assets	<u>892,577</u>

Total liabilities and net assets	<u><u>\$ 1,317,775</u></u>
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The Notes to the Financial Statements are an integral part of this statement.

NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Nine Months Ended June 30, 2005

Operating Revenues	
Charges for services	\$ 2,051,046
Other revenue	65,276
Total operating revenues	<u>2,116,322</u>
Operating Expenses	
Advertising	6,707
Employee benefits	197,489
Compensated absences	102,104
Depreciation	86,969
Fuel	119,497
Insurance	86,181
Landfill fees	218,782
Other	54,060
Payroll taxes	66,482
Professional services	510,581
Rent	16,792
Repairs and maintenance	132,462
Salary expense	717,026
Supplies and equipment	125,128
Taxes and licenses	34,720
Uniforms	5,101
Utilities	5,132
Total operating expenses	<u>2,485,213</u>
Operating loss	(368,891)
Nonoperating Revenues	
Interest income	314
Net loss	(368,577)
Capital contribution - capital assets	<u>1,261,154</u>
Change in net assets	892,577
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ 892,577</u></u>

The Notes to the Financial Statements are an integral part of this statement.

NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
Nine Months Ended June 30, 2005

Cash Flows From Operating Activities	
Cash received from customers	\$ 1,933,481
Cash paid to suppliers	(1,407,623)
Cash paid to employees	(565,423)
Interest income	314
Other	65,276
	<hr/>
Net cash provided by operating activities	26,025
	<hr/>
Cash Flows From Capital and Related Financing Activities	
Purchases of capital assets	(25,954)
	<hr/>
Net cash used by capital and related financing activities	(25,954)
	<hr/>
Net increase in cash	71
Cash, beginning of year	-
	<hr/>
Cash, end of year	\$ 71
	<hr/> <hr/>
Reconciliation of Operating Loss to Net Cash	
Provided by Operating Activities	
Operating loss	\$ (368,577)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	86,969
Change in assets and liabilities	
Accounts receivable	(117,565)
Bank overdraft	7,705
Accounts payable	265,890
Accrued payroll liabilities	49,499
Accrued paid time off	102,104
Total adjustments	394,602
	<hr/>
Net cash provided by operating activities	\$ 26,025
	<hr/> <hr/>
Supplemental Noncash Disclosure:	
Capital assets transferred from the City of Espanola	\$ 273,500
Capital assets transferred from the County of Rio Arriba	987,654
	<hr/>
	\$ 1,261,154
	<hr/> <hr/>

The Notes to the Financial Statements are an integral part of this statement.

NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

North Central Solid Waste Authority (NCSWA) provides solid waste collection services to the City of Espanola, Rio Arriba County, Santa Clara Pueblo, and Okay Owingeh Pueblo (San Juan Pueblo) for residents and commercial properties. NCSWA also operates seven transfer stations.

The NCSWA was created via a Joint Powers Agreement between the County of Rio Arriba, the City of Espanola, the Santa Clara Pueblo, and the San Juan (now Okay Owingeh) Pueblo which was signed on November 27, 2002; however, business operations began on October 1, 2004. The agreement is for an indefinite period of time. None of the aforementioned "parties" have an equity interest in the NCSWA. The NCSWA is governed by a board, which acts as the fiscal agent for the Authority, and is comprised of one member appointed by each participating party. Each Board member in good standing has one vote on all matters of business affecting the Authority. The result of this joint powers agreement creates a separate legal entity that must comply with the requirements of the New Mexico Office of the State Auditor.

The NCSWA also has a Memorandum of Understanding with the County of Rio Arriba, signed in May of 2005, which can be terminated by either party, by giving six (6) months written notice. This understanding establishes the NCSWA as the manager for solid waste collection services for county residents, in compliance with regulations promulgated by the New Mexico Environment Department. Revenues and expenditures generated by the collection, recycling, and disposal operations accrue to the Authority.

In 2005, the City of Espanola, Rio Arriba County, Santa Clara Pueblo, and Okay Owingeh Pueblo paid approximately \$335,656, \$933,399, \$24,698, and \$0 in charges for services, respectively.

Basis of Presentation, Measurement Focus, Basis of Accounting

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

Proprietary Fund Accounting

NCSWA follows proprietary fund accounting. Proprietary funds are accounted for using the flow of economic measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. NCSWA applies pronouncements of the Government Accounting Standards Board (GASB) and statements and interpretations of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Accounting (Continued)

NCSWA has also elected to apply FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Propriety fund accounting distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses result from transactions associated with the principal activity of NCSWA. Nonoperating revenues and expenses result from ancillary activities.

Accounts Receivable

Accounts receivable represent amounts due from customers for services provided to them. Accounts receivable balances are considered to be fully collectable; accordingly no allowance for doubtful accounts has been recorded. If it is determined that an account will not be collectable, it will be charged to operations in the current period. Accounts with balances greater than 30 days are charged interest of 1% and a 1% penalty.

Capital Assets

Assets are capitalized if they have an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded at cost or, if donated, at fair market value at the date of the donation.

Depreciation

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Vehicles	5
Containers and improvements	10
Office furniture and fixtures	5
Equipment	7-10

Use of 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 the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation, Measurement Focus, Basis of Accounting (Continued)

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles approved by the Department of Finance and Administration of the State of New Mexico (DFA). This basis is similar to principles generally accepted in the United States of America.

An annual appropriated budget is adopted and approved by the Authority's board, and a proposed operating budget is submitted to the DFA for approval. The operating budget includes proposed expenditures and the budgeted revenues. The Authority's Director is authorized to transfer budgeted amounts between departments within the Authority; however, any revisions that alter the total expenditures of the Authority must be approved by the Authority's Board of Directors. The legal level of budgetary control is at the total fund level.

NOTE 2. CASH

Bank Balance of Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Securities pledged by financial institutions are accepted at market value, except obligations of the State of New Mexico and its subdivisions, which are accepted at par value. As of June 30, 2005, all of the Authority's deposits were insured by FDIC and thus were not exposed to custodial credit risk. There were no securities held by the bank's trust department in the Authority's name that served as collateral as of June 30, 2005.

NOTE 3. CAPITAL ASSETS

Changes in capital assets for the nine months ended June 30, 2005, are as follows:

	Balance 9/01/04	Additions	Deletions	Balance 6/30/05
Capital Assets				
Vehicles	\$ -	49,761	-	49,761
Containers and improvements	-	122,623	-	122,623
Office furniture and fixtures	-	2,137	-	2,137
Equipment	-	1,112,587	-	1,112,587
Total capital assets at historic cost	-	1,287,108	-	1,287,108
Less accumulated depreciation	-	86,969	-	86,969
Total capital assets, net	\$ -	1,200,139	-	1,200,139

NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2005

NOTE 4. EMPLOYEE RETIREMENT SYSTEM

Retirement Plan

Substantially all full-time employees of NCSWA participate in a defined benefit contribution retirement plan through Public Employee's Retirement Act (PERA) of the State of New Mexico, a cost-sharing multiple employer public employee retirement system. Benefit provisions are established and may only be amended by state statute. Information pertaining to the actuarially computed present value of vested accumulated plan benefits and non-vested accumulated plan benefits, the plan's net assets available for benefits and non-vested accumulated plan benefits, the plan's net assets available for historical trend information presenting PERA's progress in accumulating sufficient assets to pay benefits when due is not available by individual government agencies participating in the plan. Actuarial pension data for the State of New Mexico, as employer, is provided at the statewide level in a separately issued audit report of PERA. That report may be obtained by writing to PERA, P.O. Box 2123, 1120 Paseo del Peralta, Santa Fe, NM, 87504-2123 or on their internet website at www.pera.state.nm.us/.

Upon inception of the NCSWA, approximately 32 County employees and 13 City employees were transferred to NCSWA. The participants that transferred from the City were guaranteed a matching contribution from NCSWA that equaled the percentage that was established under their plan while employed with the City. As a result, NCSWA is required to contribute 10.15% to previous City employees and 9.15% to previous County employees and new hires.

Retirement Eligibility

Generally, the amount of an employee's retirement pension is based on final average salary, which is defined as the 36 consecutive months of credited service producing the largest average. Monthly pension benefits are 2.5%, for Plan 2 and 3.5% for Plan 4 employees, of the final average salary per year of credited service, with a maximum benefit that can be paid not to exceed 75% and 80% of the final average salary for Plan 2 and Plan 4 employees respectively.

- Employees may retire at:
 - Any age with 25 or more years of credited service
 - Age 60 or older with 20 or more years of credited service
- All employees are eligible for retirement at:
 - Age 61 or older with 17 or more years of credited service
 - Age 62 or older with 14 or more years of credited service
 - Age 63 or older with 11 or more years of credited service
 - Age 64 or older with 8 or more years of credited service
 - Age 65 or older with 5 or more years of credited service

Benefits vest after five years of credited service.

NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2005

NOTE 4. EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Disability Benefits

Members or vested former members with five or more years of credited service will receive their normal retirement pension based on credited service and final average salary at the time of disability or retirement. The five-year service requirement is waived if the disability is incurred in the line of duty. Disability retirements are subject to reevaluation until the member reaches normal retirement. Payment of the disability pension is suspended for the balance of any year in which a disability-retired member does not submit an annual statement of earnings from gainful employment by June 30th of each year or if the amount of earnings in the previous year is more than the amount that causes the suspension of, or a decrease in, the social security old age benefit for a 65-year old.

Funding Policy

Before October 2004, NCSWA employees were subject to, and participated in, the City's PERA plan and were subject to the same plan provisions, retirement eligibility rules, disability benefits, and funding policy. Effective October 2004, the NCSWA enrolled in a PERA plan with a 2.5% pension factor per year of credited service. Participants are required to contribute 9.15% of gross salary. The NCSWA is required to contribute 10.15% for participants that transferred over from the City and 9.15% for participants that transferred over from the County and new hires. The employees that transferred over from the city have been tenured for retirement under the Municipal Plan 4 provisions.

Contributions requirements for the years ended are as follows:

	NCSWA	Employee	Total	Percentage Contributed
June 30, 2005	\$ 61,664	52,348	114,012	100%

NOTE 5. RISK MANAGEMENT

NCSWA is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters for which NCSWA carries commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year.

NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2005

NOTE 6. SUBSEQUENT EVENTS

In February 2007, the New Mexico Finance Authority (NMFA) awarded NCSWA and Rio Arriba County, jointly, a loan in the amount of \$1 million that is expected to be paid in seven years. The funds were used by the Authority for a project defined as the acquisition, construction, and equipping of a solid waste landfill facility. The loan is recorded as a liability on the county's books, as the loan payments are being serviced by the County Environmental Services Gross Receipts Tax, (CESGRT) imposed pursuant to Sections 7-20E-17, NMSA 1978. Through an intercept agreement, the New Mexico Taxation and Revenue Department remits the revenues from the CESGRT directly to the NMFA in accordance with the Intercept Schedule in satisfaction of the loan payment requirements. The loan proceeds will be recorded as revenues on the Authority's books along with the capital assets acquired with the funds.

NCSWA took over County billings as of July 1, 2005, increasing the number of customer accounts from approximately 600 to approximately 11,000. These billings included approximately \$1.7 million in old outstanding accounts receivable as of July 2005. The Authority has invested a considerable amount of time and resources investigating these outstanding account balances, and is in the process of pursuing aggressive collection efforts on these accounts. After identifying which accounts actually were in existence, the Authority has begun charging penalties and interest on these balances, and the outstanding balance as of July 2009 had grown to approximately \$2.3 million. Management estimates that roughly 50% of this balance is uncollectible as of July 2009.

We discovered that PERA was not deducted pre-tax beginning in July 2006. Management is looking into this issue to determine the extent of this error, which could possibly require amendment of previously filed payroll tax reports, as well as issuing corrected W-2's to the Authority's employees.

A customer was injured in March 2006 at the Espanola Transfer Station and filed a lawsuit against the NCSWA. As of the issuance date of our audit, this matter was fully settled and was handled by the Authority's general liability insurance carrier.

Due to operating deficits incurred, the Authority is delinquent in paying federal payroll taxes in the following amounts and quarters: Second quarter 2008 \$104,162, third quarter 2008 \$114,467, fourth quarter 2008 \$100,661, penalty and interest first quarter 2009 \$1,842 for a total outstanding liability owed to the Internal Revenue Service of \$321,132. All other quarters for 2009 are current. A revenue officer has been assigned to NCSWA's case and will be contacting Michele Martinez to discuss payment arrangements. City of Espanola franchise fees are owed in the amount of \$236,928 as of September 30, 2009, and payment arrangements are being discussed with City officials. New Mexico gross receipts are owed in the amount of \$230,990 as of September 30, 2009. A payment plan has been discussed and is in the process of being signed and implemented. It is a five year payment plan that will suspend future penalty and interest. Health insurance premiums are owed to Risk Management in the amount of \$598,024 as of September 30, 2009. Reconciliation of premiums and payments are still ongoing. Current premiums are to be paid and a payment plan for past premiums will be negotiated with Risk Management staff.

SUPPLEMENTARY INFORMATION

NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL (AUDITED)
Nine Months Ended June 30, 2005

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Operating Revenues				
Charges for services	\$ 2,029,000	1,938,938	2,051,046	112,108
Grant funds	350,000	-	-	-
Other revenue	190,000	65,582	65,276	(306)
Total operating revenues	2,569,000	2,004,520	2,116,322	111,802
Operating Expenses				
Advertising	3,000	6,607	6,707	(100)
Employee benefits	237,856	168,863	197,489	(28,626)
Fuel	100,000	107,261	119,497	(12,236)
Insurance	84,000	86,022	86,181	(159)
Landfill fees	220,000	157,477	218,782	(61,305)
Leases	43,000	1,256	-	1,256
Other	140,000	101,451	54,060	47,391
Payroll taxes	51,753	43,776	66,482	(22,706)
Professional services	489,000	367,444	510,581	(143,137)
Rent	18,000	16,792	16,792	-
Repairs and maintenance	137,000	128,625	132,462	(3,837)
Salary expense	676,510	639,916	717,026	(77,110)
Supplies and equipment	212,000	142,477	125,128	17,349
Taxes and licenses	40,000	25,645	34,720	(9,075)
Uniforms	14,500	2,373	5,101	(2,728)
Utilities	9,200	4,920	5,132	(212)
Total operating expenses	2,475,819	2,000,905	2,296,140	(295,235)
Operating income	93,181	3,615	(179,818)	(183,433)
Revenue - budget basis	2,569,000	2,004,520	2,116,322	
Nonbudgeted revenues				
Interest income	-	-	314	314
Revenue - GAAP basis	2,569,000	2,004,520	2,116,636	314
Expenditures - budget basis	2,475,819	2,000,905	2,296,140	
Nonbudgeted expenditures				
Compensated absences	-	-	102,104	(102,104)
Depreciation	-	-	86,969	(86,969)
Expenditures - GAAP basis	2,475,819	2,000,905	2,485,213	(189,073)
Change in net assets	\$ 93,181	3,615	(368,577)	(372,192)

The Notes to the Financial Statements are an integral part of this statement.

NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF PLEDGED COLLATERAL
Nine Months Ended June 30, 2005

	Community Bank	Valley National Bank	Total
Deposits at June 30, 2005	\$ 14,933	71	15,004
Less: FDIC insurance	14,933	71	15,004
Total uninsured public funds	\$ -	-	-
Pledged collateral held by the pledging bank's trust department in the City's name	\$ -	-	-
50% collateral requirement	-	-	-
Pledged collateral in excess of requirement	\$ -	-	-
Uninsured and uncollateralized	\$ -	-	-

NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF DEPOSIT ACCOUNTS
Nine Months Ended June 30, 2005

Account Name	Account Type	Cash & Investments	Total Reconciled Balance	On Deposit 6/30/2005
Deposit Accounts				
Community Bank	Checking	\$ 71	71	71
Valley National Bank	Checking	14,933	(7,705)	14,933
Total deposit accounts		<u>\$ 15,004</u>	<u>(7,634)</u>	<u>15,004</u>

Ricci & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS
6200 UPTOWN BLVD. NE - SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' 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
North Central Solid Waste Authority
and
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying basic financial statements and budgetary comparison of the North Central Solid Waste Authority (NCSWA) as of and for the nine months ended June 30, 2005, and have issued our report thereon dated September 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as 05-01, 05-02, 05-03 and 05-04 to be control deficiencies in internal control over financial reporting.

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

Hector Balderas, State Auditor
and
Board of Directors of
North Central Solid Waste Authority

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the deficiencies described as 05-05, 05-06 and 05-07 to be deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended for the information and use of the board of directors, NCSWA's management, and the New Mexico State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Ricci & Company, LLC

Albuquerque, New Mexico
September 30, 2009

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Nine Months Ended June 30, 2005**

A. FINDINGS - FINANCIAL STATEMENTS AUDIT- NCSWA

05-01 SEGREGATION OF DUTIES

CONDITION

During our review of internal controls over cash disbursements, we noted that purchases are requested and approved by the same person. During our review of internal controls over payroll, we noted that the same person can enter new employees, make changes to employee information within the payroll system, and processes payroll.

CRITERIA

Internal controls should be implemented and enforced to ensure controls are operating effectively in an attempt to achieve reliable financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations.

CAUSE

Accounting records were maintained off-site and by one person and management functions were performed by one person.

EFFECT

There is an increased risk that errors or fraud may go undetected.

RECOMMENDATION

We recommend that all purchase requests be approved by another authorized individual. Additionally, we recommend that another person enter new employees and make changes to employee data other than the person who administers payroll.

RESPONSE

Changes are being implemented as follows:

Purchase orders are requested by employees, purchase order numbers are issued by the Administrator, approval of payment is authorized by the Finance Committee (2 Board members and Administrator), checks for payment are issued by the Administrator, checks are signed by two Board members (2 signatures required).

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Nine Months Ended June 30, 2005**

A. FINDINGS - FINANCIAL STATEMENTS AUDIT- NCSWA (CONTINUED)

05-01 SEGREGATION OF DUTIES (CONTINUED)

The purchase order module has been recently purchased for the accounting software, manual purchase orders will no longer be utilized, and maintenance of purchase order numbers will be generated by the financial application and will tie into accounts payable and general ledger applications.

Payroll procedures have been modified as follows: two additional staff members are being trained in data entry of payroll time, leave, etc. We have established an internal steps checklist to be followed by staff. Administrator and two staff members shall participate in the payroll procedures.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Nine Months Ended June 30, 2005**

A. FINDINGS - FINANCIAL STATEMENTS AUDIT- NCSWA (CONTINUED)

05-02 Bank Reconciliations

CONDITION

During our examination of the main operating bank account, we noted that the bank reconciliation for June 30, 2005 did not agree to the trial balance. Although the discrepancy in the amount of \$1,383 was below materiality, cash is the most liquid of assets and has the highest risk for theft, embezzlement, and misappropriation.

CRITERIA

Proper financial reporting in accordance with Generally Accepted Accounting Principles (GAAP) requires effective internal controls over financial data processing.

CAUSE

Internal controls over the bank reconciliation process are not in place to ensure financial data is reconciled to the trial balance and bank statements in a timely manner.

EFFECT

Financial data may not be properly reported. Additionally, there is an increased risk that errors or fraud may go undetected.

RECOMMENDATION

We recommend that NCSWA develop effective controls and procedures to ensure bank reconciliations are properly prepared in a timely manner, including resolving any discrepancies.

RESPONSE

NCSWA has opened a new operating account with Century Bank. The new account has been entered into the financial database and reconciliations are performed monthly. Check registers are printed daily as checks are issued. Deposits are entered daily via cash receipting module within the financial database. Checks are entered via accounts payable module and payroll module within the financial database.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Nine Months Ended June 30, 2005**

A. FINDINGS - FINANCIAL STATEMENTS AUDIT- NCSWA (CONTINUED)

05-03 Budget Overage

CONDITION

During our analysis of the budget to actual report for the period ended June 30, 2005, we noted that NCSWA is over budget by \$295,235.

CRITERIA

State Statute 6-6-6 NMSA 1978 and SAO Rule 2.2.2.10.P(1) requires that local government spending does not exceed budgeted amounts.

CAUSE

The Authority incurred additional expenses in anticipation of a DOE grant in the amount of \$350,000. However, the grant was approved but not actually awarded due to the improper processing of paperwork.

EFFECT

The Authority is not in compliance with state statutes.

RECOMMENDATION

Processes and procedures should be implemented which should include verification of grant award/funding prior to obligating the funds. We also recommend that the Authority amend its budget accordingly.

MANAGEMENT RESPONSE

Previously the budget was maintained on an Excel spreadsheet, the current financial software has a general ledger module capable of entering the current FY budget and can be maintained, updated and modified via data entry. The budget module is tied into the cash receipting, billing, accounts payable and payroll modules so the budget is updated as the general ledger is updated monthly.

In the general ledger module of the financial software, NCSWA has the capability to enter grant amounts and expend the funds while tracking expenditures so as not to over spend grant funds.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Nine Months Ended June 30, 2005**

A. FINDINGS - FINANCIAL STATEMENTS AUDIT- NCSWA (CONTINUED)

05-04 Late Audit Report

CONDITION

The June 30, 2005 audit report was not filed timely as required by the State Auditor Rule NMAC 2.2.2.9.A.

CRITERIA

According to the State Auditor Rule NMAC 2.2.2.9.A, the audited financial statements are due by November 15 following the fiscal year end, thus requiring the June 30, 2005 report to be filed by November 15, 2005.

CAUSE

Although the Authority attempted to obtain an audit, they failed to follow through with acquiring an audit firm approved by the Office of the State Auditor.

EFFECT

The users of the financial statements do not have timely audit reports and financial statements for their review. Further, the Authority is in violation of the State Auditor Rule NMAC 2.2.2.9.A.

RECOMMENDATION

The Authority should continue its efforts to deliver a timely audit report and inform all potential users of the report as soon as they know they will not meet the reporting requirement.

MANAGEMENT RESPONSE

NCSWA is currently obtaining audits for FY 05 and FY 06. Upon completion of the FY 06 audit, we will solicit price quotes for the FY 07, 08 and 09 audits and plan to be compliant by 12/31/09 with our audit requirements.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Nine Months Ended June 30, 2005**

A. FINDINGS - FINANCIAL STATEMENTS AUDIT- NCSWA (CONTINUED)

05-05 Records Management (Material Weakness)

CONDITION

NCSWA did not maintain organized, reliable accounting records for the period ended June 30, 2005. Examples are as follows:

- Out of 16 transactions tested, 1 did not contain a writ of garnishment to support employee withholding; check amount was for \$75.00.
- Out of 16 transactions tested support for 2 checks paid to vendors could not be located; the check amounts were for \$50.28 and \$103.60.
- PERA reports and remittances could not be located for the entire year. Annual expense for employer and employees was recalculated from total payroll. Traced 26 checks written to PERA via bank statements totaling \$110,292.37, which was comparable to our recalculation.
- Accurate trial balance not supplied in a timely manner.
- Out of 16 transactions tested, 1 contained a purchase order dated after purchase was actually made; check amount was for \$229.93.
- Capital assets of \$1,287,108 and associated depreciation of \$86,969 not recorded on books. Client posted an adjusting journal entry to correct this error.
- Out of 49 transactions tested, 5 were found to have an improper cutoff for accounts payable at year end; the total amount was \$91,942. An adjusting journal entry was posted by the client to correct these errors.

CRITERIA

Efficient records management promotes an environment conducive to reliable financial reporting. Organized and accessible accounting records are a vital aspect in good accounting practices.

CAUSE

Due to the recent formation of NCSWA, there has not been an emphasis for adequate records management. Additionally, records were maintained at two different locations.

EFFECT

Without organized accounting records, NCSWA can face a multitude of problems, including lack of conformity with GAAP and exposure to the risk of material misstatement of its financial statements. Missing documentation can be an indicator of a much more severe issue such as potential fraud or other abuse.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Nine Months Ended June 30, 2005**

A. FINDINGS - FINANCIAL STATEMENTS AUDIT- NCSWA (CONTINUED)

05-05 Records Management (Material Weakness) (Continued)

RECOMMENDATION

NCSWA is in need of a document retention and file maintenance system. This system should include procedures and policies to maintain all accounting records in a central location. A significant effort should be undertaken to ensure that all underlying accounting support and documentation be properly filed, retained, and accessible.

RESPONSE

The following changes have been implemented:

All files and documents are now housed at the Authority main office. There aren't any files kept off site or at different locations any longer. All files are now archived in storage containers at the end of the fiscal year. Archived files are now clearly labeled and marked by fiscal year. They are also kept in a separate room at the Authority main office. Current fiscal year documents are maintained weekly and are kept in clearly marked file cabinets.

Payroll files are now maintained in one secured area under lock. All supporting documentation is filed weekly or daily.

Account payable files are filed weekly and all supporting documentation is attached to the purchase order and copy of check showing payment.

Purchase order module for the financial software has been purchased in order to maintain proper accounting of purchases. This module is also tied into the budget module and will note any budget overages.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Nine Months Ended June 30, 2005**

A. FINDINGS - FINANCIAL STATEMENTS AUDIT- NCSWA (CONTINUED)

05-06 Financial Statement Preparation - SAS 112 (Material Weakness)

CONDITION

NCSWA does not prepare accurate quarterly or annual financial reports as required by government agencies and lenders. This is evidenced by the fact that our fieldwork yielded many significant adjusting journal entries to correctly represent the financial position of NCSWA. Additionally, NCSWA solely relies on its auditors to create the financial reports.

CRITERIA

Per SAS 112, the auditor must determine whether the client has sufficient accounting competence and knowledge to detect or prevent a misstatement or mistake over financial reporting. The client should possess the ability to perform accounting transactions, such as recording investment activity, maintaining a fixed asset listing, and preparing financials.

CAUSE

Due to the recent formation of NCSWA, there has not been an emphasis for strong financial reporting or controls and understanding over such reporting.

EFFECT

The Board of Directors (BOD) and management's ability to make financial decisions may not be based on accurate and reliable financial data.

RECOMMENDATION

It is our recommendation that NCSWA develop internal controls surrounding the financial reporting process. If sufficient controls and understanding of the accounting system cannot be developed internally, we recommend an outside consultant be utilized.

RESPONSE

Staff has recently been trained to properly utilize the financial database to prepare proper financial reports, maintain records, reconcile bank statements, prepare financial statements, budgets, etc. The financial software was not being utilized to its full capacity.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Nine Months Ended June 30, 2005**

A. FINDINGS - FINANCIAL STATEMENTS AUDIT- NCSWA (CONTINUED)

05-07 Accounts Receivable (Material Weakness)

CONDITION

NCSWA did not properly account for accounts receivable throughout the audit period. This is evidenced by the fact that the Customer Aging List at 6/30/05 did not agree to the trial balance. NCSWA relied on alternative procedures which included examining total billings, revenues, and deposits for the year in order to calculate the accounts receivable balance at 6/30/05. We traced billings to client's billings report for 9 months, and agreed total revenues to client's general ledger for 9 months, all without exception. Deposits for the ten months were agreed to monthly bank statements without exception. Client posted an adjusting journal entry to record \$117,565 of accounts receivable at year end.

CRITERIA

Proper financial reporting in accordance with Generally Accepted Accounting Principles (GAAP) requires recording revenues and expenses when they are incurred, regardless of when cash is exchanged.

CAUSE

NCSWA maintained their books on the cash basis.

EFFECT

The absence of accounts receivable being recorded on an accrual basis results in unreliable financial data. The BOD and management's ability to make financial decisions is not based on accurate and reliable financial data.

RECOMMENDATION

It is our recommendation that NCSWA develop internal controls surrounding the financial reporting process which includes properly booking accounts receivable transactions on the accrual basis.

MANAGEMENT RESPONSE

NCSWA purchased financial software able to provide adequate and more efficient reporting. The utility billing module can produce accounts receivable reports monthly and tie directly to the cash receipting and the general ledger. NCSWA is currently on the accrual basis.

**NORTH CENTRAL SOLID WASTE AUTHORITY
EXIT CONFERENCE
For the Nine Months Ended June 30, 2005**

Exit Conference

An exit conference was held on October 8, 2009 pursuant to *Section 12-6-5 NMSA, 1978* with the following individuals in attendance:

NCSWA Board of Directors

Alfred Herrera

NCSWA

Michelle Martinez

Joe Lewandowski, via telephone

Representing the Independent Auditor:

Sandy Ricci, CPA

Herman Chavez, CPA

Shawn Mortensen, CPA

Note: Management is responsible for the context of the report, even though the financial statements were prepared substantially by the independent auditor.