



Certified Public Accountants

ricci&company llc

**NORTH CENTRAL SOLID WASTE
AUTHORITY**

FINANCIAL STATEMENTS

JUNE 30, 2006

A decorative vertical banner on the left side of the page features a dark background with large, glowing numbers and mathematical symbols like plus, minus, and multiplication signs in shades of yellow and orange.

NORTH CENTRAL SOLID WASTE AUTHORITY

Official Roster	1
Independent Auditors' Report	2
Financial Statements	
Statements of Net Assets	4
Statements of Revenues, Expenses and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Supplemental Information	
Schedule of Revenues, Expenses and Changes in Net Assets Budget and Actual (Audited)	14
Schedule of Pledged Collateral	15
Schedule of Deposit Accounts	16
Other Report	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	17
State Compliance Section	
Schedule of Findings and Responses	19
Summary Schedule of Prior Audit Findings	28
Exit Conference	29

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 years ended June 30, 2006 and 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 audits.

We conducted our audits 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 audits provide 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, 2006 and 2005, and the changes in its financial position and its cash flows for the years 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 year ended June 30, 2006, 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 of
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 March 1, 2010, 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 audits.

Our audits were 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 schedule 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
March 1, 2010

FINANCIAL STATEMENTS

NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENTS OF NET ASSETS
For the Years Ended June 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash	\$ 7,488	71
Accounts receivable, net	1,381,816	117,565
	<hr/>	<hr/>
Total current assets	1,389,304	117,636
Noncurrent Assets		
Capital assets, net	1,026,202	1,200,139
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Total noncurrent assets	1,026,202	1,200,139
	<hr/>	<hr/>
Total assets	\$ 2,415,506	1,317,775
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Bank overdraft	\$ 173,706	7,705
Accounts payable	363,835	265,890
Accrued payroll liabilities	55,543	49,499
Accrued paid time off	115,482	102,104
Deferred revenue	117,414	-
	<hr/>	<hr/>
Total current liabilities	825,980	425,198
Net Assets		
Investment in capital assets	1,026,202	1,200,139
Inherited assets, net of allowance	1,002,024	-
Unrestricted	(438,700)	(307,562)
	<hr/>	<hr/>
Total net assets	1,589,526	892,577
	<hr/>	<hr/>
Total liabilities and net assets	\$ 2,415,506	1,317,775
	<hr/> <hr/>	<hr/> <hr/>

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

NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Charges for services	\$ 3,479,369	2,051,046
Other revenue	6,922	65,276
Total operating revenues	<u>3,486,291</u>	<u>2,116,322</u>
Operating Expenses		
Advertising	1,822	6,707
Employee benefits	434,264	197,489
Compensated absences	13,378	102,104
Depreciation	173,937	86,969
Fuel	185,822	119,497
Insurance	105,478	86,181
Landfill fees	539,100	218,782
Leases	12,055	-
Other	83,701	54,060
Payroll taxes	106,488	66,482
Professional services	421,050	510,581
Rent	16,609	16,792
Repairs and maintenance	160,800	132,462
Salary expense	1,295,356	717,026
Supplies & equipment	164,141	125,128
Taxes and licenses	59,286	34,720
Uniforms	13,247	5,101
Utilities	5,355	5,132
Total operating expenses	<u>3,791,889</u>	<u>2,485,213</u>
Operating loss	<u>(305,598)</u>	<u>(368,891)</u>
Nonoperating Revenues (Expenses)		
Interest income	<u>523</u>	<u>314</u>
Net loss	(305,075)	(368,577)
Capital contribution - capital assets	-	1,261,154
Capital contribution - inheritance, net of allowance	<u>1,002,024</u>	<u>-</u>
Change in net assets	696,949	892,577
Net assets, beginning of year	<u>892,577</u>	<u>-</u>
Net assets, end of year	<u>\$ 1,589,526</u>	<u>892,577</u>

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

NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,334,556	1,933,481
Cash paid to suppliers	(2,058,650)	(1,407,623)
Cash paid to employees	(1,275,934)	(565,423)
Interest income	523	314
Other	6,922	65,276
	<hr/>	<hr/>
Net cash provided by operating activities	7,417	26,025
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	-	(25,954)
	<hr/>	<hr/>
Net cash used by capital and related financing activities	-	(25,954)
	<hr/>	<hr/>
Net increase in cash	7,417	71
Cash, beginning of year	71	-
	<hr/>	<hr/>
Cash, end of year	\$ 7,488	71
	<hr/> <hr/>	<hr/> <hr/>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	\$ (305,075)	(368,577)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	173,937	86,969
Change in assets and liabilities		
Accounts receivable	(262,227)	(117,565)
Bank overdraft	166,001	7,705
Accounts payable	97,945	265,890
Accrued liabilities	19,422	151,603
Deferred revenue	117,414	-
Total adjustments	312,492	394,602
	<hr/>	<hr/>
Net cash provided by operating activities	\$ 7,417	26,025
	<hr/> <hr/>	<hr/> <hr/>
Supplemental noncash disclosure:		
Accounts receivable transferred from the County of Rio Arriba, net of allowance	\$ 1,002,024	-
Capital assets transferred from the City of Espanola	-	273,500
Capital assets transferred from Rio Arriba County	-	987,654
	<hr/>	<hr/>
	\$ 1,002,024	1,261,154
	<hr/> <hr/>	<hr/> <hr/>

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

**NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2006 and 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. NCSWA is not a component unit of a primary government nor does NCSWA have any component units.

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.

For the years ended June 30, 2006 and 2005, the City of Espanola, Rio Arriba County, Santa Clara Pueblo, and Okay Owingeh Pueblo paid approximately \$434,812, \$900,000, \$55,886, \$0 and \$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
For the Years Ended June 30, 2006 and 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.

Proprietary 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. If it is determined that an account will not be collectible, 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
For the Years Ended June 30, 2006 and 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Deferred Revenues

NCSWA began billing certain customers on an annual basis in January 2006. The amount included in deferred revenues represents the six months' revenues that are unearned at June 30, 2006.

Reclassifications

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

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, 2006 and 2005, all of the City'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, 2006 and 2005.

NOTE 3. ACCOUNTS RECEIVABLE

Delinquent accounts receivable in the amount of \$1,739,207 was transferred to the Authority from the County on July 1, 2005. At June 30, 2006, inherited delinquent accounts receivable amounted to \$1,670,040, of which management has considered \$668,016 to be uncollectible.

NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2006 and 2005

NOTE 3. ACCOUNTS RECEIVABLE (CONTINUED)

This results in a remaining collectible balance of \$1,002,024 of inherited receivables. Other receivables of \$379,792 are from various sources and are considered collectible.

NCSWA took over County billings as of July 1, 2005, increasing the number of customer accounts from approximately 600 to nearly 8,000. 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 are 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 March 1, 2010.

NOTE 4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2006, are as follows:

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
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	173,937	-	260,906
Total capital assets, net	\$ 1,200,139	(173,937)	-	1,026,202

Changes in capital assets for the year 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
For the Years Ended June 30, 2006 and 2005**

NOTE 5. 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 nonvested accumulated plan benefits, the plan's net assets available for benefits and nonvested 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 state wide 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.state.nm.us/pera/.

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
For the Years Ended June 30, 2006 and 2005**

NOTE 5. 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 re-evaluation 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.

Contribution requirements for the years ended are as follows:

	<u>NCSWA</u>	<u>Employee</u>	<u>Total</u>	<u>Percentage Contributed</u>
June 30, 2006	\$ 104,429	96,064	200,493	100%
June 30, 2005	\$ 61,664	52,348	114,012	100%

NOTE 6. 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
For the Years Ended June 30, 2006 and 2005**

NOTE 7. 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 Section 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.

It was 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, as of March 1, 2010 the amount owed to the Internal Revenue Service is \$320,507. An Internal Revenue officer has been in contact with NCSWA's Interim Manager and Board Members. Negotiations are underway for immediate payment or an installment plan. City of Espanola franchise fees owed are in the amount of \$338,182. The amount includes several prior fiscal year amounts. City officials have demanded payment and arrangements will be worked out with the new administration. New Mexico gross receipt taxes owed as of March 1, 2010 is \$261,181; a 60-month payment plan was signed on February 17, 2010 and is interest and penalty free. Health insurance premiums owed as of March 1, 2010 are \$829,500. Payment was made for July through October 2009 and current premiums are being made bi-weekly. Reconciliation of premiums is ongoing but coverage for employees is still in force. None of these liabilities were incurred by December 31, 2006, and thus are not accrued at December 31, 2006.

NOTE 8. REMEDIATION

North Central Solid Waste Authority staff has implemented a system with the Rio Arriba County Assessor's records and the NCSWA billing records, which is cross referencing the two databases for potential customers. NCSWA mailed out 7,000 letters and has found 4,400 property owners that do not have accounts with the Authority. The 4,400 customers will be entered into the Authority's billing system, generating more revenues. In addition, the Authority has hired an attorney to take aggressive action against customers who have liens against their property for nonpayment. Customers are given thirty days to pay in full or have foreclosure action filed against their property.

SUPPLEMENTAL INFORMATION

NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL (AUDITED)
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Operating Revenues				
Charges for services	\$ 2,980,032	3,014,572	3,479,369	464,797
Grant funds	350,000	350,000	-	(350,000)
Other revenue	460,000	460,000	6,922	(453,078)
Total operating revenues	<u>3,790,032</u>	<u>3,824,572</u>	<u>3,486,291</u>	<u>(338,281)</u>
Operating Expenses				
Advertising	5,000	15,000	1,822	13,178
Employee benefits	303,300	328,475	434,264	(105,789)
Fuel	145,000	145,000	185,822	(40,822)
Insurance	107,000	107,000	105,478	1,522
Landfill fees	280,000	220,000	539,100	(319,100)
Leases	151,000	112,000	12,055	99,945
Other	321,500	312,500	83,701	228,799
Payroll taxes	75,500	83,911	106,488	(22,577)
Professional services	499,000	424,000	421,050	2,950
Rent	18,000	18,000	16,609	1,391
Repairs and maintenance	159,500	156,500	160,800	(4,300)
Salary expense	940,000	1,096,908	1,295,356	(198,448)
Supplies and equipment	548,000	548,000	164,141	383,859
Taxes and licenses	95,000	95,000	59,286	35,714
Uniforms	14,000	12,000	13,247	(1,247)
Utilities	9,200	9,200	5,355	3,845
Total operating expenses	<u>3,671,000</u>	<u>3,683,494</u>	<u>3,604,574</u>	<u>78,920</u>
Operating income	<u>119,032</u>	<u>141,078</u>	<u>(118,283)</u>	<u>(259,361)</u>
Revenue - budget basis	3,790,032	3,824,572	3,486,291	(338,281)
Non- budgeted revenues				
Interest income	-	-	523	523
Revenue - GAAP basis	<u>3,790,032</u>	<u>3,824,572</u>	<u>3,486,814</u>	<u>(337,758)</u>
Expenditures - budget basis	3,671,000	3,683,494	3,604,574	78,920
Non-budgeted expenditures				
Compensated absences	-	-	13,378	(13,378)
Depreciation	-	-	173,937	(173,937)
Expenditures - GAAP basis	<u>3,671,000</u>	<u>3,683,494</u>	<u>3,791,889</u>	<u>(108,395)</u>
Change in net assets	<u>\$ 119,032</u>	<u>141,078</u>	<u>(305,075)</u>	<u>(446,153)</u>

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF PLEDGED COLLATERAL
Year Ended June 30, 2006**

	Community Bank	Valley National Bank	Total
Deposits at June 30, 2006	\$ 7,263	26,693	33,956
Less: FDIC insurance	7,263	26,693	33,956
Total uninsured public funds	\$ -	-	-
Pledged collateral held by the pledging bank's trust department in NCSWA's name	\$ -	-	-
50% collateral requirement	-	-	-
Pledged collateral in excess of requirement	\$ -	-	-
Uninsured and uncollateralized	\$ -	-	-

NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2006

Account Name	Account Type	Pooled Cash & Investments	Total Reconciled Balance	On Deposit 6/30/2006
Deposit Accounts				
Community Bank	Checking	\$ 7,263	7,488	7,263
Valley National Bank	Checking	26,693	(173,706)	26,693
Total deposit accounts		\$ 33,956	(166,218)	33,956

**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 year ended June 30, 2006 and 2005, and have issued our report thereon dated March 1, 2010. 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 audits, 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider the findings described as 05-01, 05-02, and 05-04 to be deficiencies in internal control over financial reporting. We consider the findings described as 05-05, 05-06 and 05-07 to be material weaknesses, as defined above.

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

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
March 1, 2010

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Years Ended June 30, 2006 and 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 process payroll.

CRITERIA

Internal controls should be implemented and enforced to ensure controls are operating effectively in 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 (two Board members and Administrator), checks for payment are issued by the Administrator and checks are signed by two Board members (two signatures required).

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Years Ended June 30, 2006 and 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. Therefore, 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 Years Ended June 30, 2006 and 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, 2006 did not agree to the trial balance. Although the discrepancy in the amount of \$8,901 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 Years Ended June 30, 2006 and 2005**

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

05-04 LATE AUDIT REPORT

CONDITION

The June 30, 2006 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, 2006 report to be filed by November 15, 2006.

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 has currently contracted to obtain audits for FY 07, 08, and 09.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Years Ended June 30, 2006 and 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 year ended June 30, 2006. Examples are as follows:

- PERA reports and remittances could not be located for the entire year. Annual expense for employer and employees was recalculated from total payroll. Obtained third-party verification from PERA noting total paid by NCSWA was \$200,493 which was comparable to our re-calculation.
- Depreciation in the amount of \$173,937 was not recorded on books. Client posted an adjusting journal entry to correct this error.
- Out of 65 transactions tested, 20 were found to have an improper cutoff for accounts payable at year end; the total amount was \$351,154. 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.

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.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Years Ended June 30, 2006 and 2005**

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

05-05 RECORDS MANAGEMENT (MATERIAL WEAKNESS) (CONTINUED)

RESPONSE

The following changes have been implemented:

All files and documents are now housed at the Authority's 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's 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.

Accounts 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 Years Ended June 30, 2006 and 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 is not 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 Years Ended June 30, 2006 and 2005**

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

05-07 ACCOUNTS RECEIVABLE (MATERIAL WEAKNESS)

CONDITION

NCSWA did not properly account for A/R throughout the audit year. This is evidenced by the fact that the Customer Aging List at 6/30/06 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 and associated allowance for bad debts balance at June 30, 2006. We traced billings to client's billings report for 12 months, and agreed total revenues to client's general ledger without exception. Deposits for the year were agreed to monthly bank statements without exception. Client posted an adjusting journal entry to record \$2,049,832 in accounts receivable and an allowance for bad debts in the amount of \$668,016.

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 Board of Directors 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 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
SCHEDULE OF FINDINGS AND RESPONSES
For the Years Ended June 30, 2006 and 2005**

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

06-01 BUDGET MONITORING

CONDITION

The initial and final budgets for the Authority included line items for grant and other revenues. The January, 2006 Board minutes reflected an uncertainty related to the budgeted grant revenues. The March, 2006 Board minutes noted that the grant would not materialize and no adjustments were made to reflect this in the final budget. In addition, we noted multiple line items where adjustments were made and actual expenditures were still in excess of the budgeted amounts.

CRITERIA

As uncertainties become known, budget adjustments should be made to reflect these changes.

CAUSE

Because there was insufficient monitoring of budget items, adjustments were not made to interim or final budgeted revenues and related expenditure amounts.

EFFECT

Since necessary adjustments were not made to the annual budget, the Authority continued spending at levels in excess of budgeted amounts.

RECOMMENDATION

We recommend that budgeted line items be continually monitored and as soon as budgeted items become known to management that they will not be realized, the necessary adjustments should be made to the Authority's annual budget accordingly. This monitoring and reporting is critical in order to keep the NCSWA operating within its budgetary constraints.

RESPONSE

As the Authority continues to develop as an entity, we have begun monitoring all aspects of our operations. Currently, the Board of Directors is working with management to develop and monitor NCSWA's annual budget.

**NORTH CENTRAL SOLID WASTE AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Years Ended June 30, 2006 and 2005**

Finding

Current Status

05-01 Segregation of Duties	Updated and included
05-02 Bank Reconciliations	Updated and included
05-03 Budget Overage	Resolved
05-04 Late Audit Report	Updated and included
05-05 Records Management (Material Weakness)	Updated and included
05-06 Financial Statement Preparation – SAS 112 (Material Weakness)	Updated and included
05-07 Accounts Receivable (Material Weakness)	Updated and included

**NORTH CENTRAL SOLID WASTE AUTHORITY
EXIT CONFERENCE
For the Years Ended June 30, 2006 and 2005**

Exit Conference

An exit conference was held on March 9, 2010 pursuant to *Section 12-6-5 NMSA, 1978* with the following individuals in attendance:

NCSWA Board of Directors

Alfred Herrera

NCSWA

Michele Martinez

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.