STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011 and 2010

FIERRO & FIERRO, P.A.
Certified Public Accountants • 527 Brown Road • Las Cruces, NM 88005 • (575) 525-0313 • FAX (575) 525-9708

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
Table of Contents
June 30, 2011 and 2010

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
Directory of Officials
June 30, 2011 and 2010

Board of Directors - June 30, 2011

Member	*Position*	*Entity Represented*
Tomas Campos	Chairman	Rio Arriba County
Bernardino Chavarria	Vice-Chairman	Santa Clara Pueblo
Pedro Valdez	Secretary	City of Española
Charles Lujan	Member	Ohkay Owingeh
Alfred Herrera	Member	Community Member

Administrative Staff

Gino Romero	Manager
Michelle Martinez	Administrator

Board of Directors - June 30, 2010

Member	*Position*	*Entity Represented*
Tomas Campos	Chairman	Rio Arriba County
Bernardino Chavarria	Vice-Chairman	Santa Clara Pueblo
Pedro Valdez	Secretary	City of Española
Charles Lujan	Member	Ohkay Owingeh
Alfred Herrera	Member	Community Member

Administrative Staff

Michelle Martinez	Interim Manager
Michelle Martinez	Administrator

FIERRO & FIERRO, P.A. **CERTIFIED PUBLIC ACCOUNTANTS**

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Independent Auditors' Report

Timothy Keller, State Auditor
and
Board of Directors
North Central Solid Waste Authority
Española, New Mexico

We have audited the accompanying financial statements of North Central Solid Waste Authority (Authority), as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the years ended June 30, 2011 and 2010 presented as supplementary information, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The Authority has presented accounts receivable as $4,359,579, net of an allowance for doubtful accounts of $668,016, as of June 30, 2011. The Authority has presented accounts receivable as $3,582,923, net of an allowance for doubtful accounts of $668,016, as of June 30, 2010. We have concluded based on our testing of the individual customer information, accounts receivable is overstated, thereby causing net assets to be overstated for each fiscal year. We cannot determine the amount that accounts receivable is overstated. The Authority maintains customer accounts transferred from Rio Arriba County when the Authority was formed and management has not adjusted the allowance for doubtful accounts as needed. Further, the management has not recorded an annual allowance for doubtful accounts based on annual customer revenues as required by general accounting principles generally accepted in the United States of America thereby overstating accounts receivables and understating bad debt expense. Additionally, the Authority recorded penalties and interest charges on customer accounts in the amount of $511,690 and $379,375 for the years ended June 30, 2011 and 2010, respectively, the majority of which was assessed on stale and inactive accounts, which overstated revenues and net assets.

The Authority has presented miscellaneous expenses as $527,231 as of June 30, 2011. Based on our testing of expense accounts, we are unable to readily identify the reason for the unusually high amount reflected as miscellaneous expense. The Authority voided numerous old, stale checks that may have or may not have been properly posted to the general ledger in the 2011 fiscal year. Further, the Authority posted numerous journal entries in an attempt to rectify prior year's errors in their accounting. We were unable to attain sufficient source documents that would add clarity to the amounts posted in the miscellaneous expense account.

In our opinion, because of the effects of the matters discussed in the preceding two paragraphs, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Authority as of June 30, 2011 and 2010, or the changes in financial position, cash flows thereof and budgetary comparisons for the years then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparisons. The additional schedule listed as "*other supplemental financial information*" in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements listed above. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in relation to the basic financial statements taken as a whole.

Fierro & Fierro, P.A.
Las Cruces, New Mexico

July 29, 2016

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Current Assets:		
Cash	$ 174,258	$ 4,431
Receivables, net of allowances for doubtful accounts:		
Accounts	3,691,563	2,914,907
Prepaid expenses	5,510	-
Total current assets	3,871,331	2,919,338
Non-Current Assets:		
Capital assets being depreciated, net	653,934	811,066
Total assets	$ 4,525,265	$ 3,730,404
LIABILITIES		
Current Liabilities:		
Bank overdraft	$ -	$ 16,689
Accounts payable	593,189	520,305
Accrued salaries	81,310	72,089
Accrued liabilities	733,024	990,442
Unearned revenues	367,641	346,096
Current maturities of liabilities:		
Notes payable	11,561	12,821
Compensated absences	81,197	92,673
Total current liabilities	1,867,922	2,051,115
Non-Current Liabilities:		
Notes payable	354,205	-
Compensated absences	80,005	66,078
Total non-current liabilities	434,210	66,078
Total liabilities	2,302,132	2,117,193
NET ASSETS		
Invested in capital assets	653,934	811,066
Unrestricted	1,569,199	802,145
Total net assets	2,223,133	1,613,211
Total liabilities and net assets	$ 4,525,265	$ 3,730,404

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating Revenues:		
Charges for services	$ 4,295,023	$ 4,047,400
Operating Expenses:		
Personnel services	1,276,323	1,333,649
Tipping and hauling fees	963,605	947,622
Miscellaneous	527,231	35,475
Employee benefits	375,053	302,491
Fuel	300,681	273,484
Depreciation	269,043	287,806
Repairs and maintenance	183,645	141,666
Taxes and licenses	132,789	126,705
Payroll taxes	96,283	107,934
Insurance	74,942	183,221
Leases	47,712	54,312
Administration expenses	45,262	51,827
Operational expenses	28,643	38,348
Office supplies and equipment	19,857	11,533
Professional services	14,686	88,414
Utilities	9,177	13,741
Printing and advertising	3,423	9,648
Small equipment and tools	2,301	23,423
Uniforms	-	2,248
Mileage and per diem	-	655
Total operating expenses	4,370,656	4,034,202
Operating income (loss)	(75,633)	13,198
Non-Operating Revenues (Expenses):		
County operating subsidy	572,500	730,631
City operating subsidy	100,000	-
State operating grant	-	34,000
Interest income	29	-
Lien/release charges	3,098	7,485
Penalties	(38,464)	(86,444)
Interest expense	(6,462)	(2,531)
Total non-operating revenues (expenses)	630,701	683,141
Income before capital contributions	555,068	696,339
Capital Contributions	118,932	-
Special Item:		
(Loss) on sale of assets	(64,078)	-
Change in net assets	609,922	696,339
Net assets, beginning of year	1,613,211	916,872
Net assets, end of year	$ 2,223,133	$ 1,613,211

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash Flows from Operating Activities:		
Cash received from customers	$ 3,170,406	$ 3,273,423
Cash payments to employees for services	(1,259,931)	(1,100,330)
Cash payments to suppliers for goods and services	(2,334,807)	(2,843,399)
Net cash (used) by operating activities	(424,332)	(670,306)
Cash Flows from Non-Capital and Financing Activities:		
County operating subsidy	572,500	730,631
City operating subsidy	100,000	-
State operating grant	-	34,000
Note proceeds	62,488	52,721
Lien/release charges	3,098	7,485
Principal payments	(63,748)	(51,429)
Interest expense	(6,462)	(2,531)
Net cash provided by non-capital and financing activities	667,876	770,877
Cash Flows From Capital and Related Financing Activities:		
Acquisition of capital assets	(57,057)	(38,426)
Cash Flows From Investing Activities:		
Interest income	29	-
Net increase in cash	186,516	62,145
Cash, beginning of year	(12,258)	(74,403)
Cash, end of year	$ 174,258	$ (12,258)
Displayed as:		
Cash	$ 174,258	$ 4,431
Bank overdraft	-	(16,689)
	$ 174,258	$ (12,258)

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
(CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Reconciliation of Operating (Loss) to Net Cash Used by Operating Activities:		
Operating Income (Loss)	$ (75,633)	$ 13,198
Adjustment to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:		
Depreciation	269,043	287,806
Change in Assets and Liabilities:		
(Increase) in accounts receivable	(776,656)	(575,701)
(Increase) in prepaid expenses	(5,510)	-
Increase (decrease) in accounts payable	72,884	(266,479)
Increase in accrued salaries	9,221	59,190
Increase (decrease) in accrued liabilities	58,323	(228,725)
Increase (decrease) in compensated absences	2,451	(34,794)
Increase in unearned revenues	21,545	75,199
Total adjustments	(348,699)	(683,504)
Net cash (used) by operating activities	$ (424,332)	$ (670,306)

Supplemental Disclosure of Non-Cash Capital and Related Financing Activities:
During the fiscal year ended June 30, 2011, the Authority acquired equipment through a non-cash grant received from Rio Arriba County in the amount of $118,932.

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Central Solid Waste Authority (Authority) provides solid waste collection services to the City of Española, New Mexico, Rio Arriba County, Santa Clara Pueblo, and Ohkay Owingeh Pueblo for residents and commercial properties. The Authority also operates convenience centers where residents and businesses can dump trash.

The Authority was formed pursuant to a joint powers agreement between the City of Española, Rio Arriba County, Santa Clara Pueblo, and Ohkay Owingeh Pueblo, which was signed on November 27, 2002. The Authority began operations on October 1, 2004. The agreement is for an indefinite period of time. None of the members have an equity interest in the Authority. The Authority was formed pursuant to the New Mexico Joint Powers Agreement Act, Sections 11-1-1 etseq. NMSA 1978. The Authority is an instrumentality of its members operated for public purposes. The Authority is not considered a solid waste authority, a political subdivision of the state, or a local public body.

The Authority 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 financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

In evaluating how to define the reporting entity for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the reporting entity was made by applying the criteria set forth in GAAP. The most primary standard for including or excluding a potential component unit with the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, the Authority has no component units. The determination if the Authority would be considered a component unit of one of its members has not been made by the Authority as that is the responsibility of the members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation and Accounting

The Authority's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Authority applies Government Accounting Standards Board (GASB) pronouncements as well as all relevant pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB Pronouncements.

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this limitation. The Authority has elected not to follow subsequent private-sector guidance.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues and expenses.

Enterprise funds account for activities: (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs, such as depreciation or debt service, be recovered with fees and charges rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs, such as depreciation or debt service. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's ongoing operation. The principal operating revenue is charges for services. Operating expenses include the cost of operations, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating grant revenue is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets such as total assets net of total liabilities, are segregated into three components; invested in capital assets, net of related debt; restricted; and unrestricted components. The Authority's operating statements present increases (revenues) and decreases (expenses) in net total assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgets

The budget for the one enterprise fund is prepared by management and approved by the board of directors. The general manager is responsible for preparing the budget, from requests submitted by department heads. The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the board of directors for approval by resolution.

The New Mexico Department of Finance and Administration Local Government Division (LGD) does not review or approve the annual budget of the Authority because it is not a solid waste authority, a political subdivision of the state or a local body as defined by the Local Government Finance Act, Sections 6-6-1 etseq. NMSA 1978. Rather, the Authority is a joint powers agreement entity pursuant to the Joint Powers Agreement Act, Section 11-1-1 etseq. NMSA 1978. The Authority is not directly under the regulatory authority of LGD except for issues directly related to the LGD's regulatory authority over its constituent members which would be the City of Española, New Mexico and Rio Arriba County.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended as circumstances change. If a budget transfer is necessary within expenses, this may be accomplished with board approval. If a budget increase is required, approval must be obtained from the board of directors. The Authority's level of budgetary control is at the total fund level.

D. Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as certificates of deposit as applicable. State statutes authorize the government to invest in interest bearing accounts with local financial institutions, direct obligations of the state and the U.S. Treasury or New Mexico political subdivisions, and the State Treasurer's Investment Pool. New Mexico State Statutes require that financial institutions with public monies on deposit pledge collateral, to the owner of such public monies, in an amount not less than 50% of the uninsured public monies held on deposit. If required, collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Authority. The pledged securities remain in the name of the financial institution.

E. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Prepaid Items

Payments made to vendors for goods or services that will benefit periods beyond year end, are recorded as prepaid items.

G. Capital Assets

Capital assets, which include property, plant, equipment, computer hardware and software, furniture, fixtures, and vehicles are valued and reported at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Prior to June 17, 2005, the Authority defined capital assets as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Effective June 17, 2005, in accordance with state statutes, the Authority changed its capitalization threshold to include only assets with a cost of $5,000 or more. All assets capitalized prior to June 17, 2005 that are property of the Authority remain on the financial and accounting records of the Authority.

Major outlay for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, equipment, and vehicles are depreciated using the straight-line method over the estimated useful lives as follows:

Convenience stations	10 years
Containers	10 years
Equipment, computer hardware and software, furniture, and fixtures	5 years
Vehicles	5 years

H. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources is reflected as a liability of the Authority. In accordance with the provisions of the Governmental Accounting Standards Board, Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Annual leave is earned according to the following schedule:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Compensated Absences (continued)

Length of Employment	Full-Time Employee
1st year	3.69 hrs/pay period
2nd to 5th year	4.62 hrs/pay period
6th to 15th year	5.54 hrs/pay period
16th+	6.15 hrs/pay period

Annual leave for all employees can be carried over from year to year. There is no limit as to the total number of annual leave hours an employee can retain. Upon termination, any unused annual leave shall be paid.

Authority employees with five or less years of service accumulate sick leave at a rate of 4.00 hours per pay period. Employees with six or more years of service accumulate sick leave at a rate of 5.54 hours per pay period. Sick leave for all employees can be carried over from year to year. The maximum accrual on sick leave shall be one hundred sixty (160) hours at the end of the calendar year. Employees who have accrued two hundred forty hours of vacation pay and one hundred sixty hours of sick leave may convert up to forty (40) hours sick leave each year to 40 hours annual leave each year on a one to one basis.

Upon termination, providing the employee is not terminated from employment and leaves in good standing, the employee will be paid one-half the cash equivalent of up to one hundred sixty (160) hours of accumulated sick leave. Retiring employees are to be paid the cash equivalent of up to 160 hours of accumulated sick leave.

I. Unearned Revenues

The Authority reports unearned revenue on its statement of net assets, when applicable. Unearned revenues may also arise when the Authority receives resources before it has a claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net assets and revenue is recognized.

J. Short-Term Obligations

In the statement of net assets, short-term debt and other short-term obligations are reported as liabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Long-Term Obligations

In the statement of net assets, long-term debt and other long-term obligations are reported as liabilities.

L. Net Assets

Net assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes on other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant, unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints imposed by creditors, such as through debt covenants; grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

M. Cash Flows

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments, including restricted cash with maturity of three months or less when purchased, to be cash equivalents.

N. 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 at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH

Cash

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by the state Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities which are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the state or the United States, or are backed by the full faith and credit of those governments.

Cash Deposited With Financial Institutions

The Authority maintains cash within financial institutions located in Española, New Mexico. The Authority's deposits are carried at cost.

At year end, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

2011	Per Institution	Reconciling Items	Per Financial Statements
Valley National Bank	$ 61,396	$ (1,178)	$ 60,218
Community Bank	4,758	-	4,758
Century Bank	171,240	(61,958)	109,282
Total cash deposits	$ 237,394	$ (63,136)	$ 174,258
2010			
Valley National Bank	$ 6,866	$ (5,688)	$ 1,178
Community Bank	3,253	-	3,253
Century Bank	57,602	(74,291)	(16,689)
Total cash deposits	$ 67,721	$ (79,979)	$ (12,258)

The amounts reported as cash for the Authority within the financial statement is displayed as:

	2011	2010
Statement of Net Assets:		
Cash	$ 174,258	$ 4,431
Bank overdraft	-	(16,689)
	$ 174,258	$ (12,258)

2. CASH (continued)

Cash Deposited With Financial Institutions (continued)

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the Authority. None of the deposits were collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the Authority carrying value of the demand deposits. Such collateral, as permitted by the state statutes would have been held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

2011	Valley National	Community Bank	Century Bank
Checking accounts	$ 61,396	$ 4,758	$ 171,240
Less: FDIC coverage	(61,396)	(4,758)	(171,240)
Total uninsured public funds	$ -	$ -	$ -
2010			
Checking accounts	$ 6,866	$ 3,253	$ 57,602
Less: FDIC coverage	(6,866)	(3,253)	(57,602)
Total uninsured public funds	$ -	$ -	$ -

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2011 and 2010, the Authority's bank balances were not exposed to custodial credit risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	2011	2010
Charges for services	$ 4,359,579	$ 3,582,923
Allowance for doubtful accounts	(668,016)	(668,016)
	$ 3,691,563	$ 2,914,907

The Authority's policy is to provide for uncollectible based upon expected defaults.

4. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2011:

	Balance 06/30/10	Increases	Decreases	Balance 06/30/11
Business-Type Activities:				
Capital assets, being depreciated:				
Convenience stations	$ 104,631	$ -	$ -	$ 104,631
Equipment	1,838,973	175,989	(268,112)	1,746,850
Containers	130,994	-	-	130,994
Vehicles	59,561	-	(6,995)	52,566
Office furniture and equipment	32,073	-	-	32,073
Total other capital assets being depreciated	2,166,232	175,989	(275,107)	2,067,114
Less accumulated depreciation:				
Convenience stations	(31,614)	(10,463)	-	(42,077)
Equipment	(1,170,636)	(243,520)	204,034	(1,210,122)
Containers	(64,223)	(13,099)	-	(77,322)
Vehicles	(56,620)	(1,961)	6,995	(51,586)
Office furniture and equipment	(32,073)	-	-	(32,073)
Total accumulated depreciation	(1,355,166)	(269,043)	211,029	(1,413,180)
Total capital assets, net	$ 811,066	$ (93,054)	$ (64,078)	$ 653,934

Capital assets for the fiscal year ended June 30, 2010:

	Balance 06/30/09	Increases	Decreases	Balance 06/30/10
Business-Type Activities:				
Capital assets, being depreciated:				
Convenience stations	$ 104,631	$ -	$ -	$ 104,631
Equipment	1,838,973	-	-	1,838,973
Containers	115,601	15,393	-	130,994
Vehicles	59,561	-	-	59,561
Office furniture and equipment	32,073	-	-	32,073
Total other capital assets being depreciated	2,150,839	15,393	-	2,166,232
Less accumulated depreciation:				
Convenience stations	(21,151)	(10,463)	-	(31,614)
Equipment	(915,570)	(255,066)	-	(1,170,636)
Containers	(52,021)	(12,202)	-	(64,223)
Vehicles	(51,748)	(4,872)	-	(56,620)
Office furniture and equipment	(26,870)	(5,203)	-	(32,073)
Total accumulated depreciation	(1,067,360)	(287,806)	-	(1,355,166)
Total capital assets, net	$ 1,083,479	$ (272,413)	$ -	$ 811,066

5. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	2011	2010
Health insurance premiums	$ 706,261	$ 484,441
Federal payroll tax	12,382	356,074
Governmental sales tax	9,890	139,169
State payroll tax	4,491	8,580
Miscellaneous employee withholding	-	2,178
	$ 733,024	$ 990,442

6. SHORT-TERM OBLIGATIONS

Changes in short-term debt during the year ended June 30, 2011, were as follows:

	Balance 06/30/10	Additions	Deletions	Balance 06/30/11	Amounts Due Within One Year
Short-term notes	$ 12,821	$ 48,023	$ (49,283)	$ 11,561	$ 11,561

Changes in short-term debt during the year ended June 30, 2010, were as follows:

	Balance 06/30/09	Additions	Deletions	Balance 06/30/10	Amounts Due Within One Year
Short-term notes	$ 11,529	$ 52,721	$ (51,429)	$ 12,821	$ 12,821

The Authority borrowed cash from Western Commerce Bank, located in Carlsbad, New Mexico, to finance insurance premiums. Details regarding the notes are described as follows:

2011

- On July 1, 2010, the Authority borrowed $14,262 from Western Commerce Bank. The note accrued interest at a rate of 7.45 percent per annum. The proceeds were used to purchase insurance for the collection of solid waste. The loan was paid in full on April 4, 2011.

- On December 5, 2009, the Authority borrowed $33,761 from Western Commerce Bank. The note accrued interest at a rate of 6.50 percent per annum. The proceeds were used to purchase general liability insurance. As of June 30, 2011, the outstanding balance of the loan was $11,561. The note was paid in full on September 22, 2011.

6. SHORT-TERM OBLIGATIONS (continued)

2010

On July 1, 2009, the Authority borrowed $15,280 from Western Commerce Bank. The note accrued interest at a rate of 7.45 percent per annum. The proceeds were used to purchase insurance for the collection of solid waste. The loan was paid in full on March 31, 2010.

On December 5, 2009, the Authority borrowed $37,441 from Western Commerce Bank. The note accrued interest at a rate of 6.50 percent per annum. The proceeds were used to purchase general liability insurance. As of June 30, 2010, the outstanding balance of the loan was $12,821. The note was paid in full on September 7, 2010.

7. LONG-TERM OBLIGATIONS

Changes in long-term debt during the year ended June 30, 2011, were as follows:

	Balance 06/30/10	Additions	Deletions	Balance 06/30/11	Amounts Due Within One Year
Notes payable	$ -	$ 354,205	$ -	$ 354,205	$ -
Compensated absences	158,751	115,719	(113,268)	161,202	81,197
	$ 158,751	$ 469,924	$ (113,268)	$ 515,407	$ 81,197

Changes in long-term debt during the year ended June 30, 2010, were as follows:

	Balance 06/30/09	Additions	Deletions	Balance 06/30/10	Amounts Due Within One Year
Compensated absences	$ 193,545	$ 115,253	$ (150,047)	$ 158,751	$ 92,673

Note Payable – Rio Arriba County

North Central Solid Waste Authority signed a loan agreement on June 30, 2011 with Rio Arriba County (County) in the amount of $1,054,205. The loan was given to relieve the Authority of its sizable delinquent obligations to the Internal Revenue Service, New Mexico Taxation and Revenue Department and the General (Risk Management) Services Division of the State of New Mexico. The first installment was on May 3, 2011, when the County paid the Internal Revenue Service $169,862 for the Authority's delinquent payroll taxes, penalties and interest. The second installment was on June 2, 2011, when the County paid New Mexico Taxation & Revenue $184,342 for the Authority's delinquent gross receipts taxes, penalties and interest. The final installment was on July 28, 2011, when the County paid the General Services Division $700,262 for delinquent health insurance premiums for the Authority's employees.

7. LONG-TERM OBLIGATIONS (continued)

Note Payable – Rio Arriba County (continued)

The loan agreement noted the following:

- The Authority had previously requested financial assistance from the County.
- The County had established financial resources to provide additional fiscal assistance to the Authority.
- The loan is interest free.
- Repayment was to begin on July 1, 2012; however, the repayment plan was to be determined at a meeting between representatives from the Authority and the County.
- A clause stating that at the County's discretion any portion, up to and including the entire amount, of this financial assistance loaned to the Authority may be forgiven.

Even though the loan document was signed by representatives of both parties, there was no discussion and/or approval of the loan document recorded in the board minutes of the Authority. Further, there was no discussion of a formal repayment plan documented in the board minutes of the Authority. Finally, there was no discussion and/or any demand payments from the County documented in the board minutes of the Authority.

While a loan receivable of $354,205 was presented as part of the audited financial statements of Rio Arriba County as of June 30, 2011, a provision for bad debt and the respective allowance for loan loss of $354,205 was presented in the audited financial statements of the County as of June 30, 2012.

As of July 29, 2016, it was not definitively determined how, when, and if the County intends to collect on this obligation. No official demand payment notification has been received by the Authority from the County.

8. SPECIAL FINANCE AGREEMENT

On September 3, 2010, the Authority and Rio Arriba County entered into a loan agreement with the New Mexico Finance Authority (NMFA) to borrow $143,238 dollars. The proceeds of the loan were used to finance equipment purchased for the Authority. The loan accrues interest at a rate that ranges from 1.12% and 2.85% through the life of the loan. Rio Arriba County has pledged County Local Option Environmental Gross Receipts Tax to service the debt. When the loan was funded, the proceeds were placed into two funds maintained by NMFA: $126,800 was placed in a project fund, and $16,438 was placed in a debt service fund.

In October 2011, the Authority submitted one invoice in the amount of $118,932 to NMFA for the purchase of a heavy truck. That invoice was paid by NMFA directly to the vendor using cash available in the project fund. The Authority has reflected the $118,932 as a capital contribution.

The debt obligation was not recorded on the Authority's general ledger as the obligation is serviced with sales taxes assessed and pledged by Rio Arriba County. The obligation is reflected in the financial statements of the Rio Arriba County.

9. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

All of the full-time employees of the Authority participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute from 8.15% to 10.15% (ranges from 4.0% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The Authority is required to contribute from 9.15% to 21.25% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the Authority are established in state statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Authority's contributions to PERA for the fiscal years ending June 30, 2011, 2010, and 2009 were $90,428, $110,171, and $120,449, respectively, equal to the amount of the required contributions for each year.

10. POST-EMPLOYMENT BENEFITS

Plan Description

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

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

10. POST-EMPLOYMENT BENEFITS (continued)

Plan Description (continued)

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

Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee is required to contribute 0.833% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013, the contribution rates for employees and employers will rise as follows:

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

Fiscal Year	Employer Contribution Rate	Employee Contribtuion Rate
2012	1.834%	0.917%
2013	2.000%	1.000%

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan1; municipal police member coverage plans 3, 4, and 5: municipal fire member coverage plan 3, 4, and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1], during the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 2.084% of each participating employee’s annual salary, and each participating employee was required to contribute 1.042% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013, the contribution rates for both employees and employers will rise as follows:

10. POST-EMPLOYMENT BENEFITS (continued)

Funding Policy (continued)

Fiscal Year	Employer Contribution Rate	Employee Contribtuion Rate
2012	2.292%	1.146%
2013	2.500%	1.250%

Also, employers joining the program after January 1, 1998, are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals. The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature. Pursuant to GASB 43, a determination has been made where by the Retiree Health Care Authority is considered a multiple employer cost sharing trust. Under this determination, the extensive OPEB disclosure concerning the funded status of the plan is made on the Authority's books rather than at the participant or agency level. Accordingly, no accrual has been made for this liability on the Authority's books.

The Authority's contributions to the RHCA for the years ended June 30, 2011, 2010, and 2009 were $15,721, $15,370, and $16,804, respectively, which equaled the required contributions each year.

11. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased insurance from commercial vendors and pays an annual premium for its general insurance coverage, as such all risk of loss is transferred.

12. CONTINGENCY

As discussed in detail in Note 8, North Central Solid Waste Authority signed a loan agreement on June 30, 2011 with Rio Arriba County in the amount of $1,054,205. The loan was given to relieve the Authority of its sizable delinquent tax and health insurance obligations.

Even though the board of directors of the Authority never approved of the loan, and even though no repayment plan has been established, and even though the Authority has not received any payment demand notices as of July 29, 2016, until definitive action from either party, the Authority remains at least contingently liable for the balance due on the note.

It is unlikely the County intends to collect on the loan since while a loan receivable of $354,205 was presented as part of the audited financial statements of Rio Arriba County as of June 30, 2011, a provision for bad debt, and the respective allowance for loan loss of $354,205 was presented in the audited financial statements of the County as of June 30, 2012.

13. SUBSEQUENT EVENTS

The Authority hired a permanent manager in June 2011. In September 2011, upon the request of the Authority's governing board and management, the Authority turned over source (accounting and other) documents to the City of Española Police Department, who then turned the documents over to the New Mexico State Police to investigate alleged criminal acts concerning the financial activity of the Authority. The case was eventually turned over to the New Mexico Attorney General. It is the understanding of the Authority that, as of July 29, 2016, the investigation has not been completed. The impact of the results of the investigation, if any, have not been reflected in the financial statements as presented for the years ended June 30, 2011 and 2010.

On July 28, 2011, Rio Arriba County made two payments on behalf of the Authority to the General Services Division of the state of New Mexico in the amount of $700,262 to pay delinquent health insurance premiums. This completes the full amount of the original obligation signed in June 2011 of $1,054,205; however, it is the understanding of the Authority that the County did not account for the payments as a loan receivable, but rather as an "other operation cost" (expense).

On July 6, 2015, the Rio Arriba County Board of Commissioners took formal action, by unanimous and affirmative vote, to give notice to withdraw from the Joint Powers Agreement creating the North Central Solid Waste Authority. As per Section 13 of the Joint Powers Agreement, *Any party may voluntarily withdraw from the Agreement after giving one (1) year's notice of its decision to withdraw.* On July 20, 2015, the Rio Arriba County Board of Commissioners adopted Resolution 2016-002, *Withdrawal from the Joint Powers Agreement Created the North Central Solid Waste Authority.* On June 16, 2016, the Authority wrote a letter to Rio Arriba County, providing an update to the various concerns brought forth by Rio Arriba County. Further, the letter requests that Rio Arriba County remain an active affiliate of the Joint Powers Agreement, and to continue to remain on the Authority's Board of Directors. As of July 29, 2016, Rio Arriba County has not informed the Authority of their intention to either remain, or completely withdraw from the Authority.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Operating Revenues:						
Charges for services	$ 4,400,674	$ 3,653,896	$ 3,170,406	$ 1,124,617	$ 4,295,023	$ (483,490)
Operating Expenses:						
Personnel services	1,424,000	1,326,800	1,265,306	11,017	1,276,323	61,494
Employee benefits	401,220	584,957	488,391	(113,338)	375,053	96,566
Payroll taxes	113,349	104,833	90,200	6,083	96,283	14,633
Tipping and hauling fees	791,360	1,177,000	963,950	(345)	963,605	213,050
Professional services	86,850	71,850	14,537	149	14,686	57,313
Fuel	303,430	385,000	278,981	21,700	300,681	106,019
Insurance	215,000	83,175	85,486	(10,544)	74,942	(2,311)
Operational expenses	27,500	57,500	30,080	(1,437)	28,643	27,420
Repairs and maintenance	162,000	179,000	181,928	1,717	183,645	(2,928)
Small equipment and tools	3,000	1,800	2,658	(357)	2,301	(858)
Taxes and licenses	-	-	22,498	110,291	132,789	(22,498)
Printing and advertising	10,000	3,500	5,340	(1,917)	3,423	(1,840)
Leases	52,000	60,000	47,742	(30)	47,712	12,258
Miscellaneous	2,000	2,000	18,442	508,789	527,231	(16,442)
Uniforms	10,000	-	-	-	-	-
Utilities	14,000	14,000	10,479	(1,302)	9,177	3,521
Mileage and per diem	2,000	2,000	-	-	-	2,000
Office supplies and equipment	17,000	13,500	17,707	2,150	19,857	(4,207)
Administration expenses	48,000	62,000	39,013	6,249	45,262	22,987
Depreciation	-	-	-	269,043	269,043	-
Total operating expenses	3,682,709	4,128,915	3,562,738	807,918	4,370,656	566,177
Operating income (loss)	717,965	(475,019)	(392,332)	316,699	(75,633)	82,687
Non-Operating Revenues (Expenses):						
County operating subsidy	577,000	2,040,992	572,500	-	572,500	(1,468,492)
City operating subsidy	343,433	100,000	100,000	-	100,000	-
State operating grant	34,000	34,000	-	-	-	(34,000)
Interest income	-	-	29	-	29	29
Financing funds	150,000	11,655	-	-	-	(11,655)
Lien/release charges	(3,000)	(2,500)	3,098	-	3,098	5,598
Capital outlay	(420,000)	(100,000)	(57,057)	57,057	-	42,943
Principal payments	(635,809)	-	(63,748)	63,748	-	(63,748)
Penalties	-	-	(32,000)	(6,464)	(38,464)	(32,000)
Interest expense	-	-	(6,462)	-	(6,462)	(6,462)
Total non-operating revenues (expenses)	45,624	2,084,147	516,360	114,341	630,701	(1,567,787)
Income (loss) before capital contributions and loan proceeds	763,589	1,609,128	124,028	431,040	555,068	(1,485,100)

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
Capital Contributions and Loan Proceeds:						
Capital contributions	-	-	-	118,932	118,932	-
Loan proceeds	-	-	62,488	(62,488)	-	(62,488)
Total capital contributions and loan proceeds	-	-	62,488	56,444	118,932	62,488
Special Item:						
(Loss) on sale of assets	-	-	-	(64,078)	(64,078)	-
Net change	763,589	1,609,128	186,516	$ 423,406	$ 609,922	(1,422,612)
Cash (deficit), beginning of year	(12,258)	(12,258)	(12,258)			-
Cash, end of year	$ 751,331	$ 1,596,870	$ 174,258			$ (1,422,612)

Explanation of Differences:	
Change in receivables	$ 776,656
Change in prepaid expenses	5,510
Change in accounts payable	(72,884)
Change in accrued salaries	(9,221)
Change in accrued liabilities	(58,323)
Change in compensated absences	(2,451)
Change in unearned revenues	(21,545)
Capital grant	118,932
Loan proceeds	(62,488)
Principal payments	63,748
Capital outlay purchases	57,057
Penalties	(38,464)
Depreciation	(269,043)
(Loss) on sale of assets	(64,078)
	$ 423,406

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Operating Revenues:						
Charges for services	$ 5,453,912	$ 5,453,912	$ 3,273,423	$ 773,977	$ 4,047,400	$ (2,180,489)
Operating Expenses:						
Personnel services	1,624,956	1,624,956	1,349,887	(16,238)	1,333,649	275,069
Employee benefits	1,283,279	1,283,279	437,645	(135,154)	302,491	845,634
Payroll taxes	392,552	392,552	223,170	(115,236)	107,934	169,382
Tipping and hauling fees	1,218,000	1,218,000	1,038,020	(90,398)	947,622	179,980
Professional services	71,700	71,700	86,425	1,989	88,414	(14,725)
Fuel	240,000	240,000	228,840	44,644	273,484	11,160
Insurance	94,500	94,500	162,595	20,626	183,221	(68,095)
Operational expenses	23,900	23,900	34,954	3,394	38,348	(11,054)
Repairs and maintenance	239,000	239,000	149,855	(8,189)	141,666	89,145
Small equipment and tools	3,800	3,800	1,425	21,998	23,423	2,375
Taxes and licenses	304,000	304,000	79,764	46,941	126,705	224,236
Printing and advertising	8,000	8,000	8,705	943	9,648	(705)
Leases	45,660	45,660	53,932	380	54,312	(8,272)
Miscellaneous	4,000	4,000	3,515	31,960	35,475	485
Uniforms	15,000	15,000	3,083	(835)	2,248	11,917
Utilities	14,625	14,625	12,289	1,452	13,741	2,336
Mileage and per diem	4,000	4,000	796	(141)	655	3,204
Office supplies and equipment	16,000	16,000	12,307	(774)	11,533	3,693
Administration expenses	45,600	45,600	56,522	(4,695)	51,827	(10,922)
Depreciation	-	-	-	287,806	287,806	-
Total operating expenses	5,648,572	5,648,572	3,943,729	90,473	4,034,202	1,704,843
Operating (loss)	(194,660)	(194,660)	(670,306)	683,504	13,198	(475,646)
Non-Operating Revenues (Expenses):						
County operating subsidy	666,717	666,717	730,631	-	730,631	63,914
State operating grant	34,500	34,500	34,000	-	34,000	(500)
Lien/release charges	-	-	7,485	-	7,485	7,485
Loan proceeds	-	-	52,721	(52,721)	-	52,721
Capital outlay	-	-	(38,426)	38,426	-	(38,426)
Principal payments	-	-	(51,429)	51,429	-	(51,429)
Penalties	-	-	-	(86,444)	(86,444)	-
Interest expense	-	-	(2,531)	-	(2,531)	(2,531)
Total non-operating revenues (expenses)	701,217	701,217	732,451	(49,310)	683,141	31,234
Net change	506,557	506,557	62,145	$ 634,194	$ 696,339	(444,412)
Cash (deficit), beginning of year	(74,403)	(74,403)	(74,403)			-
Cash (deficit), end of year	$ 432,154	$ 432,154	$ (12,258)			$ (444,412)

Explanation of Differences:

Change in receivables	$ 575,701
Change in accounts payable	266,479
Change in accrued salaries	(59,190)
Change in accrued liabilities	228,725
Change in compensated absences	34,794
Change in unearned revenues	(75,199)
Note proceeds	(52,721)
Principal payments	38,426
Capital outlay purchases	51,429
Interest expense	(86,444)
Depreciation	(287,806)
	$ 634,194

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2011 AND 2010

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
2011				
Valley National Bank 322 N. Riverside Drive Española, NM	Checking	$ 61,396	$ (1,178)	$ 60,218
Community Bank P.O. Box 1290 Española, NM	Checking	$ 4,758	$ -	$ 4,758
Century Bank 460 N. Riverside Drive Española, NM	Checking	$ 171,240	$ (61,958)	$ 109,282
2010				
Valley National Bank 322 N. Riverside Drive Española, NM	Checking	$ 6,866	$ (5,688)	$ 1,178
Community Bank P.O. Box 1290 Española, NM	Checking	$ 3,253	$ -	$ 3,253
Century Bank 460 N. Riverside Drive Española, NM	Checking	$ 57,602	$ (74,291)	$ (16,689)

ADDITIONAL INDEPENDENT AUDITORS' REPORT

FIERRO & FIERRO, P.A. CERTIFIED PUBLIC ACCOUNTANTS

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Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With G*overnment Auditing Standards*

Timothy Keller, State Auditor
and
Board of Directors
North Central Solid Waste Authority
Española, New Mexico

We have audited the statement of net assets of North Central Solid Waste Authority (Authority), as of and for the years ended June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows, and the budgetary comparison for the years then ended, and have issued our report thereon dated July 29, 2016. 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. Our report expresses an adverse opinion on such statements because accounts receivable is overstated, revenues are overstated, bad debt expense is understated, and net assets are overstated.

Internal Control over Financial Reporting

Management of North Central Solid Waste Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered North Central Solid Waste Authority'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 North Central Solid Waste Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Central Solid Waste Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2005-001, 2005-002, 2005-004, 2005-005, 2005-006, 2007-001, 2007-004, 2007-005, 2007-010, 2010-002, 2010-003, and 2011-001 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Central Solid Waste Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2005-002, 2005-004, 2005-005, 2007-002, 2007-004, 2007-005, 2007-010, 2010-001, 2010-002, 2010-003, and 2010-004.

We also noted another matter that is required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and responses as item 2007-009.

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

This report is intended solely for the information and use of the North Central Solid Waste Authority's Board of Directors, management, others within the Authority, the New Mexico State Auditor, the New Mexico State Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

Fierro & Fierro, P.A.

Fierro & Fierro, P.A.
Las Cruces, New Mexico

July 29, 2016

Item 2005-001 – Material Weakness - Segregation
of Duties and Documentation of Payroll Expenditures

Statement of Condition – During our evaluation of internal controls related to payroll, we noted that one employee was responsible for the entire payroll function. Her duties included entering data into the computer system for new hires, updating and maintaining employee records, preparation of payroll calculations and checks. Her duties also included the preparation and submission of the various payroll reports to the appropriate government agencies.

During our audit tests of payroll documentation, we discovered certain information missing. We tested twenty-seven individual payroll transactions. Our tests revealed the following matters:

- Social security was miscalculated on all employees for the period January 1, 2011 through August 9, 2011. Congress reduced the employee rate for social security withholdings from 6.20% to 4.20% and the Authority did not adjust for the change. The total amount reimbursed to the employees was $15,203.
- All documentation, including the employees' time cards, for the pay period September 9, 2010, is missing from the files.
- One instance where there were no PERA, RHCA, or insurance withholdings on the employee's final pay check. The employee's final time card reflects that the employee worked 72.50 hours.
- One instance where an employee's time card appears to have been changed from the original calculations. The largest change was in the amount of overtime hours. The original calculation indicates the employee should have been paid 19 hours of overtime, but was actually paid 31 hours of overtime.
- One instance where an employee was paid $483.48, and labeled as miscellaneous. There was no documentation in the file to explain what the payment was for.
- Three instances where RHCA was not withheld from eligible employees.
- Five instances where PERA and or RCHA was miscalculated. In these instances, regular pay hours should have been included in the calculations.
- Three instances where new hires, after having worked less than 24 hours, were paid as contract labor and not through payroll.
- One instance where an employee was given retro pay of $4,280. The employee has since left employment with the Authority.

Criteria – Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit,* issued by the American Institute of Certified Public Accountants provides examples of deficiencies in the design of internal controls. One such example provided in the standards is absent or inadequate segregation of duties within a significant account or process.

Item 2005-001 – Material Weakness - Segregation
of Duties and Documentation of Payroll Expenditures (continued)

Criteria (continued) – The Authority is under an obligation to abide by all payroll rules set forth by the federal government, the Public Employees Retirement Act and the Retirement Health Care Act. This includes, but not limited to, applying current rates to eligible hours worked. Under the Inspection of Public Records Act Sections 14-2-1 through 14-2-12 NMSA 1978, the Authority has the obligation to have proper procedures in place to ensure public records are safeguarded against use, loss or misplacement.

New Mexico Attorney General Opinion No. 7107 (1971) (Art. IV, §27) prohibits state agencies from giving retroactive pay increases to its employees and No. 57-17 (1957) which states that the legislature has no power to give retroactive pay increases to state employees after their services have already been rendered.

Effect – No segregation of duties within in the payroll function could allow unintentional errors or intentional misappropriation of assets to occur and not be detected within a timely manner.

Noncompliance with the federal government's requirement regarding documentation of an employee's eligibility could subject officials and employees to penalties. Incorrect calculation of hours subject to retirement contributions affects an employee's subsequent retirement pay.

Cause – The reason for lack of internal controls within the payroll function cannot be determined as, at this time, all employees during the fiscal year ended June 30, 2011 are no longer employed by the Authority.

The Authority's Human Resources Department made erroneous decisions in the preparation of payroll. Failing to provide a review process, within the payroll function, allowed errors to be made in the payroll calculations and not be detected and corrected in a timely manner.

Recommendation – We recommend current management review their segregation of duties practices in place during 2016 to verify that the Authority had established adequate segregation of duties given the limited staff and resources. As soon as possible, we also recommend that the Human Resource Director evaluate the entire payroll function and make the necessary adjustments to procedures to ensure the accuracy of payroll and its compliance with federal and state rules and regulations.

Views of Responsible Officials and Planned Corrective Actions – NCSWA has hired a creditable Human Resources (HR) supervisor who is currently in the process of auditing the HR functions, and identifying areas that require improvement. Once payroll has been run and submitted, HR will receive the financial reports from the finance department and reconcile against the payroll and benefit reports. The separation of duties for this process is: HR will enter all benefit deductions into the HR software; the chief financial officer (CFO) will audit the benefit deductions and appropriate rate allowances in coordination with plan services through the pay code reports; HR will enter payroll in the payroll system, review and audit, and once completed, will forward to the finance department for review and audit. This will allow for the separation of duties, and allow for reconciliation and audit. All edits and corrections to payroll issues will be completed and filed within the pay period reflected.

Item 2005-002 – Material Weakness and Compliance - Bank Reconciliations

Statement of Condition – During our tests of the year end bank reconciliation, we noted the Authority reflected outstanding checks in the amount of $73,092, as of June 30, 2011. Upon further examination, we discovered the valid amount of outstanding checks totaled $64,441. In addition, the Authority made miscellaneous adjustments of $88,274 to the bank reconciliation that could not be explained.

Subsequent to year end, the Authority engaged the accounting software vendor to assist in the reconciliations. Upon further examination, we discovered numerous entries to the miscellaneous expense account to force the general ledger to tie to the bank reconciliation, as the preparer used that account rather than researching the proper disposition of the activity. The amount of deposit reconciliations and missing checks posted to the miscellaneous expense account at June 30, 2011, created a credit balance of $695,334. After all the audit adjustments were prepared and posted, the final balance to miscellaneous expense was $527,231.

Stale checks have not been managed under the New Mexico escheat laws.

Criteria – Section 6-6-3(A) NMSA 1978 requires every local public body to *"keep all the books, records and accounts in their respective offices in the form prescribed by the local government division"* of the New Mexico Department of Finance and Administration. Although the Authority is not considered a local public body, it is as an instrumentality of the members and, as such, the Authority is required to maintain accounting records in a manner that allows the preparation of financial statements and accurate reports for other governmental agencies. The general ledger must be able to substantiate accurate detail as to the financial activity of the Authority.

Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit*, issued by the American Institute of Certified Public Accountants, provides examples of deficiencies in the design of internal controls. One such item is *"Inadequate design of control over a significant account or process."* The improper forcing of unidentified amounts within the general ledger is an override of the controls established for the proper recording of transactions.

Pursuant to the provisions of the Public Monies Act, Section 6-10-2 NMSA 1978, the cash record shall be balanced daily as to show the balance of public money on hand at the close of each day's business.

Chapter 7 Article 8A NMSA 1978 referred to as the, "*The Uniform Unclaimed Property Act"* sets forth the processes and requirements of a holder of property (Authority) to report to the administrator, annually by November 1st for the prior period ending July 1st of that year of any stale checks or unclaimed property. It also specifies the notification requirements to the property owner.

Item 2005-002 – Material Weakness and Compliance - Bank Reconciliations (continued)

Effect – The Authority is in noncompliance with New Mexico State Statutes and sound accounting procedures. The Authority failed to properly account for liabilities by increasing cash balances for items that were not going to be paid in a timely manner. The Authority failed to void stale checks and return the money to the owner of the funds, or the state of New Mexico. Noncompliance with New Mexico State Statutes subjects the governing board and management to penalties and punishment defined by State statute. Additionally, the Authority had the obligation to research the amounts needed to reconcile the cash balance reflected on the general ledger and the reconciliation, and record such amounts in the proper account.

Cause – We are unable to ascertain the exact reason for the delay in preparing the reconciliations, and the need to seek contractual services. The manager, during this time period, bears the ultimate responsibility for not hiring competent employees to handle the accounting functions, along with developing proper accounting procedures to provide reliable accounting information.

Recommendation – We recommend the Authority staff investigate all outstanding checks to determine if the outstanding checks are valid. If they are valid checks, the owners of the checks should be located. If the owners cannot be located, the money should be forwarded to the state as required by the Unclaimed Property Act.

Views of Responsible Officials and Planned Corrective Actions – In September 2011, the North Central Solid Waste Authority (NCSWA) turned over all documentation to the city of Española Police Department, who then turned the case over to the New Mexico State Police to investigate the alleged embezzlement. The case has since been turned over to the New Mexico Attorney General's office. NCSWA staff performed an internal audit on all outstanding checks; they have been located and disbursed to the proper vendors and, in 2014, the accounting system was upgraded to Caselle Clarity to assist NCSWA in controlling all general ledger activities. New policies and procedures have been implemented and all cash, checks and credit card transactions are deposited on a daily basis, and reconciled to the accounting system and bank.

Item 2005-004 – Material Weakness and Compliance - Submission of Audit Report

Statement of Condition – The audit report for the fiscal year ended June 30, 2011, was due to the New Mexico State Auditor's office by December 1, 2011. The audit report was submitted on August 22, 2016.

Criteria – Section 12-6-12 1978 NMSA requires the state auditor promulgate reasonable regulations necessary to carry out the duties of the office. New Mexico Administrative Code Title 2, Chapter 2, Part 2, *Audits of Governmental Entities Requirements for Contracting and Conducting Audits of Agencies* requires the Authority to submit its audit report by the first working day of December following the end of each fiscal year at June 30th.

Item 2005-004 – Material Weakness and Compliance - Submission of Audit Report (continued)

Effect – Delays in submission of the audit report affect the reporting of independently verified financial information to the governing board, other state agencies, and local governments. As reflected in the official minutes of the governing board, they were misled by management as to the financial distress of the Authority, as the governing board was assured that for the most part financial obligations were being met, which was not the case. The timely performance of audit reports would have revealed the details as to the financial difficulties the entity was experiencing.

Cause – The current manager hired in June 2011, inherited an organization that was in effect insolvent, and having to deal with personnel issues and community dissatisfaction regarding services provided, was forced to deal with more pressing issues.

The current manager, shortly after his hire, engaged a certified public accounting firm located in Santa Fe, New Mexico to provide accounting assistance to the Authority. While an effort was made to correct as many of the accounting problems as possible, the fee accountant's efforts were placed on dealing with the Internal Revenue Service and New Mexico Taxation and Revenue Department in regards to delinquent and current payroll and governmental sales tax liabilities, along with other vendors and state agencies such as Risk Management and New Mexico Public Employee Retirement Board.

After considerable time and financial resources were expended, the current manager informed the board of directors, at the May 28, 2014 meeting, that he and the fee accountant had reached the conclusion to move forward with the audit, with the accounting records as they were prepared. The current auditing firm contract was signed and approved by the NM State Auditor on April 27, 2016, with a required submission date of October 31, 2016.

Recommendation – With the submission of the 2011 audit report, the Authority is four years behind in its submittal of annual audits. We recommend the Authority submit the delinquent reports as soon as possible, as with each fiscal year that ends another delinquent report is added to the total. The audits must be performed in the number sequence of years as that provides a logical historical record of the financial affairs of the entity.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority (NCSWA) has projected costs in contractual services designed for the remaining audits for fiscal years 2013, 2014, and 2015. NCSWA is expected to be in compliance with the New Mexico State Audit Act by the end of fiscal year 2017.

Item 2005-005 – Material Weakness and Compliance – Records Management and Accounting Data

Statement of Condition – The Authority did not maintain sufficient accounting records and reports as required by the state of New Mexico, as well as sound accounting practices and procedures. The general ledger contains entries and amounts that could not be substantiated with supporting documents.

Item 2005-005 – Material Weakness and Compliance
– Records Management and Accounting Data (continued)

Statement of Condition (continued) – The Authority failed to provide substantiation for the non-recording of certain required information. The items discovered are detailed below:

- The allowance for doubtful accounts has been recorded at $668,016. No accounting entries have been posted by the Authority to record a percentage of sales that should be added to the allowance account. The Authority failed to identify worthless accounts, and continues to accrue penalty and interest on all accounts rather than moving said accounts to an inactive status.
- When preparing the bank reconciliations, the Authority forced balancing entries to the miscellaneous expense account. Both debit and credit amounts were recorded in the account. No accounting data exists to support entries posted. The ending balance of the account at June 30, 2011 is stated as $527,231.
- The reconciled cash balance at June 30, 2011, as reflected on the Authority's general ledger, is $277,674. This balance is overstated by $103,416 as the final audited June 30, 2011 balance is $174,258.
- The accounts payable subsidiary ledger reflected a balance of $1,158,987 at June 30, 2011. After the removal of voided payables, and the addition of unrecorded liabilities paid in the subsequent fiscal year, the payable amount should be reported as $593,189. Prior to any audit entries, the Authority's general ledger reflected a balance of $1,083,067.
- The depreciation schedule, as prepared by the Authority, failed to include all capital assets and proper amount of depreciation expense. Assets totaling $817,488, and the associated current year depreciation expense of $119,493 were omitted from the depreciation schedule. The Authority did not reflect a newly acquired asset in the amount of $118,932, or the deletion of equipment with a cost basis of $275,107.
- There was no evidence that senior management was approving journal entries.
- The Authority did not post the adjusting entries proposed from previous audits to its general ledger. This compounds the misstatements in the Authority's accounting data going forward, and makes it almost impossible to prepare and present current financial statements to those in charge of governance. Without reliable financial information, decisions or the lack thereof, makes management of the organization difficult at best.
- The Authority and Rio Arriba County entered into a loan agreement with the New Mexico Finance Authority to borrow $143,238. The proceeds of the loan were used to finance equipment purchased for the authority. The 2011 Peterbilt model 367 heavy truck purchased through a loan agreement was not recorded in the accounting records of the Authority as a grant from the County.

Item 2005-005 – Material Weakness and Compliance
– Records Management and Accounting Data (continued)

Criteria – Section 6-6-3(A) NMSA 1978 requires every local public body to *"keep all the books, records and accounts in their respective offices in the form prescribed by the local government division"* of the New Mexico Department of Finance and Administration. Although the Authority is not considered a local public body it is as an instrumentality of the members and as such the Authority is required to maintain accounting records in such a manner as to allow the preparation of financial statements and accurate reports for other governmental agencies. The general ledger must be able to substantiate accurate detail as to the financial activity of the Authority.

Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit,* issued by the American Institute of Certified Public Accountants provides examples of deficiencies in the design of internal controls. Examples of circumstances that apply to the problems identified above are: (1) inadequate design of controls over a significant account or process, and (2) employees or management who lack the qualifications and training to fulfill their assigned functions.

Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit,* also discusses examples of circumstances that may be deficiencies, significant deficiencies, or material weaknesses related to the operation of control as a failure to perform reconciliations of significant accounts such as reconciling accounts receivable, accounts payables and capital assets subsidiary ledgers to the general ledger on a timely or accurate manner.

Effect – The Authority is in noncompliance with State statutes and sound accounting practices and procedures. Penalties for noncompliance with State statutes are defined within the statutes. The inability to maintain proper accounting records inhibits the auditor to perform necessary tests of the accounting records, in order to express an opinion on the financial statements. Flawed financial information, due to poor record keeping, prohibits management and the governing board to make prudent financial decisions. Poorly maintained accounting records could allow unintentional and intentional errors to occur, and not to be detected in a timely manner.

Cause – The manager failed to employ qualified individuals to maintain the general ledger and all the subsidiary ledgers.

Recommendation – We recommend current management evaluate the problems noted within the accounting system and ensure that the current records do not reflect similar problems.

Views of Responsible Officials and Planned Corrective Actions – In 2007, North Central Solid Waste Authority (NCSWA) changed accounting software from QuickBooks to utility based software, Caselle Classic. During the conversion, account information failed to merge into the new system, resulting in a loss of all historical data. The interim manager failed to follow proper records retention and storage procedures, and paper files were destroyed. NCSWA currently retains all accounting records on hand, and in-house; backups are performed on electronic files on a weekly basis.

Item 2005-005 – Material Weakness and Compliance
– Records Management and Accounting Data (continued)

Views of Responsible Officials and Planned Corrective Actions (continued) – In July 2016, NCSWA hired a chief financial officer (CFO) to audit and establish policies and procedures for all accounts past due, and to ensure the allowance for doubtful accounts is a true and correct amount. The CFO is training all accounting staff on the Department of Finance and Administration's accounting procedures, and the New Mexico Procurement Code, avoiding the forcing of expenses into the miscellaneous account code. NCSWA implemented accounts payable procedures that include processing all payments to vendors weekly, ensuring payment is made in a timely manner. All checks issued are verified against the invoices, accounting software, and bank statements.

Item 2005-006 – Material Weakness - Financial Statements and Disclosures

Statement of Condition – The Authority relies upon their independent auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). During the audit period, the Authority staff and management lacked the knowledge to prepare such statements, as well as the ability to detect accuracy and completeness of all required notes that explain financial activity contained in the financial statements.

During July 2011, the Authority engaged a certified public accounting firm to assist with the accounting and preparation of the financial statements. Due to poor condition of the records and economic restraints, the accounting firm was unable to make necessary GAAP entries to the fiscal year 2011 accounting records.

Criteria – Statement on Auditing Standards Number 115, *Communicating Internal Control Related Matters Identified in an Audit*, issued by the American Institute of Certified Public Accountants, provides examples of deficiencies in the design of internal controls. Two examples that apply are, (1) *"Inadequate design of controls over the preparation of the financial statements being audited"* and (2) *"Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements with general accepted auditing principles (GAAP), the person responsible for the accounting and reporting function lacks the skills and knowledge to apply GAAP in recording the entity's financial transactions or preparing its financial statements."*

Appropriate internal control procedures over financial reporting include the ability to prepare financial statements in accordance with GAAP or at a minimum; management should have the ability to comprehend the requirements for financial reporting. Financial statements prepared in accordance with GAAP include all required statements of financial position, statements of changes in financial position, changes in cash flows and notes.

Ineffective oversight of the Authority's financial reporting and internal control by those charged with governance is an indication of a material weakness in internal control.

Item 2005-006 – Material Weakness - Financial Statements and Disclosures (continued)

Effect – Since the Authority personnel lacks the ability to prepare, and did not prepare, the financial statements, there is an increased risk that a misstatement of the Authority's financial statements, that is more than inconsequential, will not be prevented or detected. Further, since the Authority's accounting staff lacks the proper knowledge or training regarding the requirements of GAAP financial reporting, there is more than a remote possibility that a material misstatement of the financial statements will not be prevented or detected.

Cause – The accounting staff employed, during the 2011 fiscal year, were not qualified to understand the financial statements prepared in accordance with GAAP. While understanding governmental financial statements, the fee accountant was limited, as much of the time was expended in dealing with more pressing issues, such as delinquent payroll and sales taxes and other payroll related matters. Additionally, the fee accountant's time was consumed with preparing budgets, and reporting financial information to the governing board.

Recommendation – We recommend the Authority place an emphasis on becoming compliant with the filing of audit reports so the fee accountant can spend time on current matters and prepare the necessary entries for GAAP financial reporting.

Views of Responsible Officials and Planned Corrective Actions – In July 2016, North Central Solid Waste Authority (NCSWA) hired a chief financial officer (CFO) to oversee the accounting practices within the office. The CFO will provide oversight, reports, and projections on all accounts receivable, and payable, to avoid future errors.

Item 2007-001 – Material Weakness - Organizational Formation and Oversight

Statement of Condition – North Central Solid Waste Authority was established, to operate and manage a solid waste management system, on November 27, 2002, pursuant to a joint powers agreement (JPA) between its members. The JPA states; *"the agreement is made under the authority of the "Joint Powers Agreement Act" Sections 11-1-1 et seq NMSA 1978 and the Solid Waste Act, Section 74-9-1 et seq NMSA 1978."*

The JPA details the powers and duties of the Authority necessary to carry out the operations of a regional landfill which would include, but not limited to, administrative and operational requirements such as management of the organization; personnel rules and regulations; proper development, management, distribution and accounting of funds; financial requirements related to debt and procurement; preparation and submission of an annual budget to the New Mexico Department of Finance and Administration.

The JPA, as written, has conflicting language within the document. For example, the JPA begins by stating the agreement is made under the authority of Sections 11-1-1 et seq NMSA 1978 (Joint Powers Act) and Section 74-9-1 et seq NMSA 1978 (Solid Waste Authority Act); however, it later states the parties desire to establish an authority, which is not a political subdivision of the state, such as would be established under Section 74-10-1 et al, NMSA 1978.

Further, the JPA states that all budget and financial reports must be approved by DFA; however, DFA determined they have no authority to review the items as the Authority has been established under the Joint Powers Act.

Item 2007-001 – Material Weakness - Organizational Formation and Oversight (continued)

Criteria – Internal Revenue Service Publication 963 defines Local Political Subdivisions as, "*Local governments are generally political subdivisions of states. They differ from state and federal governments in that their authority is not based on a constitution. Each state constitution governs the procedure for the establishment of local governments. In most cases, the state legislature must approve the creation or incorporation of a local government."*

The publication goes on further to explain Instrumentalities as, *"An instrumentality is an organization separate from, but affiliated with, a state or local government. It may or may not be created by or pursuant to state statute, but it is operated for public purposes. Generally, an instrumentality performs governmental functions, but does not have the full powers of a government, such as police authority, taxation, and eminent domain (sovereign powers)."* Further, the Internal Revenue Service Revenue Ruling 57-128 established various relevant factors to determine if the instrumentality would be considered a "government" for the purposes of taxation.

Finally, on June 3, 2010, the Deputy Secretary of the New Mexico Department of Finance and Administration (DFA) and Director of the Local Government Division (LGD) of DFA, wrote a letter to the governing board members explaining DFA's position in regards to the Authority. Part of the letter states, *"NCSWA was formed pursuant to a joint powers agreement ("JPA") between its members dated November 27, 2002. NCSWA is a JPA entity formed pursuant the Joint Powers Agreement Act, Sections 11-1-1 etseq. NMSA 1978. NCSWA is not a "solid waste authority" as defined by and formed pursuant the Solid Waste Authority Act; is not a political subdivision of the state; and is not a "local public body" as defined by the Local Government Finance Act, Sections 6-6-1 etseq. NMSA 1978. For these reasons, LGD does not review and approve the budget of NCSWA, or the audits or financial statements of NCSWA, and NCSWA is not directly under the regulatory authority of LGD except as these issues relate to LGD's regulatory authority over its constituent members, the City and the County."*

Based upon the Internal Revenue Service's Publication 963, Revenue Ruling 57-128 and DFA's position, the Authority is a governmental instrumentality of the governing board members (county, municipality and sovereign Indian nations) who established the Authority.

Effect – Commencing in 2010, DFA officially ceased reviewing and approving financial statements and the budgets of the Authority. In 2007, 2008 and 2009, DFA failed to investigate the Authority's deteriorating financial situation. Presently, there is no external oversight of the Authority's financial operations. The Authority's financial situation continued to worsen until Rio Arriba County was forced to loan $1.2 million by the end of July 2011, and continues to make annual cash contributions to subsidize the operations of the Authority.

Cause – The Authority began operating the solid waste management system for its members on October 1, 2004. Since the inception, the Authority has struggled financially for various reasons. The two main reasons for the financial difficulties have been the mismanagement of the Authority's financial and operational activities from the inception until June 2011; and the lack of proper external oversight of the financial affairs of the Authority. Within the official minutes of the governing board, there are repeated requests from board members for the status of the audits of the Authority and the Authority's financial condition. Management, on numerous occasions, provided assurance to the governing board that the financial situation was under control and the securing of an auditor was underway.

Item 2007-001 – Material Weakness - Organizational Formation and Oversight (continued)

Recommendation – While no single event can point to the cause of the financial difficulties of the Authority, one major factor was the lack of external oversight of the financial affairs. Management was aware of the financial problems and the lack of proper accounting and refused to provide all the details to the governing board. The governing board was unable to retrieve vital financial data and there was no oversight by DFA or the New Mexico State Auditor's Office. We recommend the following:

- All the Authority's delinquent audit reports need to be completed and submitted to the New Mexico State Auditor's office. Once all delinquent audits have been completed, the Authority's annual audit should be completed timely. If necessary, the Authority's governing board members (county, municipality, and sovereign Indian nations) should contribute additional cash resources, to the Authority, to pay for the cost of all the delinquent audits.
- The New Mexico Department of Finance and Administration, Local Government Division, needs to have oversight of the Authority. As the Authority is presently structured, DFA will not review the financial affairs of the Authority. The governing board members should consider establishing a Solid Waste Authority under the Solid Waste Authority Act.
- If the Authority is unable to comply with the Solid Waste Authority Act, consideration should be given to dissolve the Authority and operations could be absorbed by the county and or the municipality. If this change takes place, DFA will review the Authority's activity within the funds, or a department, of the respective government.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority (NCSWA) was formed as a joint powers agreement under the Joint Powers Act, rather than under the Solid Waste Authority Act, so the two pueblos, Santa Clara and Ohkay Owingeh, would be allowed to participate, as they are sovereign nations. It is understood by NCSWA the two pueblos would be prohibited from a seat on the governing board under the Solid Waste Authority Act. Rio Arriba County is unique when compared to other New Mexico counties, as it is the only county to provide door-to-door service throughout the county. NCSWA was created largely due to the lack of population, and public officials' desire to control costs to the community. By uniting the four entities, the desire is to combine limited resources and provide service to rural Rio Arriba county residents at an affordable cost. Without rural door-to-door services, illegal dumping would increase and taint New Mexico's large watershed, and pollute the Rio Chama and Rio Grande. Although the Department of Finance and Administration (DFA) does not recognize NCSWA as a local public body, and does not provide oversight, NCSWA is moving toward implementing the policies and procedures set by DFA and the Local Government Division.

Item 2007-002 – Compliance - Procurement Code

Statement of Condition – During our review of bid files, it was discovered the Authority requested proposals for a heavy truck and a transfer trailer. The affidavit of publication was missing from the bid file.

Criteria – The purpose of the New Mexico Procurement Code, Chapter 13 NMSA 1978, is to provide for the fair and equitable treatment of all persons involved in public procurement, to maximize the purchasing value of public funds and to provide safeguards for maintaining a procurement system of quality and integrity. The New Mexico Administrative Code (NMAC) provides further guidance to assist the state and local governments meet the requirements of the procurement code embodied within state statutes.

The inspection of public records is governed by the Inspection of Public Records Act, Sections 14-2-1 through 14-2-12 NMSA1978. Every person has a right to inspect public records and each public body shall designate at least one custodian of public records who shall have the responsibility to make public records available for inspection. This includes, but is not limited to, having proper procedures in place to ensure public records are safeguarded against improper use, loss or misplacement. Further, as per the New Mexico Administrative Code section 1.4.1.45B, after the award; the bid proposal shall be open to public inspection subject to any continuing prohibition on the disclosure of confidential data.

Effect – Noncompliance with state statutes subjects officials and employees to be penalized as specified within the statutes.

Cause – The Authority failed to maintain written documentation as required by the Public Records Act.

Recommendation – We recommend the Authority staff review the provisions of the procurement code and the public records act and establish procedures to ensure compliance with the code and the act.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority (NCSWA) recently hired a chief financial officer (CFO) to oversee the accounting practices within the office. The CFO is currently training procurement staff on the New Mexico Procurement Code, New Mexico Administrative Code, and Department of Finance and Administration's (DFA) procedures for local public bodies. In-house procedures will be implemented in fiscal year 2017, which will result in the reduction of errors and guide NCSWA to be compliant with the New Mexico State Procurement Act.

Item 2007-004 – Material Weakness and Compliance - Credit Card Transactions

Statement of Condition – During our testing of twelve credit cards statements that reflected charges of $156,189, we noted the following deviations:

- We discovered that the Authority did not retain any fuel receipts for the charges reflected on the fuel credit card statements. The total receipts totaled $155,258.

Item 2007-004 – Material Weakness and Compliance - Credit Card Transactions (continued)

Statement of Condition (continued) –

- We noted one instance, in the amount of $140, where the Authority failed to issue a purchase order authorizing the transaction.
- We noted the Lowes and Wal-Mart accounts were not remitted timely incurring finance and late charges totaling $28. Furthermore, the charges were incorrectly posted to the cleaning/janitorial supplies line item in the general ledger.

Criteria – Section 6-6-3(A) NMSA 1978 requires every local public body to *"keep all the books, records and accounts in their respective offices in the form prescribed by the local government division"* of the New Mexico Department of Finance and Administration. Although the Authority is not considered a local public body it is as an instrumentality of the members and, as such, the Authority is required to maintain accounting records such as cancelled invoices or receipts that provide substantiation for the expenditure of public funds in order to be in compliance with New Mexico State Statutes.

Effect – By not having receipts to support the purchase, the Authority cannot determine whether or not they are paying for items that were for Authority usage.

Cause – Authority staff assumed the credit card statement would provide sufficient documentation to support the fuel charge, rather than asking for receipts on all credit card transactions. The Authority was struggling financially, causing delays in the remittance of funds for payment of the credit card statements.

Recommendation – We recommend the Authority retain all original invoices and receipts paid with a credit card. For vehicle gasoline purchases, we recommend that a description of the vehicle in which the fuel was purchased, and the mileage, be recorded on the purchase invoice or receipt. Further, we recommend the maintenance of separate logs to indicate when gasoline was purchased for each vehicle, along with the odometer reading, thereby allowing management to monitor potential misuse of the fuel purchases.

Finally, we recommend the Authority forego the purchase of goods with credit cards, if the statements cannot be paid on a timely manner, thereby avoiding interest and late fee charges.

Views of Responsible Officials and Planned Corrective Actions – In September 2011, North Central Solid Waste Authority (NCSWA) closed the MasterCard, American Express, and VISA credit cards. NCSWA currently utilizes a Lowes Home Center credit card that requires prior approval for any purchases made. WEX fleet and fuel cards are currently assigned to specific vehicles, and all transactions and mileage are to be audited by NCSWA managers. All receipts are kept in-house and available for future audit purposes, and any missing receipts will now require an affidavit of lost receipts by the employee.

Item 2007-005 – Material Weakness and Compliance - Indebtedness

Statement of Condition – During the fiscal year, the Authority borrowed cash from Western Commerce Bank to finance insurance premiums. On July 1, 2010, the Authority borrowed $14,262, and on December 2, 2010, the Authority borrowed $33,761, in order to finance premiums for automotive and solid waste work, including trash collection insurance.

In addition, on June 30, 2011, the Authority entered into a loan agreement with Rio Arriba County in the amount of $1,054,205. The loan does not accrue interest and no repayment plan has been determined. The loan was to provide relieve for delinquent payroll taxes, sales taxes and health insurance premiums. The Authority failed to record the fiscal year 2011 debt obligation of $354,205 on this loan in the accounting records.

Criteria – Article IX of the New Mexico Constitution prohibits state agencies, counties and municipalities from borrowing debt unless under certain circumstances. While there is no mention of an instrumentality operating under a joint powers agreement, one would have to take a safe harbor position and conclude the constitution would prohibit the borrowing of cash as described above.

Effect – Noncompliance with the state of New Mexico Constitution subjects officials and employees to penalties and provisions established by the constitution.

Cause – The Authority did not have the cash on hand to remit the entire insurance premium at one time. It is not clear why the Authority did not record the loan activity with Rio Arriba County.

Recommendation – We recommend the Authority seek a solution where no funds are being borrowed to finance the insurance premiums and or any other delinquent payments of the Authority. Strategic planning, meaningful budgets, and management oversight should be developed to guide the Authority through difficult financial periods.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority (NCSWA) continued to purchase insurance using short-term loans to finance the purchase through fiscal year 2015. In fiscal year 2016, NCSWA's finances were stable enough to discontinue the use of short-term loans to finance insurance. In July 2016, NCSWA staff met with the insurance carrier to discuss aligning the premiums' due dates at the end of each calendar year, to ensure the revenue is received and deposited; therefore, eliminating any need for short-term loans to cover the insurance premiums. NCSWA is currently working with Rio Arriba County on a repayment plan for the 2011 loan agreement.

Item 2007-009 – Other Matters - IPA Recommendation Form & Audit Contract

Statement of Condition – The New Mexico State Auditor's Rule requires the Authority to submit their Independent Public Accountant (IPA) Recommendation Form, and the signed audit contract for the audit for the fiscal year ended June 30, 2011, no later than June 1, 2011. The Authority failed to submit the IPA Recommendation Form by the required due date.

Item 2007-009 – Other Matters - IPA Recommendation Form & Audit Contract (continued)

Criteria – Section 2.2.2.8(B)(6) of the 2011 New Mexico State Auditor's Rule states, *"After completing the evaluations for each IPA, and making the IPA selection, each agency shall submit the following information to the State Auditor on or before June 1; …"* Section 2.2.2.8(G)(6)(c) of the 2015 New Mexico State Auditor's Rule states, "*The agency shall deliver the fully completed and signed IPA Recommendation Form for Audits and the completed audit contract to the State Auditor by the deadlines shown below. If a completed IPA Recommendation Form and audit contract are not delivered to the State Auditor by these deadlines, the auditor must include a finding of noncompliance with Paragraph (6) of Subsection G of Section 2.2.2.8 NMAC in the audit report."*

The audit contract was issued under the requirements of the 2015 New Mexico State Auditor's Rule.

Effect – This requirement has been instituted by the State Auditor's office to ensure the timely execution of audit contracts for state and local governmental entities. Noncompliance with established procedures causes delays in the issuance of executed audit contracts.

Cause – As expressed in audit finding 2005-004, there were many reasons the audit report was not performed on a timely basis. Compliance with this particular section of the audit rule was not possible given the other factors involved with submitting the report.

Recommendation – We recommend the Authority become current with their submission of audit reports, and this violation of the audit rule should be easily met by the Authority.

Views of Responsible Officials and Planned Corrective Actions – With the submission of the 2010, 2011, and 2012 audit reports, North Central Solid Waste Authority (NCSWA) will be four years behind on the audit reports. NCSWA will contract out fiscal years 2013, 2014, and 2015 audits. Those remaining audits are predicted to be completed by the end of fiscal year 2017.

Item 2007-010 – Material Weakness and Compliance
- Capital Assets – Subsidiary Records and Inventory

Statement of Condition – During our observation of capital assets reflected on the depreciation schedule, we noted discrepancies between the schedule and assets on hand. We were presented a fleet schedule with ninety-two assets, of which fifty-eight were actually observed in June 2016. While the fleet schedule may contain important information such as unit numbers, descriptions, and vehicle identification numbers, it does not indicate when the item was placed in service, and the value assigned to the asset is a best guessed current value and not the original cost. In addition, the fleet schedule does not reconcile to the fixed asset summary and depreciation schedules prepared by the Authority's fee accountant. The depreciation schedules do not provide sufficient identification information to readily identify assets.

Item 2007-010 – Material Weakness and Compliance
- Capital Assets – Subsidiary Records and Inventory (continued)

Statement of Condition (continued) – In October 2010, the Authority passed a resolution to dispose of certain capital assets through a public auction that was to be conducted by Rio Arriba County. It was stated that any proceeds of the sale would be dedicated to any delinquent federal and state tax obligations. The assets, which have a cost basis of $275,107, and a net book value of $64,078, were not removed from the Authority's depreciation schedule. The Authority was not given any information concerning the actual proceeds that were obtained at auction, and as such, a loss on disposal of $64,078 has been reflected on the financial statements.

We did not observe any documentation that indicated the Authority conducted a physical inventory of capital assets at the end of the fiscal year ended June 30, 2011. No current employees were employed with the Authority during the audit year to ascertain if the inventory was conducted, nor the location of the documentation of the procedures performed.

Criteria – New Mexico State Statutes Section 12-6-10(c) NMSA 1978 directs the general services department to promulgate regulations to state agencies for the accounting and control of capital assets owned by government agencies. The New Mexico State Administrative Code, Title 2, Chapter 20, Part 1, 2.20.1.8, *Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls* issued by the general services department requires the Authority implement a systematic and well documented system for accounting of capital assets. The information to be recorded and maintained must include, at a minimum, the following:

1) Agency name or commonly used initials used to identify the agency.
2) Capital asset number.
3) A description using words meaningful for identification.
4) Location, specifically a building and room number.
5) Manufacturer's name.
6) Model number or model name.
7) Serial number, or vehicle identification number.
8) Estimated useful life.
9) Date acquired.
10) Cost.
11) Fund and organization that purchased the asset.

The system must be capable of generating lists of capital assets in sequences useful for managing them. It must track all transactions including acquisitions, depreciation, betterments and dispositions. It must generate all necessary accounting entries to the agency's general ledger.

Section 12-6-10(A) NMSA 1978 requires the Authority at the end of each fiscal year to conduct a physical inventory of movable chattels and equipment costing more than $5,000 that is under the control of the Authority. Additionally, New Mexico State Administrative Code, Title 2, Chapter 20, Part 1, section 15 A (3) requires governments tag all capital assets. Section 2.20.1.16 requires the Authority to conduct a physical inventory of its capital assets at the end of each fiscal year.

Item 2007-010 – Material Weakness and Compliance
- Capital Assets – Subsidiary Records and Inventory (continued)

Effect – The inability to keep detailed information as described above, allows the opportunity for errors to occur and not be detected on a timely basis. By not tagging all assets, it allows the possibility for errors to occur between actual assets owned and the subsidiary ledger. Finally, not conducting an annual physical inventory could allow assets that are no longer on site, for whatever reason, to be included in the subsidiary ledger.

Cause – Given the small accounting staff and the difficulties in maintaining other accounting records, the maintenance of the capital assets subsidiary records was not a high priority. We could not determine why the Authority staff would not conduct an annual inventory, as required by state statutes.

Recommendation – We recommend the Authority maintain its capital assets subsidiary ledgers as prescribed by the New Mexico State Administrative Code, and institute policies and procedures to conduct an annual inventory of all assets owned by the entity.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority (NCSWA) has since performed a review on the existing capital assets. In June 2016, NCSWA manager, Alex Coriz, performed an audit and recorded all of the capital assets over $5,000, the audit was then presented to the board of directors for review. Currently, NSCWA keeps records of all capital assets and equipment purchases, and is moving towards tracking the yearly maintenance and replacement costs associated with all capital assets. Paper files on each piece of equipment are kept in-house, and updated on a quarterly basis.

Item 2010-001 – Material Weakness and Compliance - Gross Receipts Reporting

Statement of Condition – The Authority did not compute the governmental gross receipts liability correctly for the periods July 1, 2010 through May 31, 2011. These miscalculations resulted in an overpayment of approximately $6,180; the Authority filed amended reports for these periods in November 2013. The Authority failed to follow up with the New Mexico Taxation and Revenue Department for the refunds and, as of July 2016, no refunds have been received. Given the amount of time that has passed, it is highly unlikely that any amount of refund from these amended reports will be received. There was no evidence of an independent or second review of the reporting prior to filing the reports.

Criteria – A governmental gross receipts tax of 5.125% is imposed on the receipts of New Mexico state and local governments from: 1) the sale of tangible personal property, other than water, from facilities open to the general public; 2) the performance of or admissions to recreational, athletic or entertainment services or events in facilities open to the general public; 3) refuse collection, refuse disposal, or both; 4) sewage services; 5) the sale of water by a utility owned or operated by a county, municipality or other political subdivision of the state, and 6) the renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tie-down aircraft or dock boats. The Gross Receipts and Compensating Tax Act is compiled as Sections 7-9-1 through 7-9-115 NMSA 1978.

Item 2010-001 – Compliance - Gross Receipts Reporting

Effect – By miscalculating the true gross receipts tax liability and, with no second or independent review, over or under payments could occur and not be detected in a timely manner.

Cause – The individual who was computing the gross receipts tax liability failed to deduct penalties, interest, refunds to customers, and the gross receipts tax from the total monthly gross receipts collections.

Recommendation – We recommend the Authority review the gross receipts rules and regulations as issued by NM Taxation and Revenue Department. Concurrently, the policies and procedures established by the Authority should be reviewed to ensure compliance with gross receipts rules and regulations. At a minimum, there should be a procedure in place for a second review of the tax liability prior to filing and payment of the gross receipts tax. Any amendments to the original reporting should obtain management approval.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority (NCSWA) hired a certified public accounting firm to oversee the accounting practices within the office. The certified public accounting firm has established contacts with the New Mexico Taxation and Revenue Department, and adjusted all incorrect transactions between NCSWA and the New Mexico Taxation and Revenue Department. These duties will be turned over to the chief financial officer (CFO) for oversight to ensure NCSWA is in compliance with the New Mexico gross receipts rules and regulations.

Item 2010-002 – Material Weakness and Compliance - Board Minutes

Statement of Condition – During the review of the Authority's minutes of board meeting we noted the following:

- Board minutes from the meeting held on July 21, 2010 were approved verbatim on October 15, 2010.
- Board minutes from the meeting held on August 18, 2010 were not approved until October 15, 2010.
- Board minutes from meetings held on September 28, 2010, October 15, 2010 and November 17, 2010 were not approved until February 17, 2011.
- Board minutes from meetings held on September 15, 2010 and November 17, 2010 were not approved until March 17, 2011.
- Board minutes from the meeting held on December 15, 2010 were not approved until April 20, 2011.
- The Authority failed to document in the minutes, the discussion, if any, and or approval of the loan agreement with Rio Arriba County that was signed on June 30, 2011.

Item 2010-002 – Material Weakness and Compliance - Board Minutes (continued)

Criteria – Section 10-15-1G NMSA 1978 (Open Meetings Act) requires that draft minutes be prepared within ten working days after the meeting and be approved, amended or disapproved at the next meeting where a quorum is present.

Board members have the legal responsibility to perform their duties with due diligence, obedience and loyalty. Board minutes should reflect that the board members were prepared, participated actively, and decided issues without undue haste or pressure. They clarify how, when, why and by whom decisions were made.

Effect – A member's failure to meet any of the duties as listed above can result in a claim against the Authority, the board and or its members. Noncompliance with the New Mexico State Statutes could subject officials and employees to penalties and fines.

Cause – Unknown, due to no current staff was employed in the fiscal year ended June 30, 2011.

Recommendation – We recommend the Authority implement administrative procedures to ensure compliance with New Mexico State Statutes. Furthermore, we recommend the Authority's Board of Directors, and the appropriate level of management, receive training concerning the requirements of the Open Meetings Act.

Due to the legal importance of the meeting minutes, we recommend the members receive and review the previous meeting's minutes before the next meeting. The minutes must document any corrections or changes that the members make to ensure the minutes are complete and accurate.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority (NCSWA) has implemented procedures to ensure compliance with Section 10-15-1G NMSA 1978 (Open Meetings Act). Administrative staff is present at all board meetings, and minutes are drafted within five days for review by the Authority manager, and then presented to the board of directors at the next scheduled board meeting.

Item 2010-003 – Material Weakness and Compliance - Pre-Tax Deductions

Statement of Condition – The Authority did not properly apply pre-tax deductions from gross compensation prior to applying social security (FICA), Medicare taxes, and federal and state income tax withholdings for the period July 2010 through August 9, 2011.

Criteria – A cafeteria plan is a separate plan maintained by an employer for employees that meets the specific requirements and regulations of section 125 of the Internal Revenue Code. It provides participants an opportunity to receive certain benefits on a pretax basis. Employer contributions to the cafeteria plan are usually made pursuant to salary reduction agreements between the employer and employee, in which the employee agrees to contribute to his or her salary on a pre-tax basis for the qualified benefits.

Item 2010-003 – Material Weakness and Compliance - Pre-Tax Deductions (continued)

Criteria (continued) – Salary reduction contributions are not actually or constructively received by the participant; therefore, those contributions are not considered wages for federal income tax purposes. In addition, those sums generally are not subject to FICA, FUTA, Medicare tax, or income tax withholding per sections 3121(2)(5)(G) and 3306(b)(5)(G) of the Internal Revenue Code.

Effect – Both the employee and employer (Authority) paid excess FICA and Medicare taxes.

Cause – The Authority did not have clear understanding of how to properly handle certain tax codes within its computer software program for payroll. Further, the Authority did not perform periodic reconciliations to verify that tax codes were properly established.

Recommendation – We recommend that the Authority expedite the establishment and maintenance of the appropriate internal controls to provide reasonable assurance of compliance with laws and regulations. Where necessary, payroll reports should be amended to account for the errors.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority (NCSWA) has audited the pre-tax deductions. As identified in the prior audits, these deductions were not being calculated properly. Corrective measures for this proves will be updating and reconciling the software for the employee initial entries. The software entries will be reconciled against the financial reports, benefit deductions, and payroll. The reconciliations will take place in coordination with payroll running Human Resource (HR) software reports for benefits and the payroll software to the payroll report.

Item 2010-004 – Compliance - Other – Pledged Collateral

Statement of Condition – During the reconciliation of cash balances, we noted that the bank balance of the main operating account had an ending balance of $473,288 at July 31, 2010. The Authority had not made arrangements with any of the three banks that held deposits of the Authority, to pledge collateral for the deposits of the Authority.

Criteria – The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects against the loss of insured deposits, should an FDIC-insured bank or savings association fail. FDIC insurance is backed by the full faith and credit of the United States government. FDIC deposit insurance covers the depositors of a failed FDIC-insured depository institution dollar-for-dollar, principal plus any interest accrued or due to the depositor, through the date of default, up to at least $250,000.

Effect – Failure to have pledged collateral arrangements puts the Authority's deposits in excess of $250,000 at risk should the bank fail.

Cause – The management staff at the time, did not appropriately address this issue, perhaps due to a lack of knowledge.

Item 2010-004 – Compliance - Other – Pledged Collateral (continued)

Recommendation – We recommend management review the Authority's deposits, and establish policies and procedures to minimize the risk of loss due to failure of the FDIC-insured bank where Authority deposits are maintained.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority, (NCSWA) is currently working with management at Century Bank to establish additional coverage. The additional insurance coverage will ensure NCSWA, and any finances associated with NCSWA over $250,000, will be secured with Century Bank.

Item 2011-001 – Material Weakness - Unrecorded Loan

Statement of Condition - North Central Solid Waste Authority signed a loan agreement on June 30, 2011, with Rio Arriba County (County), in the amount of $1,054,205. The loan was given to relieve the Authority of its sizable delinquent obligations to the Internal Revenue Service, New Mexico Taxation and Revenue Department, and the General (Risk Management) Division of the state of New Mexico. We noted that the first two installments, which totaled $354,205, were given prior to the signing of the loan documents. The payments made by the County, on behalf of the Authority, and the loan obligation were not recorded in the accounting records of the Authority.

Further, even though the loan document was signed by representatives of both parties, there was no discussion and or approval of the loan document recorded in the board minutes of the Authority. Further, there was no discussion of a formal repayment plan documented in the board minutes of the Authority. Finally, there was no discussion and or any demand payments from the County documented in the board minutes of the Authority. We could not locate any documentation to determine how, when, and if the County intends to collect on this obligation.

Criteria – Sound accounting practices, and Generally Accepted Accounting Principles (GAAP) require proper classification and recording of all financial transactions. The payments made by the County should have been recorded as a reduction of the payroll and sales tax payables, and a corresponding note payable.

Effect – Lack of presentation of this financial activity in the financial statements is misleading to the users of the financial statements. The financial statements of the Authority required a material adjustment as a result of this financial activity.

Cause – The Authority was in the midst of a major change in management during this time. The recording of this activity was not given priority. It is not known why there was no discussion and or approval of the loan recorded in the official board minutes.

Recommendation – We recommend that the Authority immediately establish a policy and procedures to ensure that all financial activity is classified and recorded in the accounting records in accordance with GAAP. Further, we recommend that the Board of Directors receive further guidance concerning documentation to be retained in the official minutes of each and every meeting.

Item 2011-001 – Material Weakness - Unrecorded Loan (continued

Recommendation (continued) – Finally, we recommend that representatives of the Authority and the County meet to determine: 1) whether the County intends to enforce the terms and conditions of the loan agreement, or 2) determine repayment installment amounts that the Authority is capable of making to the County, or 3) whether the entire amount of the financial assistance lent to the Authority will be forgiven.

Views of Responsible Officials and Planned Corrective Actions - North Central Solid Waste Authority (NCSWA) is in negotiation with Rio Arriba County to develop a reasonable payment schedule for the loan repayment. Repayment of the 2011 Rio Arriba County loan is expected to begin in August 2016.

STATUS OF PRIOR YEAR'S FINDINGS

Item 2005-001 – Segregation of Duties and Documentation of Payroll Expenditures – The prior year's finding noted a lack of segregation of duties within the payroll function and other items discovered during testing of payroll transactions. The lack of segregation of duties was not resolved during the current fiscal year and discrepancies were noted during the testing of payroll transactions. The audit finding has been modified and repeated.

Item 2005-002 – Bank Reconciliations – The prior year's audit finding noted the Authority had issued checks and not disbursed them on a timely basis, thereby distorting the reconciled cash at year-end. During the current year's audit, in an effort to reconcile the bank balances, deposit reconciliations and missing checks were posted to a miscellaneous expense account which totaled $695,334 at June 30, 2011. The previous year's audit finding has been modified and repeated.

Item 2005-004 – Submission of Audit Report – As in the prior year, the Authority did not submit its audit for the fiscal year ended June 30, 2010 to the Office of the State Auditor on a timely basis. The prior audit finding has been modified and repeated.

Item 2005-005 – Records Management and Accounting Data – The prior year's finding noted deficiencies in the record keeping of accounting data and supporting documents. During the course of our audit work for the current fiscal year, we discovered deficiencies in the record keeping of the accounting documentation. The finding has been modified and repeated.

Item 2005-06 – Financial Statements and Disclosures – The prior year's audit finding noted weaknesses in internal control regarding the preparation of financial statements. The condition for the current year has not changed and the audit finding has been repeated.

Item 2007-001 – Organizational Formation and Oversight – The prior year's audit finding noted there was conflicting language in the joint powers agreement that established the Authority. As a result of the joint powers agreement, the New Mexico Department of Finance and Administration concluded they did not have any responsibility for direct oversight of the Authority's budgets and financial statements. The condition did not change and the audit finding has been repeated.

STATUS OF PRIOR YEAR'S FINDINGS (continued)

Item 2007-002 – Procurement Code – The prior year's audit finding noted the Authority failed to retain purchase documentation required by the procurement code for the purchase of capital assets. The prior year's finding has been modified and repeated.

Item 2007-003 – Cash Disbursements – The prior year's finding noted discrepancies discovered during the testing of the purchase of goods and services. During the current year, we noted no discrepancies regarding the purchase of goods and services. The finding has been resolved.

Item 2007-004 – Credit Card Transactions – The prior year's audit finding disclosed discrepancies noted during the testing of credit card transactions used for the purchase of goods and services. During the current year, we noted similar discrepancies. The finding has been modified and repeated.

Item 2007-005 – Indebtedness – The prior year's audit finding noted the Authority borrowed money from a financial institution in order to pay for insurance premiums, which is a violation of the New Mexico State Constitution. The Authority continued the same practice for the current year. The audit finding has been modified and repeated.

Item 2007-006 – Travel and Per Diem Reimbursements – The prior year's audit finding detailed discrepancies noted during the test of travel and per diem reimbursements. During the current year, we noted no discrepancies. The audit finding has been resolved.

Item 2007-009 – IPA Recommendation Form and Audit Contract – The prior year's audit finding noted the Authority failed to make a timely selection of an independent public accountant (IPA) for the audit engagement for the fiscal year ended June 30, 2010. The selection for the auditor of the fiscal year ended June 30, 2011 was not made on a timely basis. The audit finding has been modified and repeated.

Item 2007-010 – Capital Assets – Subsidiary Records and Inventory – The prior year's audit finding noted the depreciation schedule does not provide sufficient identification information to readily identify assets. Additionally, the finding noted there was no documentation indicating the Authority complied with the requirement to conduct an annual inventory of capital assets. The conditions did not change; therefore, the finding has been repeated.

Item 2010-001 – Gross Receipts Reporting – The prior year's audit finding noted the Authority had not calculated gross receipts tax liability correctly. The condition carried into fiscal year 2011; therefore, the finding has been modified and repeated.

Item 2010-002 – Board Minutes – The prior year's audit finding noted the Authority had not approved it board minutes on a timely basis. The condition carried into fiscal year 2011, therefore the finding has been modified and repeated.

Item 2010-003 – Pre-Tax Deductions – The prior year's audit finding noted the Authority had not applied pre-tax deductions from gross compensation prior to applying social security (FICA), Medicare taxes, and federal and state withholdings. The condition carried into fiscal year 2011; therefore, the finding has been modified and repeated.

STATUS OF PRIOR YEAR'S FINDINGS (continued)

Item 2010-004 – Pledged Collateral – The prior year's audit finding noted the Authority had not made any arrangements with any of the three financial institutions that held deposits of the Authority to pledge collateral. The condition carried into 2011; therefore, the finding has been modified and repeated.

Exit Conference

The audit report for the fiscal years ended June 30, 2011 and 2010, was discussed during the exit conference held on August 10, 2016. Present for the Authority was Pedro Valdez, board member; and Gino Romero, manager; Cyndi Montoya, chief financial officer; Phoenix Vigil, Human Resource supervisor. Present for the auditing firm was Rose Fierro, CPA.

Financial Statement Preparation

The auditing firm of Fierro & Fierro, P.A., Certified Public Accountants, prepared the audit report that contains the financial statements and notes to the financial statements of the Authority as of and for the year ended June 30, 2011 and 2010. The Authority's upper management has reviewed and approved the financial statements and related notes, and they believe the Authority's books and records adequately support them.