STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY,
ESPAÑOLA, NEW MEXICO
AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016
INDEPENDENT AUDITORS' REPORT

North Central Solid Waste Authority
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

North Central Solid Waste Authority
BOARD OF DIRECTORS
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

Board of Directors

Bernadino Chavarria	Chairman	Santa Clara Pueblo
Pedro Valdez	Vice-Chairman	City of Española
Ben Lujan	Secretary	Ohkay Owingeh Pueblo
Danny Garcia	Member	Rio Arriba County
Vacant	Member	Community Member

Administrative Staff at 06/30/2017

Gino Romero	Manager

Beasley, Mitchell & Co.
Certified Public Accountants

Donald A. Beasley, CPA, Partner
Christine Wright, CPA, Partner
Beth Fant, EA, Partner
Brad Beasley, CPA, Partner
Tony Morán, CPA, Partner
Christopher Salcido, CPA, Partner
J. David Beasley, J.D., Partner

INDEPENDENT AUDITORS' REPORT

Mr. Wayne Johnson
New Mexico State Auditor and
Board of Directors
North Central Solid Waste Authority
Española, New Mexico

Report on the Financial Statements
We have audited the accompanying financial statements of North Central Solid Waste Authority, as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the North Central Solid Waste Authority's basic financial statements, as listed in the table of contents. We have also audited the budgetary comparison for the major proprietary fund presented as supplementary information as defined by the Governmental Accounting Standards Board, for the year ended June 30, 2017 as listed in the table contents.

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

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Qualified Opinion On Prior Year

In our opinion, except for the possible effects of the matter that the prior years' disclaimed audit and restatements of $4,983,587 we were unable to verify beginning financial statement balances, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Central Solid Waste Authority, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion On Current Year

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Central Solid Waste Authority, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and

Required Supplementary Information (Continued)
comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Central Solid Waste Authority's basic financial statements. The introductory section.

The Supporting Schedules on pages 29 through 33 required by Section 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supporting Schedules on pages 29 through 33 required by Section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, on our consideration of the North Central Solid Waste 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Central Solid Waste Authority's internal control over financial reporting and compliance.

Beasley Mitchell & Co LLP

Beasley, Mitchell & Co., LLP
Las Cruces, New Mexico
September 28, 2018

BASIC FINANCIAL STATEMENTS

North Central Solid Waste Authority
STATEMENT OF NET POSITION
JUNE 30, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS:		
Cash	$ 1,759,345	$ 1,941,568
Receivables, net	353,939	373,918
Prepaid expenses	30,906	59,672
Total current assets	2,144,190	2,375,158
NON-CURRENT ASSETS:		
Capital assets being depreciated, net	2,147,147	2,120,242
Total non-current assets	2,147,147	2,120,242
DEFERRED OUTFLOWS OF RESOURCES:		
Pension related	867,301	149,718
Total assets and deferred outflows or resources	$ 5,158,638	$ 4,645,118
LIABILITIES & NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 94,270	$ 94,361
Accrued salaries	62,363	47,478
Accrued liabilities	67,692	39,304
Unearned revenues	329,274	316,404
Notes payable, current portion	82,521	507,480
Compensated absences, current portion	50,112	43,711
Total current liabilities	686,232	1,048,738
NON-CURRENT LIABILITIES:		
Compensated absences, net of current portion	63,618	61,510
Notes payable, net of current portion	646,015	725,473
Net pension liability	2,471,585	1,438,637
Total non-current liabilities	3,181,218	2,225,620
Total Liabilities	3,867,450	3,274,358
DEFERRED INFLOWS OF RESOURCES:		
Pension related	24,532	36,977
NET POSITION		
Net investment in capital assets	2,147,147	2,120,242
Unrestricted (deficit)	(880,491)	(786,459)
Total net position	1,266,656	1,333,783
Total liabilities and net position	$ 5,158,638	$ 4,645,118

See accompanying notes to financial statements and independent auditors' report

North Central Solid Waste Authority
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES:		
Charges for services	$ 5,139,293	$ 5,232,766
EXPENDITURES:		
Salaries	1,580,943	1,469,045
Employee benefits & pension expenses	871,490	451,188
Payroll taxes	114,414	105,777
Tipping and hauling fees	598,896	614,479
Bad debts	511,081	559,781
Depreciation	321,712	282,359
Repairs and maintenance	292,675	272,762
Fuel	277,170	268,834
Insurance	195,935	151,976
Professional services	156,067	96,787
Administration expenses	59,142	62,686
Leases	72,057	75,950
Small equipment and tools	61,174	67,563
Operational charge	22,728	33,720
Office supplies	53,867	24,135
Printing and advertising	21,557	22,235
Uniforms	19,348	16,990
Utilities	22,677	8,614
Taxes & penalties	(1,241)	6,617
Mileage and per diem	1,207	2,608
Miscellaneous	7,249	549
Total operating expenses	5,260,148	4,594,655
Operating income	(120,855)	638,111
NON-OPERATING REVENUES (EXPENSES):		
County operating subsidy	-	100,000
Tribal operating subsidy	50,000	-
Intergovernmental grant	19,414	-
Insurance proceeds	13,065	46,243
Interest income	670	343
Interest expenses	(3,017)	(2,371)
Other expenses	(27,008)	1,053
Lien/release charges	604	(1,164)
Total non-operating revenues (expenses)	53,728	144,104
Change in net position	(67,127)	782,215
Net position, beginning of year	1,333,783	5,535,155
Restatements	-	(4,983,587)
Net position, beginning of year, restated	1,333,783	551,568
Net position, end of year	$ 1,266,656	$ 1,333,783

See accompanying notes to financial statements and independent auditors' report

North Central Solid Waste Authority
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 4,661,061	$ 4,731,511
Payments to employees for services	(2,288,186)	(2,053,503)
Payments to suppliers for goods and services	(1,705,792)	(1,964,431)
Net cash provided by operating activities	667,083	713,577
Cash flows from non-capital activities and related financing activities:		
County operating subsidy	-	100,000
Intergovernmental grant	19,414	-
Insurance proceeds	13,065	46,243
Other income	604	1,053
Interest expenses	(3,017)	(2,371)
Other	(27,008)	-
Penalties	-	(1,164)
Net cash provided by (used in) non-capital financing activities	3,058	143,761
Cash flows from capital activities and related financing activities:		
Change in capital assets	(348,617)	(383,180)
Principal payments on debt	(504,417)	(929)
Net cash provided by (used in) capital activities and related financing activities	(853,034)	(384,109)
Cash flows from investing activities:		
Interest income	670	343
Net cash provided by (used in) investing activities	670	343
Net increase in cash and cash equivalents	(182,223)	473,572
Cash and cash equivalents - beginning	1,941,568	1,467,996
Cash and cash equivalents - ending	$ 1,759,345	$ 1,941,568

See accompanying notes to financial statements and independent auditors' report

North Central Solid Waste Authority
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

Reconciliation of operating income to net cash provided by operating activities:

	2017	2016
Operating income	$ (120,855)	$ 638,111
Adjustments to reconcile change in net assets to net cash		
Depreciation	321,712	282,359
Bad debts	511,081	559,781
In kind lease	50,000	-
Changes in Net Position and Liabilities:		
(Increase) in accounts receivable	(491,102)	(495,315)
Decrease in prepaid expenses	28,766	1,027
(Increase) in deferred outflows of resources	(717,583)	(60,868)
(Decrease) in accounts payable	(91)	(179,469)
Increase in accrued liabilities	55,486	(79,082)
(Decrease) in accrued salaries	(12,213)	39,008
Increase in compensated absences	8,509	20,515
(Decrease) in unearned revenues	12,870	(5,940)
(Decrease) in deferred outflows of resources	(12,445)	(380,341)
Increase in net pension liability	1,032,948	373,791
Net cash provided by operating activities	$ 667,083	$ 713,577

See accompanying notes to financial statements and independent auditors' report

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. Reporting Entity(continued)
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 of 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.

B. Basis of Presentation and Accounting
The Authority's basic financial statements are presented on the accrual basis of accounting.

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 position, 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.

B. Basis of Presentation and Accounting (continued)

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 position. Net position, total assets net of total liabilities, are segregated into three components; net investment in capital assets, net of related debt; restricted; and unrestricted components. The Authority's operating statements present increases (revenues) and decreases (expenses) in net position.

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 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.

D. Cash and Cash Equivalents(continued)

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.

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:

Buildings	10 years
Convenience stations	10 years
Containers	10 years
Equipment	7-10 years
Office equipment, computer hardware and software	3-5 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:

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.

Each regular employee can carry a maximum of two hundred forty (240) hours of annual leave per fiscal year. When the employment terminates, regular employees are paid for unused vacation leave up to two hundred forty (240) hours at their regular salary rate. Probationary employees whose employment is terminated, whether voluntary or involuntary, without achieving regular status is not paid for unused vacation leave.

Each regular and probationary full-time employee accrues sick leave based on 3.69 hours per eighty (80) hours of employment. Sick leave does not have a cap and does not hold any monetary value.

I. Unearned Revenues

The Authority reports unearned revenue on its statement of net position, 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 position and revenue is recognized.

J. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent consumption of assets that are applicable to future reporting periods. The amounts are reported in a separate section after assets in the statement of net position.

Deferred inflows of resources represent acquisition of assets that are applicable to a future reporting period. The deferred inflows of resources and reported in a separate section after liabilities in the statement of net position.

K. Short-Term Obligations

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

L. Long-Term Obligations

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

M. Net Position

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

> Net Investment in Capital Assets – This component of net position 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 position component as the unspent proceeds.
>
> Restricted – This component of net position 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 position consists of net position that do not meet the definition of restricted or net investment in capital assets.

N. 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.

O. 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 AND DEPOSITS WITH FINANCIAL INSTITUTIONS

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. The Federal Depository Insurance Corporation (FDIC) insures the cash accounts at the financial institutions.

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:

2017	Per Institution	Deposits in Transit	Outstanding Checks	Balance
Century Bank	$ 1,458,644	$ 7,801	$ (46,511)	$ 1,419,934
Century Bank- Money Market	-	-	-	-
New Mexico Bank & Trust	34,419	352	-	34,771
Xpress Bill Pay	302,910	1,730	-	304,640
Total	$ 1,795,973	$ 9,883	$ (46,511)	$ 1,759,345

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

Cash (Continued)

2016	Per Institution	Deposits in Transit	Outstanding Checks	Balance
Century Bank	$ 1,610,426	$ 889	$ (155,098)	$ 1,456,217
Century Bank- Money Market	400,260	-	-	400,260
New Mexico Bank & Trust	22,875	-	-	22,875
Xpress Bill Pay	60,735	1,481	-	62,216
Total	$ 2,094,296	$ 2,370	$ (155,098)	$ 1,941,568

The amounts reported as cash for the Authority within the statement of net position is displayed as:

	2017	2016
Statement of Net Position:		
Cash	$1,759,345	$1,941,568

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.

2017	Century Bank	Century Bank - Money Market	NM Bank & Trust	Xpress Bill Pay
Total deposits in bank	$ 1,458,644	$ -	$ 34,419	$ 302,910
Less: Secured by company	-	-	-	302,910
Less: FDIC coverage	250,000	-	34,419	-
Uninsured public funds	1,208,644	-	-	-
50% collateral requirement	604,322	-	-	-
Pledged collateral	1,000,000	-	-	-
Over (Under) requirement	$ 395,678	$ -	$ -	$ -

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.

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

Cash (Continued)

2016	Century Bank	Century Bank - Money Market	NM Bank & Trust	Xpress Bill Pay
Total deposits in bank	$ 1,610,426	$ 400,260	$ 22,875	$ 60,735
Less: Secured by company	-	-	-	60,735
Less: FDIC coverage	250,000	-	22,875	-
Uninsured public funds	1,360,426	400,260	-	-
50% collateral requirement	680,213	200,130	-	-
Pledged collateral	-	-	-	-
Over (Under) requirement	$ (680,213)	$ (200,130)	$ -	$ -

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, 2016, $880,343of the Authority's bank balance of $2,094,296was exposed to custodial credit risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for doubtful accounts as of June 30, are as follows:

	2017	2016
Accounts receivable:		
Charges for services	$ 8,592,951	$ 8,086,849
Allowance for doubtful accounts	(8,240,012)	(7,728,931)
	352,939	357,918
Intergovernmental Receivables:		
Sale of capital assets	1,000	16,000
Total	$ 353,939	$ 373,918

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

4.CAPITAL ASSETS

2017	Balance June 30, 2016	Increases	Decreases	Transfer	Balance June 30, 2017
Capital assets, not being depreciated:					
Construction in Process	$ 39,272	$ 24,263	$ -	$ (63,535)	$ -
Capital assets, being depreciated:					
Convenience stations	104,631	-	-	-	104,631
Buildings	5,000	-	-	-	5,000
Equipment	3,850,299	281,354	-	-	4,131,653
Leashold improvement	-	-	-	63,535	63,535
Containers	130,994	-	-	-	130,994
Vehicles	141,598	43,000	-	-	184,598
Office Equipment	37,073	-	-	-	37,073
Total	4,308,867	348,617	-	-	4,657,484
Accumulated Depreciation	2,188,625	321,712	-	-	2,510,337
Total accumulated depreciation	2,188,625	321,712	-	-	2,510,337
Net capital assets	$ 2,120,242	$ 26,905	$ -	$ -	$ 2,147,147

During the fiscal year, the Authority reconstructed its capital assets subsidiary ledgers. As a result, the balances of June 30, 2015 have been adjusted. The effect of the changes is noted below. Capital assets for the fiscal year ended June 30, 2016, are as follows:

2016	Balance June 30, 2015	Adjustments	Increases	Decreases	Balance June 30, 2016
Capital assets, not being depreciated:					
Construction in Process	$ -	$ -	$ 39,272	$ -	$ 39,272
Capital assets, being depreciated:					
Convenience stations	104,631	-	-	-	104,631
Buildings	5,000	-	-	-	5,000
Equipment	1,871,470	1,694,454	284,375	-	3,850,299
Containers	130,994	-	-	-	130,994
Vehicles	64,216	24,982	68,400	(16,000)	141,598
Office Equipment	32,073	-	5,000	-	37,073
Total	2,208,384	1,719,436	397,047	(16,000)	4,308,867
Accumulated Depreciation	1,633,354	275,045	282,359	(2,133)	2,188,625
Total accumulated depreciation	1,633,354	275,045	282,359	(2,133)	2,188,625
Net capital assets	$ 575,030	$ 1,444,391	$ 114,688	$ (13,867)	$ 2,120,242

5. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	2017	2016
Health insurance premiums	$ 51,585	$ 23,243
State payroll taxes	1,254	1,331
Employee benefits payable	2,785	2,524
Governmental sales tax	12,056	12,199
Other	12	7
	$ 67,692	$ 39,304

6. LONG-TERM OBLIGATIONS

Changes in long-term debt during the year ended June 30, 2017, were as follows:

2017	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Notes Payable- Rio Arriba County	$ 1,054,467	$ -	$ (400,262)	$ 654,205	$ 53,000
Notes Payable- First Insurance Funding	$ 35,248	$ 106,430	$ (112,157)	$ 29,521	$ 29,521
NMFA- Rio Arriba County	143,238	-	(98,428)	44,810	-
Long-term debt	$ 1,232,953	$ 106,430	$ (610,847)	$ 728,536	$ 82,521

Changes in long-term debt during the year ended June 30, 2016, were as follows:

2016	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Notes Payable- Rio Arriba County	$ 1,054,467	$ -	$ -	$ 1,054,467	$ 400,000
Notes Payable- First Insurance Funding	$ -	$ 76,389	$ (41,141)	$ 35,248	$ 35,248
NMFA- Rio Arriba County	143,238	-	-	143,238	72,232
Long-term debt	$ 1,197,705	$ 76,389	$ (41,141)	$ 1,232,953	$ 507,480

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.

6. 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.
• As of June 30, 2015, no repayment schedule had been established.
• 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.

Notes Payable- First Insurance Funding

The Authority entered into an insurance premium finance agreement with First Insurance Funding for $106,430. The agreement accrues interest at a rate 6.050% till November 5, 2017.

Note Payable – Rio Arriba County

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. 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.

7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Summary of Significant Accounting Policies

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

7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information About the Pension Plan

Plan description - The Public Employees Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Audit Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the Public Employees Retirement Fund plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division.

Plan description (continued) - Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits provided - Benefits are generally available at age sixty-five with five or more years of service or after twenty-five years of service, regardless of age for Tier I members. Provisions also exist for retirement between ages sixty and sixty-five, with varying amounts of service required. Certain police and fire members may retire at any age with twenty or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average salary for the thirty-six consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2.00% to 3.50% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

Tier II – The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013, with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the members' age and service credit equals at least eighty-five or at age sixty-seven with eight or more years of service credit. General members hired on or before June 30, 2013 (Tier 1) remain eligible to retire at any age with twenty-five or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4, and 5 are eligible to retire at any age with twenty-five or more years of service credit.

7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in twenty-five year retirement plans; however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age sixty with six or more years of service credit. Generally, under Tier II pension factors were reduced by 0.50%, employee contribution increased by 1.50% and effective July 1, 2014, employer contributions were raised by 0.50%. The computation of final average salary increased as the average of salary for sixty consecutive months.

Contributions -See PERA's comprehensive annual financial report for the contribution rates and pension factors as of July 1, 2016.

	Employee Contribution Percentage			Pension Factor per Year of Service		
	Annual Salary less than $20,000	Annual Salary less greater $20,000	Employer Contribution Percentage	Tier I	Tier II	Pension Maxiumum as a Percentage of the Final Average Salary
State Plan 3	7.42 %	8.92 %	16.99 %	3.00 %	2.50 %	90.00 %
Municipal Plan 1(plan open to new employers)	7.00 %	8.50 %	7.40 %	2.00 %	2.00 %	90.00 %
Municipal Plan 2(plan open to new employers)	9.15 %	10.65 %	9.55 %	2.50 %	2.00 %	90.00 %
Municipal Plan 3(plan closed to new employers on 6/95)	13.15 %	14.65 %	9.55 %	3.00 %	2.50 %	90.00 %
Municipal Plan 4(plan closed to new employers on 6/00)	15.65 %	17.15 %	12.05 %	3.00 %	2.50 %	90.00 %
Municipal Police Plan 1	7.00 %	8.50 %	10.40 %	2.00 %	2.00 %	90.00 %
Municipal Police Plan 2	7.00 %	8.50 %	15.40 %	2.50 %	2.00 %	90.00 %
Municipal Police Plan 3	7.00 %	8.50 %	18.90 %	2.50 %	2.00 %	90.00 %
Municipal Police Plan 4	12.35 %	13.85 %	18.90 %	3.00 %	2.50 %	90.00 %
Municipal Police Plan 5	16.30 %	17.80 %	18.90 %	3.50 %	3.00 %	90.00 %
Municipal Fire Plan 1	8.00 %	9.50 %	11.40 %	2.00 %	2.00 %	90.00 %
Municipal Fire Plan 2	8.00 %	9.50 %	17.90 %	2.50 %	2.00 %	90.00 %
Municipal Fire Plan 3	8.00 %	9.50 %	21.65 %	2.50 %	2.00 %	90.00 %
Municipal Fire Plan 4	12.80 %	14.30 %	21.65 %	3.00 %	2.50 %	90.00 %
Municipal Fire Plan 5	16.20 %	17.70 %	21.65 %	3.50 %	3.00 %	90.00 %
Municipal Detention Officer Plan 1	16.65 %	18.15 %	17.05 %	3.00 %	3.00 %	90.00 %
State Police and Adult Correctional Officer Plan 1	7.60 %	9.10 %	25.50 %	3.00 %	3.00 %	90.00 %
State Plan 3 - Peace Officer	7.42 %	8.92 %	16.99 %	3.00 %	3.00 %	90.00 %
Juvenile Correctional Officer Plan 2	4.78 %	6.28 %	26.12 %	3.00 %	3.00 %	90.00 %

7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information About the Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the Authority reported a liability of $2,471,585 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled forward from the valuation date to the plan year ended June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll forward liabilities as of June 30, 2016.The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

At June 30, 2017, the Authority reported a liability of $2,471,585 for its proportionate share of the net pension liability. At June 30, 2017, the Authority's proportion was .1547 percent, which was an increase of .0136 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the Authority recognized PERA Fund Municipal General Division pension expense of $307,801. At June 30, 2017, the Authority reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 144,930	$ -
Net difference between projected and actual earnings on pension plan investments	454,767	-
Net difference between project and actual experience on pension plan investments	123,490	24,121
Changes in proportion and differences betweencontributions and proportionate share of contributions	133,785	411
The Authority's contributions subsequent to the measurement date	10,329	-
	$ 867,301	$ 24,532

7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information About the Pension Plan (continued)

$867,301 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending		
2018	$	198,924
2019		198,924
2020		316,396
2021		118,196
2022		-
Thereafter		-

Actuarial assumptions - As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2015, for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2016. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2016, actuarial valuation.

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions	
* Investment rate of return	7.48% annual rate, net of investment expense
* Projected benefit payment	100 years
* Payroll growth	2.75% for the first 10 years, then 3.25% annual rate
* Projected salary increases	2.75% to 14.00% annual rate
* Includes inflation at	2.25% annual rate for 10 years, then 2.75% thereafter
* Mortality Assumption	PR-2000 Mortality Tables (combined table for healthy post-retirements, Employee Table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
* Experience Study Dates	July 1, 2008 to June 30, 2013 (demographic) andJuly 1, 2010 through June 20, 2015 (economic)

7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information About the Pension Plan (continued)

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

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

Discount rate - Based on the state assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

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

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate - The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Authority's net pension liability for the PERA Fund Municipal General Division that the Authority participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.48%) or one percentage point higher (8.48%) than the single discount rate.

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
PERA Fund Municipal General Division			
The Authority proportionate share of the net pension liability	$ 3,684,914	$ 2,471,585	$ 1,465,190

7. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information About the Pension Plan (continued)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued PERA financial report.

8. 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.

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.

8. POST-EMPLOYMENT BENEFITS (CONTINUED)

Funding Policy (Continued)
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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the Board.

The Retiree Health Care Act (Section 10-&C-15 NMSA 1978) is the statutory authority tax establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of the participating employee's annual salary and each participating employee is required to contribute 1.0% of their salary. During the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.00% of each participating employee's annual salary and each participating employee is required to contribute 1.00% of their salary.

The Authority's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were $24,766, $26,203, and $22,789, respectively, which equaled the required contributions each year.

9. 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.

10. SUBSEQUENT EVENTS

Note Agreement – Rio Arriba County

On May 25, 2017, the Authority remitted a principal payment of $400,000 to Rio Arriba County to reduce the outstanding balance of the note payable. The Authority and County have agreed to the remittance of monthly principal payments of $4,417 to the County until the debt is retired.

Joint Power Agreement

On July 20, 2015, Rio Arriba County board of commission passed a resolution stating their desire to withdraw from the Joint Powers agreement. After further consideration, the members are negotiating a new joint powers agreement.

11. Restatement of Net Position

During FY16, the Authority has discovered numerous errors within the prior year's financial statements. The following describes the changes made to the beginning net position:

Restatement		Amount
Cash balances understated	$	(2,397,808)
Accounts receivable overstated		6,379,768
Prepaid expenses understated		(24,522)
Capital assets understated		(1,444,391)
Deferred outflows understated		(88,850)
Suspense account overstated		145
Note payable understated		143,238
Accounts payable understated		501,443
Accrued wages understated		35,568
Sales taxes payable understated		11,550
Accrued liabilities overstated		(21,768)
Unearned revenues understated		322,344
Net pension liability understated		1,064,846
Deferred inflows understated		417,318
Compensated absences understated		84,706
	$	4,983,587

REQUIRED SUPPLEMENTARY INFORMATION

North Central Solid Waste Authority
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017 AND 2016

	2015	2016	2017
Authority's proportion of the net pension liability (asset)	0.1365%	0.1411%	0.1547%
Authority's proportionate share of the net pension liability (asset)	$ 1,064,846	$ 1,438,637	$ 2,471,585
Authority's covered-employee payroll	$ 1,169,658	$ 1,296,619	$ 1,393,733
Authority's proportionate share of the net pension liability(asset) as a percentage of its covered-employee payroll	91.04%	110.95%	177.33%
Plan fiduciary net position as a percentage of the total pension liability	81.29%	81.31%	69.18%

North Central Solid Waste Authority
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017 AND 2016

	2015	2016	2017
Contractually required contribution	$ 111,703	$ 123,377	$ 132,652
Contributions in relation to the contractually required contribution	11,703	123,377	132,652
Contribution deficiency (excess)	-	-	-
Authority's covered-employee payroll	$ 1,169,658	$ 1,296,619	$ 1,393,773
Contributions as a percentage of covered-employee payroll	9.55%	9.52%	9.52%

Changes of benefit terms - The PERA fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY16 audit report. That report is available at https://www.saonm.org.

Changes of assumption - The Public employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation Report as of June 30, 2016, is available at https://www.nmpera.org.

SUPPLEMENTAL INFORMATION

North Central Solid Waste Authority
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	Budget Original	Budget Final	Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
OPERATING REVENUES:						
Charges for services	$ 4,540,100	$ 4,540,100	$ 4,674,433	$ 464,860	$ 5,139,293	$ 134,333
EXPENDITURES:						
Salaries	1,493,950	1,493,950	1,557,549	23,394	1,580,943	63,599
Employee benefits & pension expenses	622,000	622,000	536,378	335,112	871,490	(85,622)
Payroll taxes	114,400	114,400	114,414	-	114,414	14
Tipping and hauling fees	662,000	662,000	602,908	(4,012)	598,896	(59,092)
Bad debts	-	-	-	511,081	511,081	-
Depreciation	-	-	-	321,712	321,712	-
Repairs and maintenance	264,000	264,000	296,788	(4,113)	292,675	32,788
Fuel	380,000	380,000	275,811	1,359	277,170	(104,189)
Insurance	150,000	150,000	176,642	19,293	195,935	26,642
Professional services	185,000	185,000	156,271	(204)	156,067	(28,729)
Administration expenses	60,000	60,000	61,999	(2,857)	59,142	1,999
Leases	20,400	20,400	21,685	50,372	72,057	1,285
Small equipment and tools	41,600	41,600	61,535	(361)	61,174	19,935
Operational charge	43,000	43,000	22,008	720	22,728	(20,992)
Office Supplies	27,000	27,000	55,233	(1,366)	53,867	28,233
Printing and advertising	21,000	21,000	23,358	(1,801)	21,557	2,358
Uniforms	17,000	17,000	19,348	-	19,348	2,348
Utilities	12,000	12,000	21,451	1,226	22,677	9,451
Taxes	-	-	-	(1,241)	(1,241)	-
Mileage and per diem	4,000	4,000	1,207	-	1,207	(2,793)
Miscellaneous	2,000	2,000	32,247	(24,998)	7,249	30,247
Total operating expenses	4,119,350	4,119,350	4,036,832	1,223,316	5,260,148	(82,518)
Operating income	420,750	420,750	637,601	(758,456)	(120,855)	216,851
NON-OPERATING REVENUES (EXPENSES):						
County operating subsidy	150,000	150,000	19,413	(19,413)	-	(130,587)
Tribal operating subsidy	-	-	-	50,000	50,000	-
Intergovernmental grant	-	-	-	19,414	19,414	-
Insurance proceeds	-	-	13,065	-	13,065	13,065
Interest income	-	-	670	-	670	670
Capital Outlay	(385,000)	(385,000)	(348,616)	348,616	-	36,384
Other expenses	-	-	-	(27,008)	(27,008)	-
Interest expenses	-	-	-	(3,017)	(3,017)	-
Lien/release charges	4,500	4,500	604	-	604	(3,896)
Total non-operating revenues (expenses)	(230,500)	(230,500)	(314,864)	368,592	53,728	(84,364)
Total non-operating revenues (expenses)	190,250	190,250	322,737	(389,864)	(67,127)	132,487

North Central Solid Waste Authority
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Budget					
	Original	Final	Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
OPERATING REVENUES:						
Charges for services	$ 4,423,600	$ 4,423,600	$ 4,602,981	$ 629,785	$ 5,232,766	$ 179,381
EXPENDITURES:						
Salaries	1,459,500	1,459,500	1,436,619	32,426	1,469,045	(22,881)
Employee benefits & pension expenses	663,300	663,300	557,238	(106,050)	451,188	(106,062)
Payroll taxes	112,200	112,200	131,963	(26,186)	105,777	19,763
Tipping and hauling fees	677,000	677,000	618,485	(4,006)	614,479	(58,515)
Bad debts	-	-	-	559,781	559,781	-
Depreciation	-	-	-	282,359	282,359	-
Repairs and maintenance	328,000	328,000	268,031	4,731	272,762	(59,969)
Fuel	550,000	550,000	274,280	(5,446)	268,834	(275,720)
Insurance	143,000	143,000	153,406	(1,430)	151,976	10,406
Professional services	185,000	185,000	107,565	(10,778)	96,787	(77,435)
Administration expenses	60,000	60,000	68,241	(5,555)	62,686	8,241
Leases	49,800	49,800	75,950	-	75,950	26,150
Small equipment and tools	31,600	31,600	66,063	1,500	67,563	34,463
Operational charge	31,000	31,000	33,807	(87)	33,720	2,807
Office Supplies	27,000	27,000	23,909	226	24,135	(3,091)
Printing and advertising	21,000	21,000	23,222	(987)	22,235	2,222
Uniforms	17,000	17,000	16,990	-	16,990	(10)
Utilities	12,000	12,000	8,593	21	8,614	(3,407)
Taxes	-	-	-	6,617	6,617	-
Mileage and per diem	4,000	4,000	2,608	-	2,608	(1,392)
Miscellaneous	2,000	2,000	307	242	549	(1,693)
Total operating expenses	4,373,400	4,373,400	3,867,277	727,378	4,594,655	(506,123)
Operating income	50,200	50,200	735,704	(97,593)	638,111	685,504
NON-OPERATING REVENUES (EXPENSES):						
County operating subsidy	250,000	250,000	100,000	-	100,000	(150,000)
Insurance proceeds	-	-	45,243	1,000	46,243	45,243
Interest income	-	-	343	-	343	343
Capital Outlay	(420,000)	(420,000)	(397,047)	397,047	-	22,953
Other income	-	-	-	1,053	1,053	-
Interes expenses	-	-	-	(2,371)	(2,371)	-
Lien/release charges	2,000	2,000	1,164	(2,328)	(1,164)	(836)
Total non-operating revenues (expenses)	(168,000)	(168,000)	(250,297)	394,401	144,104	(82,297)
Total non-operating revenues (expenses)	(117,800)	(117,800)	485,407	296,808	782,215	603,207

North Central Solid Waste Authority
SCHEDULE OF DEPOSITS AND TEMPORARY INVESTMENTS
BY DEPOSITORY AND PUBLIC FUNDS
JUNE 30, 2017 AND 2016

2017

Name of Depository	Account Type	Bank Balance June 30, 2017	Deposits in Transit	Outstanding Checks	Reconciled Balance June 30, 2017
Century Bank	Checking	$ 1,458,644	$ 7,801	$ (46,511)	$ 1,419,934
Century Bank - money market	Checking	-	-	-	-
New Mexico Bank & Trust	Checking	34,419	352	-	34,771
Xpress Bill Pay	Checking	302,910	1,730	-	304,640
		$ 1,795,973	$ 9,883	$ (46,511)	$ 1,759,345

2016

Name of Depository	Account Type	Bank Balance June 30, 2016	Deposits in Transit	Outstanding Checks	Reconciled Balance June 30, 2016
Century Bank	Checking	$ 1,610,426	$ 889	$ (155,098)	$ 1,456,217
Century Bank - money market	Checking	400,260	-	-	400,260
New Mexico Bank & Trust	Checking	22,875	-	-	22,875
Xpress Bill Pay	Checking	60,735	1,481	-	62,216
		$ 2,094,296	$ 2,370	$ (155,098)	$ 1,941,568

COMPLIANCE

Beasley, Mitchell & Co.
Certified Public Accountants

Donald A. Beasley, CPA, Partner
Christine Wright, CPA, Partner
Beth Fant, EA, Partner
Brad Beasley, CPA, Partner
Tony Morán, CPA, Partner
Christopher Salcido, CPA, Partner
J. David Beasley, J.D., Partner

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
INDEPENDENT AUDITORS' REPORT**

Mr. Wayne Johnson
New Mexico State Auditor
Board of Directors
North Central Solid Waste Authority
Española, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America an the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements and the budgetary comparison presented as supplemental information of North Central Solid Waste Authority as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the basic financial statements of North Central Solid Waste Authority presented as supplemental information, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered North Central Solid Waste Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Central Solid Waste Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of North Central Solid Waste Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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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 to be material weaknesses. (2005-001, 2005-002, 2005-004, 2007-001, 2007-005, 2007-010, 2015-002, 2017-001, 2017-002, and 2017-003)

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. (2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006)

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 result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses. (2007-009, 2012-001)

North Central Solid Waste Authority Response to Findings

North Central Solid Waste Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. North Central Solid Waste Authority's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Beasley Mitchell & Co LLP

Beasley, Mitchell & Co.
Las Cruces, New Mexico
September 28, 2018

North Central Solid Waste Authority
SUMMARY SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

PRIOR YEAR FINDINGS:

2005-001	Segregation of Duties and other Payroll Discrepancies	Repeated and Modified
2005-002	Bank Reconciliation	Repeated and Modified
2005-004	Submission of Audit Report	Repeated
2007-001	Organizational Formation and Oversight	Repeated
2007-005	Indebtedness	Repeated
2007-009	IPA Recommendation Form & Audit Contract	Repeated
2007-010	Subsidiary Records and Inventory	Repeated and Modified
2010-004	Pledged Collateral	Resolved
2012-001	Travel and Per Diem Reimbursements	Repeated and Modified
2015-002	Procurement Code	Repeated and Modified
2016-001	Certified Procurement Officer	Repeated
2016-002	Lack of Internal Control Over Adjusting Entries	Repeated
2016-003	Internal Controls over Solid Waste Billing	Repeated
2016-004	Annual leave policy	Repeated
2016-005	Outstanding Bills balance due from employees	Repeated
2016-006	Internal Controls over Cash Disbursement	Repeated

North Central Solid Waste Authority
SUMMARY SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

CURRENT YEAR FINDINGS:

2017-001 Internal Control Over Capital Assets - Material Weakness

2017-002 Controls Over Authority Owned Credit Cards - Material Weakness

2017-003 Cash Deposit Discrepancies - Material Weakness

2005-001 - Segregation of Duties - Material Weakness

CONDITION

During the payroll test, we noted that the accounts payable clerk 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 payments (checks and direct deposits). Her duties also included the preparation and submission of the various payroll reports to the appropriate government agencies. This is a repeat finding, as the Authority has not addressed an adequate corrective action plan. Status/Payroll Change Report Was completed by payroll clerk for all employees without approval signature. According to HR Manager gave oral confirmation to approve pay increases. Some personnel records were missing in employees' personal files incuding contracts. A new CFO has been hired, and the Authority is in the process of developing and applying policies and procedures.

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. The principal of segregation of duties is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department.

CAUSE

With limited qualified personnel, optimum segregation of duties was difficult to implement.

EFFECT

Unintentional payroll errors or intentional misappropriation of assets, not detected in a timely basis, could occur because the Authority lacks segregation of duties. Without this separation in key processes, fraud and error risks are less manageable.

RECOMMENDATION

We recommend management review their segregation of duties practices currently in place to verify that the Authority had established adequate segregation of duties given the limited staff and resources. Where it is not possible to have adequate preventive internal controls including segregation of duties, it is important to implement a compensating control. An example of this could be increased periodic oversight by an employee from another department or by the board of directors.

2005-001 - Segregation of Duties - Material Weakness (Continued)

RESPONSE

North Central Solid Waste Authority has struggled since its inception regarding the establishment of proper internal controls to safeguard the assets of the entity. From 2011 through 2017, the organization manager emphasized improving operations in an effort to become more efficient in the collection of solid waste and to reduce illegal dumping of waste throughout the County. When faced with a financial crisis in 2011, management elected to hire a certified public accounting firm to assist the staff in performing some of the oversight of the payroll function and to provide financial reporting to the governing board. While the accounting firm provided some expertise, the manager was willing to accept limited services in order to conserve financial resources. The limited services were insufficient to address the internal control deficiencies inherent within the Authority.

In October 2017, the Authority hired a full time chief financial officer (CFO) in an attempt to institute new internal control policies, procedures and correct the deficiencies in the accounting records. Unfortunately, immediately after the hiring of the CFO the manager of the Authority became ill and was placed on medical leave. From that time until his retirement in December 2017, the Authority was managed by the operations supervisor who did not have any financial experience. In January 2018, the governing board named the CFO as interim manager until a replacement could be hired. Needless to say the interim manager/CFO did not have time to address the deficiencies in the internal controls. To further complicate matters the Authority general ledger was a disaster. The ledger contained errors that had rolled forward for many years and errors continued to be made in the imputing of current data. No employee or contractor had managed the general ledger or subsidiary ledgers.

Given the additional responsibility thrust upon the CFO a determination was made to solicit services from a certified public accounting firm to correct the general ledger for the fiscal years 2016, 2017 and 2018 in order to prepare for audit as soon as possible. The accounting records have been corrected and the fiscal years 2016 and 2017 accounting records have been audited and the auditing firm will perform the fiscal year 2018 audit prior to the required submittal date of December 15, 2018.

The Authority has begun to keep its accounting records current and will address the auditors concerns regarding proper internal controls. We will develop proper policies and procedures to be implemented during the 2019 fiscal year. The CFO is the party responsible for implementation.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2005-002 - Bank reconciliation's - Material Weakness and Compliance

CONDITION

During cash testwork, we noted that the Authority did not timely reconcile their bank accounts. Late reconciliation resulted in several adjusting entry to correct tie with the reconciled balance. The total restatement for cash balance understated was $2,397,808 in FY16. As of July 29, 2018 it was noted that all bank reconciliation's for FYE 2017 were completed

CRITERIA

Section 6-6-3 NMSA, 1978 discusses good accounting practices and require that bank reconciliation's be performed monthly to ensure that cash receipts and cash disbursements are recorded in a correct and timely manner and that differences or errors be followed up and corrected in a timely manner.

CAUSE

The Authority has limited resources in staffing and was unable to implement appropriate segregation of duties.

EFFECT

Cash was understated on the financial statements.

RECOMMENDATION

It is recommended that the Authority perform complete and accurate bank reconciliation's at month end and assign another member of management the responsibility of reviewing each month's bank reconciliation. All unusual reconciling items should be investigated and dealt with promptly so errors do not accumulate thereby making the reconciliation process more difficult and time consuming.

RESPONSE

We contracted with a certified public accounting firm to assist in correcting the accounting records. One of their required tasks was the reconciliation of the cash recorded on the general ledger with the activity recorded in the financial institutions and the collection agency. We are pleased to report the cash accounts have been reconciled for FY17. We have also continued with the reconciliation process and the reconciliations have been completed for FY18. We have also reconciled the cash activity between the general ledger and the financial institutions for July and August 2018. We will continue to perform the reconciliations on a timely basis. The CFO is responsible for the cash reconciliations.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

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

CONDITION The audit report for the fiscal year ended June 30, 2016, was due to the New Mexico State Auditor's office by December 15, 2016. Submittal of the audit report occurred on September 30, 2018. The submittal of late audit reports has been a recurring problem since June 30, 2005 indicating that a weakness in internal control policies and procedures. This finding from the prior fiscal year is repeated and modified. A new CFO has been hired, and the Authority is in the process of developing and applying policies and procedures.

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 (2.2.2 NMAC) requires the Authority submit its audit report by the first working day of December following the end of each fiscal year.

CAUSE The current Manager, hired during 2017, inherited an organization that was in effect insolvent and dealing with personnel issues and community dissatisfaction regarding services provided, forcing him to deal with many issues. Realizing that many problems existed in the accounting records, the Authority engaged the services of a certified public accounting firm to assist with the accounting issues.

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. Audit reports reveal potential problems and weaknesses in internal control and timely reporting of those deficiencies allows management to correct the issues on a timely basis.

RECOMMENDATION We recommend the Authority send the audit reports for the 2016 fiscal year, as soon as possible. With the completion of the 2017, the Authority can focus on their accounting records for the fiscal year end June 30, 2018 with the desire to submit that report on a timely basis as required by 2.2.2 NMAC.

RESPONSE We are pleased to report the finding will be resolved in the next couple of months. We have contracted with an audit firm to perform the audits for the 2016, 2017 and 2018 fiscal years. The auditors have completed the audit for 2016 and 2017 fiscal years and they have been submitted to the New Mexico State Auditor's office. The present plan is to commence the 2018 fiscal year audit during October 2018. The 2018 fiscal year audit should be submitted to the New Mexico State Auditor office by the required due date of December 15, 2018.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2007-001 - Organizational Formation and Oversight - Material Weakness

CONDITION

Established on November 27, 2002, pursuant to a joint powers agreement (JPA) between its four regional governments, North Central Solid Waste Authority operates and manages a solid waste management system for citizens of Rio Arriba County. 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. Duties include, but not limited to, administrative and operational requirements such as management of the organization; personnel rules and regulations; proper development, 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. The JPA begins by stating the agreement is made under the authority of Section 11-1-1 et seq NMSA 1978 (Joint Powers Act) and Section 74-9-1 et seq NMSA 1978 (Solid Waste Authority Act). The JPA continues by stating, the parties desire to establish an authority, which is not a political subdivision of the state such as described in Section 74-10-1 et al, NMSA 1978.

Further, the JPA states the Authority must seek DFA approval for all budget and financial reports; however, DFA determined they have no authority to review the items as the Authority has been established under the Joint Powers Act. The Authority is actively working on getting the proper approvals in order to submit the JPA to DFA for approval.

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."

2007-001 - Organizational Formation and Oversight - Material Weakness (Continued)

CRITERIA

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.

On June 3, 2010, 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.

2007-001 - Organizational Formation and Oversight - Material Weakness (Continued)

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.

EFFECT

Commencing in 2010, DFA officially ceased reviewing and approving financial statements and the budgets of the Authority. DFA failed to investigate any aspects of the financial situation of the Authority. 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.

RECOMMENDATION

We recommend the Authority resolve the oversight issue with the New Mexico Department of Finance and Administration, Local Government Division. As the Authority is presently structured, DFA will not review the financial affairs of the Authority.

Regardless of the decision by DFA, the Authority has the responsibility to get their financial house in order. This would begin with the submittal of delinquent audit reports to the New Mexico State Auditor's office.

RESPONSE

The Authority is a joint venture between two State of New Mexico entities and two federal recognized sovereign Native American nations. As such, the Authority was organized following the Joint Powers Agreement Act defined in New Mexico State Statutes. The Board of Directors has been working with an attorney to revise the joint powers agreement with the hope of arriving at an agreement that will allow the New Mexico Department of Finance and Administration to provide oversight.

While oversight by DFA would be welcomed, we will operate as if oversight is being provided. We intend to adhere to applicable state statutes and applicable DFA rules and regulations. Given the political structure of the Authority we may never be able to resolve the oversight issue; however, the underlining issue of poor financial management is being addressed by the manager and CFO. We intend to make major improvements during the 2019 fiscal year.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2007-005 - Indebtedness - Material Weakness and Compliance

CONDITION

The Authority has not recorded the legal obligations within the general ledger and as such has not reflected the amount within the statement of net position as of June 30, 2017. This prior year finding is repeated and modified. A new CFO has been hired, and the Authority is in the process of developing and applying policies and procedures.

CRITERIA

Article IX of the New Mexico Constitution prohibits state agencies, counties and municipalities from borrowing debt unless under certain circumstances. The Authority considered an instrumentality of the City of Espanola, and Rio Arriba County, must comply with the debt prohibition established by the New Mexico Constitution.

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 a local public body, it is an instrumentality of the public 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.

CAUSE

The Authority did not have sufficient cash to remit the entire insurance premium at one time. The employees of the Authority did not have the expertise to record the debt obligation within the general ledger.

EFFECT

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

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.

2007-005 - Indebtedness - Material Weakness and Compliance (Continued)

RECOMMENDATION

We recommend the Authority remit payment in full to the insurance company for insurance policies. We recommend management focus on hiring a qualified individual to manage the fiscal affairs of the Authority. Until a qualified individual can be located and hired, we recommend the Authority engage an external contractor to fill the role of chief financial officer.

RESPONSE

This finding was first reported in the fiscal year ended June 30, 2007. At that time, the Authority did not record any of its legal obligations on the general ledger. The issue raised by the auditing firm centers around debt issued by the New Mexico Finance Authority. On September 3, 2010 the Authority and Rio Arriba County entered into a loan to finance equipment to be used by the Authority. Rio Arriba County pledged environmental gross receipt taxes to retire the debt. At issuance, the County considered the proceeds as grant revenues to the Authority and the County reflected the loan in their financial statements and accounting records. The County and Authority verbally agreed that the Authority would reimburse the County for the intercepted gross receipts taxes. We did not record the debt on our accounting records as recording the debt twice would not be proper.

In order to resolve the issue, the Authority has instructed their attorney to contact the County attorney for the purpose of preparing and executing a promissory note between the Authority and the County for the purpose of formalizing the verbal agreement. In the future, the Authority will reflect a note payable to the County for the remaining obligation eventually due the New Mexico Finance Authority.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

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

CONDITION

The New Mexico State Auditor's Rule requires the Authority to submit their Independent Public Accountant (IPA) Recommendation Form, and signed audit contract for the audit for the fiscal year ended June 30, 2017, no later than May 15, 2017. The Authority failed to submit the IPA Recommendation Form by the required due date. The Authority is nearly caught up on its audits and plans to submit the IPA recommendation in a timely manner for the FYE 2019 audit.

CRITERIA

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."

CAUSE

The Authority was delinquent in regards to the submission of audit reports to the State Auditor's office. During May 2015, delinquent audit reports included fiscal years from June 30, 2007 through June 30, 2014. The Authority was preoccupied dealing with accounting issues and delinquent reports as they chose not to comply with the requirement.

EFFECT

This requirement instituted by State Auditor's office in an effort to ensure the timely execution of audit contracts for state and local governmental entities. Issuance of timely contracts allows governmental agencies and auditing firms to begin the audit process aiding in the submission of timely audit reports.

RECOMMENDATION

We recommend the Authority become current with the submission of audits. Once that is completed, the Authority can comply with the timely selection of auditing firms specified in the New Mexico State Auditor's Rule.

RESPONSE

The Authority has hired a new upper management team in an effort to correct many of the financial deficiencies reflected in past audit reports including the submission of audit reports on a timely basis. The newly hired CFO submitted our auditor recommendation form for the 2016, 2017 and 2018 fiscal year audits during May 2018. While we were late for 2016 and 2017 we submitted the recommendation for 2018 on a timely basis. The CFO has the responsibility to insure compliance with the New Mexico State Auditor rules and requirements in particular the recommendation of the selected auditor.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2007-010 - Subsidiary Records and Inventory - Material Weakness and Compliance

CONDITION

During our test work over capital assets, we identified The Authority is not compliant with the requirement of the New Mexico Administration Code and GASB 34 paragraphs 18 through 22. In past years the Authority did not perform physical inventories of capital assets, did not have supporting documentation for some capital assets acquisition costs, and did not compute depreciation expense.

For the audit of the year ended June 30, 2017, the Authority did not perform an annual physical inventory of capital assets. NSCWA's schedule is now updated and they plan to have an annual observation starting for FYE 2019.

CRITERIA

Sections 13-6-1 and 13-6-2 NMSA 1978 govern the disposition of tangible personal property owned by state agencies, local public bodies, school districts, and state educational institutions. At least 30 days prior to any disposition of property included on the agency inventory list described at Subsection W of Section .2.2.10 NMAC, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action shall be sent to the state auditor.

Agencies shall conduct an annual physical inventory of chattels and equipment on the inventory list at the end of each fiscal year in accordance with the requirements of Section 12-6-10 NMSA 1978. The agency shall certify the correctness of the inventory after the physical inventory. This certification shall be provided to the agency's auditors. The IPA shall audit the inventory listing for correctness and compliance with the requirements of the Audit Act.

CAUSE

Management oversight, lack of effective internal control surrounding the process to identify capital assets for year-end reporting.

EFFECT

This issue may mislead the reader of financial statements

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 Authority.

RESPONSE

We will perform an inventory of all capital assets before the close of the 2019 to insure the capital asset subsidiary ledger reflects the proper activity.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2012-001- Per Diem - Other Matters

CONDITION

During our NM Compliance testwork, it was noted that the Authority paid off 100% of per diem in advance. Also, authorization for travel was not provided on supporting documentation. This is a repeat modified finding. With the hiring of the current CFO, there is a renewed emphasis on compliance with Mileage and Per diem Act. The Authority is also using new forms to help with compliance.

CRITERIA

Section 2.42.2.10 of NMSA 1978 requires that upon written request accompanied by a travel voucher, agency heads and governing boards of local public bodies or their authorized designees may approve a public officer's or employee's request to be advanced up to 80 percent of per diem rates and mileage cost or for the actual cost of lodging and meals pursuant to 2.42.2.8 NMAC and 2.42.2.9 NMAC and for other travel expenses that may be reimbursed under 2.42.2.12 NMAC. Requests for travel advances shall not be submitted to the financial control division of the department of finance and administration more than two weeks prior to travel unless, by processing the request earlier, significant savings can be realized for travel by common carrier or for registration fees for seminars and conferences.

CAUSE

The Authority is non-compliance with Section 2.42.2.10 of NMSA 1978.

EFFECT

Non-compliance with the state of New Mexico Travel and Per Diem Act subjects officials and employees to penalties as required by the state statutes.

RECOMMENDATION

The Authority should follow the rules in Section 2.42.2.10 of NMSA 1978 and should not pay over 80% in advance.

RESPONSE

The new management team is committed to rectify this situation and for us to be in compliance for the fiscal year ended June 30, 2019. The CFO is responsible to insure proper policies and procedures are adhered to.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2015-002 - Procurement Code - Material Weakness and Compliance

CONDITION

NCSWA does not have a procurement policy in place. Consequently, it was noted that there is a missing contract for legal consulting services. It is expected that no contract over $60,000 was properly procured. We noted 10 vendors with expenses larger than $60,000 for a total of $1,982,236. With the hiring of the current CFO, there is a renewed emphasis on compliance with procurement code, section 13-1-1 to 13-1-199, NMSA 1978.

CRITERIA

Auditing Standards state that the management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. Good accounting policies require that the Authority be able to produce documentation of contracts.

The New Mexico Procurement Code, Section 13-1-1 to 13-1-199, NMSA 1978 documents the requirements required by the

Purchasing Act. Such requirements include:

1) For single purchases in excess of $60,000 for tangible property or in excess of $60,000 for services, sealed, written bids must be solicited.

2) The invitation for bid or proposal includes the specifications for the services; construction or items of tangible personal property to be procured; determination for evaluation for all bids and proposals; all contractual terms and conditions applicable to the procurement; the locations where bids are to be received; and the date, time, and place of the bid opening.

3) An invitation for bids or a notice thereof shall be published not less than ten calendar days prior to the date set forth for the opening of bids. The notice shall be published at least once in at least three newspapers of general circulation in this state or the agency's website that is maintained for the purpose.

2015-002 - Contracts & Procurement Code - Material Weakness and Compliance (Continued)

4) A five percent preference is given to a bidder growing, producing, processing, manufacturing, or is a resident dealer for goods and services in the State of New Mexico.

5) The bid is awarded to the lowest bidder, except in the instance that one or more bidders have been evaluated as having a higher score than the lowest bidder.

6) Written notice is provided to the awarded bidder with reasonable promptness.

7) In the instance that all bids or proposals are rejected, a determination containing the reasons for cancellation shall be made part of the procurement file.

CAUSE

The Authority did not comply with the procurement code and ensure that all documentation was maintained in the bid or proposal file.

EFFECT

Without appropriate supporting documentation, the Authority has no assurance that all revenues and disbursements have been properly authorized and disbursed in accordance with applicable grant agreements and follow good accounting procurement practices. When files are disorganized, this provides for the possibility that noncompliance with the Procurement Code could go unnoticed by management.

RECOMMENDATION

All documentation should be kept in the file including requests that include preferences will be given to certain entities, newspaper clippings showing the date of circulation and who is circulating the advertisement, documentation of the official opening of bids/proposals, evaluation sheets completed by the responsible individuals, and documented written notice of awarding the bidder.

RESPONSE

When the current CFO was hired and eventually placed in the role of interim manager she discovered we were missing most of the required procurement documentation. We cannot provide an explanation as to what procurement procedures had or not been completed during the 2017 fiscal year. As for the 2019 fiscal year, we have sent one of our staff members to the chief procurement officer training. This employee successfully completed the training and is now considered our chief procurement officer. During the 2019 fiscal year we will establish policies and procedures to insure compliance with the procurement act. The CFO remains responsible for the implementation of policies, procedures and the resolution of the audit finding.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2016-001- Certified Procurement Officer - Significant Deficiency

CONDITION

During our NM Compliance testwork, it was noted that the Authority did not have a Chief Procurement Officer.

CRITERIA

Section 13-1-97 of NMSA 1978 requires that purchases be made through a central purchasing office which properly authorizes and approves the purchase prior to payment. An authorized official should indicate that the goods or services have been received prior to payment for the goods or services.

CAUSE

The Authority failed to designate and register a purchasing agent.

EFFECT

The Authority does not implement a proper purchasing process which exposes the Authority to the risk of following an improper purchasing process and increases the risk of errors in payments issued by Authority due to the lack of proper supervision and monitoring by the Chief Procurement Officer.

RECOMMENDATION

The Authority should designate an agent to become certified and registered as a Chief Procurement Officer for the Authority.

RESPONSE

During July 2018 an employee of the Authority successfully completed the chief procurement officer training. Commencing with the 2019 fiscal year we will institute proper procurement policies and procedures to insure compliance with the New Mexico procurement act.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2016-002 - Lack of Internal Control Over Adjusting Entries - Significant Deficiency

CONDITION

All 25 journal entry samples judgementally selected to be tested were not reviewed and approved. The Authority does not have a review and approval process for adjusting journal entries.

CRITERIA

Section 6-5-2, NMSA 1978, requires that the authority shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

CAUSE

The Authority was unaware of this requirement.

EFFECT

There may be unauthorized adjustments made, leaving room for error and management override.

RECOMMENDATION

The Authority should implement a review process for all transactions to mitigate risk of error, or manipulation.

RESPONSE

During October 2017, we began to change the structure of upper management with the hiring of a new CFO. As a result of poor management of the accounting data; historically, we posted very few journal entries to the general ledger. When the contracted accounting firm began to correct the records numerous journal entries were needed. Due to time constraints and our desire to correct the accounting records as soon as possible we did not institute a formal review process. The contracted accounting firm constructed documentation to support all journal entries posted which we maintain. Commencing with the 2019 fiscal year we will institute a policy of a second employee reviewing all adjusting entries posted along with the supporting documentation that substantiates the entries posted.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2016-003 - Internal Controls over Solid Waste Billing- Significant Deficiency

CONDITION

During our revenue test work, we noted that the Authority adjusted their solid waste bills for FY17 by $493,599 out of $5,719,668 to waive interest and penalties for customers who paid the full past due. This adjustment is 8.63% out of the total revenue. There is no policy in place to serve as a directive.

CRITERIA

Section 6.20.2.11 of NMAC requires each entity to develop, establish and maintain a structure of internal accounting controls and written procedures to provide for segregation of duties, a system of authorization and recording procedures, and sound accounting practices in performance of duties and functions. The duties to be segregated are the authorization to execute a transaction, recording the transaction, and custody of assets involved in the transaction.

CAUSE

The Authority does not have proper internal controls in place for FY16

EFFECT

The Authority is at risk of errors or fraud being committed without the Authority detection or correcting them. Further, the waiving of fees may constitute non-compliance with the Anti-Donation Act.

RECOMMENDATION

Management should ensure that the proper internal control processes to be followed with all billing adjustments.

RESPONSE

When the Authority was formed, outstanding accounts receivables from Rio Arriba County residents were transferred to us. We were unable to verify if the balances transferred to us were correct. Throughout the years those accounts along with other accounts continued to grow as penalties and interest were assessed on delinquent balances. In an effort to collect the original charges for services, we waived the accrued penalties and interest if the customer remitted the new balance in full or entered into a payment agreement. We understand the auditors concern and realize we must develop a written policy to formalize a policy which allows us to collect the charges for services and complies with state concerning the anti-donation clause of the State Constitution. We intend to develop a policy within a few months. The manager is responsible for correcting this issue.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2016-004 - Annual leave policy -Significant Deficiency

CONDITION

During the test work of compensated absences, we noted that the former Manager carried 509.05 hours of annual leave. This results in 269.05 hours over allowed amount an an resulting in an estimated overpayment and overstatement of liabilities and expenses of $12,627.

CRITERIA

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 (240) hours of vacation pay and one hundred sixty (160) hours of sick leave may convert up to forty (40) hours sick leave each year to forty (40) hours annual leave each year on a one to one basis. Regular non-probationary employees who terminate employment shall receive payment for all earned wages and for unused accrued vacation leave up to 240 hours.

CAUSE

The Authority was unaware of this requirement.

EFFECT

There may be unauthorized compensated absences, leaving room for error and management override. Employee annual leave payout may be in excess allowed amounts.

RECOMMENDATION

The Authority should follow the policy and accrue up to 240 hours.

RESPONSE

The prior manager employment contract with us allowed all of his annual leave to be paid upon his departure from employment. Unfortunately, we are unable to retrieve a copy of the prior manager's contract. Given the condition of our record retention system it is not surprising that we are unable to locate the employment contract. We are in the process of correcting this deficiency and maintain the proper documents as required. The manager intends to establish proper retention policies and procedures during the 2019 fiscal year.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2016-005 - Outstanding bills balance due from employees -Significant Deficiency

CONDITION

The Authority does not discontinue services on delinquent accounts. It has been noted that 4 employees had delinquent accounts totaling $14,548.73. One out of the 4 employees manages cash receipt as part of her day to day duties. The Authority is essentially a creditor to these employees, creating a conflict of interest and resulting in elevated risk in internal controls.

CRITERIA

The Codification of Statements on Auditing Standards (AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur (AU 325). Section 6-5-2, NMSA 1978, requires that the authority shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

CAUSE

Management has not taken the time to solve this outstanding balance situation.

EFFECT

Non-compliance with the Authority's policy

RECOMMENDATION

Management should either discontinue solid waste services or collect this money as soon as possible.

2016-005 - Outstanding bills balance due from employees -Significant Deficiency (Continued)

RESPONSE

The audit finding condition begins with the statement, "The Authority does not discontinue services on delinquent account". Other governmental entities such as municipalities are allowed to disconnect services for such services as water or other utilities. The disconnection of those items do not cause a concern for the public health. In our case, we are unable to disconnect services. If we don't pick up solid waste that action could pose a threat to public health. The inability to disconnect services places a burden on us as some customers simply stop paying their charge for services with no consequence. This contributes to the large accounts receivable balances we presently hold on many accounts. In an effort to protect the Authority we place a lien for delinquent amounts on land owners.

This particular finding addresses the concern regarding employee delinquent accounts. This finding is especially concerning to the present management. If our employees can't stay current on their charge for services there is a problem. Our employees need to set an example to the community that they comply and remit payment on a timely basis. We are in the process of forming a policy to collect the employee delinquent amount owned to Authority. We have met with our attorney to address the issue as we don't want to run afoul with labor laws. In the interim, we will institute a policy requiring the CFO to monitor, on a monthly basis, the employees accounts receivable accounts to insure that improper credits are not reflected in the account. The manager is responsible for this finding. He will present a proposed policy for the governing board approval at the October 2018 monthly board of directors meeting.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2016-006 - Internal Controls over Cash Disbursement - Significant Deficiency

CONDITION

During test work of cash disbursements, it was noted that 1 out of 25 disbursements did not have supporting documentation (i.e., invoice or receipts). The total amount posted in the general ledger was $18,985 and the the check amount was $3,920.56, resulting in inconsistent reporting of $15,064.44.

CRITERIA

Maintenance of adequate supporting documentation for all disbursements, including purchase requisitions, purchase order, travel authorizations, receiving reports, travel reports, and approval of disbursements are an integral part of a sound internal control system to safeguard the assets and accomplish timely preparation and submission of financial reports.

Section 6.20.2.11 of NMAC requires each entity to develop, establish and maintain a structure of internal accounting controls and written procedures to provide for segregation of duties, a system of authorization and recording procedures, and sound accounting practices in performance of duties and functions. The duties to be segregated are the authorization to execute a transaction, recording the transaction, and custody of assets involved in the transaction.

CAUSE

Management did not follow proper internal control procedures. The Authority staff failed to ensure that all of the required documentation that supports the expenditure was in place.

EFFECT

Without proper documentation, there are not adequate controls over expenditures which could result in over spending.

RECOMMENDATION

The Authority should implement procedures to maintain proper supporting documentation and also train personnel to adhere to the policies and procedures.

RESPONSE

The present management is determined to rectify issue. We have instituted a policy that no checks are issued without proper supporting documents that substantiate the expenditure. The CFO is responsible for overseeing this deficiency.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2017-001 - Intenal Control Over Capital Assets - Material Weakness

CONDITION

During field work management was unable to provide titles and the location of 2 vehicles:

1. 2006 Freightliner M2 5yd Sideloader was bought on December 15, 2016 for $47,275.

2. 2010 Ford F750 8yd Sideloader was bought on December 15, 2016 for $72,275.

We made three attempts to observe the vehicles; however they could not be located. Upon completion of the draft, management was able to provide us with the respective invoices and pictures of the vehicles; however, one of the title has not been located. The Authority lacks control over its assets.

CRITERIA

The Committee of Sponsoring Organizations (COSO) internal control integrated framework consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring.

CAUSE

Due to the turnover in management several times throughout the prior years, the Authority's internal controls that were implemented in prior years were not implemented or monitored fully during the fiscal year 2017.

EFFECT

Without all of the five elements of the COSO framework present, the Authority is exposing itself to the risk of misappropriation of assets and does not have set processes in place to maximize the resources of the Authority.

RECOMMENDATION

We recommend that the Authority incorporate the five elements of the COSO internal control integrated framework in their organization as planned.

RESPONSE

The capital assets were on hand during the audit field work. The capital assets inventory duties have been assigned to another employee.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2017-002 - Controls Over Authority Owned Credit Cards - Material Weakness

CONDITION

During the audit for June 30, 2017, it was noted that there where charges of $18,617.89 on the credit card that did not have adequate support. These charges all occurred between September 28, 2016 and December 7, 2016. Since we could not obtain supporting documentation for these purchases we cannot determine the expenditures were properly reviewed or approved. Further, we cannot determine if these expenditures were made for the benefit of the Authority. Lastly, the Authority had a lack of internal controls over expenditures.

CRITERIA

Proper internal controls require that supporting documentation should be remitted to include all original receipts to properly document and support the transaction. In addition, the Authority does not appear to have a formal policy on the use of credit cards to include limits on transactions, i.e., no personal charges allowed, purchase limits, etc. and controls over those transactions, i.e., prior approvals, authorized purchases only, etc.

CAUSE

The Authority did not appear to have adequate documentation to support the transaction. The Authority does not appear to have a formal policy on the use of credit cards.

EFFECT

There is an increased risk of the possibility of misstated financial statements due to a loss from fraud or error.

RECOMMENDATION

We recommend the Authority maintain its records to ensure all supporting receipts are attached to the supporting credit card statement. In addition, we recommend the Authority establish a formal credit card policy which would include limits on the use of the credits cards and internal controls over those ransactions.

RESPONSE

The prior upper management team obtained a credit card account with a local bank during September 2017. Upon opening the account, management failed to establish proper policies or procedures to safeguard the assets of the Authority. Subsequent to the auditors fieldwork we contacted several of the vendors reflected on the credit card statements to obtain copies of invoices. Many of the invoices reflect purchases of electronic equipment along with other items; however, we are unable to locate the items purchased. We have referred the matter to the New Mexico State Auditors office for further investigation. For FY19 we will develop written policies and procedures regarding the use of the Authority's credit cards.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

2017-003 - Cash Deposit Discrepancies - Material Weakness

CONDITION

During our cash test work, we noted that The Authority received $6,025.66 between August and October 2016. This cash received was not deposited into the bank account. There were 3 employees in charge of depositing money into bank account. As a result, we were not able to determine who was responsible for this missing cash during that period. Non-performing timely cash reconciliation of the Authority's bank statements leads to this weak in internal control.

CRITERIA

Section 6-6-3 NMSA, 1978 discusses good accounting practices and require that bank reconciliation's be performed monthly to ensure that cash receipts and cash disbursements are recorded in a correct and timely manner and that differences or errors be followed up and corrected in a timely manner.

CAUSE

Non-performance of monthly bank reconciliations was a major weakness in an internal controls system that allowed the misappropriation to remain undetected.

EFFECT

Understate cash and overstate revenue and accounts receivable.

RECOMMENDATION

It is recommended that the Authority perform complete and accurate bank reconciliation's at month end and assign another member of management the responsibility of reviewing each month's bank reconciliation. All unusual reconciling items should be investigated and dealt with promptly so errors do not accumulate thereby making the reconciliation process more difficult and time consuming.

RESPONSE

The manager nor the chief financial officer were employed by the Authority during this period as a result we are unable able to explain why the cash was not deposited into the Authority's bank accounts. In discussing this matter with our contracted accounting firm and our auditors, we have determined that poor internal controls lead to the problem. Now we have instituted procedures such as timely reconciliations of cash activity reflected on the general ledger and supporting documents with the bank statements. In FY19, we will adopt policies approved by the governing board to prevent this occurrence in the future. The matter has been referred to the New Mexico State Auditors office for further investigation.

EXPECTED COMPLETION DATE: 09/30/2018 **EMPLOYEE RESPONSIBLE: CFO**

North Central Solid Waste Authority
EXIT AND ENTRANCE CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

An entrance conference was conducted July 30, 2018 in a closed meeting pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

<u>North Central Solid Waste Authority</u>

	Chairman
Tomas Campos	Authority Manager
Audrey Gonzales	CFO

<u>Fierro & Fierro</u>

Dominic Fierro	Contracted IPA

<u>Beasley, Mitchell & Co., LLP</u>

Dahlia Garcia, CPA	Audit Supervisor
Amr Sakka, CPA	Audit Staff II
Jesse Oliver	Audit Staff
Michael Cooper	Staff Accountant

An exit conference was conducted September 28, 2018 in a closed meeting pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

<u>North Central Solid Waste Authority</u>

Dino Chavarria	Secretary
Peter Fuller	Authority Manager
Audrey Gonzales	CFO

<u>Fierro & Fierro</u>

Ed Fierro, CPA	Contracted IPA

<u>Beasley, Mitchell & Co., LLP</u>

Amr Sakka, CPA	Audit Staff II
Michael Cooper	Staff Accountant

FINANCIAL STATEMENT PREPARATION

The Authority provided compiled financial statements for the year ended June 30, 2017 and 2016. The compiled financial statements were used by Beasley, Mitchell & Co. in the preparation of these financial statements.