

LEA COUNTY SOLID WASTE AUTHORITY

FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended June 30, 2012



JOHNSON, MILLER & CO.

*Certified Public Accountants
A Professional Corporation*

An Independent Member of BDO Seidman Alliance

LEA COUNTY SOLID WASTE AUTHORITY

FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended June 30, 2012

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LEA COUNTY SOLID WASTE AUTHORITY

OFFICIAL ROSTER
JUNE 30, 2012

BOARD MEMBERS

| | | |
|--------------------|----------|------------|
| Todd Randall | Chairman | Hobbs |
| Garry Buie | Member | Hobbs |
| Neil Granath | Member | Lovington |
| Eric Honeyfield | Member | Hobbs |
| Rhonda Jones | Member | Lovington |
| Mayor Cheryl Chase | Member | Jal |
| Manuel Barriga | Member | Tatum |
| Gregory Fulfer | Member | Lea County |
| Mike Gallagher | Member | Lea County |



JOHNSON, MILLER & CO.

Certified Public Accountants

A Professional Corporation

An Independent Member Of BDO Seidman Alliance

Hobbs, New Mexico

Midland, Texas

Odessa, Texas

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Mr. Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Solid Waste Authority Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

We have audited the accompanying basic financial statements of the business-type activities, of Lea County Solid Waste Authority (the authority), as of and for the year ended June 30, 2012, as listed in the table of contents. We also audited the budget comparison statement presented as supplemental information as of and for the year ended June 30, 2012. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the association's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Lea County Solid Waste Authority as of June 30, 2012, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedule of Revenues and Expenses – Budget and Actual present fairly, in all material respects, the respective budgetary comparison for the Authority for the year ended June 30, 2012, in conformity with the budgetary basis described in Note A5.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012 on our consideration of the Lea County 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles accepted in the United States of America require that the management's discussion and analysis on pages 5-9 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hobbs, New Mexico
November 27, 2012

Johnson, Miller & Co.

LEA COUNTY SOLID WASTE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Lea County Solid Waste Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2012. This information is presented in conjunction with audited financial statements that follow this section.

Financial Highlights

- The Authority's total assets increased by \$45,995 while total liabilities decreased by \$669,865 resulting in total net assets increasing \$715,860.
- The Authority's operational expenses in fiscal year 2011-2012 increased by \$79,516 from the prior year. Depreciation expense increased by \$1,916.
- As of the close of the current fiscal year, the Authority reported ending net assets of \$4,502,782.
- Charges for Services increased by \$245,384 from the prior year and were above budgeted amounts by \$83,284 due to more waste materials received than expected.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Authority.

The Authority's basic financial statements are comprised of two components: 1) fund financial statement and 2) notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

Financial Statements

The financial statements present the financial picture of the Authority from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of changes in fund net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event, giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The financial statements reflect that the Authority is principally supported by user fees that are intended to recover all or a significant portion of their business-type activity. The business-type activity includes addressing the immediate and future solid waste needs of the citizens of Lea County.

Fund financial statements

The Authority's basic services are reported in one unrestricted fund, which focuses on how money flows in to and out of the fund and the balance left at year-end that is available for spending. The fund is reported using the accrual basis of accounting. The statements provide a detailed short-term view of the Authority's general operations and the basic services it provides.

LEA COUNTY SOLID WASTE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Notes to basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 13-19 of this report.

Financial Analysis

Net assets may serve over time as a useful indicator of an entity's financial position. As of June 30, 2012, the net assets are at a surplus balance.

Net Assets

To begin our analysis, a summary of the Authority's Statement of Net Assets is presented in Table A-1.

Table A-1
Condensed Statements of Net Assets

| | FY 2012 | FY 2011 | Dollar Change |
|----------------------------------------------------|--------------------|---------------------|--------------------------|
| Current and Other Assets | \$ 3,084,957 | \$ 3,978,165 | \$ (893,208) |
| Capital Assets | 3,112,926 | 2,173,723 | 939,203 |
| Total Assets | 6,197,883 | 6,151,888 | 45,995 |
| Current Liabilities | 366,951 | 522,634 | 155,683 |
| Long-term Liabilities | 1,328,150 | 1,842,332 | 514,182 |
| Total Liabilities | 1,695,101 | 2,364,966 | 669,865 |
| Invested in capital assets, net of related debt | 1,986,271 | 479,788 | 1,506,483 |
| Unrestricted | 2,516,511 | 3,307,134 | (790,623) |
| Total Net Assets | \$4,502,782 | \$ 3,786,922 | \$ 715,860 |

LEA COUNTY SOLID WASTE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Net Assets (continued)

Table A-2
Condensed Statements of Revenues,
Expenses, and Changes in Net assets

| | FY 2012 | FY 2011 | Dollar Change |
|---------------------------------------------|---------------------|---------------------|-------------------|
| Charges for services | \$ 2,884,386 | \$ 2,639,002 | \$ 245,384 |
| Rental Fees | 1,200 | 1,100 | 100 |
| Interest Income | 1,802 | 2,304 | (502) |
| Total operating revenue | 2,887,388 | 2,642,406 | 244,982 |
| OPERATING EXPENSES | | | |
| Operational expenses | 1,668,489 | 1,588,973 | 79,516 |
| Depreciation expense | 331,766 | 329,850 | 1,916 |
| Closure and postclosure care costs (Note E) | 112,973 | 18,689 | 94,284 |
| Non-operating expense | 58,300 | 81,286 | (22,986) |
| Total expense | 2,171,528 | 2,018,798 | 152,730 |
| Change in net assets | 715,860 | 623,608 | 92,252 |
| Beginning net assets | 3,786,922 | 3,163,314 | 623,608 |
| Ending net assets | \$ 4,502,782 | \$ 3,786,922 | \$ 715,860 |

As can be seen from the table above, the Change in Net Assets for fiscal year 2012 was \$92,252 more than for the fiscal year 2011 due to increased revenues earned during fiscal year 2012.

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and source of these changes.

Capital Assets

All capital assets in the current year are for the landfill.

Long-Term Debt

All long-term debt is directly related to the landfill. In the current year the loan payable due to Lea County decreased by \$567,279, while the accrued closure/post closure costs increased by \$110,063.

LEA COUNTY SOLID WASTE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Budgetary Highlights

The Authority adopts an annual Operating Budget following public workshops and a public hearing. The Operating Budget includes proposed expenses and the means of financing them.

A fiscal year 2012 budget comparison and analysis is presented in Table A-3

**Table A-3
Budget vs. Actual
Year Ended June 30, 2012**

| | Original Budget | Final Budget | Actual Amounts | Variance Positive (Negative) |
|---------------------------------------------------|-----------------------|-----------------------|-----------------------|------------------------------------|
| Revenues | | | | |
| Charges for services | \$ 2,600,000 | \$ 2,600,000 | \$ 2,683,284 | \$ 83,284 |
| Rental Fee | - | - | 1,200 | 1,200 |
| Interest Income | - | - | 1,802 | 1,802 |
| Total revenues | 2,600,000 | 2,600,000 | 2,686,286 | 86,286 |
| Expenses | | | | |
| Operational expenses | 2,192,808 | 2,192,808 | 1,693,759 | 499,049 |
| Capital Outlay: | | | | |
| Construction-in-process | 1,720,000 | 1,720,000 | 1,458,349 | 261,651 |
| Loan repayment | 710,000 | 710,000 | 625,579 | 84,421 |
| Closure and postclosure care costs | 3,600 | 3,600 | 2,910 | 690 |
| Total expenses | 4,626,408 | 4,626,408 | 3,780,597 | 845,811 |
| Excess (deficit) of revenues over expenses | \$ (2,026,408) | \$ (2,026,408) | \$ (1,094,311) | \$ 932,097 |
| Other financing sources (uses) | | | | |
| Prior year cash balance | 3,729,272 | 3,729,272 | - | |
| Total other financing sources (uses) | 3,729,272 | 3,729,272 | - | |
| Net change in fund balance | \$ 1,702,864 | \$ 1,702,864 | (1,094,311) | |

Significant Variances between Budget and Actual

The budget amount for charges for services of \$2,600,000 was based on prior year cash received after review of last year's actual revenue. The actual revenue varies from the budget amount due to fewer waste materials received than expected. The difference in the actual expenses varies primarily due to the unexpended funds for cell construction.

LEA COUNTY SOLID WASTE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Next Year's Budget

The Board of Directors of the Authority considered many factors when setting the fiscal year 2012 budget. One of those factors is the local economy and the impact that landfill fees have on the community.

Authority Contact Information

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Sherri Bunch at Lea County Solid Waste Authority, 110 N Main, Lovington, NM 88260 or by phone at 575-396-8653.

BASIC FINANCIAL STATEMENTS

LEA COUNTY SOLID WASTE AUTHORITY

| | <u>June 30, 2012</u> |
|-------------------------------------------------|----------------------|
| ASSETS | |
| Cash | \$ 2,454,254 |
| Sinking fund cash | 180,707 |
| Accounts receivable | <u>449,996</u> |
| Total current assets | 3,084,957 |
| Capital assets (NOTE B) | <u>3,112,926</u> |
| TOTAL ASSETS | \$ 6,197,883 |
| LIABILITIES AND NET ASSETS | |
| LIABILITIES | |
| Accounts payable | \$ 219,757 |
| Current portion of long term debt (NOTE F) | <u>147,194</u> |
| Total current liabilities | 366,951 |
| Accrued closure and post closure costs (NOTE E) | 348,689 |
| Long term debt (NOTE F) | <u>979,461</u> |
| Total long term liabilities | 1,328,150 |
| TOTAL LIABILITIES | 1,695,101 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 1,986,271 |
| Unrestricted | <u>2,516,511</u> |
| Total net assets | 4,502,782 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 6,197,883 |

The accompanying notes are an integral part of these statements.

LEA COUNTY SOLID WASTE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

| | Year Ended June 30, 2012 |
|---------------------------------------------|-----------------------------|
| OPERATING REVENUES | |
| Charges for services | \$ 2,884,386 |
| Rental Fees | 1,200 |
| Interest Income | 1,802 |
| Total operating revenues | 2,887,388 |
| OPERATING EXPENSES | |
| Operational expenses | 1,668,489 |
| Depreciation expense | 331,766 |
| Closure and postclosure care costs (Note E) | 112,973 |
| Total operating expenses | 2,113,228 |
| Operating income | 774,160 |
| NON-OPERATING EXPENSES | |
| Interest expense | 58,300 |
| Total non-operating expenses | 58,300 |
| CHANGE IN NET ASSETS | 715,860 |
| NET ASSETS AT BEGINNING OF YEAR | 3,786,922 |
| NET ASSETS AT END OF YEAR | \$ 4,502,782 |

The accompanying notes are an integral part of these statements.

LEA COUNTY SOLID WASTE AUTHORITY

STATEMENT OF CASH FLOWS

| | <u>Year Ended June 30, 2012</u> |
|---------------------------------------------------------------------------------------------|-------------------------------------|
| OPERATING ACTIVITIES | |
| Cash received from customers | \$ 2,686,286 |
| Cash paid to suppliers | (1,642,515) |
| Cash paid to employees | (26,580) |
| Net cash provided by operating activities | <u>1,017,191</u> |
| INVESTING ACTIVITIES | |
| Cash paid for asset additions | (1,485,922) |
| Net cash (used) by capital and related investing activities | <u>(1,485,922)</u> |
| CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Principal paid on capital debt | (567,280) |
| Interest paid on capital debt | (58,300) |
| Net cash (used) by capital and related financing activities | <u>(625,580)</u> |
| Net increase in cash | (1,094,311) |
| Cash at beginning of year | <u>3,729,272</u> |
| Cash at end of year | <u>\$ 2,634,961</u> |
| Reconciliation of net operating income to net cash provided by operating activities: | |
| Operating income | \$ 774,160 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | |
| Depreciation expense | 331,766 |
| Changes in assets and liabilities: | |
| Receivables, net | (201,105) |
| Accrued closure costs | 110,063 |
| Accounts payable for operational expenses | 2,307 |
| Net cash provided by operating activities | <u>\$ 1,017,191</u> |

The accompanying notes are an integral part of these statements.

LEA COUNTY SOLID WASTE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ORGANIZATION

Lea County Solid Waste Authority (the Authority) was established on March 6, 1995 under a joint powers agreement entered into by and between the County of Lea, the Cities of Lovington, Jal, Eunice, Tatum, and Hobbs. It was the desire of the parties to form a solid waste disposal authority in order to collectively address the immediate and future solid waste disposal needs of the citizens of Lea County.

2. REPORTING ENTITY

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. Organizations that are legally separate, tax-exempt entities and that meet *all* of the following criteria should be discretely presented as component units. These criteria are:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Based upon the application of these criteria, there are no potential component units included in the Authority's reporting entity, and the Authority is not a component unit of any other entity.

3. FINANCIAL STATEMENT PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

Fund Accounting:

The accounts of the Association are organized on the basis of fund type, of which there is only one fund which is considered an enterprise fund.

Enterprise Funds: (Unrestricted Funds)

Unrestricted funds are used to account for operations of the Association that are financed and operated in a manner similar to private business enterprises where the intent is that the costs, including depreciation, of providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges.

LEA COUNTY SOLID WASTE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. FINANCIAL STATEMENT PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS (continued)

Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Authority has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with Governmental Accounting Standards Board (GASB) pronouncements. The Association has elected not to apply FASB pronouncements issued after the applicable date.

Measurement Focus:

The unrestricted funds (enterprise funds) are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period they are earned.

4. CAPITAL ASSETS

Capital assets of the Authority are recorded at cost. Outlays for capital assets in excess of \$5,000 are capitalized. Information technology equipment, including software, is depreciated in accordance with NMAC 2.20.1.9 C (5). Capital assets will be depreciated once the assets are placed in service using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-------------------|--------------|
| Buildings | 40 |
| Permits | 72 |
| Site Improvements | 15 |
| Cells | 6 |
| Chipper | 6 |

The Authority's policy is to capitalize interest incurred during construction as part of the historical cost of capital assets.

5. BUDGET

The annual budget is adopted based on the cash basis of accounting.

Annual budgets of the Association are prepared prior to June 1 and must be approved by the resolution of the Board, and submitted for approval by the State of New Mexico. Once the budget has been formally approved, any amendments must also be approved by the Board and the State.

Budgeted amounts are as originally adopted, or as amended by the Board and approved by the State. Budgets for all fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The schedule of budgeted revenues and expenditures presents comparisons of legally adopted budgets with actual data on a budgetary basis. The legal level of budgetary control is the fund level.

LEA COUNTY SOLID WASTE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. 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 that affect the reporting amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash held by the Authority's fiscal agent, Lea County. These funds are included in those insured and collateralized by Lea County according to the schedules included in the separately issued financial statements of the County.

8. ACCOUNTS RECEIVABLE

Accounts receivable results from charges to customers for waste disposal services. Management considers accounts receivable at June 30, 2012 to be fully collectible.

9. REVENUE

Operating revenue includes activities that have the characteristics of an exchange transaction, such as charges for services.

Non-operating revenue includes activities that have the characteristics of non-exchange transactions. The Authority does not typically have non-operating revenues.

10. NET ASSETS

Restricted assets are assets which have third-party limitation on their use. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Invested in capital assets, net of related debt represents the cost of capital assets less accumulated depreciation less debt used to finance capital assets.

LEA COUNTY SOLID WASTE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE B – CAPITAL ASSETS

The following is a summary of changes in capital assets:

| | Balance June 30, 2011 | Additions | Deletions | Balance June 30, 2012 |
|-------------------------------------|--------------------------|---------------------|-------------------|--------------------------|
| Assets not subject to depreciation: | | | | |
| Land | \$ 17,000 | \$ - | \$ - | \$ 17,000 |
| Cell 4 - not in service | - | 1,487,408 | - | 1,487,408 |
| Construction in Progress | 268,235 | 24,222 | 268,235 | 24,222 |
| Total non-depreciable assets | 285,235 | 1,511,630 | 268,235 | 1,528,630 |
| Assets subject to depreciation: | | | | |
| Permit | 353,114 | - | - | 353,114 |
| Buildings | 199,975 | - | - | 199,975 |
| Site Improvements | 232,140 | - | - | 232,140 |
| Chipper | 24,111 | - | - | 24,111 |
| Cell 1 | 1,989,225 | - | - | 1,989,225 |
| Cell 2 | 803,936 | - | - | 803,936 |
| Cell 2b | 1,041,332 | - | - | 1,041,332 |
| Cell 3 | 1,677,731 | - | - | 1,677,731 |
| Electrical Improvements | 167,268 | - | - | 167,268 |
| Site Improvements - Signs | 20,901 | - | - | 20,901 |
| Site Improvements (Landscaping) | 202,846 | - | - | 202,846 |
| Cement Work/Electrical Work | - | 27,574 | - | 27,574 |
| | 6,712,579 | 27,574 | - | 6,740,153 |
| Total capital assets | 6,997,814 | 1,539,204 | 268,235 | 8,268,783 |
| Less accumulated depreciation: | | | | |
| Permit | (58,848) | (4,905) | - | (63,753) |
| Buildings | (59,988) | (5,000) | - | (64,988) |
| Site Improvements | (185,712) | (15,476) | - | (201,188) |
| Chipper | (21,700) | - | - | (21,700) |
| Cell 1 | (1,989,225) | - | - | (1,989,225) |
| Cell 2 | (803,936) | - | - | (803,936) |
| Cell 2b | (1,041,332) | - | - | (1,041,332) |
| Cell 3 | (629,151) | (279,621) | - | (908,772) |
| Electrical Improvements | (14,868) | (11,151) | - | (26,019) |
| Site Improvements - Signs | (174) | (2,090) | - | (2,264) |
| Site Improvements (Landscaping) | (19,157) | (13,523) | - | (32,680) |
| | (4,824,091) | (331,766) | - | (5,155,857) |
| Net capital assets | \$ 2,173,723 | \$ 1,207,438 | \$ 268,235 | \$ 3,112,926 |

Assets are being depreciated over a period of 6 to 72 years using the straight line method. Land is not being depreciated. Depreciation expense for the year was \$331,766.

LEA COUNTY SOLID WASTE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE C – RELATED PARTY TRANSACTIONS

Lea County, fiscal agent to the Authority, advanced funds to the Authority under the terms of the Fiscal Agent Agreement entered into by the Authority during a prior year. The agreement allows for the loan of up to \$2.2 million for the construction of a solid waste facility.

The loan, bearing interest at 4.65% annum, is being repaid from the net revenues of the Authority. Repayment terms are to be determined by the members of the Authority on an annual basis. The loan is secured by the gross revenue of the Authority and the real estate and solid waste facility.

Accounts receivable at year end, relating to tipping fees in the normal course of business, includes amounts receivable from the members as follows:

| <u>Authority Member</u> | <u>Related Party Receivable</u> |
|-------------------------|-------------------------------------|
| Lea County | \$ 14,438 |
| City of Hobbs | 10,596 |
| City of Eunice | 2,650 |
| City of Jal | 1,823 |
| Town of Tatum | 2,889 |
| | <hr/> |
| | \$ 32,396 |

NOTE D– RISK MANAGMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the contractor constructing the solid waste facility carries commercial insurance protecting the contractor and the Authority. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2012, the Authority did not have any probable risks of loss.

LEA COUNTY SOLID WASTE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE E – LANDFILL CLOSURE AND POSTCLOSURE CARE

State and federal laws and regulations require that the Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure of the Lea County Landfill. An expense provision and the related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. Based upon a joint powers agreement between the members of the Authority, the closure and postclosure care costs will be shared in the following percentages:

| <u>Authority Member</u> | <u>Percentage</u> |
|-------------------------|-------------------|
| City of Hobbs | 52.20 |
| City of Lovington | 16.71 |
| Town of Tatum | 1.37 |
| City of Eunice | 4.79 |
| City of Jal | 3.86 |
| Lea County | 21.07 |

The recognition of these landfill closure and postclosure care costs is based on the amount of landfill used during the year. The landfill began accepting waste on July 1, 1999. The total estimated liability for landfill closure costs is \$529,300 as of June 30, 2012, which is based on the cumulative capacity of 5,699,000 cubic yards to be used over its estimated life of 36 years. It is estimated that an additional \$546,000 of postclosure care costs will be recognized over 30 years after the landfill is closed. The estimated total current cost of the landfill closure and postclosure care of \$1,075,300 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2012. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in state and federal landfill laws and regulations.

The following calculation details the current amount recognized for landfill closure and postclosure care reflected in the financial statements of the Authority:

| | |
|------------------------------------------------------------------------------------------------------|----------------------------|
| Estimated landfill closure cost | \$ 529,300 |
| Estimated landfill postclosure care cost | <u>546,000</u> |
| Total estimated closure and postclosure costs | <u>\$ 1,075,300</u> |
| Total capacity used to date (1,702,202 cubic yards) as a % of total capacity (5,699,000 cubic yards) | |
| | 32.43% |
| Estimated closure and postclosure care cost | \$ 348,689 |
| Prior year recognized | <u>238,626</u> |
| Estimated liability increase for the year ended June 30, 2012 | <u>\$ 110,063</u> |

The members of the Authority are required by the State of New Mexico Environmental Regulation Board to demonstrate financial assurance for the closure and postclosure costs.

LEA COUNTY SOLID WASTE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE F – LONG TERM DEBT

The Authority has a note payable to Lea County in quarterly payments bearing interest at 4.65%, maturing December 31, 2025, secured by the Lea County Landfill. The long-term liability for the year ended June 30, 2012 is as follows:

| | June 30, 2011 | Additions | Reductions | June 30, 2012 | Due Within One Year |
|--------------|---------------|-----------|------------|---------------|------------------------|
| Note payable | | | | | |
| Lea County | \$ 1,693,935 | \$ - | \$ 567,280 | \$ 1,126,655 | \$ 147,194 |

The annual debt service requirements to maturity, including principal and interest for long-term debt as of June 30, 2010, are as follows:

| Year Ending June 30, | Principal | Interest |
|----------------------|---------------------|-------------------|
| 2013 | \$ 147,194 | \$ 62,103 |
| 2014 | 124,035 | 43,423 |
| 2015 | 129,904 | 37,533 |
| 2016 | 136,052 | 31,387 |
| 2017-2020 | 589,470 | 58,054 |
| Total | <u>\$ 1,126,655</u> | <u>\$ 232,500</u> |

NOTE G – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through November 27, 2012, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

LEA COUNTY SOLID WASTE AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP BASIS) YEAR ENDED JUNE 30, 2012

| | Original Budget | Final Budget | Actual Amounts | Variance Positive (Negative) |
|---------------------------------------------------|-----------------------|-----------------------|-----------------------|------------------------------------|
| Revenues | | | | |
| Charges for services | \$ 2,600,000 | \$ 2,600,000 | \$ 2,683,284 | \$ 83,284 |
| Rental Fee | - | - | 1,200 | 1,200 |
| Interest Income | - | - | 1,802 | 1,802 |
| Total revenues | 2,600,000 | 2,600,000 | 2,686,286 | 86,286 |
| Expenses | | | | |
| Operational expenses | 2,192,808 | 2,192,808 | 1,693,759 | 499,049 |
| Capital Outlay: | | | | |
| Construction-in-process | 1,720,000 | 1,720,000 | 1,458,349 | 261,651 |
| Loan repayment | 710,000 | 710,000 | 625,579 | 84,421 |
| Closure and postclosure care costs | 3,600 | 3,600 | 2,910 | 690 |
| Total expenses | 4,626,408 | 4,626,408 | 3,780,597 | 845,811 |
| Excess (deficit) of revenues over expenses | \$ (2,026,408) | \$ (2,026,408) | \$ (1,094,311) | \$ 932,097 |
| Other financing sources (uses) | | | | |
| Prior year cash balance | 3,729,272 | 3,729,272 | - | |
| Total other financing sources (uses) | 3,729,272 | 3,729,272 | - | |
| Net change in fund balance | \$ 1,702,864 | \$ 1,702,864 | (1,094,311) | |
| Reconciliation to GAAP Basis: | | | | |
| Depreciation | | | (331,766) | |
| Decrease in receivables, net | | | 201,105 | |
| Increase in accrued closure costs | | | (110,063) | |
| Decrease in operational accounts payable | | | 212,647 | |
| Increase in capital asset | | | 1,270,968 | |
| Principal repayment | | | 567,280 | |
| Change in Net Assets | | | \$ 715,860 | |



JOHNSON, MILLER & CO.

Certified Public Accountants

A Professional Corporation

An Independent Member Of BDO Seidman Alliance

Hobbs, New Mexico

Midland, Texas

Odessa, Texas

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

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Solid Waste Authority Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

We have audited the basic financial statements of the business-type activities and related budgetary comparison presented as supplementary information of Lea County Solid Waste Authority (the Authority), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the authority is responsible for establishing and maintain effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly,

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Solid Waste Authority Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

We do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and pass-through entities, Lea County, City of Hobbs, City of Lovington, City of Eunice, City of Jal, City of Tatum, and is not intended to be and should not be used by anyone other than these specified parties.

Johnson, Miller & Co.

Hobbs, New Mexico
November 27, 2012

**LEA COUNTY SOLID WASTE AUTHORITY
STATE OF NEW MEXICO**

SCHEDULE OF STATUS OF PRIOR FINDINGS

YEAR ENDED JUNE 30, 2012

Prior Year Findings

None

**LEA COUNTY SOLID WASTE AUTHORITY
STATE OF NEW MEXICO**

OTHER DISCLOSURES

For the fiscal year ended June 30, 2012

FINANCIAL STATEMENT PRESENTATION

The financial statements of the Lea County Solid Waste Authority were prepared from the original books and records provided by the management of this entity by Johnson Miller & Co., CPA's.

EXIT CONFERENCE

An exit conference was conducted on November 27, 2012 in which the contents of this report were discussed with the following:

Association Officials

Todd Randall, Chairman
Sherri Bunch, Finance Director

Auditors

Mary Hinds, CPA
Kerri Gray

LEA COUNTY SOLID WASTE AUTHORITY

Mr. Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Authority Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

PASSED ADJUSTMENTS

The State Auditor's Rule 2.2.2.10 AA (2) states that the auditor must present a list of passed adjustments to the agency management and governing board representatives and a copy of the list must be attached to the audit report submitted to the State Auditor for review.

No passed adjustments were made during the audit for Lea County Solid Waste Authority, New Mexico for the year ended June 30, 2012