

LEA COUNTY SOLID WASTE AUTHORITY

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2013

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LEA COUNTY SOLID WASTE AUTHORITY

OFFICIAL ROSTER
JUNE 30, 2013

BOARD MEMBERS

Todd Randall	Chairman	Hobbs
Garry Buie	Member	Hobbs
Neil Granath	Member	Lovington
J. J. Murphy	Member	Hobbs
James Murphy	Member	Lovington
Mayor Cheryl Chase	Member	Jal
Manuel Barriga	Member	Tatum
Gregory Fulfer	Member	Lea County
Mike Gallagher	Member	Lea County



Independent Auditor's Report

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

Report on Financial Statements

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, 2013, which comprise the authority's basic financial statements as listed in the table of contents and the related notes to the financial statements. We have also audited the budget comparison statement presented as supplementary information for the year ended June 30, 2013.

Management's Responsibility for 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 misstatements, whether due to fraud or error.

Auditor's 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.

Opinions

In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities of the Lea County Solid Waste Authority as of June 30, 2013, and the respective changes in financial position and its cash flows, thereof 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 presents fairly, in all material respects, the respective budgetary comparison for the Authority for the year ended June 30, 2013, in conformity with the budgetary basis described in Note A5.

Other Matters

Required Supplemental Information

Accounting principles generally 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Johnson, Miller & Co.

Hobbs, New Mexico
November 22, 2013

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, 2013. This information is presented in conjunction with audited financial statements that follow this section.

Financial Highlights

- The Authority's total assets increased by \$915,286 while total liabilities decreased by \$105,389 resulting in net position increasing \$1,020,676.
- The Authority's operational expenses in fiscal year 2012-2013 increased by \$7,984 from the prior year. Depreciation expense increased by \$1,845.
- As of the close of the current fiscal year, the Authority reported ending net assets of \$5,523,457.
- Charges for Services increased by \$249,215 from the prior year and were above budgeted amounts by \$576,170 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 position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position 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 position may serve over time as a useful indicator of an entity's financial position. As of June 30, 2013, the net position is at a surplus balance.

Net Position

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

**Table A-1
Condensed Statements of Net Position**

	FY 2013	FY 2012	Dollar Change
Current and other assets	\$ 4,215,614	\$ 3,084,957	\$ 1,130,657
Capital assets	2,897,555	3,112,926	(215,371)
Total Assets	7,113,169	6,197,883	915,286
Current liabilities	342,197	366,952	24,755
Long-term liabilities	1,247,515	1,328,150	80,635
Total Liabilities	1,589,712	1,695,102	105,390
Net invested in capital assets	1,918,094	1,986,271	(68,177)
Unrestricted	3,605,363	2,516,510	1,088,853
Total Net Position	\$ 5,523,457	\$ 4,502,781	\$ 1,020,676

LEA COUNTY SOLID WASTE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Net Position (continued)

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

	FY 2013	FY 2012	Dollar Change
Charges for services	\$ 3,133,601	\$ 2,884,386	\$ 249,215
Rental fees	1,200	1,200	-
Interest income	1,463	1,801	(338)
Total operating revenue	3,136,264	2,887,387	248,877
OPERATING EXPENSES			
Operational expenses	1,676,472	1,668,489	7,983
Depreciation expense	333,611	331,766	1,845
Closure and postclosure care costs (Note E)	43,401	112,973	(69,572)
Non-operating expense	62,104	58,300	3,804
Total expense	2,115,588	2,171,528	(55,940)
Change in net position	1,020,676	715,859	304,817
Beginning net position	4,502,781	3,786,922	715,859
Ending net position	\$ 5,523,457	\$ 4,502,781	\$ 1,020,676

As can be seen from the table above, the Change in Net Position for fiscal year 2013 was \$304,817 more than for the fiscal year 2012 due to increased revenues earned during fiscal year 2013.

While the Statement of Net Position shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Position 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 \$147,194 while the accrued closure/post closure costs increased by \$43,401.

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 2013 budget comparison and analysis is presented in Table A-3.

**Table A-3
Budget vs. Actual
Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues				
Charges for services	\$ 2,575,000	\$ 2,575,000	\$ 3,151,170	\$ 576,170
Rental fee	1,000	1,000	1,200	200
Interest income	1,600	1,600	1,463	(137)
Total revenues	2,577,600	2,577,600	3,153,833	576,233
Expenses				
Operational expenses	1,854,471	1,854,471	1,700,563	153,908
Capital outlay:				
Construction-in-process	126,000	126,000	95,747	30,253
Loan repayment	209,439	209,439	209,298	141
Closure and postclosure care costs	-	-	-	-
Total expenses	2,189,910	2,189,910	2,005,608	184,302
Excess (deficit) of revenues over expenses	\$ 387,690	\$ 387,690	\$ 1,148,225	\$ 760,535
Other financing sources (uses)				
Prior year cash balance	2,634,962	2,634,962	-	
Total other financing sources (uses)	2,634,962	2,634,962	-	
Net change in fund balance	\$ 3,022,652	\$ 3,022,652	1,148,225	

Significant Variances between Budget and Actual

The budget amount for charges for services of \$2,577,600 was based on prior year cash received after review of last year's actual revenue. The difference in the actual expenses of \$153,905 varies primarily due to less contract services and landfill operator expenses.

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 2013 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.

LEA COUNTY SOLID WASTE AUTHORITY

STATEMENT OF NET POSITION

	<u>June 30, 2013</u>
ASSETS	
Cash	\$ 3,542,117
Sinking fund cash	241,070
Accounts receivable	<u>432,427</u>
Total current assets	4,215,614
Capital assets (NOTE B)	<u>2,897,555</u>
TOTAL ASSETS	<u>\$ 7,113,169</u>
 LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable	\$ 218,161
Current portion of long term debt (NOTE F)	<u>124,036</u>
Total current liabilities	342,197
Accrued closure and post closure costs (NOTE E)	392,090
Long term debt (NOTE F)	<u>855,425</u>
Total long term liabilities	<u>1,247,515</u>
TOTAL LIABILITIES	<u>1,589,712</u>
 NET POSITION	
Net invested in capital assets	1,918,094
Unrestricted	<u>3,605,363</u>
Total net position	<u>5,523,457</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 7,113,169</u>

The accompanying notes are an integral part of these statements.

LEA COUNTY SOLID WASTE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

	<u>Year Ended June 30, 2013</u>
OPERATING REVENUES	
Charges for services	\$ 3,133,601
Rental fees	1,200
Interest income	1,463
	<hr/>
Total operating revenues	3,136,264
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OPERATING EXPENSES	
Operational expenses	1,676,472
Depreciation expense	333,611
Closure and postclosure care costs (Note E)	43,401
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Total operating expenses	2,053,484
	<hr/>
Operating income	1,082,780
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NON-OPERATING EXPENSES	
Interest expense	62,104
	<hr/>
Total non-operating expenses	62,104
	<hr/>
CHANGE IN NET POSITION	1,020,676
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NET POSITION AT BEGINNING OF YEAR	4,502,781
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NET POSITION AT END OF YEAR	\$ 5,523,457
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The accompanying notes are an integral part of these statements.

LEA COUNTY SOLID WASTE AUTHORITY

STATEMENT OF CASH FLOWS

	<u>Year Ended June 30, 2013</u>
OPERATING ACTIVITIES	
Cash received from customers	\$ 3,213,833
Cash paid to suppliers	(1,712,594)
Cash paid to employees	(25,475)
Net cash provided by operating activities	<u>1,475,764</u>
INVESTING ACTIVITIES	
Cash paid for asset additions	(118,241)
Net cash (used) by capital and related investing activities	<u>(118,241)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(147,194)
Interest paid on capital debt	(62,104)
Net cash (used) by capital and related financing activities	<u>(209,298)</u>
Net increase in cash	1,148,225
Cash at beginning of year	<u>2,634,962</u>
Cash at end of year	<u>\$ 3,783,187</u>
Reconciliation of net operating income to net cash provided by operating activities:	
Operating income	\$ 1,082,780
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation expense	333,611
Changes in assets and liabilities:	
Receivables, net	17,570
Accrued closure costs	43,401
Accounts payable for operational expenses	(1,598)
Net cash provided by operating activities	<u>\$ 1,475,764</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 Authority 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 Authority 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 Authority 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 Authority 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, 2013 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. RESTRICTED 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.

Net invested in capital assets, 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, 2012	Additions	Deletions	Balance June 30, 2013
Assets not subject to depreciation:				
Land	\$ 17,000	\$ -	\$ -	\$ 17,000
Cell 4 - not in service	1,487,408	-	-	1,487,408
Construction in Progress	24,221	-	24,221	-
Total non-depreciable assets	1,528,629	-	24,221	1,504,408
Assets subject to depreciation:				
Permit	353,114	-	-	353,114
Buildings	199,975	-	-	199,975
Site Improvements	232,140	22,493	-	254,633
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	17,181	-	220,027
Cement Work/Electrical Work	27,574	-	-	27,574
Scales	-	102,788	-	102,788
	6,740,153	142,462	-	6,882,615
Total capital assets	8,268,782	142,462	24,221	8,387,023
Less accumulated depreciation:				
Permit	(63,753)	(4,905)	-	(68,658)
Buildings	(64,988)	(4,999)	-	(69,987)
Site Improvements	(201,188)	(15,726)	-	(216,914)
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	(908,771)	(279,622)	-	(1,188,393)
Electrical Improvements	(26,019)	(11,152)	-	(37,171)
Site Improvements - Signs	(2,264)	(2,090)	-	(4,354)
Site Improvements (Landscaping)	(32,681)	(14,000)	-	(46,681)
Cement Work/Electrical Work	-	(689)	-	(689)
Scales	-	(428)	-	(428)
	(5,155,857)	(333,611)	-	(5,489,468)
Net capital assets	\$ 3,112,925	\$ (191,149)	\$ 24,221	\$ 2,897,555

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 \$333,611.

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:

Authority Member	Related Party Receivable
Lea County	\$ 17,601
City of Hobbs	20,299
City of Eunice	2,579
City of Jal	962
	\$ 41,441

Accounts payable at year end, relating to goods and services provided, includes amounts payable from the members as follows:

Authority Member	Related Party Payable
Lea County	\$ 84,303
	\$ 84,303

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, 2013, 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 \$548,037 as of June 30, 2013, 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 \$565,328 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 \$1,113,365 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, 2013. 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	\$ 548,037
Estimated landfill postclosure care cost	<u>565,328</u>
Total estimated closure and postclosure costs	<u>\$ 1,113,365</u>
Total capacity used to date (2,006,998 cubic yards) as a % of total capacity (5,699,000 cubic yards)	
	35.22%
Estimated closure and postclosure care cost	\$ 392,090
Prior year recognized	<u>348,689</u>
Estimated liability increase for the year ended June 30, 2013	<u>\$ 43,401</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 March 31, 2020, secured by the Lea County Landfill. The long-term liability for the year ended June 30, 2013 is as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
Note payable					
Lea County	\$ 1,126,655	\$ -	\$ 147,194	\$ 979,461	\$ 124,036

The annual debt service requirements to maturity, including principal and interest for long-term debt as of June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest
2014	\$ 124,036	\$ 43,423
2015	129,904	37,533
2016	136,052	31,387
2017	142,489	24,949
2018	149,232	18,207
2019-2020	297,748	14,897
Total	\$ 979,461	\$ 170,396

NOTE G – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through November 22, 2013, the date which the financial statements were available to be issued.

LEA COUNTY SOLID WASTE AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP BASIS) YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues				
Charges for services	\$ 2,575,000	\$ 2,575,000	\$ 3,151,170	\$ 576,170
Rental fee	1,000	1,000	1,200	200
Interest income	1,600	1,600	1,463	(137)
Total revenues	2,577,600	2,577,600	3,153,833	576,233
Expenses				
Operational expenses	1,854,471	1,854,471	1,700,563	153,908
Capital outlay:				
Construction-in-process	126,000	126,000	95,747	30,253
Loan repayment	209,439	209,439	209,298	141
Closure and postclosure care costs	-	-	-	-
Total expenses	2,189,910	2,189,910	2,005,608	184,302
Excess (deficit) of revenues over expenses	\$ 387,690	\$ 387,690	\$ 1,148,225	\$ 760,535
Other financing sources (uses)				
Prior year cash balance	2,634,962	2,634,962	-	
Total other financing sources (uses)	2,634,962	2,634,962	-	
Net change in fund balance	\$ 3,022,652	\$ 3,022,652	1,148,225	
Reconciliation to GAAP Basis:				
Depreciation			(333,611)	
Decrease in receivables, net			(17,570)	
Increase in accrued closure costs			(43,401)	
Decrease in operational accounts payable			1,598	
Increase in capital asset			118,241	
Principal repayment			147,194	
Change in Net Position			\$ 1,020,676	



**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**

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

We have audited, 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, the basic financial statements of the business-type activities and related budgetary comparison presented as supplemental information of Lea County Solid Waste Authority (the Authority), as of and for the year ended June 30, 2013, and have issued our report thereon dated November 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) as a basis to determine our audit procedures that are appropriate for the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Johnson, Miller & Co.

Hobbs, New Mexico
November 22, 2013

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

SCHEDULE OF STATUS OF PRIOR FINDINGS

YEAR ENDED JUNE 30, 2013

Prior Year Findings

None

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

OTHER DISCLOSURES

For the fiscal year ended June 30, 2013

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 22, 2013 in which the contents of this report were discussed with the following:

Authority Officials

Todd Randall, Chairman
Sherri Bunch, Finance Director

Auditors

Mary Hinds, CPA
Shellie Davidson, CPA

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, 2013.

SUPPLEMENTAL INFORMATION

BASIC FINANCIAL STATEMENTS