

**STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2009 and 2008

**STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY**

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June 30, 2009 and 2008

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STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
Directory of Officials
June 30, 2009 and 2008

Board of Directors - June 30, 2009

<u>Member</u>	<u>Position</u>	<u>Entity Represented</u>
Tomas Campos	Chairman	Rio Arriba County
Dino Chavarria	Vice-Chairman	Santa Clara Pueblo
Joseph Maestas	Secretary	City of Española
Curtis Aguino	Member	Ohkay Owingeh Pueblo
Virgil Corta	Member	Ohkay Owingeh Pueblo

Board of Directors - June 30, 2008

<u>Member</u>	<u>Position</u>	<u>Entity Represented</u>
Tomas Campos	Chairman	Rio Arriba County
Dino Chavarria	Vice-Chairman	Santa Clara Pueblo
Leroy Archuleta	Secretary	City of Española
Curtis Aguino	Member	Ohkay Owingeh Pueblo
Virgil Corta	Member	Ohkay Owingeh Pueblo

Administrative Staff

Joe Lewandowski	Manager
Michelle Martinez	Administrator

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

We have audited the accompanying financial statements of North Central Solid Waste Authority (Authority), as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the year ended June 30, 2009 presented as supplementary information, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. We were engaged to audit the accompanying financial statements of North Central Solid Waste Authority (Authority), as of and for the years ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We were also engaged to audit the budgetary comparison for the year ended June 30, 2008 presented as supplementary information, as listed in the table of contents.

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

The Authority did not maintain sufficient internal control and/or adequate records of its accounts receivables; allowance for doubtful accounts; loan activity; revenues; bad debt expense; payroll expenditures; miscellaneous expenses; payroll reports submitted to the federal and state governments; and governmental sales taxes along with sales tax reports.

As the Authority did not maintain sufficient internal controls and/or adequate records we were unable to obtain sufficient evidential matter and we were not able to apply other auditing procedures to satisfy ourselves as to the fairness of the presentation of the financial statements in conformity with generally accepted accounting principles. The scope of our work was not sufficient to enable us to express, and we do not express an opinion on the financial position of the Authority as of June 30, 2008, and the changes in financial position and cash flows, thereof and the budgetary comparison for the year ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

The Authority has presented accounts receivable as \$2,339,206 net of an allowance for doubtful accounts of \$668,016 as of June 30, 2009. We have concluded based on our testing of the individual customer information, accounts receivable is overstated thereby causing net assets to be overstated. We cannot determine the amount that accounts receivable is overstated. The Authority maintains customer accounts transferred from Rio Arriba County when the Authority was formed and management has not adjusted the allowance for doubtful accounts as needed. Further, the management has not recorded an annual allowance for doubtful accounts based on annual customer revenues as required by general accounting principles generally accepted in the United States of America thereby overstating accounts receivables and understating bad debt expense. Additionally, the Authority recorded penalties and interest charges on customer accounts in the amount of \$184,660 for the year ended June 30, 2009 the majority of which was assessed on stale and inactive accounts thus overstating revenues and net assets.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements as of and for the year ended June 30, 2009 referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Authority as of June 30, 2009, or the changes in financial position, cash flows thereof and budgetary comparison for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 basis financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparisons. The additional schedules listed as "*other supplemental financial information*" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



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

June 26, 2015

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Current Assets:		
Cash	\$ 6,057	\$ 45,470
Receivables, net of allowances for doubtful accounts:		
Accounts	2,339,206	1,593,593
Total current assets	2,345,263	1,639,063
Non-Current Assets:		
Capital assets being depreciated, net	1,083,479	1,349,668
Total assets	\$ 3,428,742	\$ 2,988,731
LIABILITIES		
Current Liabilities:		
Bank overdraft	\$ 80,460	\$ -
Accounts payable	786,784	612,528
Accrued salaries	12,899	51,848
Accrued liabilities	1,155,756	807,258
Deferred revenues	270,897	227,757
Current maturities of liabilities:		
Notes payable	11,529	12,246
Compensated absences	106,100	122,000
Total current liabilities	2,424,425	1,833,637
Non-Current Liabilities:		
Compensated absences	87,445	23,060
Total liabilities	2,511,870	1,856,697
NET ASSETS		
Invested in capital assets	1,083,479	1,349,668
Unrestricted	(166,607)	(217,634)
Total net assets	916,872	1,132,034
Total liabilities and net assets	\$ 3,428,742	\$ 2,988,731

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

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Operating Revenues:		
Charges for services	\$ 4,612,119	\$ 3,944,334
Operating Expenses:		
Personnel services	1,404,060	1,454,258
Employee benefits	523,257	527,451
Payroll taxes	169,220	185,327
Tipping and hauling fees	1,255,623	891,121
Professional services	200,060	157,879
Fuel	251,612	272,630
Insurance	93,324	50,979
Operational expenses	30,693	19,236
Repairs and maintenance	227,617	323,590
Small equipment and tools	102,560	35,007
Taxes and licenses	92,683	96,420
Printing and advertising	7,222	8,101
Leases	33,097	36,187
Miscellaneous	13,655	29,406
Uniforms	20,276	23,377
Utilities	10,894	13,100
Mileage and per diem	4,179	886
Office supplies and equipment	16,001	13,370
Administration expenses	79,232	39,435
Depreciation	298,311	284,642
	4,833,576	4,462,402
Total operating expenses		
	4,833,576	4,462,402
Operating (loss)	(221,457)	(518,068)
Non-Operating Revenues (Expenses):		
Intergovernmental	-	38,149
Lease	2,250	9,767
Lien/release charges	7,588	4,242
Interest expense	(3,543)	(2,335)
	6,295	49,823
Total non-operating revenues (expenses)		
	6,295	49,823
(Loss) before capital contributions	(215,162)	(468,245)
Capital Contributions	-	78,810
	(215,162)	(389,435)
Change in net assets		
	(215,162)	(389,435)
Net assets, beginning of year	1,132,034	1,521,469
	1,132,034	1,521,469
Net assets, end of year	\$ 916,872	\$ 1,132,034

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

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities:		
Cash received from customers	\$ 3,846,739	\$ 3,968,383
Cash payments to employees for services	(1,608,255)	(1,915,475)
Cash payments to suppliers for goods and services	(2,346,813)	(1,882,290)
Net cash provided (used) by operating activities	(108,329)	170,618
Cash Flows from Non-Capital and Financing Activities:		
Intergovernmental revenues	-	38,149
Note proceeds	51,303	36,287
Lease income	2,250	9,767
Lien/release charges	7,588	4,242
Principal payments	(52,020)	(36,874)
Interest expense	(3,543)	(2,335)
Net cash provided by non-capital and financing activities	5,578	49,236
Cash Flows From Capital and Related Financing Activities:		
Capital contributions	-	78,810
Acquisition of capital assets	(17,122)	(161,217)
Net cash (used) by capital and related financing activities	(17,122)	(82,407)
Net increase (decrease) in cash	(119,873)	137,447
Cash, beginning of year	45,470	(91,977)
Cash, end of year	\$ (74,403)	\$ 45,470
Displayed as:		
Cash	\$ 6,057	\$ 45,470
Bank overdraft	(80,460)	-
	\$ (74,403)	\$ 45,470

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

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
(CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:		
Operating (Loss)	\$ (221,457)	\$ (518,068)
Adjustment to Reconcile Operating (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	298,311	284,642
Change in Assets and Liabilities:		
(Increase) in accounts receivable	(745,613)	(255,528)
Increase in accounts payable	159,256	91,685
Increase (decrease) in accrued salaries	(38,949)	2,564
Increase in accrued liabilities	348,498	517,521
Increase in compensated absences	48,485	4,661
Increase in deferred revenues	43,140	43,141
Total adjustments	113,128	688,686
Net cash provided (used) by operating activities	\$ (108,329)	\$ 170,618

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

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 created via 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 created under the New Mexico Joint Powers Act, Sections 11-1-1 et seq NMSA 1978. The Authority is an instrumentality of its members operated for public purposes. The Authority is not considered a political subdivision of the state and is not a local public body.

The Authority is governed by a board, which acts as the fiscal agent for the Authority, and is comprised of one member appointed by each participating party. Each board member in good standing has one vote on all matters of business affecting the Authority.

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

A. Reporting Entity

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

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation and Accounting

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

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

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

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

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

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

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgets

Budgets for all funds are prepared by management and approved by the board of directors and the New Mexico Department of Finance and Administration. 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 proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration (DFA) Local Government Division for approval. DFA certifies a pending budget by July 1st, with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. The budget is prepared on the non-GAAP cash basis, excluding encumbrances, and secures appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within expenses, this may be accomplished with only local board approval. If a budget increase is required, approval must be obtained from the Department of Finance and Administration. The Authority's level of budgetary control is at the total fund level.

D. Cash and Cash Equivalents

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

E. Receivables

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

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Prepaid Items

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

G. Capital Assets

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

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

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

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

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

H. Compensated Absences

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

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Compensated Absences (continued)

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

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

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

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

I. Deferred Revenues

The Authority reports deferred revenue on its statement of net assets, when applicable. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred 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 deferred revenue is removed from the statement of net assets and revenue is recognized.

J. Short-Term Obligations

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

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Long-Term Obligations

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

L. Net Assets

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

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

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

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

M. Cash Flows

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

N. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

2. CASH

Cash

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

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

Cash Deposited With Financial Institutions

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

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

2009	<u>Per Institution</u>	<u>Reconciling Items</u>	<u>Per Financial Statements</u>
Valley National Bank	\$ 35,103	\$ (115,563)	\$ (80,460)
Community Bank	5,514	43	5,557
Century Bank	500	-	500
Total cash deposits	<u>\$ 41,117</u>	<u>\$ (115,520)</u>	<u>\$ (74,403)</u>
2008	<u>Per Institution</u>	<u>Reconciling Items</u>	<u>Per Financial Statements</u>
Valley National Bank	\$ 49,563	\$ (6,651)	\$ 42,912
Community Bank	2,526	32	2,558
Total cash deposits	<u>\$ 52,089</u>	<u>\$ (6,619)</u>	<u>\$ 45,470</u>

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

	<u>2008</u>	<u>2007</u>
Statement of Net Assets:		
Cash	\$ 6,057	\$ 45,470
Bank overdraft	(80,460)	-
	<u>\$ (74,403)</u>	<u>\$ 45,470</u>

**STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

2. CASH (continued)

Cash Deposited With Financial Institutions (continued)

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the Authority. All deposits are 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 deposits (demand and certificates of deposit). Such collateral, as permitted by the state statutes is 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.

	Valley National	Community Bank	Century Bank
2009			
Checking accounts	\$ 35,103	\$ 5,514	\$ 500
Less: FDIC coverage	<u>(35,103)</u>	<u>(5,514)</u>	<u>(500)</u>
Total uninsured public funds	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
2008			
Checking accounts	\$ 49,563	\$ 2,526	\$ -
Less: FDIC coverage	<u>(49,563)</u>	<u>(2,526)</u>	<u>-</u>
Total uninsured public funds	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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, 2009 and 2008, none of the Authority's bank balances were exposed to custodial credit risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	<u>2009</u>	<u>2008</u>
Charges for services	\$ 3,007,222	\$ 2,261,609
Allowance for doubtful accounts	<u>(668,016)</u>	<u>(668,016)</u>
	<u><u>\$ 2,339,206</u></u>	<u><u>\$ 1,593,593</u></u>

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

**STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

4. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2009:

	Balance 06/30/08	Increases	Decreases	Balance 06/30/09
Business-Type Activities:				
Capital assets, being depreciated:				
Convenience stations	\$ 104,631	\$ -	\$ -	\$ 104,631
Equipment	1,806,851	32,122	-	1,838,973
Containers	115,601	-	-	115,601
Vehicles	59,561	-	-	59,561
Office furniture and equipment	32,073	-	-	32,073
Total other capital assets being depreciated	2,118,717	32,122	-	2,150,839
Less accumulated depreciation:				
Convenience stations	(10,688)	(10,463)	-	(21,151)
Equipment	(662,977)	(252,593)	-	(915,570)
Containers	(40,460)	(11,561)	-	(52,021)
Vehicles	(38,460)	(13,288)	-	(51,748)
Office furniture and equipment	(16,464)	(10,406)	-	(26,870)
Total accumulated depreciation	(769,049)	(298,311)	-	(1,067,360)
Capital assets, net	<u>\$ 1,349,668</u>	<u>\$ (266,189)</u>	<u>\$ -</u>	<u>\$ 1,083,479</u>

Capital assets for the fiscal year ended June 30, 2008:

	Balance 06/30/07	Increases	Decreases	Balance 06/30/08
Business-Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 10,068	\$ 53,914	\$ (63,982)	\$ -
Other capital assets, being depreciated:				
Convenience stations	40,649	63,982	-	104,631
Equipment	1,699,548	107,303	-	1,806,851
Containers	115,601	-	-	115,601
Vehicles	59,561	-	-	59,561
Office furniture and equipment	32,073	-	-	32,073
Total other capital assets being depreciated	1,947,432	171,285	-	2,118,717
Less accumulated depreciation:				
Convenience stations	(3,424)	(7,264)	-	(10,688)
Equipment	(420,165)	(242,812)	-	(662,977)
Containers	(28,900)	(11,560)	-	(40,460)
Vehicles	(25,860)	(12,600)	-	(38,460)
Office furniture and equipment	(6,058)	(10,406)	-	(16,464)
Total accumulated depreciation	(484,407)	(284,642)	-	(769,049)
Other capital assets, net	<u>1,463,025</u>	<u>(113,357)</u>	<u>-</u>	<u>1,349,668</u>
Total capital assets, net	<u>\$ 1,473,093</u>	<u>\$ (59,443)</u>	<u>\$ (63,982)</u>	<u>\$ 1,349,668</u>

**STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	<u>2009</u>	<u>2008</u>
Health insurance premiums	\$ 630,088	\$ 386,406
Federal payroll tax	439,313	210,043
Governmental sales tax	-	103,534
Retirement contributions and withholdings	19,241	55,658
State payroll tax	1,107	48,526
Miscellaneous employee withholding	66,007	3,091
	<u>\$ 1,155,756</u>	<u>\$ 807,258</u>

6. SHORT-TERM OBLIGATIONS

Changes in short-term debt during the year ended June 30, 2009, were as follows:

	<u>Balance 06/30/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/09</u>	<u>Amounts Due Within One Year</u>
Short-term notes	<u>\$ 12,246</u>	<u>\$ 51,303</u>	<u>\$ 52,020</u>	<u>\$ 11,529</u>	<u>\$ 11,529</u>

Changes in short-term debt during the year ended June 30, 2008, were as follows:

	<u>Balance 06/30/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/08</u>	<u>Amounts Due Within One Year</u>
Short-term notes	<u>\$ 12,833</u>	<u>\$ 36,287</u>	<u>\$ 36,874</u>	<u>\$ 12,246</u>	<u>\$ 12,246</u>

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

2009

- On July 1, 2008, the Authority borrowed \$17,455 from Western Commerce Bank. The note accrued interest at a rate of 8.25 percent per annum. The proceeds were used to purchase insurance for the collection of solid waste. The loan was paid in full on April 20, 2009.
- On December 5, 2008, the Authority borrowed \$33,848 from Western Commerce Bank. The note accrued interest at a rate of 6.50 percent per annum. The proceeds were used to purchase general liability insurance. As of June 30, 2009, the outstanding balance of the loan was \$11,529. The note was paid in full on September 23, 2009.

**STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

6. SHORT-TERM OBLIGATIONS (continued)

2008

- On December 5, 2007, the Authority borrowed \$36,287 from Western Commerce Bank. The note accrued interest at a rate of 8.20 percent per annum. The proceeds were used to purchase automotive insurance. As of June 30, 2008, the outstanding balance of the loan was \$12,246. The note was paid in full on September 30, 2008.

7. LONG-TERM OBLIGATIONS

Changes in long-term debt during the year ended June 30, 2009, were as follows:

	Balance 06/30/08	Additions	Deletions	Balance 06/30/09	Amounts Due Within One Year
Compensated absences	\$ 145,060	\$ 154,585	\$ (106,100)	\$ 193,545	\$ 106,100

Changes in long-term debt during the year ended June 30, 2008, were as follows:

	Balance 06/30/07	Additions	Deletions	Balance 06/30/08	Amounts Due Within One Year
Compensated absences	\$ 140,399	\$ 126,578	\$ (121,917)	\$ 145,060	\$ 122,000

8. SPECIAL FINANCE AGREEMENT

On February 9, 2007, the Authority and Rio Arriba County entered into a loan agreement with the New Mexico Finance Authority (NMFA) to borrow one million dollars. The proceeds of the loan were used to finance equipment purchased for the Authority. The loan accrues interest at a blended rate of 3.621 percent per annum and matures on May 1, 2014. Rio Arriba County has pledged County Local Option Environmental Gross Receipts Tax to service the debt.

When the loan was funded, the proceeds were placed into two funds maintained by the NMFA: \$900,000 was placed in a project fund; and \$100,000 was placed in a debt service fund. During 2008 and 2007 NMFA credited the project fund with interest income of \$10,136 that was expended by the Authority.

The Authority submitted invoices to NMFA, and those invoices were paid by NMFA directly to vendors using cash available in the project fund. For all capital purchases the Authority has reflected the revenues as capital contribution, and for non-capital purchases the revenues were recorded as intergovernmental. Details as to revenues reflected as follows:

**STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

8. SPECIAL FINANCE AGREEMENT (continued)

	2008
Capital contributions	\$ 78,810
Intergovernmental revenues	20,904
	\$ 99,714

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

9. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

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

Funding Policy

Plan members are required to contribute 9.15% (ranges from 4.78% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police, and adult correctional officers, municipal detention officer) of the gross salaries.

Upon inception of the Authority, employees from the City of Española and Rio Arriba County transferred to the Authority. The PERA municipal employees were guaranteed a matching one-percent contribution from the Authority that equaled the percentage that was established under their municipal plan.

The former municipal employees contributed 8.15 percent (8.15%) of their gross salary to the plan. Other employees contribute 9.15 percent (9.15%) of their gross salary to the plan. The Authority would normally be required to contribute 9.15% (ranges from 7.0% to 25.72%, depending upon the plan); however, the Authority contributes 10.15 percent (10.15%) for the former municipal employees and 9.15 percent (9.15%) for all other employees. The contribution requirements of plan members, and the Authority, are established in state statutes under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Authority's contributions to PERA for the fiscal years ending June 30, 2009, 2008, and 2007 were \$120,449, \$115,141, and \$102,958, respectively, which equal the amount of the required contributions for each year.

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

10. POST-EMPLOYMENT BENEFITS

Plan Description

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

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

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

Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

10. POST-EMPLOYMENT BENEFITS (continued)

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Authority's contributions to the RHCA for the years ended June 30, 2009, 2008, and 2007 were \$16,804, \$16,054, and \$14,198, respectively, which equaled the required contributions each year.

11. RISK MANAGEMENT

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

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Operating Revenues:						
Charges for services	\$ 5,244,800	\$ 5,244,800	\$ 3,846,739	\$ 765,380	\$ 4,612,119	\$ (1,398,061)
Operating Expenses:						
Personnel services	1,661,168	1,661,168	1,360,104	43,956	1,404,060	301,064
Employee benefits	614,800	614,800	248,151	275,106	523,257	366,649
Payroll taxes	127,752	127,752	-	169,220	169,220	127,752
Tipping and hauling fees	850,000	850,000	1,339,366	(83,743)	1,255,623	(489,366)
Professional services	166,000	166,000	164,443	35,617	200,060	1,557
Fuel	220,000	220,000	274,487	(22,875)	251,612	(54,487)
Insurance	100,500	100,500	82,903	10,421	93,324	17,597
Operational expenses	18,000	18,000	27,177	3,516	30,693	(9,177)
Repairs and maintenance	244,500	244,500	188,171	39,446	227,617	56,329
Small equipment and tools	14,000	14,000	22,270	80,290	102,560	(8,270)
Taxes and licenses	226,000	226,000	103,063	(10,380)	92,683	122,937
Printing and advertising	8,000	8,000	6,147	1,075	7,222	1,853
Leases	39,000	39,000	30,382	2,715	33,097	8,618
Miscellaneous	4,000	4,000	(3,437)	17,092	13,655	7,437
Uniforms	20,000	20,000	21,091	(815)	20,276	(1,091)
Utilities	13,500	13,500	11,345	(451)	10,894	2,155
Mileage and per diem	4,500	4,500	4,038	141	4,179	462
Office supplies and equipment	11,500	11,500	11,775	4,226	16,001	(275)
Administration expenses	49,000	49,000	63,592	15,640	79,232	(14,592)
Depreciation	-	-	-	298,311	298,311	-
Total operating expenses	<u>4,392,220</u>	<u>4,392,220</u>	<u>3,955,068</u>	<u>878,508</u>	<u>4,833,576</u>	<u>437,152</u>
Operating income (loss)	852,580	852,580	(108,329)	(113,128)	(221,457)	(960,909)
Non-Operating Revenues (Expenses):						
Note proceeds	-	-	51,303	(51,303)	-	51,303
Lease	-	-	2,250	-	2,250	2,250
Lien/release charges	-	-	7,588	-	7,588	7,588
Capital outlay	(71,000)	(71,000)	(17,122)	17,122	-	53,878
Principal payments	-	-	(52,020)	52,020	-	(52,020)
Interest expense	-	-	(3,543)	-	(3,543)	(3,543)
Total non-operating revenues (expenses)	<u>(71,000)</u>	<u>(71,000)</u>	<u>(11,544)</u>	<u>17,839</u>	<u>6,295</u>	<u>59,456</u>
Net change	781,580	781,580	(119,873)	<u>\$ (95,289)</u>	<u>\$ (215,162)</u>	(901,453)
Cash, beginning of year	<u>45,470</u>	<u>45,470</u>	<u>45,470</u>			<u>-</u>
Cash, (deficit) end of year	<u>\$ 827,050</u>	<u>\$ 827,050</u>	<u>\$ (74,403)</u>			<u>\$ (901,453)</u>
Explanation of Differences:						
Change in receivables				\$ 745,613		
Change in accounts payable				(159,256)		
Change in accrued salaries				38,949		
Change in accrued liabilities				(348,498)		
Change in compensated absences				(48,485)		
Change in deferred revenues				(43,140)		
Note proceeds				(51,303)		
Principal payments				52,020		
Capital outlay purchases				17,122		
Depreciation				(298,311)		
				<u>\$ (95,289)</u>		

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis
	Original	Final				Variance With Final Budget Over (Under)
Operating Revenues:						
Charges for services	\$ 3,765,500	\$ 5,402,000	\$ 3,968,383	\$ (24,049)	\$ 3,944,334	\$ (1,433,617)
Operating Expenses:						
Personnel services	1,223,800	1,750,000	1,450,395	3,863	1,454,258	299,605
Employee benefits	526,000	575,000	307,153	220,298	527,451	267,847
Payroll taxes	96,500	148,500	157,927	27,400	185,327	(9,427)
Tipping and hauling fees	720,000	934,656	884,367	6,754	891,121	50,289
Professional services	171,000	171,000	148,911	8,968	157,879	22,089
Fuel	160,000	240,000	212,220	60,410	272,630	27,780
Insurance	137,000	137,000	83,195	(32,216)	50,979	53,805
Operational expenses	16,000	16,000	21,422	(2,186)	19,236	(5,422)
Repairs and maintenance	158,500	208,500	338,053	(14,463)	323,590	(129,553)
Small equipment and tools	3,000	3,000	34,771	236	35,007	(31,771)
Taxes and licenses	206,000	206,000	-	96,420	96,420	206,000
Printing and advertising	10,000	10,000	8,101	-	8,101	1,899
Leases	225,000	45,000	34,292	1,895	36,187	10,708
Miscellaneous	4,000	9,000	29,418	(12)	29,406	(20,418)
Uniforms	20,000	20,000	19,570	3,807	23,377	430
Utilities	10,500	10,500	12,325	775	13,100	(1,825)
Mileage and per diem	6,000	6,000	886	-	886	5,114
Office supplies and equipment	36,500	36,500	13,390	(20)	13,370	23,110
Administration expenses	46,500	46,500	41,369	(1,934)	39,435	5,131
Depreciation	-	-	-	284,642	284,642	-
Total operating expenses	<u>3,776,300</u>	<u>4,573,156</u>	<u>3,797,765</u>	<u>664,637</u>	<u>4,462,402</u>	<u>775,391</u>
Operating income (loss)	(10,800)	828,844	170,618	(688,686)	(518,068)	(658,226)
Non-Operating Revenues (Expenses):						
Intergovernmental	20,000	-	38,149	-	38,149	38,149
Environmental sales tax	180,000	-	-	-	-	-
Note proceeds	-	-	36,287	(36,287)	-	36,287
Lease	-	-	9,767	-	9,767	9,767
Lien/release charges	-	-	4,242	-	4,242	4,242
Capital outlay	(171,000)	(99,679)	(161,217)	161,217	-	(61,538)
Principal payments	-	-	(36,874)	36,874	-	(36,874)
Interest expense	-	-	(2,335)	-	(2,335)	(2,335)
Total non-operating revenues (expenses)	<u>29,000</u>	<u>(99,679)</u>	<u>(111,981)</u>	<u>161,804</u>	<u>49,823</u>	<u>(12,302)</u>
(Loss) before capital contributions	18,200	729,165	58,637	(526,882)	(468,245)	(670,528)
Capital Contributions	<u>78,949</u>	<u>765</u>	<u>78,810</u>	<u>-</u>	<u>78,810</u>	<u>78,045</u>
Net change	97,149	729,930	137,447	<u>\$ (526,882)</u>	<u>\$ (389,435)</u>	(592,483)
Cash, (deficit) beginning of year	<u>(91,977)</u>	<u>(91,977)</u>	<u>(91,977)</u>			<u>-</u>
Cash, end of year	<u>\$ 5,172</u>	<u>\$ 637,953</u>	<u>\$ 45,470</u>			<u>\$ (592,483)</u>
Explanation of Differences:						
Change in receivables				\$ 255,528		
Change in accounts payable				(91,685)		
Change in accrued salaries				(2,564)		
Change in accrued liabilities				(517,521)		
Change in compensated absences				(4,661)		
Change in deferred revenues				(43,141)		
Note proceeds				(36,287)		
Principal payments				36,874		
Capital outlay purchases				161,217		
Depreciation				(284,642)		
				<u>\$ (526,882)</u>		

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2009 AND 2008

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
2009				
Valley National Bank 322 N. Riverside Drive Española, NM	Checking	<u>\$ 35,103</u>	<u>\$ (115,563)</u>	<u>\$ (80,460)</u>
Community Bank P.O. Box 1290 Española, NM	Checking	<u>\$ 5,514</u>	<u>\$ 43</u>	<u>\$ 5,557</u>
Century Bank 460 N. Riverside Drive Española, NM	Checking	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 500</u>
2008				
Valley National Bank 322 N. Riverside Drive Española, NM	Checking	<u>\$ 49,563</u>	<u>\$ (6,651)</u>	<u>\$ 42,912</u>
Community Bank P.O. Box 1290 Española, NM	Checking	<u>\$ 2,526</u>	<u>\$ 32</u>	<u>\$ 2,558</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORT

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

Independent Auditors' Report

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

We have audited the statement of net assets of North Central Solid Waste Authority (Authority), as of and for the year ended June 30, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows, and the budgetary comparison for the year then ended, and have issued our report thereon dated June 26, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report expresses an adverse opinion on such financial statements because accounts receivable is overstated, revenues are overstated, bad debt expense is understated, and net assets are overstated.

We were engaged to audit the statement of net assets of North Central Solid Waste Authority (Authority), as of and for the year ended June 30, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows, and the budgetary comparison for the year then ended, and have issued our report thereon dated June 26, 2015. We were unable to express an opinion on those financial statements because the Authority did not maintain sufficient internal controls and/or adequate records of its accounts receivable; allowance for doubtful accounts; loan activity; revenues; bad debt expense; payroll expenditures; miscellaneous expenses; payroll reports submitted to the federal and state governments; and governmental sales taxes along with sales tax reports.

Internal Control Over Financial Reporting

In planning and performing the engagement to audit the financial statements, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Internal Control Over Financial Reporting (continued)

A *control deficiency* 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 misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2005-001, 2005-002, 2005-004, 2005-005, 2005-006, 2007-001, 2007-002, 2007-003, 2007-004, and 2007-010, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2005-001, 2005-002, 2005-004, 2005-005, 2005-006, 2007-001, 2007-002, 2007-003, 2007-004, and 2007-010 to be material weaknesses.

Compliance and Other Matters

As part of being engaged to obtain 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 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 as items 2005-002, 2005-004, 2005-005, 2007-002, 2007-003, 2007-004, 2007-005, and 2007-010.

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule and responses as items 2007-006, 2007-009 and 2008-002.

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

This report is intended solely for the information and use of the board of directors, management, others within the Authority, the New Mexico State Auditor, the New Mexico Legislature, and is not intended to be and should not be used by anyone other than these specified parties.



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

June 26, 2015

STATE OF NEW MEXICO
NORTH CENTRAL SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
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Item 2005-001 – Segregation of Duties and Documentation of Payroll Expenditures

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

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

- One instance where the federal government employment eligibility verification form (I-9) was not completed by the employee.
- Two instances where the federal government payroll withholding form (W-4) was not completed by the employee.
- Two instances where retirement withholding was incorrect. The employee's under withheld retirement amount was \$27.
- Three instances where the payroll hours were miscalculated from employee time cards. The employees were underpaid by \$88.
- One instance where an employee was paid \$609 with no gross wage description or explanation.
- One instance where an employee used forty hours of vacation time and was not reflected on the employee's payroll stub.

Criteria – Statement on Auditing Standards Number 112, *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.

Further, the federal government requires that all employers document the employee's eligibility by completing the I-9 form and to complete the W-4 form to document the withholding rates for the federal and state governments.

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

Noncompliance with the federal government's requirement regarding documentation of an employee's eligibility could subject officials and employees to penalties. Incorrect calculation of hours worked during a pay period affects an employee's net pay. Not documenting withholding rates by completing the W-4 could lead to improper amounts being withheld from individual payroll checks resulting in under or over payment of federal and state income taxes.

Cause – The reason for lack of internal controls within the payroll function cannot be determined as, at this time, all employees during the fiscal year ended June 30, 2009 are no longer employed by the Authority.

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

Cause (continued) – The Authority’s Human Resources Department failed to complete the process of filling out the I-9 form for a new employee that was hired during the fiscal year and failed to complete the W-4 to document the federal and state government’s withholdings rates. Failing to provide a review process within the payroll function allowed errors to be made in the payroll calculations.

Recommendation – We recommend current management review their segregation of duties practices in place during 2015 to verify that the Authority had established adequate segregation of duties given the limited staff and resources. Further, we recommend the Authority review all employees’ personnel files and to ensure all required documents, such as the I-9 and W-4’s, have been completed and properly signed.

Views of Responsible Officials and Planned Corrective Actions – In August of 2011, North Central created a full time human resources position. The employee has been directed to oversee payroll and personal issues within NCSWA. The employee’s payroll paper work is independently verified by NCSWA accounts payable clerk. Additionally, a certified public accounting firm has provided guidance and updated our database to ensure proper documentation was provided and updated current rates, and over the last three years the human resources position has reviewed employment files, and amended most of the issues addressed.

Item 2005-002 – Bank Reconciliations

Statement of Condition – During our tests of the year end bank reconciliation, we noted the Authority reflected outstanding checks in the amount of \$641,806 as of June 30, 2009. Upon further examination, we discovered the valid amount of outstanding checks totaled \$116,793, which consisted of one-hundred five checks.

Checks totaling \$430,662 were payable to the Internal Revenue Service and checks in the amount of \$24,834 were payable to New Mexico Risk Management. Those liabilities were subsequently paid by Rio Arriba County by end of 2012. There were thirty checks, in the amount of \$69,517 that appear to be stale.

Group of checks to the same vendor were presented to the bank in groups on or near the same date indicating they were released to vendors in a group at a later date. Rather than preparing checks, and distorting the cash balance, the employees should have maintained the liabilities within the accounts payable subsidiary ledger. Audit entries have been made to properly reclassify said amounts as liabilities rather than cash overdrawn.

Subsequent to year end, the Authority engaged the accounting software vendor to assist in the reconciliations. Upon further examination, we discovered numerous entries to the miscellaneous expense account to force the general ledger to tie to the bank reconciliation as the preparer used that account rather than researching the proper disposition of the activity. The balance of the miscellaneous expense account at June 30, 2009 was \$16,900.

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

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Item 2005-002 – Bank Reconciliations (continued)

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

Statement on Auditing Standards Number 112, *Communicating Internal Control Related Matters Identified in an Audit*, issued by the American Institute of Certified Public Accountants, provides examples of deficiencies in the design of internal controls. One such item is “*Inadequate design of control over a significant account or process.*” The improper forcing of unidentified amounts within the general ledger is an override of the controls established for the proper recording of transactions.

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

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

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

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

Views of Responsible Officials and Planned Corrective Actions – In September 2011, NCSWA turned over office documentation to the City of Espanola Police Department who then turned the case over to the New Mexico State Police to investigate embezzlement. The case was eventually turned over to the New Mexico Attorney General, Mr. Gary King.

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Item 2005-002 – Bank Reconciliations (continued)

Views of Responsible Officials and Planned Corrective Actions (continued) – Most of the stale checks were located within file folders located in the NCSWA office. The majority of what was not recovered was paid out from invoices re-submitted to NCSWA for payment; vendors were contacted directly to verify payments. Rio Arriba County paid the Internal Revenue Service and Risk Management prior to the end of the year 2012. The current administration has increased revenue and retained a certified public accounting firm to provide insight, and to report to the NCSWA Board directly. While NCSWA continues to operate with limited personal, competent employees have been hired and those employees are cross checking information to ensure paper work is viable. NCSWA hired the accounting software vendor, Caselle, to reconcile bank accounts for the fiscal years 2007 thru 2009.

Item 2005-004 – Submission of Audit Report

Statement of Condition – The audit report for the fiscal year ended June 30, 2009, was due to the New Mexico State Auditor's office by December 1, 2009. The audit report was submitted on July 3, 2015.

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

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

Cause – The audit report for the fiscal year ended June 30, 2006 was not submitted to the New Mexico State Auditor until March or April 2010. According to the official minutes of the Board of Directors, many factors contributed to the delay in submitting the audit reports for the fiscal years 2005, 2006, 2007, 2008 and 2009 such as; (1) accounting records not ready for audit; (2) non-hiring of qualified accountants to make necessary adjustments to the general ledger and subsidiary ledgers; (3) using QuickBooks software designed for a commercial entity and the converting to accounting software designed for governmental entities; (4) failing to properly investigate the eligibility of a potential auditing firm; (5) contracting with an independent auditing firm that withdrew from the engagement as accounting records were not ready in a three year period, and (6) mismanagement of the financial affairs of the Authority including the record keeping of vital accounting data.

In a Board of Directors meeting held on December 4, 2008, the Manager assumed full responsibility for the delay in submitting the audit to the State; however, that Manager left his position in October 2009 and the Interim Manager failed to move forward in the preparation for the audit.

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Item 2005-004 – Submission of Audit Report (continued)

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

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

After considerable time and financial resources were expended, the current Manager informed the Board of Directors, at the May 28, 2014 meeting, that he and the fee accountant had reached the conclusion to move forward with the audit with the accounting records as they were prepared. The current auditing firm contract was signed and approved by the NM State Auditor on February 3, 2015, with a required submission date of December 1, 2015.

Recommendation – With the submission of the 2009 audit report, the Authority is five years behind in its submittal of annual audits. We recommend the Authority submit the delinquent reports as soon as possible as with each fiscal year that ends; another delinquent report is added to the total. The audits must be performed in the number sequence of years as that provides a logical historical record of the financial affairs of the entity.

Views of Responsible Officials and Planned Corrective Actions – North Central's 2016 budget added sufficient funding to complete audits for three additional years, 2010 thru 2012. North Central expects to be in compliance with state required audits by late 2016.

Item 2005-005 – Records Management and Accounting Data

Statement of Condition – The Authority did not maintain sufficient accounting records and reports as required by the state of New Mexico and sound accounting practices and procedures. The general ledger contains entries and amounts that could not be substantiated with supporting documents. The Authority failed to provide substantiation for the non-recording of certain required information. The items discovered are detailed below:

- The allowance for doubtful accounts has been recorded at \$668,016. No accounting entries have been posted by the Authority to record a percentage of sales that should be added to the allowance account. The Authority has failed to identify worthless accounts and continues to accrue penalty and interest on all accounts rather than moving said accounts to an inactive status.
- When preparing the bank reconciliations, the Authority forced balancing entries to the miscellaneous expense account. Both debit and credit amounts were recorded in the account. No accounting data exists to support entries posted. The ending balance of the account at June 30, 2009 is stated as \$16,900.

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

Statement of Condition (continued) –

- The Authority failed to maintain copies of the federal and state payroll reports for the fiscal year. The Authority failed to maintain copies of the combined reporting reports (CRS) which reported employee state withholding tax, and governmental sales tax collected and remitted to New Mexico Taxation and Revenue Department.
- The reconciled cash balance at June 30, 2009, as reflected on the Authority's general ledger, is an overdrawn balance of \$605,473. Upon further examination, the Authority did not distribute the checks when prepared, rather when funds were available. The outstanding checks not distributed should be reflected as liabilities and the restated cash balance should be reported as cash overdrawn in the amount of \$80,460.
- The accounts payable subsidiary ledger reflected a balance of \$933,178 at June 30, 2009. After the removal of voided payables and the addition of unrecorded liabilities paid in the subsequent fiscal year, the payable amount should be reported as \$718,979. Prior to any audit entries the Authority's general ledger reflects a balance of \$949,285.
- The depreciation schedule as prepared by the Authority failed to include all capital assets and proper amount of depreciation expense. Assets totaling \$802,095 and associated depreciation expense of \$112,311 were omitted from the depreciation schedule. The Authority purchased a front end loader vehicle and added the asset to the depreciation schedule. The invoice for the purchase could not be located.
- During our audit tests of proper classification of expenditures reflected as repairs expenses we could not locate five invoices that were selected for testing. The total of the invoices was \$32,546.
- During our testing of expenditures we selected twenty-five transactions to review. From the selected items the Authority did not maintain copies of the invoices to substantiate the purchases. The total of the invoices was \$35,984.

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

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

Criteria (continued) – Statement on Auditing Standards Number 112, *Communicating Internal Control Related Matters Identified in an Audit*, issued by the American Institute of Certified Public Accountants provides examples of deficiencies in the design of internal controls. Examples of circumstances that apply to the problems identified above are: (1) inadequate design of controls over a significant account or process, and (2) employees or management who lack the qualifications and training to fulfill their assigned functions. Statement on Auditing Standards Number 112, *Communicating Internal Control Related Matters Identified in an Audit*, also discusses examples of circumstances that may be deficiencies, significant deficiencies, or material weaknesses related to the operation of control as a failure to perform reconciliations of significant accounts such as reconciling accounts receivable, accounts payables and capital assets subsidiary ledgers to the general ledger on a timely or accurate manner.

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

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

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

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority changed accounting software in 2007 from QuickBooks to utility based software, Caselle Classic. The conversion failed to include any historical account information that had been entered during the previous years and any information from the Rio Arriba County database was purged. Most of the hard copy files were stored in Alamogordo, New Mexico with the former management association and were never returned to NCSWA. The Interim Manager failed to follow proper record storage and retention during her 18 month employment as Interim Manager and as a result proper record retention was not followed and paper files were destroyed and a majority of files were purged from the office and there is no way to recover the lost paper files. North Central Solid Waste Authority now retains all records in house and electronic files retain historical information from 2007 to present. North Central Solid Waste Authority has upgraded its software to Caselle Clarity in June 2014. All historical information was retained with the software upgrade and accounts can be tracked to year 2007. In 2012, NCSWA hired a certified public accounting firm to provide guidance and oversight of the budgetary process. The accounting firm provides the NCSWA Board with an update on revenues and expenditures at the monthly NCSWA Board meeting and provides the NCSWA office guidance to ensure proper accounting methods are being followed.

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Item 2005-006 – Financial Statements and Disclosures

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

During July 2011, the Authority engaged a certified public accounting firm to assist with the accounting and preparation of the financial statements. Due to poor condition of the records and economic restraints, the accounting firm was unable to make necessary GAAP entries to the fiscal 2009 accounting records.

Criteria – Statement on Auditing Standards Number 112, *Communicating Internal Control Related Matters Identified in an Audit*, issued by the American Institute of Certified Public Accountants, provides examples of deficiencies in the design of internal controls. Two examples that apply are, (1) *“Inadequate design of controls over the preparation of the financial statements being audited”* and (2) *“Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements with general accepted auditing principles (GAAP), the person responsible for the accounting and reporting function lacks the skills and knowledge to apply GAAP in recording the entity’s financial transactions or preparing its financial statements.”*

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

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

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

Cause – The accounting staff employed during the 2009 fiscal year were not qualified to understand the financial statements prepared in accordance with GAAP. While understanding governmental financial statements, the fee accountant was limited as much of the time has been expended in dealing with more pressing issues, such as delinquent payroll and sales taxes and other payroll related matters. Additionally, the fee accountant’s time was consumed with preparing budgets, and reporting financial information to the governing board.

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

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

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste has hired a certified public accounting firm to oversee the accounting practices with our office. The certified public accounting firm have provided guidance and spot checks reports and our accounting practices. Internally, NCSWA has changed it structure and hired qualified personnel to do the office accounting.

Item 2007-001 – Organizational Formation and Oversight

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

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

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

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

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

The publication goes on further to explain Instrumentalities as, *“An instrumentality is an organization separate from, but affiliated with, a state or local government. It may or may not be created by or pursuant to state statute, but it is operated for public purposes. Generally, an instrumentality performs governmental functions, but does not have the full powers of a government, such as police authority, taxation, and eminent domain (sovereign powers).”*

Further, the Internal Revenue Service Revenue Ruling 57-128 established various relevant factors to determine if the instrumentality would be considered a “government” for the purposes of taxation.

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

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

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

Effect – Commencing in 2010, DFA officially ceased reviewing and approving financial statements and the budgets of the Authority. In 2007, 2008 and 2009, DFA failed to investigate the Authority’s deteriorating financial situation. Presently, there is no external oversight of the Authority’s financial operations. The Authority’s financial situation continued to worsen until Rio Arriba County was forced to contribute \$1.2 million by the end of 2012, and continues to make annual cash contributions to subsidize the operations of the Authority.

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

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

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

Recommendation (continued) –

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

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority was formed as a joint powers agreement under the Joint Powers Act rather than under the Solid Waste Authority Act so the two pueblos, Santa Clara and Ohkay Owingeh, would be allowed to participate as they are sovereign nations. From our understanding, they would be prohibited from a seat on the governing board under the Solid Waste Authority Act. Rio Arriba County is unique when compared to the other New Mexico counties as they are the only county to provide door-to-door service throughout the county. North Central Solid Waste Authority was created largely due to the lack of population and public officials desire to control costs to the community of Rio Arriba County. By uniting the four entities, the desire is to unite limited resources and provide service to rural Rio Arriba County residents at an affordable cost. Most of the residents are supportive of the service and feel that without rural home pickup illegal dumping would taint New Mexico's large watershed and pollute the Rio Chama and Rio Grande. Rio Arriba County and City of Espanola have been engaged in conversation about placing a mill levy within the property taxes to fund North Central. This however will require a referendum and constituent approval. Since 2012, North Central Solid Waste has been solvent, and fees for services have been increased to remain solvent through 2016.

Item 2007-002 – Procurement Code

Statement of Condition – During our review of bid files, it was discovered the Authority requested two different proposals for equipment and transportation/disposal services. The bid files retained are incomplete. The only information the Authority kept in the bid files was the vendor bid list and the summary sheet showing how much the vendors bid on the proposals. The bid files did not contain: a rating of the bids, an award letter, a contract, and all other applicable bid documentation.

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Item 2007-002 – Procurement Code (continued)

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

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

Cause –The Authority failed to maintain written documentation as required by the New Mexico Administrative Code.

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

Views of Responsible Officials and Planned Corrective Actions – North Central has hired qualified personnel and provided internal training to employees to ensure that proper reporting and the procurement code are being followed correctly. North Central will be dedicating one employee to be trained on the NM State Procurement Act; this person will review and maintain proper documentation for future audits.

Item 2007-003 – Cash Disbursements

Statement of Condition – During our testing of the documentation retained in regards to the purchase of goods and services, we discovered numerous deviations. Our sample size was twenty-five individual disbursements, which were selected throughout the fiscal year, and contained the following deviations:

- Seven instances where the Authority has misplaced vendor file. The amount of the purchases, where there was no vendor file, totaled \$35,984.
- One instance where payment for goods and services only had one signature on the check. The Authority requires two signatures on all checks. The purchase totaled \$166.

Criteria – Section 6-6-3(A) NMSA 1978 requires every local public body to “*keep all the books, records and accounts in their respective offices in the form prescribed by the local government division*” of the New Mexico Department of Finance and Administration. Although the Authority is not considered a local public body it is as an instrumentality of the members and as such the Authority is required to design accounting records such as properly completed purchase orders, requisitions and vouchers that would enable the accounting staff to record and process accounting data consistent with New Mexico State Statutes.

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Item 2007-003 – Cash Disbursements (continued)

Effect – If the Authority does not prepare a purchase order or requisition, it runs the risk that purchases may be made in excess of the approved budget limitations. By not having receipts, vendor invoices or statements, or misplaced vendor files, to support the purchase, the Authority cannot determine whether or not they are paying for items that were for Authority use.

Cause – The Authority staff failed to ensure that all of the required documentation that supports the expenditure was in place prior to final disbursement.

Recommendation – We recommend the Authority review its policies and procedures concerning cash disbursements. After such review, all necessary changes or adjustments should be instituted as soon as possible.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority has changed its purchase order process to provide additional oversight, any purchase order over \$250 requires a Manager signature and only two supervisors have the authority to request a purchase order; all purchases are reviewed by the Manager prior to approval.

Item 2007-004 – Credit Cards Transactions

Statement of Condition – During our testing of the documentation regarding the purchase of goods with a credit card, we discovered the Authority failed to properly maintain documentation to support the transactions. Our audit sample was twelve credit card statements that reflected charges of \$83,476. We discovered the Authority did not retain any fuel receipts for the charges reflected on the fuel credit card statements. Additionally, we observed several hand written notes on the fuel statements stating the purchase was unauthorized as the fuel had been purchased at an unauthorized fueling station or the odometer reading of the vehicle did not justify refueling based on the previous reading when the vehicle was filled with fuel. Within our audit testing sample, the Authority staff questioned \$5,911 of fuel charges. We did not observe any indication in the accounting records; that the Authority was reimbursed for questionable fuel purchases.

Besides the problems noted with the fuel credit card statements we noted a Lowe's statement that was missing invoices for two purchases. The purchases totaled \$213. We also noted the Lowe's and Wal Mart accounts were not remitted timely incurring finance and late fee charges totaling \$8.

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

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Item 2007-004 – Credit Cards Transactions (continued)

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

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

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

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

Views of Responsible Officials and Planned Corrective Actions – In September 2011, NCSWA did away with MasterCard, American Express, and Visa credit cards. All accounts were paid and closed, the only card in current use is a Lowes Home Center card that requires a purchase order accompany the sale. WEX Fleet cards (fuel cards) are now assigned to specific pieces of equipment, and mileage and purchases are traced by the NCSWA office weekly and produce a monthly report. All receipts are cross checked against residential and commercial route sheets to verify mileage and to identify any misuse. All paper records and electronic files are kept in house and are readily available for future audits. Any missing receipts are verified by the tracking system within WEX fleet cards, and copies are obtained for a paper file held in records on site.

Item 2007-005 – Indebtedness

Statement of Condition – During the fiscal year, the Authority borrowed cash from Western Commerce Bank to finance insurance premiums. On July 1, 2008, the Authority borrowed \$17,455 and on December 5, 2008, the Authority borrowed \$33,848, in order to finance premiums for automotive and solid waste work including trash collection insurance.

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

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

Cause – The Authority did not have the cash on hand to remit the entire premium at one time.

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Item 2007-005 – Indebtedness (continued)

Recommendation – We recommend the Authority seek a solution where no funds are being borrowed to finance the insurance premiums.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste continues to purchase insurance using short term loans to finance the purchase. General liability and vehicle insurance are financed to provide the agency a way to remain liquid and still insure coverage. NCSWA is coordinating with their insurance agent to coincide insurance premiums due dates at the end of each calendar year as that is the time of year NCSWA receives the bulk of its revenue. This will allow NCSWA to pay insurance premiums when coffers are at their peak, and help the agency reduce financing fees.

Item 2007-006 – Travel and Per Diem Reimbursements

Statement of Condition – During the course of the audit, we performed tests of travel and per diem expenditures. Our sample size was ten transactions, which were selected throughout the fiscal year, and contained the following discrepancies:

- There were nine instances which required mileage (actual or per diem) reimbursement that were calculated incorrectly. In total, the employees were underpaid by \$165.
- There was one instance where an employee received 100% advance for per diem prior to departure. The employee was advanced \$2,100.
- There was one instance where an employee did not remit within five working days the excess of advanced funds. The refunded amount was \$934.
- There was one instance where an actual meal receipt was not submitted by an employee. The total amount of meal receipts was \$142.
- There was one instance where a meal receipt exceeded the limit allowed by Per Diem & Mileage Act. The employee was overpaid by \$28.

Criteria – The New Mexico Department of Finance and Administration (DFA) has issued regulations in the form of Title 2, Chapter 42, Part 2, *Travel and Per Diem Regulations Governing the Per Diem and Mileage Act* of the New Mexico Administrative Code. The rule was issued in accordance with Section 10-8-1 to 10-8-8 NMSA 1978.

Section 2.42.2.9(3) of the Travel and Per Diem regulations states, “*The public officer of employee must submit receipts for the actual meal and lodging expenses incurred. Under circumstances where the loss of receipts would create a hardship, an affidavit from the officer or employee attesting to the expenses may be substituted for actual receipts. The affidavit must accompany the travel voucher and include the signature of the agency head or governing board.*”

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Item 2007-006 – Travel and Per Diem Reimbursements (continued)

Criteria (continued) – Section 2.42.2.9(B) of the Travel and Per Diem regulations states, “Actual expenses for meals are limited to a maximum of \$30.00 for in-state travel and \$45.00 for out-of-state travel for a 24-hour period.”

Section 2.42.2.10(A) of the Travel and Per Diem regulations states, “Employee’s (travel) request to be advanced up to 80 percent of per diem rates and mileage cost or for the actual cost of lodging and meals.”

Section 2.42.2.10(B) of the Travel and Per Diem regulations states, “Employee shall remit, within 5 working days of the return from the trip, a refund of any excess advance payment to the agency.”

Section 2.42.2.11(B) of the Travel and Per Diem regulations states, “80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.”

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

Cause – The Authority did not understand and apply the Per Diem and Mileage Act and DFA regulations correctly. Travel requests were not reviewed properly prior to payment.

Recommendation – We recommend the current staff begin by reviewing the Per Diem and Mileage Act and the administrative code. Once a thorough understanding of the Act and regulations are obtained, procedures should be established to ensure compliance with the Act and regulations. At a minimum, approval by an authorized supervisor, employee certification upon return, and 80 percent advance should be in place.

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority is currently following Section 2.42.2.9(3) of the travel and per diem regulations. But it has changed its rates of reimbursement by resolution, NCSWA pays \$0.55 (fifty-five cents) per mile, Google maps are utilized to calculate mileage. North Central Solid Waste Authority has utilized a flat rate of \$82 per day for in state travel and \$115 for out-of-state travel, since 2012.

Item 2007-009 – IPA Recommendation Form & Audit Contract

Statement of Condition – The New Mexico State Auditor’s Rule requires the Authority to submit their Independent Public Accountant (IPA) Recommendation Form and the signed audit contract for the audit for the fiscal year ended June 30, 2009, no later than June 1, 2009. The Authority failed to submit the IPA Recommendation Form by the required due date.

Criteria – Section 2.2.2.8(B)(6) of the 2009 New Mexico State Auditor’s Rule states, “After completing the evaluations for each IPA, and making the IPA selection, each agency shall submit the following information to the State Auditor on or before June 1; ...”

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

Criteria (continued) – Section 2.2.2.8(G)(6)(c) of the 2014 New Mexico State Auditor’s Rule states, “The agency shall deliver the fully completed and signed IPA Recommendation Form for Audits and the completed audit contract to the State Auditor by the deadlines shown below. If a completed IPA Recommendation Form and audit contract are not delivered to the State Auditor by these deadlines, the auditor must include a finding of noncompliance with Paragraph (6) of Subsection G of Section 2.2.2.8 NMAC in the audit report.”

The audit contract was issued under the requirements of the 2014 New Mexico State Auditor’s Rule.

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

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

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

Views of Responsible Officials and Planned Corrective Actions – With the submission of the 2007, 2008 and 2009 audit reports, we are three years further along in becoming current. Our intentions are to seek proposals for the next three fiscal years once the 2007, 2008 and 2009 audit reports become a matter of record. Our desire is to be current by late 2016.

Item 2007-010 – Capital Assets – Subsidiary Records and Inventory

Statement of Condition – During our observation of capital assets reflected on the depreciation schedule we noted discrepancies between the schedule and assets on hand. Our sample size was twenty capital assets with the majority being vehicles or trucks. There was one truck with a cost of \$118,599 that had been involved in an accident however the truck was not in the yard and could not be observed. The depreciation schedule does not provide sufficient identification information to readily identify assets. For example, the depreciation schedule reflects a transport trailer with a cost of \$39,500 however the trailer was not tagged and the Authority owns several transport trailers making it impossible to identify the trailer reflected on the depreciation schedule.

We did not observe any documentation that indicated the Authority conducted a physical inventory of capital assets at the end of the fiscal year ended June 30, 2009. No current employees were employed with the Authority during the audit year to ascertain if the inventory was conducted and the location of the documentation of the procedures performed.

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

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

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

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

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

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

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

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

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

Views of Responsible Officials and Planned Corrective Actions – North Central Solid Waste Authority will review its capital assets records and make the necessary changes to be in compliance with the administrative code. North Central Solid Waste Authority has performed a physical inventory since 2012; the inventory has been presented to the Board of Directors. North Central Solid Waste Authority keeps records of all equipment purchases and tracks yearly maintenance costs associated with equipment and retains a paper file on each piece of equipment. North Central Solid Waste Authority has purchased a bar code software program; all annual inventories will be tagged and tracked annually.

Item 2008-002 – Cash Receipts

Statement of Condition – During the course of the audit, we performed tests of cash receipts. Our sample size was twelve deposits and contained the following discrepancies:

- There were two instances where numerical receipts are out of sequence.

Criteria – Internal controls are established to safe guard the assets of the Authority. The use of pre-numbered receipts aids in ensuring the receipt of money enters the accounting system and the entire population of receipts generated for a particular accounting period can be determined and verified if necessary. Once the funds are receipted into the accounting system the transaction becomes a part of the accounting system thus aiding in the safe guarding of assets.

Effect – By not depositing money within twenty-four hours of receipt, money could be lost, stolen or misappropriated. The mechanics of the accounting software allow employees to skip the numerical sequence of receipts generated, thus allowing incorrect entry of receipt number. Not issuing a receipt for each collection of public money at the time of the transaction could allow unintentional or intentional errors to occur, and not be detected and fully reconciled in a proper manner on a timely basis.

Cause – The Authority issued receipts out of sequence by a day.

Recommendation – We recommend the Authority to review the accounting procedures concerning all money received and deposited.

Views of Responsible Officials and Planned Corrective Actions – In 2012, North Central Solid Waste Authority changed its cash procedures and added precautions to ensure accurate balances are being deposited in the bank. NCSWA now has a supervisor who verifies cash drawers at the end of the day and the deposit is prepared by the accounts payable employee. The deposit is then verified by the billing clerk and the bank deposit is made by a clerk. This provides a dual control mechanism and should allow NCSWA to control and track any discrepancy before a daily bank deposit is made.

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STATUS OF PRIOR YEAR'S FINDINGS

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

Item 2005-002 – Bank Reconciliations – The prior year's audit finding noted the Authority had issued checks and not disbursed them on a timely basis, thereby distorting the reconciled cash at year-end. During the current year's audit, we noted the Authority continued the same practice. The previous year's audit finding has been modified and repeated.

Item 2005-004 – Submission of Audit Report – As in the prior year, the Authority did not submit its audit for the fiscal year ended June 30, 2009 to the Office of the State Auditor on a timely basis. The prior audit finding has been repeated.

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

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

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

Item 2007-002 – Procurement Code – The prior year's audit finding noted the Authority failed to retain purchase documentation required by the procurement code for the purchase of capital assets. During the current year, we discovered two proposals for equipment and transportation/disposal services procurement files lacked the necessary documentation to substantiate compliance with the procurement code. The prior year's finding has been modified and repeated.

Item 2007-003 – Cash Disbursements – The prior year's finding noted discrepancies discovered during the testing of the purchase of goods and services. During the current year, we noted discrepancies regarding the purchase of goods and services. The prior year's audit finding has been modified and repeated.

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

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STATUS OF PRIOR YEAR'S FINDINGS (continued)

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

Item 2007-006 – Travel and Per Diem Reimbursements – The prior year's audit finding detailed discrepancies noted during the test of travel and per diem reimbursements. During the current year, we noted similar discrepancies. The audit finding has been modified and repeated.

Item 2007-007 – Revenue Billing – The prior year's audit finding noted discrepancies discovered during the testing of billing to individual accounts for services provided. During the current year we did not discover discrepancies within the billing. The audit finding has been resolved.

Item 2007-008 – Public Employee Retirement Association (PERA) Reporting – The prior year's audit finding noted the Authority did not report all the required wages to PERA. During the current year, the Authority reported the required wages to PERA. The audit finding has resolved.

Item 2007-009 – IPA Recommendation Form and Audit Contract – The prior year's audit finding noted the Authority failed to make a timely selection of an independent public accountant (IPA) for the audit engagement for the fiscal year ended June 30, 2008. The selection for the auditor of the fiscal year ended June 30, 2009 was not made on a timely basis. The audit finding has been modified and repeated.

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

Item 2008-001 – Board of Directors Official Minutes – The prior year's audit finding noted on two separate occasions the Authority failed to approve draft copy of the minutes at the subsequent meeting as required by the Open Meetings Act. During the current year the Board complied with the Open Meetings Act as the draft copy of minutes were approved at the subsequent meeting. The prior year's audit finding is considered resolved.

Item 2008-002 – Cash Receipts – The prior year's audit finding noted discrepancies regarding the retention of cash receipts and the reconciliation of a day's deposit collection with the general ledger and bank account. During the current year we noted two instances of numerical receipts issued out of numerical sequence. The prior year's audit finding has been modified and repeated.

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EXIT CONFERENCE & FINANCIAL STATEMENT PREPARATION
JUNE 30, 2009 AND 2008

Exit Conference

The audit report for the fiscal years ended June 30, 2009 and 2008, was discussed during the exit conference held on June 26, 2015. Present for the Authority was Pedro Valdez, board member; and Gino Romero, manager. Present for the auditing firm was Ed Fierro, CPA.

Financial Statement Preparation

The auditing firm of Fierro & Fierro, P.A., Certified Public Accountants, prepared the audit report that contains the financial statements and notes to the financial statements of the Authority as of and for the year ended June 30, 2009 and 2008. The Authority's upper management has reviewed and approved the financial statements and related notes, and they believe the Authority's books and records adequately support them.