

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
COUNCIL OF GOVERNMENTS
AUDITED FINANCIAL STATEMENTS WITH
INDEPENDENT
AUDITORS' REPORT**

For the Fiscal Year Ended June 30, 2008

**HINKLE & LANDERS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
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FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
OFFICIAL ROSTER
As of Fiscal Year Ending June 30, 2008**

DIRECTORS	POSITION	MEMBER GOVERNMENT/TITLE
Dr. William Hall	Chairman	City of Farmington
Joe Murrietta	1 ST Vice-Chair	Mayor of Grants
Louie Bonaguidi	2 nd Vice-Chair/Treasurer	City of Gallup
Patricia Lundstrom	Board Secretary (<i>ex officio</i>)	Northwest NM Council of Governments
Dave Dallago	Member	McKinley County-Commissioner
Rocky Wasson	Member	San Juan County Treasurer
Tom Ortega	Member	Village of Milan-Mayor
Bennie Cohoe	Member	Cibola County-Commissioner
Elmer Chavez	Member	Cibola County-Commissioner
Larry Marcum	Member	City of Aztec-Commissioner
David Velasquez	Member	City of Aztec-City Manager
Scott Eckstein	Member	City of Bloomfield-Mayor
Keith Johnson	Member	City of Bloomfield-City Manager
Dan Darnell	Member	City of Farmington-Councilor
Bill Standley	Member	City of Farmington-Mayor
Jay Azua	Member	City of Gallup-Councilor
Allan Landavazo	Member	City of Gallup-Councilor
Billy W. Moore	Member	McKinley County-Commissioner
Doug Decker	Member	McKinley County-County Attorney
Dr. Jim Henderson	Member	San Juan County-Commission Chair
Modey Hicks	Member	City of Grants-Councilor
Administrative Officers		
Patricia Lundstrom, Executive Director		Jeff Kiely, Deputy Director

Hinkle & Landers, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and
Patricia Lundstrom, Executive Director
Northwest New Mexico Council of Governments
and
Mr. Hector H. Balderas, State Auditor

We have audited the accompanying financial statements of the governmental activities and each major fund of the Northwest New Mexico Council of Governments (the Council) as of and for the year ended June 30, 2008, which collectively comprise the Council's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Council, as of June 30, 2008, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund and the major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

For the fiscal year ended 2008, the Council consolidated six special revenue funds into the General Fund. Please refer to Note B in the notes to the financial statements.

In accordance with Government Auditing Standards, we have also issued a report dated January 7, 2009 on our consideration of the Council'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 read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 9, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information, however we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the individual fund financial statements. The additional schedule listed as "Other Supplemental Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hinkle & Landers, P.C.

Hinkle & Landers, P.C.
January 7, 2009

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

This Management's Discussion & Analysis (MD&A) statement is provided pursuant to the requirements of Statement 34 of the Government Accounting Standards Board (GASB-34). The MD&A introduces the basic financial statements and provides an analytical overview of the organization's financial activities.

FINANCIAL HIGHLIGHTS

Government-Wide – Net Assets

- The Council's net assets increased about \$288,196, or about 47%, as a result of Fiscal Year 2008 operations.

Government Funds – Fund Balance

- The Council realized \$1,214,367 in revenues from all usual sources, an increase of about 16%, or \$170,133, over FY 2007. In addition, in FY2008 the Council recorded special item revenue of \$125,779 to account for a new loan fund which the Council now administers.
- The Council posted \$1,216,101 in expenditures, an increase of 6% over FY 2007.
- Net of revenues over expenditures was -\$1,734, as compared with a net of -\$106,126 in FY 2007.
- Against a starting Fund Balance of \$308,527, the year-end Fund Balance was up \$124,045 to \$432,572, i.e., an increase of 40% compared with FY 2007.

THE FINANCIAL STATEMENTS

The annual audit report consists of a series of financial statements. The *Statement of Net Assets* (page 10) and the *Statement of Activities* (page 11) provide information about the activities of the Council as a whole and portray how the organization's governmental activities were financed, as well as what remains for future spending. *Fund Financial Statements* report the Council's operations in more detail for each of the Council's funds.

Reporting the Council as a Whole: Statement of Net Assets and Statement of Activities

These two summary statements assist in answering the question, "Is the Council better or worse off financially?" The statements report changes in the Council's net assets, i.e., the difference between assets and liabilities, as a way of measuring the Council's financial health or financial position.

The Council's net assets changed from the prior year, increasing 47% from about \$613,000 to about \$901,000. Investment in Capital Assets increased by about \$167,000 (up 52%), while the level of Unrestricted Net Assets *increased* by about \$178,000 (up about 134%). The change in net assets is summarized in Table 1.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

TABLE 1: Net Assets			
<u>Governmental Activities</u>			
	<u>FY 2007</u>	<u>FY 2008</u>	<u>Change</u>
Cash and receivables	\$447,349	\$528,300	\$80,951
Net capital assets	<u>\$318,684</u>	<u>\$485,610</u>	<u>\$166,926</u>
Total assets	\$766,033	\$1,013,910	\$247,877
Total liabilities	\$152,657	\$112,338	(\$40,319)
Net Assets			
Investment in capital assets	\$318,684	\$485,610	\$166,926
Restricted for special projects	\$427,190	\$370,340	(\$56,850)
Unrestricted net assets	<u>(\$132,498)</u>	<u>\$45,622</u>	<u>\$178,120</u>
Total net assets	\$613,376	\$901,572	\$288,196
			\$0
Total liabilities and net assets	\$766,033	\$1,013,910	\$247,877

The Council's annual revenues increased by over 28%, while expenses increased by about 34%. Changes in Net Assets are shown in Table 2.

TABLE 2: Changes in Net Assets			
<u>Governmental Activities</u>			
	<u>FY 2007</u>	<u>FY 2008</u>	<u>Change</u>
REVENUES			
<u>Program revenues:</u>			
Grants & Contributions	\$703,953	\$803,124	\$99,171
<u>General revenues:</u>			
Grants and Contributions	\$285,370	\$362,750	\$77,380
Interest Income	\$13,486	\$17,773	\$4,287
Miscellaneous Income	<u>\$41,425</u>	<u>\$30,720</u>	<u>(\$10,705)</u>
Subtotal, General Revenues	\$340,281	\$411,243	\$70,962
Total Revenues	\$1,044,234	\$1,214,367	\$170,133
PROGRAM EXPENSES			
Regional Community Development	\$966,424	\$1,051,949	\$85,525
SPECIAL ITEM: Proceeds from transfer in of loan fund			
	\$0	\$125,779	\$125,779
CHANGES IN NET ASSETS	\$77,810	\$288,197	\$210,387
Net assets, beginning of year	\$535,566	\$613,376	\$77,810
Net assets, end of year	\$613,376	\$901,572	\$288,196

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Financial Analysis of Balances and Transactions of Funds

Total assets organization-wide increased by about \$248,000, or 32%.

- Cash and cash equivalents organization-wide increased about \$106,000 (up 59%).
- Total assets in the General Fund increased \$2,700 (up 2%).
- Total assets in the Enterprise Loan Fund increased about \$78,000 (up 27%) to about \$370,340, of which:
 - o There was an increase in Cash and Cash Equivalents of about \$82,000 to \$249,000.
 - o There was a decrease of about \$3,500 in Loans Receivable to \$121,000.

Total liabilities organization-wide decreased by \$40,000 (down 26%).

- The General Fund showed a \$43,000 decrease in liability (down 31%).

Total expenditures increased organization-wide by about \$66,000 (up 6%).

Financial Ratios can be used to assess the Council's financial stability over time. In FY 2008, the Council's "working capital" (assets exceeding liabilities) was \$901,572, producing a "current ratio" of assets to liabilities of about 9:1.

Fiscal Year:	2003	2004	2005	2006	2007	2008
Working Capital (in 000s):	520.41	416.93	412.63	535.57	613.38	901.57
Current Ratio:	9.64	2.84	3.29	5.53	5.02	9.03

Days Cash and Investments in Reserve represents the number of days normal operations could continue with no revenue collection. In theory, if funding completely stopped, and if all COG assets were converted into cash or cash equivalents, the Council could still operate at normal capacity for 277 working days beyond June 30, 2008, i.e., providing the Council with about one year in which to replenish cash reserves.

Fiscal Year:	2003	2004	2005	2006	2007	2008
Days Cash & Investments in Reserve:	43	157	299	205	209	277

Reporting the Council's Most Significant Funds: Fund Financial Statements

The audit report's fund-by-fund statements begin at page 12 and provide detailed information about the Council's most significant individual funds. These funds are established by the Council's management and Board to help control, manage, monitor and report funds being used for particular purposes, for example regional transportation planning, and/or to document how the Council is meeting legal responsibilities in using certain grants and other funds from external funding sources, such as the Economic Development Administration (an agency of the US Department of Commerce). Under the Council's Caselle accounting package, revenues from multiple funding sources were – for the first time – consolidated within one fund, i.e., the General Fund, while the other primary fund was the Enterprise Loan Fund. Difficulties were experienced in transitioning from the former QuickBooks accounting program and the Caselle package, but these were essentially overcome in the course of the year.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

For audit purposes, the money available to support the Council's basic services is referred to as *governmental funds*. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Council's general operations and basic services. The relationship (or differences) between governmental *activities* (as reported in the *Statement of Net Assets* and *Statement of Activities*) and governmental *funds* are reflected in a reconciliation at the bottom of the *fund financial statements*.

The Council's program revenues and spending by Fund are summarized in Table 3.

Fund #	FUND SOURCE/NAME	Revenues in FY 2008	Expenditures in FY 2008	Excess (deficiency) Revenues over Expenditures	Other financing sources (uses) & Transfers & Special Items	Fund balance Beginning of Year	Fund balance End of Year	Percentage Change in Fund Balance
01	GENERAL FUND	\$1,198,500	\$1,152,707	\$45,793	\$0	\$16,439	\$62,232	279%
02	Enterprise Loan Fund	\$15,867	\$63,394	(\$47,527)	\$125,779	\$292,088	\$370,340	27%
TOTALS		\$1,214,367	\$1,216,101	(\$1,734)	\$125,779	\$308,527	\$432,572	40%

Federal funding accounted for nearly 9% of Council funding (down from about 30% in FY 2007), while membership fees from participating local governments accounted for another 30% (up from 26%). More than one-half (57%) of Council funding was attributable to short-term special grants and contracts.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Council's final budget of revenues and expenditures represented a decrease of about 7% from the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset Activity

The Council received \$150,000 in Special Appropriation Funds from the State Legislature to finance the Phase III Leasehold Improvement Project, involving further renovations on the building in Gallup leased by the Council from McKinley County.

Long-term Debt Activity

Similar to FY2007, the Council has no long-term liabilities. Compensated absences payable expected to be paid within one year is estimated to be \$16,608.

FINANCIAL FORECAST

The most stable source of revenue for the Council continues to be the membership fees received in biannual installments from each of the member governments of the Council. These revenues (\$326,250 annually, up about \$54,000 - or 20% - from FY 2007) account for approximately one-quarter (25%) of all revenues received during the year. The current multi-year agreements with the members are due to expire June 30, 2009, and it is not clear whether the new agreements will continue at current levels or in a multi-year format. Emerging budgetary constraints being experienced by local governments as a result of national/global economic downturns may result in belt-tightening on membership dues levels going forward.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Revenue sources that can be considered moderately stable include:

- An annual appropriation of about \$125,000 from the State Legislature, administered by the Local Government Division, identified as grant-in-aid funding for regional planning councils. Support by the Administration and the Legislature remains fairly strong, but actual appropriations are in question each legislative session – and possibly vulnerable in 2009.
- An annual grant from the US Department of Commerce, Economic Development Administration, now administered under three-year grant agreements with funding renewed annually at \$50,000 per year, requiring a 25% local match. The existing three-year agreement in place at the beginning of FY 2006 expired December 31, 2008, and the new three-year agreement became effective January 1, 2009. Annual renewal is assumed within the agreement, but may be subject to certain factors, including (a) level of Congressional appropriations to the Economic Development Administration in an atmosphere of stress on the domestic budget, (b) evaluation of NWNMCOG by EDA prior to renewal, and (c) performance by NWNMCOG in relation to the Government Performance Results Act (GPRA) as reported annually.
- An annual contract with the New Mexico Department of Transportation for management of the “Northwest Regional Planning Organization” (NWRPO), now administered under five-year grant agreements with funding renewed annually at \$65,160, requiring a 17.1% match (or 14.6% of “total project” inclusive of match).

In FY 2008, several legislative grants were received and administered by the Council, either through direct agreements or subgrants from member entities. These are one-time grants, but similar opportunities may exist in future years.

Primary financial stress experienced by the organization was again in the area of monthly cash flow, whereby incurred expenses often approached the limits of cash on hand, due primarily to the lag time between expenditure and reimbursement from funders. The executive and budget committees of the Council considered but declined to implement a line of credit arrangement with the bank, and instead authorized the utilization of the Council’s reserve fund as a cash flow buffer.

Initiatives to be pursued in FY 2009 include the following:

- New (and continuing) subgrant relationships with local governments for legislative appropriations and planning grants under the Community Development Block Grant program administered by the State Department of Finance and Administration (DFA) under annual funding from the US Department of Housing and Urban Development;
- Additional technical assistance to local governments, particularly smaller public entities, in financial and project management, infrastructure capital improvement planning and tracking and certifying of legislative capital outlay projects;
- Continued research into funding opportunities for which the Council would be eligible;
- Continued organization and management of short-term grants and contracts under an in-house mechanism called the “Center for Regional Innovation,” which can serve as an implementation avenue for various initiatives while at the same time diversifying funding into the Council.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

REQUESTS FOR INFORMATION

The following staff and consultants of the Northwest New Mexico Council of Governments may be contacted in connection with this analysis:

- Patricia Lundstrom, Executive Director: pattylundstrom@nwnmcog.com
- Jeffrey Kiely, Deputy Director: jkiely@nwnmcog.com
- Theresa Lee, Finance Manager: tlee@nwnmcog.com
- Warren Burmeister, Administration & Finance Consultant: wburmeister@nwnmcog.com

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**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
(GOVERNMENT-WIDE)
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008**

ASSETS	<u>Governmental Activities</u>
Current assets	
Cash and cash equivalents	\$ 286,865
Receivables	120,103
Loans receivable, net of allowances	<u>121,332</u>
Total current assets	528,300
 Non-current assets	
Capital assets, net	<u>485,610</u>
Total assets	<u>\$ 1,013,910</u>
 LIABILITIES	
Current liabilities	
Accounts payable	\$ 76,598
Accrued payroll liabilities	12,882
Compensated absences payable within one year	16,608
Deferred revenue	<u>6,250</u>
Total current liabilities	<u>112,338</u>
 NET ASSETS	
Invested in capital assets	485,610
Restricted for special projects	370,340
Unrestricted net assets	<u>45,622</u>
Total net assets	<u>901,572</u>
Total liabilities and net assets	<u>\$ 1,013,910</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
(GOVERNMENT-WIDE)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	<u>Expenses</u>	<u>Program Operating and Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets for Governmental Activities</u>
Governmental activities:			
Regional Community Development	\$ (1,051,949)	803,124	(248,825)
General revenues:			
Membership dues			362,750
Interest income			17,773
Miscellaneous income			30,720
Total general revenue			<u>411,243</u>
Change in net assets before special item:			162,418
Special item			
Proceeds from transfer in of loan fund			<u>125,779</u>
Change in net assets			288,197
Net assets, beginning of year			<u>613,376</u>
Net assets, end of year			<u>\$ 901,572</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2008

	Major Funds		
	General Fund	Enterprise Loan Fund	Total Governmental Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 37,858	249,008	286,866
Receivables	120,103	-	120,103
Loans receivable, net of allowance	-	121,332	121,332
Total current assets	\$ 157,961	370,340	528,301
LIABILITIES			
Current liabilities			
Accounts payable	\$ 76,597	-	76,597
Accrued payroll liabilities	12,882	-	12,882
Deferred revenue	6,250	-	6,250
Total current liabilities	\$ 95,729	-	95,729
FUND BALANCES			
Reserved for:			
Special revenue funds	-	370,340	370,340
Unreserved/undesignated reported in General fund	62,232	-	62,232
Total fund balance	62,232	370,340	432,572
Total liabilities and fund balance	\$ 157,961	370,340	528,301

Total fund balance - Governmental funds \$ 432,572

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the Governmental Funds Balance Sheet - 485,610

Compensated absences are not due and payable in the current period, and therefore, are not reported in the Governmental Funds Balance Sheet - (16,608)

Total net assets \$ 901,572

See independent auditors' report
The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Enterprise Loan Fund</u>	
Revenues			
Contracts and grants	\$ 694,339	-	694,339
Federal revenues	108,785	-	108,785
Membership dues	362,750	-	362,750
Interest income	2,321	15,452	17,773
Miscellaneous income	30,305	415	30,720
Total revenues	<u>1,198,500</u>	<u>15,867</u>	<u>1,214,367</u>
Expenditures			
Current			
General government	946,204	63,394	1,009,598
Capital outlay	206,503	-	206,503
Total expenditures	<u>1,152,707</u>	<u>63,394</u>	<u>1,216,101</u>
Excess (deficiency) of revenues over (under) expenditures	<u>45,793</u>	<u>(47,527)</u>	<u>(1,734)</u>
Other financing sources			
Special item			
Proceeds from transfer in of loan fund	-	125,779	125,779
Net change in fund balances	45,793	78,252	124,045
Fund balance, beginning of year	<u>16,439</u>	<u>292,088</u>	<u>308,527</u>
Fund balance, end of year	<u>\$ 62,232</u>	<u>370,340</u>	<u>432,572</u>
Net change in fund balances - Total Governmental Funds			\$ 124,045
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Governmental funds report capital outlays as expenditures, whereas, governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. This is the amount by which capital outlays exceed depreciation expense during the current period.			
Capital outlay expenditures (additions) which were capitalized			194,897
Depreciation expense			(27,971)
Increase in compensated absences			<u>(2,773)</u>
Change in net assets of governmental activities			<u>\$ 288,197</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
GENERAL FUND - MAJOR FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Contracts and grants	\$ 729,471	799,060	803,124	4,064
Membership dues	326,250	362,750	362,750	-
Fund balance budgeted	184,479	-	-	-
Interest	96	2,321	2,321	-
Miscellaneous income	22,880	13,967	30,305	16,338
Total revenues	<u>1,263,176</u>	<u>1,178,098</u>	<u>1,198,500</u>	<u>20,402</u>
Expenditures				
Current:				
General governmental	1,084,676	934,533	946,204	(11,671)
Capital outlay	178,500	206,503	206,503	-
Total general governmental	<u>1,263,176</u>	<u>1,141,036</u>	<u>1,152,707</u>	<u>(11,671)</u>
Excess (deficiency) of revenues (under) over expenditures	<u>-</u>	<u>37,062</u>	<u>45,793</u>	<u>8,731</u>
Fund balance, beginning of year	<u>16,439</u>	<u>16,439</u>	<u>16,439</u>	<u>-</u>
Fund balance, end of year	<u>\$ 16,439</u>	<u>53,501</u>	<u>62,232</u>	<u>8,731</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SPECIAL REVENUE FUND - MAJOR FUND
ENTERPRISE LOAN FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Contracts and grants	\$ 816,963	-	-	-
Interest income	44,500	18,256	15,452	(2,804)
Miscellaneous	5,660	999	126,194	125,195
Total revenues	<u>867,123</u>	<u>19,255</u>	<u>141,646</u>	<u>122,391</u>
Expenditures				
Current:				
General governmental				
Operating	697,571	19,255	22,212	(2,957)
Bad debt expense	-	-	41,182	(41,182)
Capital outlay	-	-	-	-
Total general governmental	<u>697,571</u>	<u>19,255</u>	<u>63,394</u>	<u>(44,139)</u>
Excess (deficiency) of revenues (under) over expenditures	<u>169,552</u>	<u>-</u>	<u>78,252</u>	<u>78,252</u>
Fund balance, beginning of year	<u>292,088</u>	<u>292,088</u>	<u>292,088</u>	<u>-</u>
Fund balance, end of year	<u>\$ 461,640</u>	<u>292,088</u>	<u>370,340</u>	<u>78,252</u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Entity

The Northwest New Mexico Council of Governments (Council) was established in 1968 pursuant to New Mexico State Law and Executive Order to serve as State Planning District I, initially serving local governments in McKinley County and subsequently adding local governments in Cibola and San Juan Counties. The Council does not have any component units. In fiscal year ended June 30, 2008, the Council was composed of nine units of local government, including:

- Cibola, McKinley and San Juan Counties, and
- The incorporated communities of Gallup, Grants, Farmington, Milan, Aztec and Bloomfield.

Funding comes from each member government, as well as from many public and private funding sources.

The basic activities are as follows:

- (1) Obtain grants, contracts and other sources of funds for local governments and various agencies and entities;
- (2) Disseminate information regarding federal programs and the establishment of new programs;
- (3) Provide technical assistance to members in the developing, financing and implementing local programs and projects;
- (4) Serve as a liaison and facilitator of communications between and among local members and other public and private agencies;
- (5) Sponsor workshops, seminars and forums on local and regional issues, as well as on public and private programs available for members;
- (6) Develop regional plans and initiatives for addressing local and regional needs, such as in the areas of water, community development, housing transportation, energy and economic development;
- (7) Serve as a Federally-designated economic development district.

B. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A “fund” is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

In the prior year, the Council maintained the following funds:

Name of Fund	Fund Balance
General Fund	\$ (118,663)
EDA/CEDS (501)	12,500
LGD COG (604, 606, 607, 609, 610)	27,076
RLF (502)	292,088
BOR (503)	18,310
EPA: Care Grant (504)	-
Regional Planning Organization (602)	16,047
CDBG Funds (807, 808, 854, 855)	61,169
Total fund balance as of 06/30/07	308,527
<u>Change due to Re-structure of Funds:</u>	
Less: RLF (502) fund balance as of 06/30/07	(292,088)
General Fund fund balance as of 06/30/07	\$ 16,439

The funds listed above were consolidated into two governmental funds for fiscal year 2008. The General Fund now consists of all funds existing in the prior fiscal year with the exception of the US Department of Commerce Economic Development Administration Title IX Revolving Loan Fund (502 RLF). The Enterprise Loan Fund is a special revenue fund that now consists of the US Department of Commerce Economic Development Administration Title IX Revolving Loan Fund (EDA RLF – formerly 502 RLF) and the United States Department of Agriculture Revolving Loan Fund Grant which was acquired during the current fiscal year (USDA RLF – see note C.6). These special revenue funds were not required by any outside organizations, and therefore, consolidation into the General Fund is deemed permissible.

C. Basis of Accounting

1. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for governmental funds.

Neither fiduciary funds nor component units that are fiduciary in nature are included in the government-wide financial statements. Program revenues are made up of fees received from members of the Council and grants and contracts that have been used to meet the operational or capital requirements of a particular program.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
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Net assets should be reported as restricted when constraints placed on net assets use is either externally imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Council's policy to use restricted resources first, then unrestricted resources as needed.

For its government-wide activities, the Council has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

2. Fund Financial Statements

Fund financial statements report detailed information about the Council. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column and all of the governmental funds are considered major.

3. Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

4. Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within 60 days of year-end and available to pay obligations of the current period). This includes reimbursements from state and federally funded projects, which are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

5. Expenditure Recognition

The measurement focus of governmental fund accounting is based on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid.

The governmental fund types for financial statement purposes follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource interments are recognized in the accounting period in which they become susceptible to accrual; then they become both measurable and available to

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

finance expenditures of the fiscal period. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Revenues from grants that are restricted for specific uses are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation and sick pay, are recorded when the related fund liability is incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources.

6. Fund Accounting

The accounts of the Council are organized on a basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures. The funds are governmental fund types and are grouped as General Fund and Special Revenue Funds.

The General Fund is the general operating fund of the Council. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered a major fund.

Key programs included the General Fund during fiscal year 2008 include the following:

Bureau of Reclamation (BOR) – An open-ended cooperative agreement entered into with the Western Colorado Area Office of the Bureau of Reclamation, US Department of the Interior, providing periodic funding allocations in support of the Council’s function as chair of the inter-agency steering committee for the Navajo/Gallup Water Supply Project, a proposed ¾-billion-dollar project currently included in bills in the US Congress as part of the settlement of Navajo Nation water rights in the San Juan River, designed to deliver long-term sustainable water supply from the San Juan River southward to arid regions of the eastern portion of the Navajo Reservation, to the southwestern area of the Jicarilla Apache Reservation, and to the City of Gallup.

Environmental Protection Agency (EPA CARE) – A two-year grant, having a March 31, 2008 termination date, from the US Environmental Protection Agency under its “Community Action for a Renewed Environment” (CARE) Program, involving development of a partnership with federal, state and local agencies to work with citizens and groups in each county of the region to identify, understand, prioritize and initiate community action to reduce toxic risks in the environment.

Regional Planning Organization (RPO) – A multi-year grant from the New Mexico Department of Transportation (NMDOT), renewed annually, to provide staffing services in support of regional transportation planning under the auspices of the Northwest Regional Planning Organization (NWRPO), including coordination of the NWRPO Technical Committee representing the region’s local governments, networking with

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

transportation partners within the region and the state, staffing of the NWRPO Policy Committee, and annual submission to-NMDOT of regional recommendations for project inclusion in the State Transportation Improvement Plan (STIP).

Local Government Division COG – includes the following projects:

- Land Grant Comprehensive Plans – a subcontract from the North Central New Mexico Economic Development District, pursuant to its State Appropriations Project (SAP) grant administered through the New Mexico Energy, Minerals and Natural Resources Department, in support of technical assistance by the Council in researching, planning and producing comprehensive plans for the Cubero and Cebolleta Land Grants in Cibola County.
- McKinley County Cultural Enterprise Network, Part II (MCCEN II) – A State Appropriations Project (SAP) grant (#05-L-G-1518) through the Local Government Division of the New Mexico Department of Finance and Administration, to support “Phase 2” planning and implementation of a network of museums, trading posts and other cultural enterprises in McKinley County, to include planning, designing and/or construction of physical improvements that comply with the *Americans with Disabilities Act* (ADA).
- McKinley County Cultural Enterprise Network, Part III (MCCEN III) – A State Appropriations Project (SAP) grant (#05-L-2510) through the Local Government Division of the New Mexico Department of Finance and Administration, to support “Phase 2” planning and implementation of a network of museums, trading posts and other cultural enterprises in McKinley County, to include implementation of plans contained in the feasibility study for the Cultural Enterprise Network.
- COG Office Project, Phase IV – One-time special appropriation project grants (SAP 07-L-G-5343 for \$50,000), with expiration date of June 30, 2008, and appropriated in the 2007 Legislative Session and administered by the Local Government Division of the New Mexico Department of Finance and Administration, to plan, design, remodel and equip the new office facility for the COG organization. Funds pursuant to this grant were utilized to complete Phase IV renovations of the building at 409 South 2nd street, which the Council leases from the County of McKinley. (Project 07-L-G-5343 closed out on December 18, 2007 and 07-L-G-3440 closed out on July 30, 2008.

Community Development Block Grants – include the following projects:

- Regional Transit Plan I-B – One-time special appropriation project grant SAP 07-L-G-8023 for \$50,000, with expiration date of June 30, 2008, and appropriated in the 2007 Legislative Session and administered by the Local Government Division of the New Mexico Department of Finance and Administration, to develop regional transportation plans.
- Native Heritage Trail – Byway Plan I-B – One-time special appropriation project grant SAP 07-L-G-8024 for \$35,000, with expiration date of June 30, 2008, and appropriated in the 2007 Legislative Session and administered by the Local Government Division of the New Mexico Department of Finance and Administration, to develop a native heritage scenic byways plan.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

- NMED (GF): Navajo Gallup Water Steering Project - One-time special appropriation project grant SAP 06-1021-GF, for \$25,000, with expiration date of June 30, 2010, and appropriated in the 2006 Legislative Session and administered by the Local Government Division of New Mexico Department of Finance and Administration, to plan, design and construct a mechanical and operational water utility in support of the proposed Navajo-Gallup water supply pipelines to sever northwest New Mexico in McKinley and San Juan Counties.
- City of Grants Comprehensive Plan - A subgrant from the City of Grants to provide technical assistance in research, planning and production of a Comprehensive Plan for the City of Grants, pursuant to the City's Community Development Block Grant (CDBG) planning grant from the Local Government Division of the New Mexico Department of Finance and Administration. (Project closed 10/31/07)
- City of Bloomfield Comprehensive Plan - A subgrant from the City of Bloomfield to provide technical assistance in research, planning and production of a Comprehensive Plan for the City of Grants, pursuant to the City's Community Development Block Grant (CDBG) planning grant from the Local Government Division of the New Mexico Department of Finance and Administration. (Project closed 09/30/07)

Special Revenue Funds are used to account for the proceeds from specific revenues sources that are legally restricted to expenditures for specified purposes. The Board of Directors authorizes the establishment of Special Revenue Funds. The Enterprise Loan Fund (ELF) is a Special Revenue Fund and active in the fiscal year ended June 30, 2008. The Council designates the Enterprise Loan Fund as a major fund.

Enterprise Loan Fund: The ELF is an ongoing revolving loan fund originally co-capitalized by matching grants from the Economic Development Administration (EDA) of the US Department of Commerce and the Community Development Block Grant (CDBG) program administered by the Local Government Division of the New Mexico Department of Finance and Administration, for the purpose of providing gap loans to qualified small businesses as a means of improving access to credit, building enterprise and creating jobs in the region.

During fiscal year 2008, the Council agreed to receive transfer of grant management and ownership of the Four Corners Sustainable Forests Partnership, Revolving Loan Fund Grant of the United States Department of Agriculture. The Northwest New Mexico Community Development Corporation (NWNMCDC) was the prior administrator of the loan fund. On September 7, 2007, NWNMCDC transferred cash in the amount of \$60,558 and a loan portfolio with a principal balance of \$65,221 to the Council. This loan program is administered by the Council as a part of the ELF.

7. Allowances

The Council approved the write-off \$178,108 in EDA loans during fiscal year 2008. This amount was bad debt expense recorded in fiscal year 2007, which was when it was determined that the loans were not collectible.

For fiscal year 2008, management has recorded bad debt expense against an allowance for uncollectible receivables of \$4,895 in accrued interest and \$39,303 in uncollectible loans.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
 NOTES TO AUDITED FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

D. Capital Assets and Depreciation

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date they are donated. The Council capitalized capital expenditures for payments over \$5,000. If construction is financed, interest during construction is capitalized. The Council records assets (such as, furniture & equipment including software, building & improvements, and land) purchased at cost or, if contributed, at fair market value at date of donation. The Council is capitalizing and depreciating computer software developed for internal use in compliance with GASB 34 Paragraph 19. For net asset purposes, capital assets are depreciated using straight line over the estimated useful life of the asset. Although depreciation is not funded, it must be considered in order to properly reflect the results of operations and the replacement of the equipment and furniture. There is no debt relating to capital assets.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	Estimated Useful Life (in years)
Leasehold improvements	Life of the lease
Furniture and equipment	5
Vehicles	5

E. Budgets

The New Mexico Department of Finance and Administration notifies the board of directors of the Council of the amount of state grants-in-aid available to be allocated. The Council must obtain nonfederal matching funds or services, or both, from local governments or private sources at least equal to the amount of the state grant-in-aid.

An annual operating budget is prepared by the Council staff for the general and special revenue funds. The governing board of the Council certifies that the budget adopted is consistent with the expenditure of state and local funds under the Planning District Act.

The adopted budget is then presented to the Department of Finance and Administration for approval. The Department of Finance and Administration exercises budget control at the fund level and at the expenditure level of general government operations and capital outlay. The budgets of all individual funds may not be legally over expended. Subsequent budget adjustments must be approved by the governing board of the Council but are not required to be approved by the Department of Finance and Administration.

The president or treasurer of the board of directors of the Council shall certify from time to time that the matching funds from local or private sources are on deposit in the Council's own account before quarterly payment of state grant-in-aid is made.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Any state funds unexpended on June 30th each year will revert to the state's General Fund and, if any state funds have been used for any purpose not within the purposes of the Planning District Act, the amount shall be reimbursed to the state. The Council has received no funds from the state's General Fund.

The Council records their budgets on the modified accrual basis.

F. Net Assets Restricted by Enabling Legislation

The government-wide statement of net assets reports \$370,340 of restricted net assets, all of which is considered restricted by agreements with the granting organizations (See Note 17). When both restricted and unrestricted resources are available for use it is the Council's policy to use restricted resources first, then unrestricted resources as needed.

Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

G. Indirect Cost

The Council does not have a negotiated Indirect Cost Rate with federal grantors but does allocate expenditures such as overhead costs not directly attributable to specific programs. These expenditures are allocated monthly among all funds based upon the budgeted expenditures for each fund as a percentage of total budgeted expenditures.

H. Interfund Receivable and Payables – Due To/Due From

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Interfund receivable and payables are presented at net amounts for each fund. There were no interfund receivables or payables as of June 30, 2008.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Cash and Cash Equivalents

Cash and cash equivalents consist of short-term highly liquid investments, which are readily convertible into cash within ninety (90) days of purchase.

K. Encumbrances are not used by this entity.

2. CASH BALANCES

In accordance with Section 6-10-17, NMSA, 1978 Compilation, deposits of public money are required to be collateralized. Pledged collateral is required in amounts in an aggregated equal to one half of the amount of public money in each account. Securities, which are obligations of the United States, State of New Mexico, its agencies, institutions, counties, municipalities or other subdivisions are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation, or the National Credit Union Administration.

Deposits (cash or cash equivalents) are carried at cost, which approximates market value. As of June 30, 2008 bank deposit balances up to \$100,000 per bank are covered by federal depository insurance (FDIC). Custodial credit risk is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. The Council's deposit policy is to collateralize one half of the uninsured public money in each account.

As of June 30, 2008, the Council's bank balances were exposed to custodial credit risk as follows:

Uninsured and uncollateralized:	\$189,202
Uninsured and collateral held by pledging bank's trust department, not in the Council's name:	\$ 0

The Council's bank balances were not fully insured and collateralized in accordance with state statute for the fiscal year ended June 30, 2008.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
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The following is a listing of deposits of public money and applicable insurance coverage as of June 30, 2008:

Pinnacle Bank				
Account Name	Type	Interest Rate	Bank Balance	Book Balance
Public Funds Now Account	Demand Deposit	1.74%	\$ 88,422	<u>(2,336)</u>
Less: FDIC coverage				(88,422)
Uninsured balance			\$ -	
50% collateral requirement				-
Pledged collateral				-

First Federal Bank				
Account	Type	Rate	Bank Balance	Book Balance
NWNMCOG - Savings Account	Savings	1.24%	\$ 40,194	40,194
Enterprise Loan Fund	Checking	2.98%	249,008	249,008
Less: FDIC coverage				(100,000)
Uninsured balance			\$ 189,202	
50% collateral requirement				94,601
Pledged collateral				-

3. RECEIVABLES

Receivables in the amount of \$120,103 represent account receivables and grant receivables due to the General Fund as of June 30, 2008.

4. LOANS RECEIVABLE

Loans receivable in the special revenue fund as of June 30, 2008 consisted of eight loans made through the EDA loan program for business and job creation in the tri-county region of Cibola County, San Juan County, and McKinley County. As noted in B.6, the Council acquired the Four Corners Revolving Loan Fund in September 2007. This portfolio consists of two loans, one of which has a principal balance of \$39,303 and is deemed uncollectible by management.

	Enterprise Loan Fund
Loans receivable	\$ 160,635
Less allowance	(39,303)
Loans receivable - net	<u>\$ 121,332</u>

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

5. ACCUMULATED ANNUAL LEAVE

Employees are paid for annual leave and absences due to sickness by prescribed formula based on length of service. Annual leave benefits anticipated to be liquidated with expendable available resources are accrued and reported as liabilities in the government-wide financial statements. These liabilities are allocated to the General Fund and the special revenue fund based on indirect cost formulas. Sick leave benefits are not accrued but rather expensed in the General Fund as they are paid.

The current portion of compensated absences payable at June 30, 2008 totaled \$16,608. This amount is an estimate based on historical trends.

A summary of changes in accumulated annual leave for the year ended June 30, 2008 is as follows:

	2007	Additions	Deletions	2008
Annual leave	\$ 13,835	19,023	(16,250)	16,608
	\$ 13,835	19,023	(16,250)	16,608

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of June 30:

	2008
Accrued salaries	\$ 9,304
Accrued payroll taxes and related payroll deductions	3,578
	\$ 12,882

7. RECONCILIATION BETWEEN BUDGETARY BASIS AND MODIFIED ACCRUAL BASIS

Because the Council maintains budgets on the modified accrual basis, there is no need to reconcile the budget financial statements to the fund financial statements.

8. LEASES

The Council leased office facilities from McKinley County under a lease agreement effective July 1, 2005. The term of this lease is for 20 years at \$1.00 a year. This lease is accounted for as an operating lease. Future minimum payments under this lease are \$1.00 a year for the next five years.

The Council maintains office space in San Juan County. The lease is accounted for as an operating lease and the contract expires December 31, 2008. The lease is immaterial to the financial statements.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

As of June 30, 2008, the Council had two months remaining in a lease for a copier. The lease is accounted for as an operating lease and the amount is immaterial to the financial statements.

All leases may be terminated at any time with sixty days notice if the New Mexico Legislature does not grant sufficient appropriation for the lease or if the Council decides that termination is necessary to protect the best interests of the State of New Mexico.

9. CAPITAL ASSETS AND DEPRECIATION

A summary of changes in capital assets for the year ended June 30, 2008 follows:

Governmental Activities	<u>06/30/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/08</u>
General Fund				
Leasehold improvements	\$ 331,150	146,937	-	478,087
Furniture & fixtures	21,335	30,496	-	51,831
Automobiles	17,800	17,464	-	35,264
Enterprise Loan Fund				
Furniture & fixtures	4,178	-	-	4,178
Total capital assets	<u>374,463</u>	<u>194,897</u>	<u>-</u>	<u>569,360</u>
Less accumulated depreciation for:				
General Fund				
Leasehold improvements	(15,445)	(20,779)	-	(36,224)
Furniture & fixtures	(18,356)	(4,281)	-	(22,637)
Automobiles	(17,800)	(2,911)	-	(20,711)
Enterprise Loan Fund				
Furniture & fixtures	(4,178)	-	-	(4,178)
Total accumulated depreciation	<u>(55,779)</u>	<u>(27,971)</u>	<u>-</u>	<u>(83,750)</u>
Total net capital assets	<u>\$ 318,684</u>	<u>166,926</u>	<u>-</u>	<u>485,610</u>

There were no deletions of capital assets, nor debt related to any capital assets for the fiscal year ended June 30, 2008.

Depreciation expense of \$27,971 was allocated to the Regional Community Development function in the Government-wide Statement of Activities, which is the Council's only governmental activity function.

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**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

10. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN

Plan Description. Substantially all of the Council's full-time employees 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 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 the 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% of their gross salary. The Council is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the Council are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. The Council's contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were \$36,557, \$30,425 and \$26,256 respectively, which equal to the amount of the required contributions per year.

11. POST EMPLOYMENT BENEFITS

The Council has chosen not to participate in the retiree health care service that it is eligible for under the Retiree Health Care Act (Chapter 10, Article 7C NMSA 1978).

12. RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Council carries commercial insurance. Settled claims have not exceeded this commercial coverage in the past year.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2008, the Council did not have any probable risk of loss.

13. INTERFUND TRANSACTIONS AND BALANCES

Interfund receivables and payables are amounts due from and to other funds of the Council. All amounts are expected to be paid within one year or less. As of June 30, 2008 there were no outstanding interfund receivables or payables.

Transfers are used to move revenues and expenditures that have been collected and expended through the General Fund. There were no interfund transfers for the fiscal year ended June 30, 2008.

14. DEFERRED REVENUE

Deferred revenue includes amounts paid by membership organizations as dues for the fiscal year ended June 30, 2009. Membership dues are classified as a voluntary nonexchange transaction, which occurs when two or more parties willingly enter into a contractual nonexchange agreement. These funds are restricted for the following fiscal year, and therefore, are considered not yet earned.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

15. SPECIAL ITEM

As noted in B.6, the Council became the administrator of the Four Corners Sustainable Forests Partnership, Revolving Loan Fund Grant of the United States Department of Agriculture during fiscal year 2008. On September 7, 2007, NWNMCDC transferred cash in the amount of \$60,558 and a loan portfolio with a principal balance of \$65,221 to the Council. This is noted in the financial statements as a special item due to its significance to the financial statements and the unusual nature of the transaction.

16. RELATED PARTY TRANSACTIONS

The by-laws of Council require the composition of the Board of Directors to represent member governments. As a result, many members of the Board of Directors are employed by, or serve in an elected capacity for, the member governments. Due to the nature of the Council, Board members have a significant interest in the Council's transactions related to the furnishing of services to their respective governments.

17. RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2008 include \$370,340 which is restricted for the Council's loan programs. This amount includes \$121,332 in notes receivable and \$249,008 in cash. The restrictions are the result of agreements with the granting organizations.

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STATE OF NEW MEXICO
NWNMCOG
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For The Year Ended June 30, 2008

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expenses To Date	Out-standing Encumbrances	Unencumbered Balances	Notes:
Special, Deficiency, Specific and Capital Outlay Appropriations*							
SAP - Laws 2005, Chapter 34, Section 6, Paragraph 210	05-2510	33,250	06/30/10	33,250	-	-	
SAP - Laws 2005, Chapter 347, Section 16, Paragraph 123	05-331	150,000	10/04/05-06/30/10	-	-	150,000	1
SAP - Laws 2005, Chapter 347, Section 45, Paragraph 207	05-1518	40,000	06/30/10	30,000	-	10,000	2
Grant-in-aid - Laws 2007 - Planning District Act, Section 4-58-4	07-L-RW-J-6G-1	124,750	07/01/07-06/30/08	124,750	-	-	
SAP - Laws 2007, Chapter 2, Section 26, Paragraph 152	07-5343	50,000	07/01/07-06/30/08	50,000	-	-	
SAP - Laws 2007, Chapter 21, Section 4, Paragraph 3	07-8020	-	07/07/07-06/30/08	-	-	-	
SAP - Laws 2007, Chapter 21, Section 4, Paragraph 4	07-8023	50,000	07/01/07-06/30/08	50,000	-	-	
SAP - Laws 2007, Chapter 21, Section 4, Paragraph 5	07-8024	35,000	07/07/08-06/30/08	35,000	-	-	
SAP - Laws 2007, Chapter 42, Section 68, Paragraph 474	07-3440	103,900	07/01/07-06/30/08	103,900	-	-	
Total Special, Deficiency, Specific and Capital Outlay Appropriations		586,900		426,900		160,000	

Notes:

- 1 = Special appropriation not received nor recorded as revenue by NWNMCOG. The appropriation is no longer available to NWNMCOG.
- 2 = Of the amount appropriated, NWNMCOG received \$30,000. The remaining \$10,000 was not recorded as revenue nor received by NWNMCOG. The remaining amount of \$10,000 is no longer available to NWNMCOG.

* Although the original source of the funds is special appropriations, the Council considers the funds state grant-in-aid revenue.

Hinkle & Landers, P.C.

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

The Board of Directors and
Patricia Lundstrom, Executive Director
Northwest New Mexico Council of Governments
and
Mr. Hector Balderas, State Auditor

We have audited the accompanying financial statements of the governmental activities and each major fund, and the budgetary comparisons for the general and major special revenue fund of the Northwest New Mexico Council of Governments (the Council) as of and for the year ended June 30, 2008, which collectively comprise the Council's basic financial statements and have issued our report thereon dated January 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council'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 Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council'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 that we consider to be significant deficiencies.

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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Council'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 Council's financial statements that is more than inconsequential will not be prevented or detected by the Council's internal control. We consider the deficiencies described in the accompanying

schedule of findings and recommendations and responses to be significant deficiencies in internal control over financial reporting: 05-01, 05-02, 08-01, 08-02 and 08-03.

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 Council'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 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 05-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the schedule of findings and recommendations and responses as items: 05-02, 08-01 08-02 and 08-03.

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

This report is intended solely for the information and use of management, the New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, the Board of Directors of the Northwest New Mexico Council of Governments and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Hinkle & Landers, P.C
January 7, 2009

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<u>Description</u>	<u>Status of Prior Year and Current Findings</u>
03-01 LOAN RECEIVABLES	Resolved
05-01 FUND ACCOUNTING / IMPROVE CONTROLS OVER THE GENERAL LEDGER (SAS 112)	Repeated - Modified
05-02 ACTUAL EXPENDITURES EXCEED BUDGET EXPENDITURES	Repeated - Modified
06-01 LATE PAYROLL REPORTS AND DEPOSITS	Resolved
08-01 LATE AUDIT REPORT	Current
08-02 ESTABLISH POLICIES RELATED TO LOAN FUNDS	Current
08-03 BANK DEPOSITS EXPOSED TO CUSTODIAL RISK	Current

05-01—FUND ACCOUNTING / CONTROLS OVER MAINTAINING THE GENERAL LEDGER

Statement of Condition

During the audit, material adjustments were made to the Council's general ledger. According to Statement on Auditing Standards 112 (SAS 112), material adjustments are a reportable finding.

The Council transitioned to a fund-based accounting software program during fiscal year 2008. When transactions could not be identified by the contractors employed to implement the change, the transaction was recorded to a "suspense" account with the expectation that the items in suspense would be resolved at a later date. When the trial balance was provided to the auditors, the General Fund's suspense account contained \$278,495. The auditors and Council staff resolved the majority of the issues during the audit process and reduced the General Fund's suspense account to \$6,605, which is immaterial to the General Fund. The suspense in the Enterprise Loan Fund (ELF) is \$1,358, which is also immaterial to this fund. The adjustments were primarily the result of consolidating the fund balances of departmental programs that in the prior year were individual funds. In addition, material adjustments were made to personnel expense.

Criteria

Statement on Auditing Standards (SAS) 112 was implemented as of December 15, 2006. Some of the key underlying concepts of this standard include:

- The auditor cannot be part of a client's internal control because becoming part of a client's internal control impairs the auditors independence;
- The auditor's work is independent of the client's internal control over financial reporting, and the auditor cannot be a compensating control for the client; and
- A system of internal control over the financial reporting does not stop at the general ledger – it includes controls over the presentation of the financial statements.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Recording adjustments is considered a significant process of internal control and should be performed by the Agency.

Effect

An internal control weakness in maintaining the general ledger exists because adjustments were made by the auditor, not by Council staff. Therefore, financial statements reviewed internally by management and the Board are materially inaccurate.

Cause

- 1) The implementation of SAS 112, which requires the auditor to reconsider the design and processes needed to be implemented and executed by the auditee, is the cause of this finding.
- 2) The Agency transitioned to a new accounting information system during fiscal year 2008 which resulted in temporary suspense accounts which maintained unassigned items.

Recommendation

We recommend that the Council make material adjustments prior to the audit process. Asking for technical advice from the auditor or other knowledgeable sources is not considered a control deficiency as long as the staff of the Council makes the adjustments and understands how and why the adjustments are made.

Management Response

The Council of Governments recognizes as a deficiency that material adjustments had to be made to the ledger by the auditor. As noted in the finding, the adjustments were necessary in order to reconcile the transactions posted to the suspense account when the Council transitioned to a fund-based accounting system. The Council believes this is an unusual one-time finding arising solely from the transition to a new accounting system. However, as part of its quarterly review of the general ledger, the Council will prepare trial balance reports and identify any general ledger accounts that may need adjusting. If it is determined that adjustments are required, the necessary journal entries will be made within a timely manner so that all material adjustments are completed prior to the audit process, seeking the auditor's advice as appropriate prior to implementation of the audit.

05-02 – ACTUAL EXPENDITURES EXCEED BUDGET EXPENDITURES

Statement of Condition

Actual expenditures exceeded budgeted expenditures in some categories.

- 1) General Fund – over expended by \$11,671.

The primary reason for the over expenditure was that the Council's general ledger under-reported personnel expense. It was determined during the audit process that personnel expense was under-reported, and a material adjustment was made to the general ledger. As a result, the Council did not have accurate information when determining the final budget for the year.

- 2) Enterprise Loan Fund – over expended by \$44,139.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The primary reason for the over expenditure is that the Council did not budget for bad debt expense associated with the loan portfolio.

Criteria

In accordance with Chapter 6, Article 3 NMSA 1978, expenditures may not exceed approved budgeted amounts.

Effect

Budgetary controls are circumvented and Department of Finance and Administration regulations are violated. It is possible that the Council could incur deficit spending by not properly monitoring its budget.

Cause

- 1) The transition to the new accounting software during fiscal year 2008 resulted in a suspense account (see finding 08-01), which likely resulted in the under-reporting of personnel expense.
- 2) The Council did not record bad debt expense as of June 30, 2008, nor did the Council budget for the expense.

Recommendation

Management should review the financial statements periodically for possible overruns and request appropriate budgetary increases before expenditures exceed budget. The Council should include bad debt expense in the final budget based on a timely assessment of the status of the loan portfolio.

Management Response

The Council of Governments recognizes items 1 and 2 of the finding, relating to actual expenditures in excess of budgeted expenditures in some categories, as deficiencies. In order to resolve this finding in FYE 2009, the Council will perform quarterly reviews of the General Fund financial statements to identify cost overruns. If overruns are identified, the Council will request appropriate budgetary increases so that by fiscal year end there are no cost overruns. Any budgetary increases will be submitted to the Council's Executive-Budget Committee for approval. In addition, the Council will perform a monthly review of the Enterprise Loan Fund (ELF) loan portfolio to identify any loans that are likely to default. If the review indicates that a loan may default, the Council will make an adjustment to the ELF's budget for bad debt expense.

08-01 – LATE AUDIT REPORT

Statement of Condition

The annual audit was not delivered on time to the State Auditor. It was delivered January 30, 2009.

Criteria

State Audit Rule Subsection A of 2.2.2.9 NMAC requires that Councils of Governments be in compliance with State statutes for filing their annual audit report within five months of its reporting year end.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Effect

The Council is not in compliance with State statute. Readers of this report may not have it available in a timely manner.

Cause

The Council had difficulties obtaining an auditor and Hinkle & Landers, PC contracted to do the audit in October 2008. The required financial information was provided in late November and early December. In addition, as noted in 08-01, the audit process required more time due to having to resolve the unknown items in the suspense account.

Recommendation

The Council should have all of its financial information for the year to be audited ready for inspection within a reasonable timeframe.

Management Response

The Council of Governments recognizes as a deficiency that the annual audit report was not delivered on time to the State Auditor. The lateness of the filing was due primarily to difficulties in (a) obtaining an auditor and (b) utilizing the reporting functions of the new Caselle accounting software. The Council intends to resolve this finding by beginning its search for an auditor - for fiscal year ending June 30, 2009 – earlier than usual and by ensuring that the software's reporting programs are fully functional so that required financial reports are ready for inspection by the auditor within a reasonable timeframe.

08-02—ESTABLISH POLICIES RELATED TO LOAN FUNDS

Statement of Condition

The Council administers two revolving loan funds –the US Department of Commerce Economic Development Administration Title IX Revolving Loan Fund (EDA) and the United States Department of Agriculture Revolving Loan Fund Grant, which was acquired during the current fiscal year (USDA). Both of these loan funds are administered through the Council's Enterprise Loan Fund (ELF). The Council budgets revenues (e.g. interest on loans and interest on bank deposits) and administrative expenses (e.g. wages and miscellaneous overhead costs) in the ELF. The auditor noted the following issues related to these loans funds.

- 1) Although the Council budgets revenues and expenses in the ELF, the revenues and expenses are not properly recorded in the ELF. A significant portion of the revenues were recorded in the General Fund because the amounts were viewed as a recovery of administrative costs paid out by the General Fund. Likewise, the expenses of the ELF were recorded in the General Fund because the cash was initially disbursed by the General Fund. The auditor reclassified the revenue and expenses in order to properly record the revenues and expenses of the ELF.
- 2) The Council records loan interest revenues of the ELF on a cash basis. The auditor did not identify any policies or procedures related to accruing interest on loans. The auditor made adjustments to reflect the interest revenues earned by the fund during the current year, as well as, bad debt expense as determined by management's appraisal of uncollectible amounts.

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NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Criteria

1) Fund accounting requires that the operations of each fund be accounted for separately with each fund maintaining a separate record of its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Each fund has a budget which embodies the proposed expenditures for the period and the means of financing them. The expenses and revenues in each fund should be recorded in the fund in which they are budgeted. If one fund pays the expenses of another fund, the expense should be recorded in the fund in which the expense is budgeted, with a corresponding "due to" recorded to note the amount of the reimbursement owed. Reimbursements from one fund to another are considered interfund loans and these transactions affect only asset and liability accounts.

2) Policies and procedures should guide the Council to determine when the Council considers loan interest revenue susceptible to accrual in the ELF and the government-wide statements, as well as when to record bad debt expense.

Effect

The Council's general ledger did not properly reflect the expenses and revenues of each fund when the amounts are not recorded in the appropriate funds.

The effect of the Council not having policies related to accruing interest revenue is that the Council may not be consistent from year to year in its accounting treatment of the loan portfolio, as well as revenue recognition.

Cause

1) The Council recorded expenditures and revenues in the general fund instead of the ELF, where the amounts were budgeted.

2) The Council may not have considered the need to develop policies on accruing interest because the amounts that could be accrued have been immaterial to the financial statements and/or written-off as a bad debt expense.

Recommendation

The Council staff should consider the budget of a fund when determining whether or not revenues and expenditures should be recorded in the General Fund or the ELF.

In addition, the Council should consider developing policies related to the ELF, such as establishing when interest should be accrued. The policy should provide guidance related to recording and budgeting for bad debt expense related to accrued expense.

The Council may want to consider separating the cash balances of the loan funds into separate accounts in order to have a clear audit trail of bank interest revenues earned by each loan fund.

Management Response

The Council of Governments recognizes items 1 and 2 of the finding, relating to posting of revenue/expenses and accrued interest, as deficiencies. During FYE 2009, Council will properly record in the ELF all revenues and expenses attributable to ELF activities. New accounts will be established as needed in the ELF Chart of Accounts to make sure there are appropriate revenue and expense accounts for each revenue item and disbursement. Regarding accrued loan interest,

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

the Council will commence a monthly posting of accrued interest in the ELF and establish an allowance account for recording of uncollectible amounts. In accordance with the Recommendations shown in the finding, Council will also establish a separate bank account for the Forest Service Loan funds in order to physically separate the ELF funds from the Forest Service Loan funds.

08-03—BANK DEPOSITS EXPOSED TO CUSTODIAL RISK

Statement of Condition

The Council maintains two accounts at the First Federal Bank. As noted in C.2, as of June 30, 2008, \$189,202 in deposits at this bank was uncollateralized and uninsured.

Criteria

Per Section 6-10-17, NMSA, 1978 Compilation, deposits of public money are required to be collateralized. Pledged collateral is required in amounts in an aggregated equal to one half of the amount of public money in each account. Securities, which are obligations of the United States, State of New Mexico, its agencies, institutions, counties, municipalities or other subdivisions are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation, or the National Credit Union Administration. The Council's policy is to collateralize one half of the uninsured public money in each account.

Effect

The Council is in violation of statute, and the Council has an increased risk of loss of funds held at certain banking institutions.

Cause

The Council transferred the cash balance of the Enterprise Loan Fund to the First Federal Bank during fiscal year 2008. The Council did not establish the account as a "public funds" account, which resulted in the oversight.

Recommendation

The Council should create an agreement with the bank to establish the needed collateral. Other options include separating the loan funds into two accounts deposited at different banking institutions, resulting in more FDIC coverage.

Management Response

The Council of Governments recognizes as a deficiency that a certain amount of deposits held in two accounts at First Federal Bank were uncollateralized and uninsured. This finding arose because the accounts were not registered as "public funds" accounts and secondly, the combined assets of the two accounts exceeded the insurance limits of the Federal Deposit Insurance Corporation (FDIC) as of June 30, 2008. The "uninsured amounts" aspect of this finding is expected to automatically resolve itself due to the FDIC's increase in insurance limits for combined accounts held by a bank. Notwithstanding, the Council has instructed First Federal Bank to re-register the accounts as public funds accounts and to pledge collateral for any amounts that may exceed FDIC insurance limits.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDIT REVIEW COMMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

An exit conference was held on January 7, 2009 in a closed session, pursuant to the Open Meetings Act, NMSA Chapter 10 and the contents of this report were discussed. Present at the exit conference were:

Patricia Lundstrom	Executive Director and Board Secretary
Jeffrey Kiely	Deputy Director
Theresa Lee	Finance Manager
Warren Burmeister	Consultant, ELF
Joe Murietta	Mayor, City of Grants
Rocky Wasson	Treasurer, San Juan County
David Ulibarri	County Manager, Cibola
Karla Newberry	Finance Director, City of Gallup
Farley Vener, CPA, CFE	Independent auditor, Hinkle & Landers, P.C.

PREPARATION OF FINANCIAL STATEMENTS

The accompanying financial statements of the Council have been prepared by Hinkle & Landers, P.C., the organization's independent public auditors, however, the financial statements are the responsibility of management.