

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

For the Fiscal Year Ended June 30, 2009

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

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Page</u>
Official Roster	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-9
 <u>Financial Section:</u>	
Statement of Net Assets	10
Statement of Activities	11
Balance Sheet - Governmental Funds	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
General Fund – Major Fund	
Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP Budgetary Basis)	14
Enterprise Loan Fund – Major Fund	
Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP Budgetary Basis)	15
Notes to Financial Statements	16-29
 <u>Other Supplemental Information:</u>	
Schedule of Special, Deficiency, Specific and Capital Outlay Appropriations	30
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	31-32
Schedule of Findings and Recommendations and Responses	33
Exit Conference	34

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
OFFICIAL ROSTER
As of Fiscal Year Ending June 30, 2009**

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
Pat Simpson	Member	Cibola County-Commissioner
Lloyd Felipe	Member	Cibola County-Commissioner
Jim Crowley	Member	City of Aztec-Commissioner
Vacant	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, 2009, 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, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 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.
November 4, 2009

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT’S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 decreased about \$50,208, or about 6%, as a result of Fiscal Year 2009 operations.

Government Funds – Fund Balance

- The Council realized \$810,420 in revenues from all sources, a decrease of about 33%, or \$403,947, over FY 2008.
- The Council posted \$823,230 in expenditures, a decrease of 32% over FY 2008.
- Net of revenues over expenditures was - \$12,810, as compared with a net of - \$1,734 in FY 2008.
- Against a starting Fund Balance of \$432,572, the year-end Fund Balance was down \$12,810 to \$419,762, i.e., a decrease of 3% compared with FY 2008.

THE FINANCIAL STATEMENTS

The annual audit report consists of a series of financial statements. The *Statement of Net Assets* (Table 1, page 5) and the *Statement of Activities* (Table 2, page 5) 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 per each of the Council’s most financially significant 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, decreasing about 6% from about \$901,000 to about \$851,000. Investment in Capital Assets decreased by about \$34,600 (down 7%), while the level of Unrestricted Net Assets *increased* by about \$2,300 (up about 6%). 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, 2009**

TABLE 1: Net Assets			
<u>Governmental Activities</u>			
	<u>FY 2008</u>	<u>FY 2009</u>	<u>Change</u>
Cash and receivables	\$528,300	\$452,867	(\$75,433)
Net capital assets	<u>\$485,610</u>	<u>\$450,997</u>	<u>(\$34,613)</u>
Total assets	\$1,013,910	\$903,864	(\$110,046)
Total liabilities	\$112,338	\$52,498	(\$59,840)
Net Assets			
Investment in capital assets	\$485,610	\$450,997	(\$34,613)
Restricted for special projects	\$370,340	\$351,752	(\$18,588)
Unrestricted net assets	<u>\$45,622</u>	<u>\$48,615</u>	<u>\$2,993</u>
Total net assets	\$901,572	\$851,364	(\$50,208)
Total liabilities and net assets	\$1,013,910	\$903,862	\$110,048

The Council's annual revenues decreased by over 338%, while expenses also decreased by about 32%. Changes in Net Assets are shown in Table 2.

TABLE 2: Changes in Net Assets			
<u>Governmental Activities</u>			
	<u>FY 2008</u>	<u>FY 2009</u>	<u>Change</u>
REVENUES			
<u>Program revenues:</u>			
Grants & Contributions	\$803,124	\$451,345	(\$351,779)
<u>General revenues:</u>			
Grants and Contributions	\$362,750	\$316,250	(\$46,500)
Interest Income	\$17,773	\$15,433	(\$2,340)
Miscellaneous Income	<u>\$30,720</u>	<u>\$27,392</u>	<u>(\$3,328)</u>
Subtotal, General Revenues	\$411,243	\$359,075	(\$52,168)
Total Revenues	\$1,214,367	\$810,420	(\$403,947)
PROGRAM EXPENSES			
Regional Community Development	\$1,051,949	\$860,628	(\$191,321)
SPECIAL ITEM: Proceeds from transfer in of loan fund			
	\$125,779	\$0	(\$125,779)
CHANGES IN NET ASSETS			
	\$288,197	(\$50,208)	(\$338,405)
Net assets, beginning of year	\$613,376	\$901,572	\$288,196
Net assets, end of year	\$901,572	\$851,364	(\$50,208)

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Financial Analysis of Balances and Transactions of Funds

Total assets organization-wide decreased by about \$110,000, or 11%.

- Cash and cash equivalents organization-wide decreased about \$75,400 (down 14%).
- Total assets in the General Fund decreased \$56,300 (down 35%).
- Total assets in the Enterprise Loan Fund decreased about \$18,600 (down 5%) to about \$351,700, of which:
 - o There was a decrease in Cash and Cash Equivalents of about \$29,000 to \$220,000.
 - o There was an increase of about \$9,900 in Loans Receivable to \$131,300.

Total liabilities organization-wide decreased by \$60,000 (down 26%).

- The General Fund showed a \$62,000 decrease in liability (down 65%).

Total expenditures decreased organization-wide by about \$392,000 (down 32%).

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 consolidated within one fund, i.e., the General Fund, while the other primary fund was the Enterprise Loan Fund.

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*.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

TABLE 3: Summary of Revenues & Expenditures by Fund								
Fund #	FUND SOURCE/NAME	Revenues in FY 2009	Expenditures in FY 2009	Excess (deficiency) Revenues over Expenditures	Other financing sources (uses) & Transfers	Fund balance Beginning of Year	Fund balance End of Year	Percentage Change in Fund Balance
01	GENERAL FUND	\$795,598	\$789,820	\$5,778	\$0	\$62,232	\$68,010	9%
02	Enterprise Loan Fund	\$14,822	\$33,410	(\$18,588)	\$0	\$370,340	\$351,752	(5%)
TOTALS		\$810,420	\$823,230	(\$12,810)	\$0	\$432,572	\$419,762	(3%)

Federal funding accounted for nearly 12% of Council funding (up from 11% in FY 2008), while membership fees from participating local governments accounted for another 39% (up from 30%). Nearly one-half of Council funding was attributable to short-term special grants and contracts.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Council's final budget reflected a 6.5% decrease in revenues and a 1.8% decrease in expenditures from the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset Activity

The Council received \$25,000 in Special Appropriation Funds from the State Legislature to finance Capital Asset purchases, including new computers for staff and an electronic security gate for the staff parking lot. These purchases were not capitalized in the government-wide statements, as they did not meet Council capitalization criteria.

Long-term Debt Activity

The Council does not have any long-term liabilities.

FINANCIAL FORECAST

The Council's most stable revenue source continued to be the membership fees received in quarterly or biannual installments from each Council member government: \$316,250 annually, down \$46,500 - or 13% - from FY 2008, accounting for 40% of all annual revenues. Current multi-year member agreements are generally effective July 1, 2009 through June 30, 2011, and it is not clear whether interim annual renewals at July 1, 2010 will hold at current levels. Continuing constraints on local government budgets as a result of national/global economic downturns, exacerbated by ripple effects from significant reductions in the State budget, may result in future belt-tightening on membership dues levels.

Revenue sources that can be considered moderately stable, classified for Council management purposes as "base budget" sources, include:

- An annual appropriation from the State Legislature, administered by the Local Government Division, identified as grant-in-aid funding for regional planning councils. This grant has already been subject to rescissions impacting State budget line items, and possibilities are high for further rescissions in FY 2010. There is little evidence, however, that the grant as a whole would be in jeopardy.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT’S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 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 has a start-date of January 1, 2009 and is set to run through December 31, 2011. Annual renewal is assumed within the agreement, but may be subject to certain factors, including (a) Congressional reauthorization of and appropriations to the Economic Development Administration, (b) EDA site reviews, and (c) Council performance pursuant to the Government Performance Results Act (GPRA) as reported annually. In conjunction with American Recovery and Reinvestment Act of 2009 (ARRA), COG districts in EDA’s Austin Regional Office each received a grant supplement of \$10,189, applicable to FY 2010; it is unclear whether this increment will be included in subsequent budget years.
- 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). This contract may be subject to the substantial budgetary stresses involved in transportation funding at both the State and Federal levels, but to date there have been no negative impacts on the NWRPO budget.

In FY 2009, several short-term special grants and contracts were closed out, with a reduction in such funding reflected in the FY 2010 budget. Opportunities may exist in FY 2010 and future years for the Council to take on “enterprise” contracts with local governments and nonprofit corporations for particular pieces of technical assistance work, currently reflected in special contracts with the Village of Milan and Gallup Business Improvement District, Inc.

Cash flow continued to be the Council’s primary financial stress-point, whereby incurred expenses often approached the limits of cash on hand, due primarily to the lag time between expenditure and reimbursement from funders. In the absence of a line of credit, the Council relied on balances in its Reserve fund to buffer cash flow shortages.

Initiatives to be pursued in FY 2010 include the following:

- Contracts 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;
- Specialized and supplemental technical assistance to local governments and other public entities in the field of planning, organizational development and funding;
- Continued research into funding opportunities for which the Council would be eligible; and
- Continued management of short-term grants and contracts under the Council’s “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, 2009**

REQUESTS FOR INFORMATION

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

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- 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, 2009**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 72,094
Receivables	29,568
Cash restricted for loan programs	219,936
Loans receivable, net of allowances	131,269
Capital assets, net of depreciation	450,997
Total assets	<u>\$ 903,863</u>
LIABILITIES	
Accounts payable	\$ 15,000
Accrued payroll liabilities	18,105
Compensated absences payable within one year	19,393
Total liabilities	<u>52,498</u>
NET ASSETS	
Invested in capital assets	450,997
Restricted for special projects	351,752
Unrestricted net assets	48,615
Total net assets	<u>851,364</u>
Total liabilities and net assets	<u>\$ 903,863</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, 2009**

Functions/Programs	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets for Governmental Activities</u>
Governmental activities:			
Regional Community Development	\$ (860,628)	451,345	(409,283)
General revenues:			
Membership dues			316,250
Interest income			15,433
Miscellaneous income			27,392
Total general revenue			<u>359,075</u>
Change in net assets			(50,208)
Net assets, beginning of year			<u>901,572</u>
Net assets, end of year			<u>\$ 851,364</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, 2009**

	Major Funds		
	General Fund	Enterprise Loan Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 72,094	-	72,094
Receivables	29,568	-	29,568
Cash restricted for loan programs	-	219,936	219,936
Loans receivable, net of allowance	-	131,269	131,269
Due from other funds	-	547	547
Total assets	\$ 101,662	351,752	453,414
LIABILITIES			
Accounts payable	\$ 15,000	-	15,000
Accrued payroll liabilities	18,105	-	18,105
Due to other funds	547	-	547
Total liabilities	\$ 33,652	-	33,652
FUND BALANCES			
Reserved for:			
Special revenue funds	-	351,752	351,752
Unreserved/undesignated			
reported in General fund	68,010	-	68,010
Total fund balance	68,010	351,752	419,762
Total liabilities and fund balance	\$ 101,662	351,752	453,414
Total fund balance - Governmental funds			\$ 419,762
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 -			450,997
Compensated absences are not due and payable in the current period, and therefore, are not reported in the Governmental Funds Balance Sheet -			(19,393)
Total net assets			\$ 851,364

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, 2009**

	Major Funds		
	General Fund	Enterprise Loan Fund	Total Governmental Funds
Revenues			
Contracts and grants	\$ 352,345	-	352,345
Federal revenues	99,000	-	99,000
Membership dues	316,250	-	316,250
Interest income	1,211	14,222	15,433
Miscellaneous income	26,792	600	27,392
Total revenues	795,598	14,822	810,420
Expenditures			
Current			
General government	776,617	33,410	810,027
Capital outlay	13,203	-	13,203
Total expenditures	789,820	33,410	823,230
Excess (deficiency) of revenues over (under) expenditures	5,778	(18,588)	(12,810)
Net change in fund balances	5,778	(18,588)	(12,810)
Fund balance, beginning of year	62,232	370,340	432,572
Fund balance, end of year	\$ 68,010	351,752	419,762

Net change in fund balances - Total Governmental Funds \$ (12,810)

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	-
Depreciation expense	(34,613)

Increase in compensated absences (2,785)

Change in net assets of governmental activities \$ (50,208)

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, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Contracts and grants	\$ 400,521	451,345	451,345	-
Membership dues	441,008	316,250	316,250	-
Fund balance budgeted	-	-	-	-
Interest	-	1,211	1,211	-
Miscellaneous income	8,600	26,792	26,792	-
Total revenues	<u>850,129</u>	<u>795,598</u>	<u>795,598</u>	<u>-</u>
Expenditures				
Current:				
General governmental	767,769	765,634	776,617	(10,983)
Capital outlay	24,892	13,203	13,203	-
Total general governmental	<u>792,661</u>	<u>778,837</u>	<u>789,820</u>	<u>(10,983)</u>
Excess (deficiency) of revenues (under) over expenditures	<u>57,468</u>	<u>16,761</u>	<u>5,778</u>	<u>(10,983)</u>
Fund balance, beginning of year	<u>62,232</u>	<u>62,232</u>	<u>62,232</u>	<u>-</u>
Fund balance, end of year	<u>\$ 119,700</u>	<u>78,993</u>	<u>68,010</u>	<u>(10,983)</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, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Contracts and grants	\$ -	-	-	-
Interest income	15,836	14,222	14,222	-
Miscellaneous	-	600	600	-
Total revenues	<u>15,836</u>	<u>14,822</u>	<u>14,822</u>	<u>-</u>
Expenditures				
Current:				
General governmental				
Operating	15,665	5,234	5,005	229
Bad debt expense	-	28,405	28,405	-
Capital outlay	108	-	-	-
Total general governmental	<u>15,773</u>	<u>33,639</u>	<u>33,410</u>	<u>229</u>
Excess (deficiency) of revenues (under) over expenditures	<u>63</u>	<u>(18,817)</u>	<u>(18,588)</u>	<u>229</u>
Fund balance, beginning of year	<u>370,340</u>	<u>370,340</u>	<u>370,340</u>	<u>-</u>
Fund balance, end of year	<u>\$ 370,403</u>	<u>351,523</u>	<u>351,752</u>	<u>229</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, 2009**

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, 2009, 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, 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, 2009**

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.

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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Key programs included the General Fund during fiscal year 2009 include the following:

EDA: CEDS – A multi-year grant from Economic Development Administration to establish and to maintain a Comprehensive Economic Development Strategy (CEDS) process including:

- Coordinating economic development planning with other economic development entities,
- Notifying the Southwestern Regional Office of any plant closures or significant downsizing disaster designations, base realignments or closures, or any other sudden and sever economic dislocation within the district,
- Providing staff support to develop and monitor projects that will increase economic opportunities within the district, and
- Providing technical assistance as appropriate to member agencies

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, to provide 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 (NGWSP). NGWSP is a proposed 3/4-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. NGWSP is 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.

EDA II - Native American Economic Development – This multi-year grant enables the Council to work on economic development activities with the Tribal communities in Northwest New Mexico. There are two main goals for this grant aid, including, first and foremost, creating sustainable partnerships with our surrounding area tribal governments including, but not limited to, Laguna Pueblo and Acoma Pueblo, as well as, the Bread Springs and Sheep Springs Chapters of the Navajo Nation. A secondary goal is to support, develop, vet and monitor ready-to-fund projects that will increase economic opportunities for the aforementioned tribal communities.

LGD: Grant-in-Aid – The Council utilizes state-appropriated Grant-in-Aid funds, in combination with other funds, to support planning and technical assistance activities in the following areas: program management, CDBG, ICIP, legislative relations, capital outlay, rural support, water planning, technical assistance and regional planning.

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 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).

NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NMTD NHT-Byway Plan I-A – A one-time grant from the New Mexico Tourism Department to foster economic development and preservation efforts along the Native Heritage Trail Scenic Byway. The grant supports the development of a Corridor Management Plan for the Native Heritage Trail Scenic Byway, pursuant to the Safe, Accountable, Flexible, Efficient Transportation Act.

LGD: COG Ofc V – This is a one-time Special Appropriations grant (SAP Grant #08-L-G-4357) for \$25,000 to plan, design, furnish, renovate and equip the Northwest New Mexico Council of Governments building in Gallup, New Mexico.

McK (STB): WSR – This is a Special Appropriations grant (SAP Grant #06-1247-GF) for the McKinley County Regional Water System, to plan, design and construct a regional water system in McKinley County.

McK: LGD CARE II – This is a Special Appropriations grant (SAP Grant #06-1050-GF) for environmental planning in northwestern New Mexico.

McK: LGD NAEDIS – This grant is to fund the Economic Development and Labor Study in Cibola and McKinley Counties. Moreover, it helps to build the strong partnerships necessary to promote the NAEDIS program and partner communities and projects.

CDBG: Village of Milan – This planning grant is used to fund the development of a Milan Northside Infrastructure Master Plan that will provide Milan with infrastructure recommendations and plans to guide the implementation of infrastructure projects for Northside Milan. In addition to designing and leading the public involvement process, the Council will update the Milan Comprehensive Plan with information and plans in further detail for implementation. The comprehensive plan was last updated in 2002.

NMED (GF): NGWSP – One-time Special Appropriation grant (SAP 06-1021-GF) for \$25,000, and expiring June 30, 2010, appropriated in the 2006 Legislative Session and administrated by the Local Government Division of New Mexico Department of Finance and Administration. The grant is to plan, design and construct a mechanical and operational water utility in support of the proposed Navajo-Gallup water supply pipelines to support Northwest New Mexico in McKinley and San Juan Counties.

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 active in the fiscal year ended June 30, 2009. The Council designates the Enterprise Loan Fund as a major fund.

Enterprise Loan Fund (ELF): The ELF is a revolving loan fund consisting of two loan programs: the Economic Development Administration Revolving Loan Fund (RLF) and the Four Corners Sustainable Forests Partnership, Revolving Loan Fund Grant of the United States Department of Agriculture (FSLF). This loan fund enables the Council to provide community small business owners financial assistance for further development of business activities. These loans are used to supplement, not to duplicate or to replace, private lending and equity resources.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
 NOTES TO AUDITED FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

RLF – The RLF program 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.

FSLF – This agreement was entered into by and between the Council and the Northwest New Mexico Community Development Corporation in 2008 to transfer responsibility and administration of the FSLF to the Council. The agreement included the transfer of the existing loan portfolio and other loan assets.

7. Allowances

During fiscal year 2009, management determined that \$2,657 in accrued interest and \$25,918 in notes receivable were uncollectible. The allowance for uncollectible interest receivables at June 30, 2009 is \$7,552 and the allowance for uncollectible loans is \$65,221.

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)
	<hr/>
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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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.

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 the budget on the modified accrual basis.

F. Net Assets Restricted by Enabling Legislation

The government-wide statement of net assets reports \$351,752 of restricted net assets, all of which is considered restricted by agreements with the granting organizations (See Note 15). 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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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.

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.

L. Net Assets

Invested in capital assets – the component of net assets that reports the difference between capital assets and both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to acquisition, construction or improvement of these capital assets.

Unrestricted net assets – all other net assets that do not meet the definition of “restricted” (see Note F) or “invested in capital assets.”

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 (FDIC), or the National Credit Union Administration.

Deposits (cash or cash equivalents) are carried at cost, which approximates market value. FDIC advisory opinion 94-24 states that public funds are entitled to \$100,000 insurance for time or savings deposits (including bank money market accounts) and \$100,000 for demand deposits deposited within the state in compliance with 12 CFR Subsection 330.15. The US Congress has temporarily increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. Changes have also been made to other account types. For more information, visit www.fdic.gov.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, 2009, the Council's bank balance of \$310,076 was exposed to custodial risk as follows:

Uninsured and uncollateralized	\$	-
Uninsured and collateral held by pledging bank's trust department not in Council's name	\$	-

The Council's bank balances were collateralized in compliance with the State of New Mexico's state statute as follows:

Pinnacle Bank				
Account	Type	Rate	Bank Balance	Book Balance
Savings Account	Savings		\$ 52,730	52,730
Operating Account	Demand Deposit (Interest bearing)		37,410	19,364
Less: FDIC coverage			(250,000)	
Uninsured balance			\$ -	
50% collateral requirement			-	
Enterprise Loan Fund	Demand Deposit		157,620	157,620
Forest Service Loan Fund	Demand Deposit		62,316	62,316
Less: FDIC coverage			(250,000)	
Uninsured balance			\$ -	
50% collateral requirement			-	
				Security Interest Rate
Security Description				
Corona, NM Cusip #219762AQ4				
maturing 10/01/12, market value to be used			\$ 75,000	4.50%
Over collateralized			\$ 75,000	

Pledged collateral is held in the bank's name at Pinnacle Bank in Gallup, NM.

3. RECEIVABLES

Receivables in the amount of \$29,568 represent account receivables and grant receivables due to the General Fund as of June 30, 2009. All receivables at June 30, 2009 are deemed fully collectible, and therefore, management has not created an allowance for uncollectible receivables.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

4. LOANS RECEIVABLE

Loans receivable in the special revenue fund as of June 30, 2009 consist of six loans made through the RLF loan program for business and job creation in the tri-county region of Cibola County, San Juan County, and McKinley County. The FSLF portfolio consists of two loans with principal totaling \$65,221; both FSLF loans are deemed uncollectible by management and have been recorded as bad debt as of June 30, 2009.

	Enterprise Loan Fund
	<hr/>
Loans receivable	\$ 196,490
Less allowance	(65,221)
Loans receivable - net	<u>\$ 131,269</u>

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, 2009 totaled \$19,393. This amount is an estimate based on historical trends.

A summary of changes in accumulated annual leave for the year ended June 30, 2009 is as follows:

	<u>2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>2009</u>
Annual leave	\$ 16,608	21,587	(18,802)	<u>19,393</u>

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of June 30:

	<u>2009</u>
Accrued salaries	\$ 12,219
Accrued payroll taxes and related payroll deductions	<u>5,886</u>
	<u>\$ 18,105</u>

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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. LEASE COMMITMENTS

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, 2009. The lease is immaterial to the financial statements.

As of August 31, 2008, the Council entered into a lease agreement for office equipment. The lease is accounted for as an operating lease and future minimum payments are as follows:

<u>For the Year Ended June 30</u>	<u>Office Equipment</u>
2010	\$ 5,763
2011	5,763
2012	5,763
2013	5,763
2014	480
Thereafter	-
Total	\$ <u>23,531</u>

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.

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**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

9. CAPITAL ASSETS AND DEPRECIATION

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

	<u>2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>2009</u>
General Fund				
Leasehold improvements	\$ 478,087	-	-	478,087
Furniture & fixtures	51,831	-	-	51,831
Vehicles	35,264	-	-	35,264
Enterprise Loan Fund				
Furniture & fixtures	4,178	-	-	4,178
Total capital assets	<u>569,360</u>	<u>-</u>	<u>-</u>	<u>569,360</u>
Less accumulated depreciation for:				
General Fund				
Leasehold improvements	(36,224)	(24,426)	-	(60,650)
Furniture & fixtures	(22,637)	(6,694)	-	(29,331)
Vehicles	(20,711)	(3,493)	-	(24,204)
Enterprise Loan Fund				
Furniture & fixtures	(4,178)	-	-	(4,178)
Total accumulated depreciation	<u>(83,750)</u>	<u>(34,613)</u>	<u>-</u>	<u>(118,363)</u>
Total net capital assets	<u>\$ 485,610</u>	<u>(34,613)</u>	<u>-</u>	<u>450,997</u>

There were no deletions of capital assets, nor debt related to any capital assets for the fiscal year ended June 30, 2009.

Depreciation expense of \$34,613 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, 2009**

10. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN

Plan Description. Most 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 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% 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, 2009, 2008 and 2007 were \$34,165, \$36,557 and \$30,425 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, 2009, 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, 2009, \$547 was due to the Enterprise Loan Fund from the General Fund for reimbursement purposes. There were no interfund transfers for the fiscal year ended June 30, 2009.

14. 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. Total membership dues paid by the member governments to the Council for the fiscal year ended June 30, 2009 was \$316,250.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

15. RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2009 include \$351,752 which is restricted for the Council's loan programs. This amount includes \$131,269 in notes receivable and \$220,483 in cash and interfund receivables. The restrictions are the result of agreements with the granting organizations.

16. ACTUAL EXPENDITURES EXCEED BUDGETED EXPENDITURES

Actual expenditures in the General Fund exceeded final budgeted expenditures by \$10,983.

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**STATE OF NEW MEXICO
NWNMCOG
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For The Year Ended June 30, 2009**

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances	Notes:
Special, Deficiency, Specific and Capital Outlay Appropriations*							
Grant-in-aid - Planning District Act, Section 4-58-4	08-L-RW-J-6-G-1	124,750	07/01/08-06/30/09	121,631	-	3,119	1
SAP - Laws 2008, Chapter 92, Section 59, Paragraph 305	08-L-G-4357	25,000	05/15/08-06/30/12	9,803	-	15,197	1
Total Special, Deficiency, Specific and Capital Outlay Appropriations		149,750		131,435	-	18,315	

Notes:
1 = The unencumbered balance was not recorded as revenue, nor received by the Council. This amount is no longer available to the Council.

* 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, 2009, which collectively comprise the Council's basic financial statements and have issued our report thereon dated November 4, 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: 05-02.

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, we believe that the significant deficiency described above is not 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.

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.

A handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, flowing script.

Hinkle & Landers, P.C
November 4, 2009

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Findings	Status of Prior Year Findings	Financial Statement Finding	State Auditor Finding
<u>Prior Year Findings</u>			
05-01 FUND ACCOUNTING / IMPROVE CONTROLS OVER THE GENERAL LEDGER (SAS 112)	Resolved	Yes	Yes
05-02 ACTUAL EXPENDITURES EXCEED BUDGET EXPENDITURES	Repeated	No	Yes
08-01 LATE AUDIT REPORT	Resolved	No	Yes
08-02 ESTABLISH POLICIES RELATED TO LOAN FUNDS	Resolved	Yes	No
08-03 BANK DEPOSITS EXPOSED TO CUSTODIAL RISK	Resolved	Yes	Yes

**05-02 – ACTUAL EXPENDITURES EXCEED BUDGET EXPENDITURES - Modified
Statement of Condition**

The General Fund was over expended by \$10,983. The primary reason for the over expenditure was that the Council’s general ledger under-reported professional services expenses as a result of adjustments made to accounts payable during the prior year audit. As a result, the Council did not have accurate information when determining the final budget for the year.

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

Several of the adjustments made to fiscal year 2008 accounts payable balance were not reconciled to disbursements made in fiscal year 2009.

Recommendation

Management should review the financial statements periodically for possible overruns and request appropriate budgetary increases before expenditures exceed budget. Council staff may want to consider reconciling fund balance before year-end budget adjustments to ensure all audit adjustments were recorded correctly.

Management Response

The Council of Governments recognizes that actual expenditures in excess of budgeted expenditures is a deficiency. In order to resolve this finding in FYE 2010, 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.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDIT REVIEW COMMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

An exit conference was held on November 4, 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:

Dr. William Hall	City of Farmington
Joe Murrietta	City of Grants - Mayor
Louie Bonaguidi	City of Gallup
Rocky Wasson	San Juan County Treasurer
Tom Ortega	Village of Milan-Mayor
Pat Simpson	Cibola County-Commissioner
Lloyd Felipe	Cibola County-Commissioner
Jim Crowley	City of Aztec-Commissioner
Scott Eckstein	City of Bloomfield-Mayor
Keith Johnson	City of Bloomfield-City Manager
Dan Darnell	City of Farmington-Councilor
Bill Standley	City of Farmington-Mayor
Jay Azua	City of Gallup-Councilor
Allan Landavazo	City of Gallup-Councilor
Doug Decker	McKinley County-County Attorney
Dr. Jim Henderson	San Juan County-Commission Chair
Sally Burbridge	City of Aztec - Mayor
Karla Newberry	City of Gallup – Finance Director
Kevin Rudolph	City of Bloomfield – Finance Director
Jeff Kiely	NWNMCOG – Deputy Director
Theresa Lee	NWNMCOG – Finance Manager
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.