

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

For the Year Ended June 30, 2010

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

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
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FOR THE YEAR ENDED JUNE 30, 2010**

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**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
OFFICIAL ROSTER
As of June 30, 2010**

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
Jeff Kiely	Board Secretary (<i>ex officio</i>)	Northwest NM Council of Governments
Dave Dallago	Member	McKinley County-Commissioner
Scott Eckstein	Member	City of Bloomfield-Mayor
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
Joshua Ray	Member	City of Aztec-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		
Jeff Kiely, Executive Director		

INDEPENDENT AUDITORS' REPORT

Board of Directors
Jeff Kiely, Interim Executive Director
Northwest New Mexico Council of Governments
Gallup, New Mexico
and
Mr. Hector Balderas, New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and the major special revenue fund of the Northwest New Mexico Council of Governments (the Council) as of and for the year ended June 30, 2010, 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

As discussed in Note 1, the financial statements of the Council are intended to present the financial position and the changes in financial position of each major fund of the State of New Mexico that is attributable to the transactions of the Council. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2010 the changes in its financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

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, 2010, and the respective changes in financial position 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 our report dated December 15, 2010 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 considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 8 are not a required part of the basic financial statements but are 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 individual fund financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as "supplementary information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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.
December 15, 2010

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT’S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

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 7% (\$61,010), as a result of Fiscal Year 2010 operations.

Government Funds – Fund Balance

- Council revenues increased 0.9% (\$7,078), for a total of \$817,498.
- Council expenditures increased 3%, or about \$25,000, for a total of \$848,322.
- Net change in fund balance was -\$30,824 in FY10, as compared with a net of -\$12,810 in FY09, reflecting a negative trend.
- Against a starting fund balance of \$419,762, the year-end fund balance was down 7.4%, or -\$30,824, to \$388,938.

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 decreased by 7%, or about \$61,000. **Investment in capital assets decreased by nearly 8%**, or about \$34,600, while the level of **unrestricted net assets increased by 18%**, or about \$8,800, representing a positive trend in the organization’s financial position. The changes in net assets are summarized in Tables 1 and 2.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

TABLE 1: Net Assets				
		<u>FY2009</u>	<u>FY2010</u>	<u>Change</u>
Cash and Receivables	\$	452,867	433,275	(19,592)
Net Capital Assets		450,997	416,383	(34,614)
Total Assets	\$	<u>903,863</u>	<u>849,657</u>	<u>(54,206)</u>
 Total Liabilities	 \$	 <u>52,498</u>	 <u>59,303</u>	 <u>6,805</u>
 Net Assets:				
Investment in Capital Assets		450,997	416,383	(34,614)
Restricted for Special Projects		351,752	316,581	(35,171)
Unrestricted Net Assets		<u>48,615</u>	<u>57,390</u>	<u>8,775</u>
Total Net Assets		<u>851,364</u>	<u>790,354</u>	<u>(61,010)</u>
 Total Liabilities and Net Assets	 \$	 <u>903,863</u>	 <u>849,657</u>	 <u>(54,205)</u>

As shown in Table 2, *Changes in Net Assets*, the Council's annual revenues were basically stable, decreasing by one-half percent, or about \$4,000, while annual expenses decreased by 2%, or about \$18,000.

TABLE 2: Changes in Net Assets				
		<u>FY2009</u>	<u>Governmental Activities FY2010</u>	<u>Change</u>
REVENUES				
<u>Program Revenues:</u>				
Grants & Contributions	\$	451,345	472,797	21,452
<u>General Revenues:</u>				
Grants and Contributions		316,250	319,750	3,500
Interest Income		15,433	6,034	(9,399)
Miscellaneous Income		<u>27,392</u>	<u>18,917</u>	<u>(8,475)</u>
Subtotal, General Revenues		<u>359,075</u>	<u>344,701</u>	<u>(14,374)</u>
Total Revenues		<u>810,420</u>	<u>817,498</u>	<u>7,078</u>
 PROGRAM EXPENSES				
Regional Community Development		<u>860,628</u>	<u>878,508</u>	<u>17,880</u>
 CHANGES IN NET ASSETS				
		<u>(50,208)</u>	<u>(61,010)</u>	<u>(10,802)</u>
Net Assets, Beginning of Year		<u>901,572</u>	<u>851,364</u>	<u>(50,208)</u>
Net Assets, End of Year	\$	<u>851,364</u>	<u>790,354</u>	<u>(61,010)</u>

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Financial Analysis of Balances and Transactions of Funds

Total assets organization-wide decreased by 6%, or about \$54,000.

- **Cash and cash equivalents** organization-wide decreased by 22%, or about \$15,800.
- Total assets in the **General Fund** increased 15%, or about \$15,000.
- Total assets in the **Enterprise Loan Fund** decreased 9%, or about \$32,000 to \$319,200, reflecting a \$13,000 increase in cash restricted for loan programs and a \$45,000 decrease in loans receivable.

Total liabilities organization-wide increased by 40%, or \$13,400, most of which (\$10,700) was represented in the General Fund.

Total expenditures increased organization-wide by 3%, or about \$25,000.

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

The audit report's fund-by-fund statements begin at page 11 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.

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

TABLE 3. Summary of Revenues & Expenditures by Fund								
Fund No.	Fund Source / Name	Revenues in FY2010	Expenditures in FY2010	Excess (deficiency) Revenues over	Other financing sources (uses) & Transfers	Fund Balance Beginning of Year	Fund Balance End of Year	Percentage Change in Fund Balance
01	General Fund	\$ 810,790	806,623	4,347	-	68,010	72,357	6%
02	Enterprise Loan Fund	6,528	41,699	(35,171)	-	351,752	316,581	10%
TOTALS		\$ 817,318	848,322	(30,824)	-	419,762	388,938	7%

Federal funding (grants and contracts) accounted for 30% of Council funding (up from 12% in FY 2009), while membership fees from participating local governments accounted for nearly 40% (about the same as FY 2009). Nearly one-half of Council funding was attributable to short-term special grants and contracts.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

GENERAL FUND BUDGETARY HIGHLIGHTS

The Council's Final Budget reflected a 5.5% increase, or about \$42,000, in Revenues, and a 4.9% increase, or \$37,400 in Expenditures, as compared with the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset Activity

There was no change in capital asset activity in FY 2010.

Long-term Debt Activity

The Council does 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, with revenues remaining basically constant (i.e., an increase of 0.4%, or \$1,000) and accounting for nearly 40% of all annual revenues. For FY 2011, indications were that annual membership dues would decrease by over 30% due to local government budgetary constraints.

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

- An annual State 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 2011. Projections for FY 2012 are unclear, in light of shortfalls in the State budget.
- An annual grant from the US Department of Commerce, Economic Development Administration, now administered under three-year grant agreements with funding renewed annually at \$60,000 per year (representing a 20% annual increase of prior EDA grant periods), 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.
- 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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

In FY 2010, several short-term special grants and contracts were closed out, with a reduction in such funding reflected in the FY 2011 budget. Opportunities may exist in FY 2011 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 McKinley County.

The Council's annual budget experienced several changes, particularly in the last two quarters, resulting in the urgent need for new sources of revenues and causing the organization to leave the equivalent of three positions vacant. By end of fiscal year, budget and cash flow had stabilized at a lower overall level of operation.

Initiatives to be pursued in FY 2011 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;
- 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; and
- Pursuit of formation of a regional nonprofit corporation as a partner to the Council, with the ability to attract and utilize resources from foundations and other private sources, as an adjunct to the Council's core work program and with the potential for increasing revenue flow into the Council budget over time.

REQUESTS FOR INFORMATION

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

- Jeffrey Kiely, Executive Director: jkiely@nwnmcog.com
- Theresa Lee, Finance Manager: tlee@nwnmcog.com

Northwest New Mexico Council of Governments
409 South 2nd Street
Gallup, NM 87301
(505) 722-4327

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
(GOVERNMENT-WIDE)
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 56,294
Receivables, net of allowance	57,733
Cash restricted for loan programs	233,235
Loans receivable, net of allowances	86,013
Capital assets, net of depreciation	<u>416,383</u>
Total assets	<u><u>849,657</u></u>
 LIABILITIES	
Accounts payable	304
Accrued payroll liabilities	8,783
Deferred revenue	35,250
Compensated absences payable within one year	<u>14,966</u>
Total liabilities	<u><u>59,303</u></u>
 NET ASSETS	
Invested in capital assets	416,383
Restricted for special projects	316,581
Unrestricted net assets	<u>57,390</u>
Total net assets	<u>790,354</u>
Total liabilities and net assets	<u><u>\$ 849,657</u></u>

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, 2010**

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	\$ (878,508)	472,797	(405,711)
General revenues:			
Membership dues			319,750
Interest income			6,034
Miscellaneous income			18,917
Total general revenue			<u>344,701</u>
Change in net assets			(61,010)
Net assets, beginning of year			<u>851,364</u>
Net assets, end of year			<u>\$ 790,354</u>

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, 2010**

	Major Funds		
	General Fund	Enterprise Loan Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 56,294	-	56,294
Receivables, net of allowance	57,733	-	57,733
Cash restricted for loan programs	-	233,235	233,235
Loans receivable, net of allowance	-	86,013	86,013
Due from other funds	2,667	-	2,667
Total assets	116,694	319,248	435,942
LIABILITIES			
Accounts payable	304	-	304
Accrued payroll liabilities	8,783	-	8,783
Deferred revenue	35,250	-	35,250
Due to other funds	-	2,667	2,667
Total liabilities	44,337	2,667	47,004
FUND BALANCES			
Reserved for:			
Special revenue funds	-	316,581	316,581
Unreserved/undesignated			
reported in General fund	72,357	-	72,357
Total fund balance	72,357	316,581	388,938
Total liabilities and fund balance	\$ 116,694	319,248	435,942

Total fund balance - Governmental funds \$ 388,938

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	416,383
Compensated absences are not due and payable in the current period, and therefore, are not reported in the Governmental Funds Balance Sheet	(14,966)
Total net assets	\$ 790,354

**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, 2010**

	<u>Major Funds</u>		Total Governmental Funds
	General Fund	Enterprise Loan Fund	
Revenues			
Contracts and grants	\$ 228,196	-	228,196
Federal revenues	244,601	-	244,601
Membership dues	319,750	-	319,750
Interest income	177	5,857	6,034
Miscellaneous income	18,246	671	18,917
Total revenues	<u>810,970</u>	<u>6,528</u>	<u>817,498</u>
Expenditures			
Current			
General government	806,623	41,699	848,322
Capital outlay	-	-	-
Total expenditures	<u>806,623</u>	<u>41,699</u>	<u>848,322</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,347</u>	<u>(35,171)</u>	<u>(30,824)</u>
Net change in fund balances	4,347	(35,171)	(30,824)
Fund balance, beginning of year	<u>68,010</u>	<u>351,752</u>	<u>419,762</u>
Fund balance, end of year	<u>\$ 72,357</u>	<u>316,581</u>	<u>388,938</u>

Net change in fund balances - Total Governmental Funds \$ (30,824)

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	(34,614)

Decrease in compensated absences	<u>4,428</u>
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Change in net assets of governmental activities	<u>\$ (61,010)</u>
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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 (MODIFIED ACCRUAL)
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Contracts and grants	\$ 444,295	472,795	472,797	2
Membership dues	318,750	319,750	319,750	-
Interest	1,325	177	177	-
Miscellaneous income	4,800	18,249	18,246	(3)
	<u>769,170</u>	<u>810,971</u>	<u>810,970</u>	<u>(1)</u>
Expenditures				
Current:				
General governmental	752,369	806,623	806,623	-
Capital outlay	16,801	-	-	-
Total general governmental	<u>769,170</u>	<u>806,623</u>	<u>806,623</u>	<u>-</u>
Excess (deficiency) of revenues (under) over expenditures	<u>-</u>	<u>4,348</u>	<u>4,347</u>	<u>(1)</u>
Fund balance, beginning of year	<u>68,010</u>	<u>68,010</u>	<u>68,010</u>	<u>-</u>
Fund balance, end of year	<u>\$ 68,010</u>	<u>72,358</u>	<u>72,357</u>	<u>(1)</u>

The accompanying notes are integral to 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 (MODIFIED ACCRUAL)
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Contracts and grants	\$ -	-	-	-
Interest income	5,286	3,214	5,857	2,643
Fund balance budgeted	-	38,435	-	(38,435)
Miscellaneous	-	50	671	621
Total revenues	<u>5,286</u>	<u>41,699</u>	<u>6,528</u>	<u>(35,171)</u>
Expenditures				
Current:				
General governmental				
Operating	5,286	3,264	3,264	-
Bad debt expense	-	38,435	38,435	-
Capital outlay	-	-	-	-
Total general governmental	<u>5,286</u>	<u>41,699</u>	<u>41,699</u>	<u>-</u>
Excess (deficiency) of revenues (under) over expenditures	<u>-</u>	<u>-</u>	<u>(35,171)</u>	<u>(35,171)</u>
Fund balance, beginning of year	<u>351,752</u>	<u>351,752</u>	<u>351,752</u>	<u>-</u>
Fund balance, end of year	<u>\$ 351,752</u>	<u>351,752</u>	<u>316,581</u>	<u>(35,171)</u>

The accompanying notes are an integral part of these financial statements

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010, 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.

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. This government-wide focus is more on the sustainability of the Council as an entity and the change in aggregate financial position resulting from the activities of the period.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Council's actual experience conforms to the budget plan. Since the governmental fund statements are presented on a different focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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.

Key programs included the General Fund during fiscal year 2010 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

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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).

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.

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.

Adventure Gallup & Beyond — A contract with Adventure Gallup & Beyond, a 501(c)4, to provide sustainability planning services and fundraising for this organization.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

GLP:BID — A contract to manage the Gallup Business Improvement District, including managing a subcontractor to administer day-to-day operations and facilitate and help implement the direction of the Gallup BID and its mission.

JPD:JSACC — A sub-contract with Joyce Planning & Development to develop the sustainability portion of a comprehensive plan for McKinley County's Juvenile Substance Abuse Crisis Center.

MILAN:CDBG-C — An intergovernmental services agreement with the Village of Milan to manage and administer CDBG construction funding including reporting and compliance work.

McK:DOE EECSBG — An intergovernmental services agreement with the McKinley County to develop a comprehensive energy plan. Funding provided by US Department of Energy's "Energy Efficiency & Conservation Block Grant" program through ARRA.

McK:Indirect Cost Rate — An intergovernmental services agreement with the McKinley County to investigate, research, and recommend the County's application to the Federal government for an indirect cost rate.

McK:DOE EECSBG II — An intergovernmental services agreement with the McKinley County to hire and manage an energy efficiency coordinator (Green Horizons, Inc). Funding provided by US Department of Energy's "Energy Efficiency & Conservation Block Grant" program through ARRA.

Green Team Leader — Funding provided through an agreement with McKinley County to provide green team leader and green energy industry development services, granted originally through the NM Department of Economic Development's "Certified Communities Initiative.

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, 2010. 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.

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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
 NOTES TO AUDITED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2010**

7. Allowances

During fiscal year 2010, management determined that \$38,617 in notes receivable were uncollectible. The allowance for uncollectible interest receivables at June 30, 2010 is \$7,552, and the allowance for uncollectible loans is \$103,656.

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.

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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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 \$316,581 of restricted net assets, all of which is considered restricted by agreements with the granting organizations. 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.

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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
 NOTES TO AUDITED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2010**

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” 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 for demand deposits and savings accounts through December 31, 2013. Changes have also been made to other account types. For more information, visit www.fdic.gov.

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, 2010, the Council’s bank balance of \$299,705 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	\$	16,381

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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		\$ 33,324	33,324
Less: FDIC coverage			(250,000)	
Uninsured balance			\$ -	
50% collateral requirement			-	
Operating Account	Demand Deposit		\$ 33,146	22,970
Enterprise Loan Fund	Demand Deposit		170,919	170,919
Forest Service Loan Fund	Demand Deposit		62,316	62,316
Less: FDIC coverage			(250,000)	
Uninsured balance			\$ 16,381	
50% collateral requirement			8,191	
				Security Interest Rate
Security Description				
Corona, NM Cusip #219762AQ4			\$ 75,000	4.50%
maturing 10/01/12, market value to be used				
Over collateralized			\$ 66,810	

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

3. RECEIVABLES

Receivables in the amount of \$62,783 represent account receivables and grant receivables due to the General Fund as of June 30, 2010. The Council recorded an allowance of \$5,050 to account for receivables that are not deemed collectible as of June 30, 2010.

4. LOANS RECEIVABLE

Loans receivable in the special revenue fund as of June 30, 2010 consist of five 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.

	Enterprise Loan Fund
Loans receivable	\$ 189,669
Less allowance	(103,656)
Loans receivable - net	\$ 86,013

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010 totaled \$14,965. This amount is an estimate based on historical trends.

A summary of changes in accumulated annual leave for the year ended June 30, 2010 is as follows:

	2009	Additions	Deletions	2010
Annual leave	\$ 19,393	21,758	(26,185)	14,966

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of June 30:

	2010
Accrued salaries	\$ 6,869
Accrued payroll taxes and related payroll deductions	1,914
	\$ 8,783

7. DEFERRED REVENUE AND MEMBERSHIP DUES

Membership dues consist of annual assessments of member organizations. Membership dues are determined by a formula established by the Council based on membership level. Deferred revenue at June 30, 2010 represents membership dues received in advance. These funds will be recorded as revenue in fiscal year 2011.

8. RECONCILIATION BETWEEN BUDGETARY BASIS AND MODIFIED ACCRUAL BASIS

Budgets are maintained on the modified accrual basis, and therefore, a reconciliation of the budget financial statements to the fund financial statements is not necessary.

9. 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 also maintains

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

office space in San Juan County. This lease is accounted for as an operating lease, and the contract expires December 31, 2010. 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:

For the Year Ended June 30	Office Equipment
2011	\$ 5,763
2012	5,763
2013	5,763
2014	480
2015	-
Thereafter	-
Total	\$ 17,769

Total lease expense for the year ended June 30, 2010 was \$7,863. 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.

10. CAPITAL ASSETS AND DEPRECIATION

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

	2009	Additions	Deletions	2010
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	569,360	-	-	569,360
Less accumulated depreciation for:				
General Fund				
Leasehold improvements	(60,650)	(24,426)	-	(85,076)
Furniture & fixtures	(29,331)	(6,695)	-	(36,026)
Vehicles	(24,204)	(3,493)	-	(27,697)
Enterprise Loan Fund				
Furniture & fixtures	(4,178)	-	-	(4,178)
Total accumulated depreciation	(118,363)	(34,614)	-	(152,977)
Total net capital assets	\$ 450,997	(34,614)	-	416,383

There were no deletions of capital assets, nor debt related to any capital assets for the fiscal year ended June 30, 2010. Depreciation expense of \$34,614 was allocated to the Regional Community Development function in the Government-wide Statement of Activities, which is the Council's only governmental activity function.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

11. 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, 2010, 2009 and 2008 were \$39,775, \$34,165 and \$36,557 respectively, which equal to the amount of the required contributions per year.

12. 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).

13. 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, 2010, the Council did not have any probable risk of loss.

14. 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, 2010, \$2,667 was due to the General Fund from the Enterprise Loan Fund for reimbursement purposes. There were no interfund transfers for the fiscal year ended June 30, 2010.

15. 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, 2010 was \$319,750.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

16. RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2010 include \$316,581 which is restricted for the Council's loan programs. This amount includes \$86,013 notes receivable and \$230,568 cash. The restrictions are the result of agreements with the granting organizations.

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**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Program Title	Federal CFDA Number	Identifying Grant #	Federal Expenditures
Federal loan and loan guarantees:			
U.S. Department of Commerce			
Economic Development Administration (EDA)			
Enterprise Loan Fund	11.307*	08-39-03046	
Loans receivable as of 06/30/10			\$ 86,013
Loan fund cash balance			170,919
Current year administrative expenses & loan write-offs			41,699
			298,631
Total federal expenditures - Loan programs			\$ 298,631
U.S. Department of Commerce			
Economic Development Administration (EDA)			
Economic Development Support for Planning Organizations	11.302	08-83-04155	35,189
Economic Development Support for Planning Organizations	11.302	08-83-04544	30,000
Native American Economic Development Investment Strategy	11.307	08-69-04265	59,397
			124,586
U.S. Environmental Protection Agency			
ARRA - Brownfields Assessment	66.818	2B-96694701-1	23,399
U.S. Department of Energy			
passed through County of McKinley			
ARRA - McKinley County Energy Efficiency & Conservation	81.128	SC002455	29,600
U.S. Department of the Interior			
Bureau of Reclamation			
Navajo-Gallup Water Supply	15.000	04-FC-40-2244	1,856
U.S. Department of Transportation			
passed through New Mexico State Highway and Transportation Department			
Regional Planning Organization	20.505	P60001/TPO7500(903)	65,160
Total federal awards expended			\$ 543,232

Note 1. Basis for Presentation

The accompanying schedule of federal awards is presented on the budgetary modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2. Reconciliation of federal awards expended to federal revenue

Federal awards expended per schedule	\$ 543,232
Less: Loan programs	(298,631)
Federal award revenue per financial statements	\$ 244,601

***Major Program**

STATE OF NEW MEXICO
 NWNMCOG
 SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
 FOR THE YEAR ENDED JUNE 30, 2010

Description	SHARE Identifier #	Original Appropriation	Appropriation Period	Expend- itures To Date	Out- standing Encumb- rances	Unencumb- ered Balances
Special, Deficiency, Specific and Capital Outlay Appropriations						
Grant-in-aid - Planning District Act, Section 4-58-4	N/A	114,629	07/01/09-06/30/10	(114,629)	-	-
Total Special, Deficiency, Specific and Capital Outlay Appropriations		114,629		(114,629)	-	-

**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***

Board of Directors
Jeff Kiely, Interim Executive Director
Northwest New Mexico Council of Governments
Gallup, New Mexico
and
Mr. Hector Balderas, New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, each major fund, and the budgetary comparisons of the general fund and major special revenue funds of the Northwest New Mexico Council of Governments (the Council) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. 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.

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

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

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Council's governing body, the State Auditor, the New Mexico Legislature, and applicable federal grantors, 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, PC
December 15, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Board of Directors
Jeff Kiely, Interim Executive Director
Northwest New Mexico Council of Governments
Gallup, New Mexico
and
Mr. Hector Balderas, New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the Northwest New Mexico Council of Governments (the Council) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Council's compliance with those requirements.

In our opinion, the Council, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Council is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Council's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the Council's governing body, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, script font.

Hinkle & Landers, PC
December 15, 2010

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

1. Type of auditors’ report issued	Unqualified
Internal control over financial reporting:	
1. Material weakness(es) identified	No
2. Significant deficienc(ies) identified	No
3. Noncompliance material to financial statements noted:	No

Federal Awards

Internal control over major programs:	
1. Material weakness(es) identified	No
2. Significant deficienc(ies) identified	No
Type of auditor’s report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be Reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Numbers</u> <u>Funding Source</u>	<u>Name of Federal Programs</u>	<u>Funding Source</u>
11.307	Enterprise Loan Fund	US Department of Commerce, Economic Development Administration

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as low-risk Auditee	No
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**STATE OF NEW MEXICO
 NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2010**

PRIOR YEAR FINDINGS:

	<u>Status of Prior Year Findings</u>	<u>Financial Statement Finding</u>	<u>State Auditor Finding</u>
05-02 ACTUAL EXPENDITURES EXCEED BUDGET EXPENDITURES	Resolved	No	Yes

CURRENT YEAR FINDINGS: NONE

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2010**

An exit conference was held on December 15, 2010. Present at the exit conference were:

Billy W. Moore	Chairman, NWNMCOG Board of Directors McKinley County - Commissioner
Jeff Kiely	NWNMCOG – Executive Director
Teresa Mecale	NWNMCOG – Finance Assistant
Farley Vener, CPA, CFE	Independent auditor, Hinkle & Landers, P.C.
Shannon Gilliland, CPA, CGFM	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.