



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO
COUNCIL OF GOVERNMENTS**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

For the Year Ended June 30, 2012

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
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For The Year Ended June 30, 2012**

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**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
OFFICIAL ROSTER
As of June 30, 2012**

DIRECTORS	POSITION	MEMBER GOVERNMENT/TITLE
Billy Moore	Chairman	McKinley County-At Large
Dr. Jim Henderson	1 ST Vice-Chair	San Juan County-Commissioner
Joe Murrietta	2 nd Vice-Chair	City of Grants-Mayor
Louie Bonaguidi	Board Treasurer	City of Gallup-Citizen Appointee
Dr. Bill Hall	Immediate Past Chair	City of Farmington-Citizen Appointee
Jeff Kiely	Board Secretary (<i>ex officio</i>)	Northwest NM Council of Governments
Ruben Sandoval	Member	City of Grants-Councilor
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-Mayor Pro Tem
Mike Enfield	Member	City of Gallup-Councilor
Allan Landavazo	Member	City of Gallup-Councilor
Den Dible	Member	City of Gallup-Manager
Genevieve Jackson	Member	McKinley County-Commissioner
Doug Decker	Member	McKinley County-Attorney
Administrative Officers		
Jeff Kiely, Executive Director		



INDEPENDENT AUDITORS' REPORT

Board of Directors
Jeff Kiely, 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, 2012, 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, 2012 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, 2012, 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 13, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and budgetary comparisons. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Hinkle + Landers, P.C.

December 13, 2012

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

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 12.4% in FY 2011 and another 3% in FY 2012 (down about \$18,000) as a result of Fiscal Year 2012 operations, for total net assets of \$674,299.

Government Funds – Fund Balance

- Council Revenues decreased 14% (about \$113,000) in FY 2011 but increased 34% (up about \$237,000) in FY 2012, for a total of about \$941,000.
- Council Expenditures decreased 9% (about \$76,000) in FY 2011, but increased 19% (up \$156,000) in FY 2012, for total FY 2012 expenditures of about \$932,000.
- Net Change in Fund Balances was -11% (down about -\$41,000) in FY 2011, and increased 2% (up about 8,000) in FY 2012, resulting in final net balance of \$355,004.

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 3%, or about \$18,000. Investment in Capital Assets decreased by about 10%, or \$37,000, while the level of Unrestricted Net Assets increased by 150%, or about \$16,000, 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, 2012**

TABLE 1: Net Assets						
		FY2010	FY2011	FY 2012	Change: FY11 to FY12	
					\$	%
Cash and Receivables	\$	433,275	380,943	479,762	98,819	25.9%
Net Capital Assets		416,383	383,821	346,970	(36,851)	-9.6%
Total Assets	\$	<u>849,658</u>	<u>764,764</u>	<u>826,732</u>	<u>61,968</u>	<u>8.1%</u>
Total Liabilities	\$	<u>59,303</u>	<u>72,684</u>	<u>152,433</u>	<u>79,749</u>	<u>109.7%</u>
Net Assets						
Investment in Capital Assets	\$	416,383	383,821	346,970	(36,851)	-9.6%
Restricted for Special Projects		316,581	319,215	321,921	2,706	0.8%
Unrestricted Net Assets		57,390	(10,957)	5,408	16,365	-149.4%
Total Net Assets		<u>790,354</u>	<u>692,079</u>	<u>674,299</u>	<u>(17,780)</u>	<u>-2.6%</u>
Total Liabilities and Net Assets	\$	<u>849,657</u>	<u>764,764</u>	<u>826,732</u>	<u>61,968</u>	<u>7.3%</u>

As shown in Table 2, *Changes in Net Assets*, the Council's Annual Revenues increased by 34% (up from \$704,000 to \$940,000), while Annual Expenses increased by 19%, or about \$156,000 (up from \$802,000 to \$958,000).

TABLE 2: Changes in Net Assets						
<u>Governmental Activities</u>						
		FY2010	FY2011	FY2012	Change: FY11 to FY12	
					\$	%
REVENUES						
<u>Program Revenues:</u>						
Grants & Contributions	\$	472,797	461,649	661,265	199,616	43.2%
<u>General Revenues:</u>						
Membership Dues		319,750	216,000	262,500	46,500	21.5%
Interest Income		6,034	4,408	4,704	296	6.7%
Miscellaneous Income		18,917	21,951	12,060	(9,891)	-45.1%
Subtotal, General Revenues		<u>344,701</u>	<u>242,359</u>	<u>279,264</u>	<u>36,905</u>	<u>15.2%</u>
Total Revenues		<u>817,498</u>	<u>704,008</u>	<u>940,529</u>	<u>236,521</u>	<u>33.6%</u>
PROGRAM EXPENSES						
Regional Community Development		<u>878,508</u>	<u>802,283</u>	<u>958,309</u>	<u>156,026</u>	<u>19.4%</u>
CHANGES IN NET ASSETS						
		(61,010)	(98,275)	(17,780)	80,495	81.9%
Net Assets, Beginning of Year		<u>851,364</u>	<u>790,354</u>	<u>692,079</u>	<u>(98,275)</u>	<u>-12.4%</u>
Net Assets, End of Year	\$	<u>790,354</u>	<u>692,079</u>	<u>674,299</u>	<u>(17,780)</u>	<u>-2.6%</u>

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

Financial Analysis of Balances and Transactions: Fund Financial Statements

Total assets organization-wide increased by about 26%, or about \$100,000, due primarily to increases in receivables.

- Cash and cash equivalents organization-wide increased by 26%, or about \$99,000 (up from \$381,000 to \$480,000).
- Net capital assets decreased 10% (down from \$384,000 to \$347,000).

Total liabilities organization-wide increased by 270%, or about \$93,000. Most of the increase is due to expenditures made for grants and contracts for which a receivable was also recorded.

Total expenditures increased organization-wide by 24%, or about \$178,000.

Reporting the Council's Most Significant Funds

The audit report's fund-by-fund statements begin at page 13 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 Source/ Name	Revenues in FY2012	Expenditures in FY2012	Excess (deficiency) Revenues over Expen-ditures	Other financing sources (uses) & Transfers	Fund Balance Beginning of Year	Fund Balance End of Year	% Change in Fund Balance
General Fund	\$ 935,300	929,996	5,304	-	28,279	33,583	19%
Enterprise Loan Fund	5,229	2,523	2,706	-	319,215	321,921	1%
TOTALS	\$ 940,529	932,519	8,010	-	347,494	355,504	2%

Federal funding accounted for 40% of Council funding (up from 31% in FY 2011), while membership fees from participating local governments accounted for 28% of total Council

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

budget (or about 3% lower than FY 2011). Over 72% of Council funding was attributable to short-term special grants and contracts (up from about 69% in FY 2011).

GENERAL FUND BUDGETARY HIGHLIGHTS

As compared with the fiscal year's original budget, the Council's Final Budget was 53% lower in projected Revenues (down \$972,000 to \$844,858), and Expenditures were 54% lower (down \$980,000 to \$837,000). This was largely due to a slower drawdown than anticipated on multi-year grant funds for consultant contracts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset Activity

Capital assets, net of depreciation, were down 10% in FY 2012, to about \$347,000.

Long-term Debt Activity

The Council does not have any long-term debt; however the Council accrued a total of \$28,174 in compensated absences as of year-end.

FINANCIAL FORECAST

As anticipated at the end of FY 2010, the Council experienced a significant drop (a 33% decrease) in Membership dues in FY 2011. This was largely due to recessionary impacts on local government budgets, particularly in the hard-hit San Juan County area. For FY 2012, annual membership dues rebounded about 21%, up \$46,500 from FY 2011, i.e., to \$262,500. The initial annual budget for FY 2013 reflected an additional 1.5% increase, to \$266,500. This fund is expected to remain stable, although federal, state and local budgets may be subjected to significant stresses and changes in the coming year in light of impacts from economic recession and excessive public debt.

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

- **State Grant-in-Aid:** 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 remained relatively stable at about \$95,000, with a similar level committed for FY 2013.
- **US Economic Development Administration:** An annual grant from the US Department of Commerce, Economic Development Administration, administered under three-year grant agreements with funding renewed annually at \$60,000 per year, requiring a 25% grantee match. The existing three-year agreement in place has a start-date of January 1, 2012 and is set to run through December 31, 2014. 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. Notably, the Council underwent a program evaluation process in November 2012, organized as a peer exchange involving regional planning districts throughout EDA's Southwest Region and EDA's Austin Regional Office. The results of this review were positive.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

- NMDOT Regional Transportation Planning: An annual contract with the New Mexico Department of Transportation for management of the “Northwest Regional Planning Organization” (NWRPO), now administered under three-year grant agreements with funding renewed annually at \$65,160, requiring a 17.1% match (or 14.6% of “total project” inclusive of match). Funding has remained stable although it may be subject to federal and state budget reductions in the coming year. The newly passed federal transportation bill, MAP-21, actually increases the importance of the regional planning function and the involvement of local officials in the overall transportation planning and funding process.

In FY 2012, several short-term special grants and contracts were administered by the organization, substantially involving subcontracts to specialized consultants. Several of these projects are scheduled to be closed out by the end of Federal Fiscal Year 2012, i.e., September 30, 2012, at which time the active budget of the organization will be greatly reduced. The organization continues to pursue grants and contracts at the local, state and federal levels in order to strengthen and expand the budget, but the funds utilized for employee payroll and routine operations appear stable.

Initiatives to be pursued in FY2012 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
- Continued evaluation of the feasibility and benefit of forming a 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
- Teresa Mecale, Finance Manager: tmecale@nwnmcog.com

Northwest New Mexico Council of Governments
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Gallup, NM 87301
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**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
(GOVERNMENT-WIDE)
STATEMENT OF NET ASSETS
As of June 30, 2012**

		<u>Governmental Activities</u>
ASSETS		
Cash and cash equivalents	\$	42,322
Receivables, net of allowance		111,188
Cash restricted for loan programs		244,957
Loans receivable, net of allowances		81,296
Capital assets, net of depreciation		<u>346,970</u>
Total assets	\$	<u><u>826,732</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	\$	104,020
Accrued payroll liabilities		19,468
Compensated absences		7,200
Deferred revenue		<u>771</u>
Total current liabilities		131,459
Noncurrent liabilities		
Compensated absences - long-term portion		<u>20,974</u>
Total noncurrent liabilities		<u>20,974</u>
Total liabilities		<u><u>152,433</u></u>
NET ASSETS (DEFICITS)		
Invested in capital assets		346,970
Restricted for economic development programs		321,921
Unrestricted net assets		<u>5,408</u>
Total net assets		<u>674,299</u>
Total liabilities and net assets	\$	<u><u>826,732</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, 2012**

Functions/Programs	Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets for Governmental Activities
Governmental activities:			
Regional Community Development	\$ (958,309)	661,265	(297,044)
General revenues			
Membership dues			262,500
Interest income			4,704
Miscellaneous income			12,060
Total general revenue			279,264
Change in net assets			(17,780)
Net assets, beginning of year			692,079
Net assets, end of year			\$ 674,299

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, 2012

	Major Funds		Total Governmental Funds
	General Fund	Enterprise Loan Fund	
ASSETS			
Cash and cash equivalents	\$ 42,322	-	42,322
Receivables	111,188	-	111,188
Cash restricted for loan programs	-	244,957	244,957
Loans receivable, net of allowance	-	81,297	81,297
Due from other funds	4,333	-	4,333
Total assets	\$ 157,843	326,254	484,097
LIABILITIES			
Accounts payable	\$ 104,021	-	104,021
Accrued payroll liabilities	19,468	-	19,468
Deferred revenue	771	-	771
Due to other funds	-	4,333	4,333
Total liabilities	124,260	4,333	128,593
FUND BALANCES			
Restricted: Economic development	-	321,921	321,921
Unassigned	33,583	-	33,583
Total fund balance	33,583	321,921	355,504
Total liabilities and fund balance	\$ 157,843	326,254	484,097
Total fund balance — Governmental funds		\$	355,504
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			346,970
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds:			
Compensated absences			(28,174)
Total net assets — Government-wide		\$	674,299

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, 2012**

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Enterprise Loan Fund</u>	
Revenues			
Contracts and grants	\$ 287,049	-	287,049
Federal revenues	374,216	-	374,216
Membership dues	262,500	-	262,500
Interest income	7	4,697	4,704
Miscellaneous income	11,528	532	12,060
Total revenues	<u>935,300</u>	<u>5,229</u>	<u>940,529</u>
Expenditures			
Current			
General government	929,996	2,523	932,519
Total expenditures	<u>929,996</u>	<u>2,523</u>	<u>932,519</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,304</u>	<u>2,706</u>	<u>8,010</u>
Net change in fund balances	5,304	2,706	8,010
Fund balance, beginning of year	<u>28,279</u>	<u>319,215</u>	<u>347,494</u>
Fund balance, end of year	<u>\$ 33,583</u>	<u>321,921</u>	<u>355,504</u>

Net change in fund balances - Total Governmental Funds \$ 8,010

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.

Depreciation expense (36,851)

Expenses reported in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in governmental funds:

(Increase) decrease in compensated absences (1,158)

(Increase) decrease in federal tax liability 12,219

Change in net assets of governmental activities \$ (17,780)

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 (MODIFIED ACCRUAL)
For The Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Contracts and grants	\$ 1,582,975	571,340	661,265	89,925
Membership dues	262,500	262,500	262,500	-
Interest	-	5	7	2
Miscellaneous income	<u>10,400</u>	<u>7,337</u>	<u>11,528</u>	<u>4,191</u>
Total revenues	<u>1,855,875</u>	<u>841,182</u>	<u>935,300</u>	<u>94,118</u>
Expenditures				
Current:				
General governmental	<u>1,849,474</u>	<u>844,858</u>	<u>929,996</u>	<u>(85,138)</u>
Total general governmental	<u>1,849,474</u>	<u>844,858</u>	<u>929,996</u>	<u>(85,138)</u>
Excess (deficiency) of revenues (under) over expenditures	<u>6,401</u>	<u>(3,676)</u>	<u>5,304</u>	<u>8,980</u>
Fund balance, beginning of year	<u>45,218</u>	<u>45,218</u>	<u>28,279</u>	<u>(16,939)</u>
Fund balance, end of year	<u>\$ 51,619</u>	<u>41,542</u>	<u>33,583</u>	<u>(7,959)</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, 2012**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest income	\$ 1,500	2,285	4,697	2,412
Miscellaneous	-	1,391	532	(859)
Total revenues	<u>1,500</u>	<u>3,676</u>	<u>5,229</u>	<u>1,553</u>
Expenditures				
Current:				
General governmental	-	-	-	-
Operating	<u>1,500</u>	<u>2,560</u>	<u>2,523</u>	<u>37</u>
Total general governmental	<u>1,500</u>	<u>2,560</u>	<u>2,523</u>	<u>37</u>
Excess (deficiency) of revenues (under) over expenditures	<u>-</u>	<u>-</u>	<u>2,706</u>	<u>2,706</u>
Fund balance, beginning of year	<u>319,216</u>	<u>319,216</u>	<u>319,215</u>	<u>1</u>
Fund balance, end of year	<u>\$ 319,216</u>	<u>319,216</u>	<u>321,921</u>	<u>2,705</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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. In fiscal year ended June 30, 2012, the Council was composed of ten units of local government, including:

- Cibola, McKinley and San Juan Counties,
- The incorporated communities of Gallup, Grants, Farmington, Milan, Aztec and Bloomfield, and
- NWNM Regional Solid Waste Authority.

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.

The Council is the primary government and is not a component unit of any other entity. It is the financial reporting entity, and it did not have any component units during the fiscal year ended June 30, 2012.

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 Year Ended June 30, 2012

Basis of Accounting

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements. The 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. Neither fiduciary funds nor component units that are fiduciary in nature are included in the government-wide financial statements.

For its government-wide activities, the Council has elected to apply all applicable Governmental Accounting Standards Board (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.

Net Assets Restricted by Enabling Legislation – Government-Wide

Net assets in the government-wide financial statements are reported as *restricted* when constraints placed on net assets use is either externally imposed by law through constitutional provisions or enabling legislation. 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.

Other components of Net Assets include:

Invested in capital assets — represents the cost of capital assets netted with accumulated depreciation and any outstanding balance of debt, excluding unspent proceeds, that is directly attributable to acquisition, construction or improvement of these capital assets; and

Unrestricted net assets — represents all other net assets that do not meet the definition of “restricted” or “invested in capital assets.”

NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

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 Council's governmental funds are considered major.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. 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. 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.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenue is recognized when it is 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). Reimbursements from state and federally funded projects are accrued as revenue at the time the expenditures are made. If funds are received in advance, the revenue is deferred until expenditures are made.

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, as well as, other long-term liabilities (e.g. accrued leave) are recognized when paid. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed by the various funding sources.

GASB Statement 54

In February 2009, the GASB issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. GASB 54 also clarifies governmental fund type definitions.

The fund balance amounts for governmental funds included in this report have been reclassified in accordance with GASB 54. As a result, in the governmental fund financial statements, fund balances previously reported as reserved and unreserved are now reported according to a hierarchy of classifications established in GASB 54, which are based on the extent to which the Council is bound to honor constraints on the specific purpose for which amounts in that fund can be spent.

GASB 54 fund balance classifications include:

Nonspendable — amounts cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact;

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
 NOTES TO AUDITED FINANCIAL STATEMENTS
 For The Year Ended June 30, 2012**

Restricted — amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation;

Committed — amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (Board of Directors);

Assigned — constrained by the Council’s intent to be used for specific purpose; and

Unassigned — the residual classification for remaining amounts after all other classifications have been considered.

Capital Assets and Depreciation

The Council capitalizes expenditures over \$5,000. 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, and when construction is financed, interest during construction is capitalized. The Council has no debt relating to capital assets.

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. 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)
	<u>Life of the lease</u>
Leasehold improvements	5
Furniture and equipment	5
Vehicles	5

Budgets

An annual operating budget is prepared by the Council staff for the general and special revenue funds after the New Mexico Department of Finance and Administration notifies the Council’s Board of Directors of the amount of state grants-in-aid available to be allocated. The Council must obtain non-federal matching funds or services, or both, from local governments or private sources at least equal to the amount of the state grant-in-aid. 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

NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

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 Council's Board of Directors certifies 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 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 and maintains the budget on the modified accrual basis, and therefore, a reconciliation of the budget financial statements to the fund financial statements is not necessary.

Spending Policy

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Council's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Council's policy to spend committed resources first.

Indirect Cost

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

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, and 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," and these amounts are presented at the net amounts for each fund. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

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.

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.

NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

Encumbrances

Encumbrances are not used by this entity.

Program Revenues

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.

2. KEY PROGRAMS OF THE COUNCIL

The General Fund is the general operating fund of the Council and 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 in the General Fund during fiscal year 2012 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 severe 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.

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

NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

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).

CFED – A contract with the Corporation for Enterprise Development to provide technical assistance to support the development of Children's Savings Account with the State of New Mexico; A project funded by the W.K.Kellog Foundation and managed by CFED.

GLP: EECP – An Intergovernmental Agreement to provide the technical assistance, planning and management services in connection with Gallup's Energy Efficiency and Conservation Program.

MILAN: Multi-Purpose Contract (MPC) – A contract with the Village of Milan to provide Planning Services on the behalf of the Village as well as other entities throughout the Northwest Region with the specific knowledge and intent of this construction grant.

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

RDC: Research – An Intergovernmental Agreement in which the Consultant will provide the Board of Directors of the Council of Governments with a study and plan for the mid-term solvency and long-term sustainability of the regional planning and development mission embodied in the COG organization.

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 EECEBG – An intergovernmental services agreement with the McKinley County to provide oversight and manage the County's Energy Efficiency program. 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 EECEBG 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.

The key programs of the Council are organized by funds, each of which, for internal record-keeping purposes, is considered a separate accounting entity. The operations of each fund (program) are accounted for with a unique set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures.

NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

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, 2012. The Council has designated 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). The activities of the ELF enable 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.

3. 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. Deposit insurance coverage for public unit accounts will vary until January 1, 2013. For the period from December 31, 2010 through December 31, 2012 accounts held by an official custodian for a government unit is insured as follows: up to \$250,000 for the combined total of all time and savings deposits, and unlimited coverage for noninterest-bearing transactions (demand deposit) accounts.

For more information, visit www.fdic.gov.

Custodial credit risk is the risk that in the event of 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, 2012 the Council did not have any funds exposed to custodial risk.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012**

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	\$ 600	600
Enterprise Loan Fund-Sequestered	*	Savings	95,443	95,443
			96,043	96,043
Less: FDIC coverage			(250,000)	
Uninsured balance			\$ -	
FDIC Unlimited Coverage				
Operating Account		Demand Deposit	63,019	41,722
Enterprise Loan Fund		Demand Deposit	87,198	87,198
Forest Service Loan Fund		Demand Deposit	62,316	62,316
			\$ 212,533	191,236
Total Book Balance				\$ 287,279

* = Denotes interest bearing account

Security Description	Security Interest Rate
Corona, NM Cusip #219762AQ4 maturing 10/01/12, market value to be used	\$ 75,230 4.50%
Over collateralized	\$ 75,230

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

4. RECEIVABLES

Receivables in the amount of \$111,188 represent account and grant receivables due to the General Fund as of June 30, 2012. No allowance was considered necessary as management considers receivables fully collectible.

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**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012**

5. LOANS RECEIVABLE

Loans receivable in the special revenue fund as of June 30, 2012 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.

		<u>Enterprise Loan Fund</u>
Loans receivable	\$	184,953
Less allowance		<u>(103,656)</u>
Loans receivable - net	\$	<u><u>81,297</u></u>

Allowances

The allowance for uncollectible interest receivables at June 30, 2012 is \$7,552, and the allowance for uncollectible loans is \$103,656

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following as of June 30:

		<u>2012</u>
Accrued salaries	\$	<u>13,432</u>
Accrued payroll taxes and related payroll deductions		<u>6,036</u>
	\$	<u><u>19,468</u></u>

7. COMPENSATED ABSENCES AND OTHER LONG TERM LIABILITIES

Accrued Benefits

Employees are paid for annual leave and absences due to sickness by a 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. No more than 240 hours of annual leave may be carried over from a previous fiscal year. Upon termination for whatever reason, the employee shall be paid for any unused annual leave at the employee's then-current rate of pay. Sick leave benefits are not accrued but rather expensed in the General Fund as they are paid.

Regular employees may carry over a maximum of 480 hours sick leave from a previous fiscal year. Upon retirement or termination, all unused accrued sick leave shall be forfeited, except that, employees participating and vested in the PERA retirement program and with not less than five years of employment with the Council, shall be entitled to compensation for unused sick leave hours up to but not exceeding 480 hours, at a rate equal to thirty-three percent of hourly rate of pay.

Other Liabilities

The Council entered into a settlement with the US Department of Treasury, Internal Revenue Service, in fiscal year 2011 resulting in a total charge of \$12,219, payable over two years. The Council finished paying off the liability in fiscal year 2012.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012**

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

		<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>2012</u>	<u>Amount due within one year</u>
Annual leave	\$	27,016	21,268	(20,110)	28,174	7,200
Federal tax liability		<u>12,219</u>	-	<u>(12,219)</u>	-	-
	\$	<u>12,219</u>	<u>-</u>	<u>(12,219)</u>	<u>-</u>	<u>7,200</u>

8. RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2012 include \$321,689 which is restricted for economic development activity (i.e. loan programs). This amount includes \$81,297 notes receivable and \$240,624 cash. The restrictions are the result of agreements with the granting organizations.

9. 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.

10. LEASE COMMITMENTS

Office Leases

The Council leases office facilities from McKinley County and San Juan County. The lease agreement with McKinley County, which was initiated July 1, 2005, is for 20 years at \$1.00 a year. This lease is accounted for as an operating lease and future minimum payments under this lease are \$1.00 a year for the next five years. The lease agreement with San Juan County expires December 31, 2012.

Equipment Leases

In November 2011, the Council entered into a new copier 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>	
2013	\$ 5,928
2014	5,928
2015	5,928
2016	<u>2,470</u>
Total	\$ <u>20,256</u>

Total lease expense for the year ended June 30, 2012 was \$8,742. 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.

NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

11. CAPITAL ASSETS AND DEPRECIATION

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

	<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>2012</u>
General Fund				
Leasehold improvements	\$ 478,087	-	-	478,087
Furniture & fixtures	55,255	-	-	55,255
Vehicles	35,264	-	-	35,264
Enterprise Loan Fund				
Furniture and equipment	4,178	-	-	4,178
Total capital assets	<u>572,784</u>	<u>-</u>	<u>-</u>	<u>572,784</u>
Less accumulated depreciation for:				
General Fund				
Leasehold improvements	(109,502)	(24,427)	-	(133,929)
Furniture & fixtures	(44,092)	(8,933)	-	(53,025)
Vehicles	(31,190)	(3,493)	-	(34,683)
Enterprise Loan Fund				
Furniture and equipment	(4,178)	-	-	(4,178)
Total accumulated depreciation	<u>(188,962)</u>	<u>(36,852)</u>	<u>-</u>	<u>(225,814)</u>
Total net capital assets	<u>\$ 383,822</u>	<u>(36,852)</u>	<u>-</u>	<u>346,970</u>

There were no deletions or additions of capital assets during the fiscal year ended June 30, 2012. Depreciation expense of \$36,851 was allocated to the Regional Community Development function in the Government-wide Statement of Activities, which is the Council's only governmental activity function.

12. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN

Plan Description

Substantially all of the Council's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report 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 in State statute 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, 2012, 2011, and 2010 were \$27,636, \$28,097, and \$39,775 respectively, which equal to the amount of the required contributions per year.

NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
NOTES TO AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

13. 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).

14. 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, 2012, the Council did not have any probable risk of loss.

15. INTERFUND TRANSACTIONS AND BALANCES

Interfund receivables and payables are amounts due from and to other funds of the Council, and all amounts are expected to be paid within one year or less. As of June 30, 2012, \$4,333 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, 2012.

16. RELATED PARTY TRANSACTIONS

The by-laws of Council require the composition of the Board of Directors to represent member governments. As a result, many members of the Board of Directors are employed by, or serve in an elected capacity for, 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, 2012 was \$262,500.

17. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Council recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Council's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Council has evaluated subsequent events through December 13, 2012, which is the date the financial statements were available to be issued.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2012**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Identifying Grant #</u>	<u>Federal Expenditures</u>
<u>Indirect Programs</u>			
U.S. Department of Transportation passed through New Mexico State Highway and Transportation Department Regional Planning Organization	20.505	P60001/TPO7500(903)	\$ 65,160
<u>Direct Programs:</u>			
U.S. Department of Commerce Economic Development Administration (EDA) Economic Development Support for Planning Organizations	11.302	08-83-04544	60,000
U.S. Environmental Protection Agency ARRA - Brownfields Assessment	66.818	2B-96694701-1	249,056
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 06/30/12	119,732
		Loan fund cash balance	182,641
		Administrative expense	<u>2,523</u>
			304,896
U.S. Department of Agriculture Forest Service Loan Fund	10.000		
		Loan fund cash balance	<u>62,316</u>
Total federal awards expended			\$ <u>741,428</u>

***Major Program**

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. Except as noted above, the organization did not receive any non-cash federal assistance, or federal insurance benefits during the fiscal year ended June 30, 2012.

Note 3. Reconciliation of Federal Awards Expended to Federal Revenue

Federal awards expended per schedule	\$ 741,428
Less: Loan programs	<u>(367,212)</u>
Federal award revenue per financial statements	<u>\$ 374,216</u>

STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For The Year Ended June 30, 2012

<u>Description</u>	<u>SHARE Identifier #</u>	<u>Original Appropriation</u>	<u>Appropriation Period</u>	<u>Expend- itures To Date</u>	<u>Out- standing Encumb- rances</u>	<u>Unencumb- ered Balances</u>
Special, Deficiency, Specific and Capital Outlay Appropriations						
Grant-in-aid - Planning District Act, Section 4-58	N/A	95,743	07/01/11-06/30/12	(95,743)	-	-
Total Special, Deficiency, Specific and Capital Outlay Appropriations		<u>95,743</u>		<u>(95,743)</u>	<u>-</u>	<u>-</u>



**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, 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, 2012, and have issued our report thereon dated December 13, 2012. 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

Management of the Council, is responsible for establishing and maintaining effective 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 12-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

The Council's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 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.



Hinkle + Landers, PC
December 13, 2012



**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, 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, 2012. 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, 2012.

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.



Hinkle + Landers, PC
December 13, 2012

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012**

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 Yes
- 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

Auditee qualified as low-risk Auditee Yes

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012**

<u>Reference FY- Finding #</u>	<u>Findings</u>	<u>Status of Prior Year Findings</u>	<u>Financial Statement Finding</u>	<u>Federal Award Finding</u>	<u>Material Weakness</u>	<u>Significant Deficiency</u>
Prior Year Findings						
NONE						
Current Year Findings						
12-01	INTERNAL CONTROLS OVER PAYROLL AND RELATED ACCOUNTS	CURRENT	YES	NO	NO	YES

12-01 – Internal Controls Over Payroll and Related Accounts – Significant Deficiency

Statement of Condition

The auditor identified several errors in trial balance accounts which appear to be caused by the payroll module used by the organization:

1. Payroll expense was overstated by approximately \$7,000
2. Payroll liability accounts were understated by approximately \$9,000
3. Fund balance was overstated by approximately \$16,000

The auditor determined the correct amounts for payroll expense and wages payable accounts by reviewing quarterly 941 reports and subsequent bank activity. A material adjustment to these accounts and fund balance was recorded.

Criteria

Wage expense should reconcile to quarterly 941 reports, after considering adjustments for related liability accounts. In addition, net assets per the year-end trial balance should reconcile to the prior year audit report.

Effect

When account balances in the general ledger are not correct, financial reports reviewed by the governing body may not be materially accurate, therefore hindering the governing body's ability to provide oversight.

Cause

The exact cause for the error is unknown at this time, but it is suspected that finance staff may be making payroll-related entries that are duplicative of entries automatically made by the payroll module included in the general ledger software.

Recommendation

1. We recommend that finance staff seek technical assistance from the software vendor in order to understand the reason for the problem, and to prevent reoccurrence.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012**

2. We recommend that finance staff reconcile wage expense to quarterly 941 reports as a part of quarterly and year-end closing processes.
3. We recommend that finance staff ensure fund balance reconciles to the prior year audit as a part of year-end closing procedures.

Management Response

Management has reviewed the working papers provided by the auditor and has double-checked the accounting records related to payroll expense, payroll liability and fund balance, and we understand the primary issue as represented by the auditor. We concur with the auditor that the cause of this discrepancy has not yet been identified within the software program.

With regard to reconciliation of quarterly “941” reports, such a procedure is standard for the organization’s accounting system and is the standard protocol followed by finance staff; thus, the auditor was able to use our “941” data as an anchor for this analysis.

Finance staff will ensure (a) that wage expenses tie to quarterly 941 records and (b) that fund balance reconciles to the prior year audit as a part of year-end closing procedures.

We believe that the problem lies in the payroll module of the accounting software to be fixed, and as such, management will ensure rapid, thorough and satisfactory response by working with the software vendor to identify and rectify the problem.

**STATE OF NEW MEXICO
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS
EXIT CONFERENCE
For The Year Ended June 30, 2012**

An exit conference was held on December 13, 2012. Present at the exit conference were:

Jeff Kiely	NWNMCOG - Executive Director
Louie Bonaguidi	Board Treasurer
Teresa Mecale	NWNMCOG - Finance Manager
Martina Whitmore	NWNMCOG - Finance Assistant
Farley Vener, CPA, CFE	Independent auditor, Hinkle + Landers, PC
Katelyn Constantin	Independent auditor, Hinkle + Landers, PC

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.