



# 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, 2013**



**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
TABLE OF CONTENTS  
For The Year Ended June 30, 2013**

	<u>Page</u>
Official Roster	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-8
 <b><u>Financial Section</u></b>	
Statement of Net Position	9
Statement of Activities	10
Balance Sheet - Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
General Fund – Major Fund Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (Modified Accrual)	13
Enterprise Loan Fund – Major Fund Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (Modified Accrual)	14
Notes to Financial Statements	15-27
 <b><u>Other Supplementary Information</u></b>	
Schedule of Expenditures of Federal Awards	28
 <b><u>Compliance Section</u></b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	29-30
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required With OMB Circular A-133	31-32
Schedule of Findings and Questioned Costs	33-34
Exit Conference	35

**STATE OF NEW MEXICO  
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
OFFICIAL ROSTER  
As of June 30, 2013**

<b>DIRECTORS</b>	<b>POSITION</b>	<b>MEMBER GOVERNMENT/TITLE</b>
Billy Moore	Chairman	McKinley County-At Large
Joe Murrietta	2 <sup>nd</sup> 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-Commissioner
Yogash Kumar	Member	City of Gallup-Councilor
Allan Landavazo	Member	City of Gallup-Councilor
George Kozeliski	Member	City of Gallup-Attorney
Genevieve Jackson	Member	McKinley County-Commissioner
Doug Decker	Member	McKinley County-Attorney
Carol Bowman Muskett	Member	McKinley-County-Commissioner
GloJean Todacheene	Member	San Juan County-Commissioner
Keith Johns	Member	San Juan County-Commissioner
<b>Administrative Officers</b>		
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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund of the Northwest New Mexico Council of Governments (Council), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major funds of the Council, as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 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 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.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the Council's financial statements and the budgetary comparisons. The schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the other schedules required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *schedule of expenditures of federal awards* and other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013 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* in considering Council's internal control over financial reporting and compliance.



Hinkle + Landers, P.C.  
Albuquerque, NM  
December 12, 2013

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

This Management's Discussion & Analysis (MD&A) statement for FY 2013 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. In the analysis herein, figures are rounded to the nearest thousand for ease of summary explanation.

**FINANCIAL HIGHLIGHTS**

**Government-Wide – Net Position**

- The Council's Net Position decreased 3% (- \$18,000) FY 2012, but increased slightly in FY 2013 (+\$3,000, or about 0.5%), for total end-of-year net position of \$677,458.

**Government Funds – Fund Balance**

- Council Revenues increased 33% (about +\$236,000) in FY 2012 and increased again in FY 2013 by 83% (+\$551,000), for a total FY 2013 revenues of \$1,212,653. This was largely due to final-year drawdowns on multi-year federal programs.
- Council Expenditures increased 19% (about + \$156,000) in FY 2012, and increased another 55% in FY 2013 (+\$530,000), for total FY 2013 expenditures of \$1,488,000. Again, the large increases were due to the spend-down of multi-year federal program grants and subcontracts.
- Net Change in Fund Balances was positive in FY 2012 (3%, or about +\$8,000), and up another 8% (+\$28,000) in FY 2013, resulting in an end-of-year fund balance of \$382,991.

**THE FINANCIAL STATEMENTS**

The annual audit report consists of a series of financial statements. The Statement of Net Position (Table 1) and Change in Net Position (Table 2) 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 operation in more detail per each of the Council's most financially significant funds.

**Reporting the Council as a Whole: Statement of Net Position 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 position, i.e., the difference between assets and liabilities, as a way of measuring financial health or financial position.

The Council's Net position increased slightly in FY 2013 (+\$3,000, or about 0.5%). Investment in Capital Assets decreased by about 8%, or \$29,000, while the level of Unrestricted Net Position increased by 539%, or about +\$29,000, representing a positive trend in the organization's financial position. The changes in net position are summarized in Tables 1 and 2.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>TABLE 1: Net Position</b>					
	FY2011	FY 2012	FY 2013	Change, FY 2013	% Change
Cash and Receivables	380,943	479,762	516,662	36,900	7.7%
Net Capital Assets	383,821	346,970	317,948	(29,022)	-8.4%
Total Assets	764,764	826,732	834,610	7,878	1.0%
Total Liabilities	72,684	152,433	157,152	4,719	3.1%
<b>Net Position</b>					
Net Investment in Capital Assets	383,821	346,970	317,948	(29,022)	-8.4%
Restricted for Special Projects	319,215	321,921	324,971	3,050	0.9%
Unrestricted Net Position	(10,957)	5,408	34,539	29,131	538.7%
Total Net Position	692,079	674,299	677,458	3,159	0.5%
.					
Total Liabilities and Net Position	764,763	826,732	834,610	7,878	1.0%

<b>TABLE 2: Changes in Net Position</b>					
<u>Governmental Activities</u>					
<b>REVENUES</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>Change, FY 2013</b>	<b>% Change</b>
<u>Program Revenues:</u>					
Grants & Contributions	461,649	661,265	1,212,653	551,388	83.4%
<u>General Revenues:</u>					
Membership Dues	216,000	262,500	266,500	4,000	1.5%
Interest Income	4,408	4,704	6,553	1,849	39.3%
Miscellaneous Income	21,951	12,060	5,553	(6,507)	-54.0%
Subtotal, General Revenues	242,359	279,264	278,606	(658)	-0.2%
Total Revenues	704,008	940,529	1,491,259	550,730	58.6%
<b>PROGRAM EXPENSES</b>					
Regional Community Development	802,283	958,309	1,488,100	529,791	55.3%
<b>CHANGES IN NET POSITION</b>					
	<b>(98,275)</b>	<b>(17,780)</b>	<b>3,159</b>	<b>20,939</b>	<b>117.8%</b>
Net Position, Beginning of Year	790,354	692,079	674,299	(17,780)	-2.6%
Net Position, End of Year	692,079	674,299	677,458	3,159	0.5%

**Financial Analysis of Balances and Transactions: Fund Financial Statements**

**Total Net Position** organization-wide increased slightly in FY 2013 (about \$8,000, or 1.0%).

- Cash and cash equivalents organization-wide increased in FY 2013 by 8%, or about \$37,000, totaling about \$517,000.



**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

- Net position increased slightly in FY 2013 (about +\$3,000, or 0.5%).

**Total Liabilities** organization-wide increased slightly in FY 2013 (up about \$4,700, or 3%).

**Total Expenditures** increased organization-wide by 55%, or about +\$530,000, owing primarily to spend-down of special federal grants and subcontracts.

**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 Position 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 Title	Revenues in FY2013	Expenditures in FY2013	Excess (deficiency) Revenues over Expenditures	Other financing sources (uses) & Transfers	Fund Balance Beginning of Year	Fund Balance End of Year	% Change in Fund Balance
01/ General Fund	1,484,642	1,460,205	24,437	-	33,583	58,020	73%
02/ Enterprise Loan Fund	6,618	3,568	3,050	-	321,921	324,971	1%
<b>TOTALS</b>	<b>1,491,260</b>	<b>1,463,773</b>	<b>27,487</b>	<b>-</b>	<b>355,504</b>	<b>382,991</b>	<b>8%</b>

Federal funding accounted for 51% of Council funding (up from 40% in FY 2012), while membership fees from participating local governments accounted for 18% of total Council budget (down from 28% in FY 2012). Over 67% of Council funding was attributable to short-term special grants and contracts (down from about 72% in FY 2012).

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Council's Final Budget was about 11% higher in projected Revenues and Expenditures (about +\$142,000) than the Original Budget. Actual Revenues exceeded Final Budget by about \$6,000 (0.5%), and Actual Expenditures exceeded Final Budget by about \$18,000 (1%).

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Asset Activity

Capital assets, net of depreciation, were down \$29,000 in FY 2013 (about -8%), for total net capital assets of about \$318,000.

Long-term Debt Activity

The Council does not have any long-term liabilities.

**FINANCIAL FORECAST**

In the current public funding environment, the Council's future financial status is subject to a combination of relatively stable sources, on the one hand, and relatively uncertain sources, on the other.

- **Membership:** Membership dues remain fairly stable, albeit some 20% below pre-recession peak levels. However, there are growing pressures on local government budgets as a result of decreases in state and federal funding, losses in local gross receipts tax revenues, threats to local bottom lines resulting from State legislation that phases out the "hold harmless" provision that accompanied elimination of the food tax, and volatility in the region's traditional industries.
- **State Grant-in-Aid:** The annual appropriation from the State Legislature, administered by the Local Government Division and identified as grant-in-aid funding for regional planning councils, has remained steady at about \$95,000, with a similar level committed for FY 2014. The New Mexico Association of Regional Councils (NewMARC) continues to pursue additional funding relationships with State agencies going forward.
- **US Economic Development Administration:** Funding for the annual grant from the US Department of Commerce, Economic Development Administration, administered under three-year grant agreements, survived a number of downward threats in the federal budget process and stayed steady at \$60,000 per year. The Council provides a 25% match of this annual allocation. 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.
- **NMDOT Regional Transportation Planning:** The Council's annual contract from the New Mexico Department of Transportation for management of the (recently re-named) "Northwest Regional Transportation Planning Organization" (NWRTPO) is administered under three-year grant agreements. Funding for this agreement has been increased by about \$20,000 to about \$85,000 for Federal Fiscal Year 2014 (October 2013-September 2014 funding cycle), with the requirement of a 25% match (or 20% of total project). Future funding is subject to numerous federal and state budget processes, including the hoped-for reauthorization of the Federal Transportation bill (MAP-21). Working relationships with the New Mexico DOT remain strong, and in the past year the Council

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

received very positive feedback from the Department's program audit. The Department further invested in the Council with separate funding for the "Panoramic" web-based software pilot project administered by the Council. Consultations are ongoing regarding further re-structuring of the State's RTPO contracts, possibly to include a single-contract mechanism with the New Mexico Association of Regional Councils.

In FY 2013, the Council concluded work on the multi-year ARRA/stimulus grant from the US Environmental Protection Agency for Brownfields Assessment work and the multi-year subcontract from McKinley County to administer the County's Energy Efficiency and Conservation Block Grant (EECBG). 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 grow the budget in FY 2013 will continue to be pursued, e.g.:

- Contracts with local governments for legislative appropriations and planning grants under the Community Development Block Grant program administered by the State Department of Finance and Administration (DFA) under annual funding from the US Department of Housing and Urban Development;
- Specialized and supplemental technical assistance to local governments and other public entities in the field of planning, organizational development and funding;
- Continued research into funding opportunities for which the Council would be eligible; and
- Continued management of short-term grants and contracts, which can serve as an implementation avenue for various initiatives while at the same time diversifying funding into the Council.
- 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 and consultants of the Northwest New Mexico Council of Governments may be contacted in connection with this analysis:

Jeffrey Kiely, Executive Director: [jkiely@nwnmcog.com](mailto:jkiely@nwnmcog.com)  
Teresa Mecale, Finance Manager: [tmecale@nwnmcog.com](mailto:tmecale@nwnmcog.com)  
Northwest New Mexico Council of Governments  
409 South 2<sup>nd</sup> Street  
Gallup, NM 87301  
(505) 722-4327

**STATE OF NEW MEXICO  
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
(GOVERNMENT-WIDE)  
STATEMENT OF NET POSITION  
As of June 30, 2013**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 8,735
Receivables, net of allowance	175,329
Cash restricted for loan programs	274,966
Loans receivable, net of allowances	57,633
Capital assets, net of depreciation	<u>317,948</u>
Total assets	<u><u>\$ 834,610</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 117,829
Accrued payroll liabilities	15,843
Compensated absences	<u>6,105</u>
Total current liabilities	139,777
Noncurrent liabilities	
Compensated absences - long-term portion	<u>17,375</u>
Total noncurrent liabilities	<u>17,375</u>
Total liabilities	<u><u>157,152</u></u>
<b>NET POSITION</b>	
Net investment in capital assets	317,948
Restricted	324,971
Unrestricted	<u>34,539</u>
Total net position	<u>677,458</u>
Total liabilities and net position	<u><u>\$ 834,610</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, 2013**

Functions/Programs	Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position for Governmental Activities
Governmental activities:			
Regional Community Development	\$ (1,488,100)	1,212,653	(275,447)
General revenues			
Membership dues			266,500
Interest income			6,553
Miscellaneous income			5,553
Total general revenue			278,606
Change in net position			3,159
Net position, beginning of year			674,299
Net position, end of year			\$ 677,458

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, 2013**

	<b>Major Funds</b>		<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Enterprise Loan Fund</b>	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,735	-	8,735
Receivables	175,329	-	175,329
Cash restricted for loan programs	-	274,966	274,966
Loans receivable, net of allowance	-	57,633	57,633
Due from other funds	7,628	-	7,628
Total assets	\$ 191,692	332,599	524,291
<b>LIABILITIES</b>			
Accounts payable	\$ 117,829	-	117,829
Accrued payroll liabilities	15,842	-	15,842
Unearned revenue	-	-	-
Due to other funds	-	7,628	7,628
Total liabilities	133,671	7,628	141,299
<b>FUND BALANCES</b>			
Restricted: Economic development	-	324,971	324,971
Unassigned	58,020	-	58,020
Total fund balance	58,020	324,971	382,991
Total liabilities and fund balance	\$ 191,691	332,599	524,290
Total fund balance — Governmental funds			\$ 382,991
Amounts reported for governmental activities in the Statement of Net Position 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			317,948
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds:			
Compensated absences			(23,480)
Total net position — Government-wide			\$ 677,458

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, 2013**

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Enterprise Loan Fund</u>	
<b>Revenues</b>			
Contracts and grants	\$ 446,693	-	446,693
Federal revenues	765,960	-	765,960
Membership dues	266,500	-	266,500
Interest income	11	6,543	6,554
Miscellaneous income	5,478	75	5,553
Total revenues	<u>1,484,642</u>	<u>6,618</u>	<u>1,491,260</u>
<b>Expenditures</b>			
Current			
General government	1,460,205	3,568	1,463,773
Total expenditures	<u>1,460,205</u>	<u>3,568</u>	<u>1,463,773</u>
Excess (deficiency) of revenues over (under) expenditures	<u>24,437</u>	<u>3,050</u>	<u>27,487</u>
Net change in fund balances	24,437	3,050	27,487
Fund balance, beginning of year	<u>33,583</u>	<u>321,921</u>	<u>355,504</u>
Fund balance, end of year	<u>\$ 58,020</u>	<u>324,971</u>	<u>382,991</u>

Net change in fund balances - Total Governmental Funds \$ 27,487

Amounts reported for governmental activities in the Statement of Net Position 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 (29,022)

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 4,694

Change in net position of governmental activities \$ 3,159

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, 2013**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>				
Contracts and grants	\$ 1,052,903	1,206,654	1,212,653	5,999
Membership dues	270,000	266,500	266,500	-
Interest	15	11	11	-
Miscellaneous income	13,400	5,350	5,478	128
Total revenues	<u>1,336,318</u>	<u>1,478,515</u>	<u>1,484,642</u>	<u>6,127</u>
<b>Expenditures</b>				
Current:				
General governmental	<u>1,336,318</u>	<u>1,478,379</u>	<u>1,460,205</u>	<u>18,174</u>
Total general governmental	<u>1,336,318</u>	<u>1,478,379</u>	<u>1,460,205</u>	<u>18,174</u>
Excess (deficiency) of revenues (under) over expenditures	<u>-</u>	<u>136</u>	<u>24,437</u>	<u>24,301</u>
Fund balance, beginning of year	<u>33,583</u>	<u>33,583</u>	<u>33,583</u>	<u>-</u>
Fund balance, end of year			<u>\$ 58,020</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, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Interest income	\$ 1,500	3,319	6,543	3,224
Miscellaneous	-	-	75	75
Total revenues	<u>1,500</u>	<u>3,319</u>	<u>6,618</u>	<u>3,299</u>
<b>Expenditures</b>				
Current:				
General governmental	-	-	-	-
Operating	<u>1,500</u>	<u>3,319</u>	<u>3,568</u>	<u>(249)</u>
Total general governmental	<u>1,500</u>	<u>3,319</u>	<u>3,568</u>	<u>(249)</u>
Excess (deficiency) of revenues (under) over expenditures	<u>-</u>	<u>-</u>	<u>3,050</u>	<u>3,050</u>
Fund balance, beginning of year	<u>321,921</u>	<u>321,921</u>	<u>321,921</u>	<u>-</u>
Fund balance, end of year			<u>\$ 324,971</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, 2013**

**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. In fiscal year ended June 30, 2013, 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, 2013.

**B - Basis of Presentation – Fund Accounting**

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

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS**  
**NOTES TO AUDITED FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2013**

**C - Basis of Accounting**

**Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position 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. 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 Position Restricted by Enabling Legislation – Government-Wide**

Net position in the government-wide financial statements are reported as *restricted* when constraints placed on net position 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 position include:

**Net investment 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 position** — represents all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS**  
**NOTES TO AUDITED FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2013**

**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.

**D - 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, 2013**

**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.

**E - 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:

	<b>Estimated Useful Life (in years)</b>
	<u>Life of the lease</u>
Leasehold improvements	5
Furniture and equipment	5
Vehicles	5

**F - 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 of general government operations and capital outlay. The budgets of all individual funds may not be legally over-expended. Subsequent budget adjustments must be approved by the governing board of the Council but are not required to be approved by the Department of Finance and Administration. The president or treasurer of the Council’s Board of Directors

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS**  
**NOTES TO AUDITED FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2013**

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 30<sup>th</sup> 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.

**G - 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.

**H - 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.

**I - 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 Position.

**J - 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.

**K - 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.

**L - Encumbrances**

Encumbrances are not used by this entity.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS**  
**NOTES TO AUDITED FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2013**

**M - 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.

**N - Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. The Council has no deferred outflows of resources during fiscal year 2013.

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position/fund balance that applied to a future period and so will not be recognized until then. The Council has no deferred outflows of resources during fiscal year 2013.

**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.

The key programs of the Council are organized by “funds” (also referred to administratively as “programs” or “projects”, or alternatively as “departments” by the Council’s accounting system), each of which is considered a separate accounting entity for internal record-keeping purposes. 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.

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 Council has designated the Enterprise Loan Fund (ELF) as a major Special Revenue Fund, which was active in the fiscal year ended June 30, 2013.

The following are the grant and contract programs included in the General Fund during fiscal year 2013:

**Federal Grants and Contracts**

*EDA/Planning and Technical Assistance* — A multi-year grant from the Economic Development Administration (EDA) of the US Department of Commerce to establish and maintain a Comprehensive Economic Development Strategy (CEDS) process, including: economic demographics work; coordinating economic development planning with other economic development entities; notifying the EDA Austin Regional Office of any plant closures or

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS**  
**NOTES TO AUDITED FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2013**

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.

EPA/Brownfields – A three-year grant under the Federal ARRA/stimulus initiative administered by the US Environmental Protection Agency (EPA) under its Brownfields Assessment Coalitions program. The Council served as grantee and coordinator of extensive field work by qualified environmental engineering firms to conduct environmental assessments on contaminated properties with potential for productive re-use. Grant expenditures were divided into allocations for petroleum-impacted and hazardous substance-impacted properties.

**State Grants and Contracts**

NMLGD/State Grant-in-Aid – The Council utilizes State-appropriated Grant-in-Aid funds, administered by the Local Government Division of the New Mexico Department of Finance and Administration, in combination with other funds, to support planning and technical assistance activities in program management, project development and technical assistance in Grantsmanship, Community Development Block Grants (CDBG) for local members, local Infrastructure Capital Improvement Plans (ICIP), legislative relations, infrastructure capital outlay, rural community development, water planning, and general regional planning.

NMDOT/Regional Transportation Planning Organization (RTPO) – A multi-year grant from the New Mexico Department of Transportation (NMDOT), renewed annually and funded in part by Federal appropriations to New Mexico by the Federal Highway Administration, to provide staffing services in support of regional transportation planning under the auspices of the Northwest Regional Transportation Planning Organization (NWRTPO), including coordination and staffing of the NWRTPO Committee comprised of representation from the region's local and tribal governments, networking with transportation partners within the region and the state, preparation of general and special regional plans in collaboration with the State (such as in freight and long-range planning), and annual submission to NMDOT of regional recommendations for project inclusion in the State Transportation Improvement Program (STIP).

**Local and Private Grants and Contracts**

NMCC/Microenterprise Incubator – A subgrant from New Mexico Community Capital under the *New Mexico Impact Fund* established by the Tides Foundation under targeted New Mexico funding from the W.K. Kellogg Foundation. The Council partnered with local agencies to plan and implement a rural microenterprise incubator in conjunction with the opening and operation of the Navajo Tourism & Welcome Center at Sheep Springs, New Mexico.

RGCDC/Family Economic Security – A subgrant from Rio Grant Community Development Corporation under a W.K. Kellogg/Tides Foundation *New Mexico Impact Fund* grant, to support the Council's participation in an inter-agency collaborative to explore methods of measuring family economic security in conjunction with participation by family businesses in business assistance programs.

McK/EECBG – An intergovernmental services agreement with McKinley County to manage a multi-year Federal ARRA/stimulus program grant under the US Department of Energy's



**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS**  
**NOTES TO AUDITED FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2013**

*Energy Efficiency and Conservation Block Grant (EECBG)* program, which resulted in a certified energy audit of the County's facilities and a recommended "performance contracting" plan to finance energy efficiency and conservation improvements. This subcontract was accompanied by a separate fund from the County to support the COG's development and administration of this program.

McK/BOR-RWS – A intergovernmental services agreement with McKinley County to manage a grant from the US Bureau of Reclamation to conduct an advanced study of rural water system regionalization in the County.

McK/CDBG-Comp – A intergovernmental services agreement with McKinley County to manage a *Community Development Block Grant* (CDBG) planning grant to update the County's comprehensive plan.

McK/CDBG-Ramah WSD – A intergovernmental services agreement with McKinley County to manage a *Community Development Block Grant* (CDBG) planning grant to develop a Preliminary Engineering Report (PER) on water system improvements needed by the Ramah Water and Sanitation District.

McK/USFS-CWPP – An intergovernmental services agreement with McKinley County to manage grants from the US Forest Service and the New Mexico Association of Counties in support of completing a *Community Wildfire Protection Plan* (CWPP) for the County.

**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. For the period beginning January 1, 2013, the standard maximum Deposit Insurance amount is \$250,000 per depositor at each separately chartered FDIC-insured depository institution. For more information, visit [www.fdic.gov](http://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, 2013 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, 2013**

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

<b>Pinnacle Bank</b>				<b>Bank Balance</b>	<b>Book Balance</b>
<b>Account</b>		<b>Type</b>			
Savings Account	*	Savings	\$ 600	600	
Enterprise Loan Fund-Sequestered	*	Savings	95,447	95,447	
			96,047	96,047	
Operating Account		Demand Deposit	36,221	8,136	
Enterprise Loan Fund		Demand Deposit	117,202	117,202	
Forest Service Loan Fund		Demand Deposit	62,316	62,316	
			215,739	187,654	
<b>Total Balance</b>			<b>311,786</b>	<b>283,701</b>	
Less: FDIC coverage			(250,000)		
Uninsured balance			61,786		
50% collateral requirement			30,893		
					<b>Security Interest Rate</b>
<b>Pledged Collateral held in bank's name</b>					
Zuni NM Public Cusip #98981RAHO					
maturing 8/1/2019, market value to be used			\$ 141,847		4.00%
Over (under) collateralized			110,954		
Uninsured and uncollateralized			\$ (80,061)		
Uninsured collateral held by pledging banks					
But not in the name of the Council			\$ 141,847		

\* = Denotes interest bearing account

**4. RECEIVABLES**

Receivables in the amount of \$175,329 represent account and grant receivables due to the General Fund as of June 30, 2013. No allowance was considered necessary as management considers receivables fully collectible.

**5. LOANS RECEIVABLE**

Loans receivable in the special revenue fund as of June 30, 2013 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.

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS**  
**NOTES TO AUDITED FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2013**

		<u>Enterprise Loan Fund</u>
Loans receivable	\$	161,288
Less allowance		<u>(103,656)</u>
Loans receivable, net	\$	<u><u>57,632</u></u>

The following is the breakdown of the interest receivable for the June 30, 2013:

Interest receivable	\$	7,552
Less allowance		<u>(7,552)</u>
Interest receivable, net	\$	<u><u>-</u></u>

**6. ACCRUED LIABILITIES**

Accrued liabilities consist of the following as of June 30:

		<u>2013</u>
Accrued salaries	\$	9,645
Accrued payroll taxes and related payroll deductions		<u>6,198</u>
	\$	<u><u>15,843</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.

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

		<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>	<u>Amount due within one year</u>
Annual leave	\$	<u>28,174</u>	<u>21,062</u>	<u>(25,756)</u>	<u>23,480</u>	<u>6,105</u>
	\$	<u><u>28,174</u></u>	<u><u>21,062</u></u>	<u><u>(25,756)</u></u>	<u><u>23,480</u></u>	<u><u>6,105</u></u>

**NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
NOTES TO AUDITED FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013**

**8. RESTRICTED NET POSITION**

Restricted net position as of June 30, 2013 includes \$324,971 which is restricted for economic development activity (i.e. loan programs). This amount includes \$57,633 notes receivable and \$267,338 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, 2013.

**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>		
2014	\$	5,928
2015		5,928
2016		<u>2,470</u>
<b>Total</b>	<b>\$</b>	<b><u><u>14,327</u></u></b>

Total lease expense for the year ended June 30, 2013 was \$8,280. 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, 2013**

**11. CAPITAL ASSETS AND DEPRECIATION**

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

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>
<b>General Fund</b>				
Leasehold improvements	\$ 478,087	-	-	<b>478,087</b>
Furniture & fixtures	55,255	-	-	<b>55,255</b>
Vehicles	35,264	-	-	<b>35,264</b>
<b>Enterprise Loan Fund</b>				
Furniture and equipment	4,178	-	-	<b>4,178</b>
Total capital assets	<u>572,784</u>	<u>-</u>	<u>-</u>	<u>572,784</u>
Less accumulated depreciation for:				
<b>General Fund</b>				
Leasehold improvements	(133,929)	(24,426)	-	<b>(158,355)</b>
Furniture & fixtures	(53,025)	(4,014)	-	<b>(57,039)</b>
Vehicles	(34,683)	(582)	-	<b>(35,265)</b>
<b>Enterprise Loan Fund</b>				
Furniture and equipment	(4,178)	-	-	<b>(4,178)</b>
Total accumulated depreciation	<u>(225,815)</u>	<u>(29,022)</u>	<u>-</u>	<u>(254,836)</u>
Total net capital assets	<u>\$ 346,969</u>	<u>(29,022)</u>	<u>-</u>	<u>317,948</u>

There were no deletions or additions of capital assets during the fiscal year ended June 30, 2013. Depreciation expense of \$29,022 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 retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at <http://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, 2013, 2012, and 2011 were \$26,188, \$27,636, and \$28,097 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, 2013**

**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, 2013, 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, 2013, \$7,628 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, 2013.

**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, 2013 was \$266,500.

**17. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. No funds that maintained a deficit fund balance as of June 30, 2013.
- B. No funds exceeded approved budgetary authority for the year ended June 30, 2013.

**18. 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 12, 2013, 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, 2013**

<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	<u>640,800</u>
<b>Total federal awards expended</b>			<b>\$ <u><u>765,960</u></u></b>

**\*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, 2013.

**Note 3. Reconciliation of Federal Awards Expended to Federal Revenue**

Federal awards expended per schedule	\$ 765,960
Less: Loan programs	<u>-</u>
Federal award revenue per financial statements	<u><u>\$ 765,960</u></u>

**INDEPENDENT AUDITORS' 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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and the related budgetary comparison of the Council, presented as supplemental information, and have issued our report thereon dated December 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that were not identified.



**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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 13-01.

**The Council's Response to Findings**

The Council's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hinkle + Landers, PC  
Albuquerque, NM  
December 12, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY 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

**Report on Compliance for Each Major Federal Program**

We have audited the Northwest New Mexico Council of Government's (Council) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Council's major federal programs for the year ended June 30, 2013. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Council's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Council's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Council, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Report on Internal Control Over Compliance**

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Hinkle + Landers, PC  
Albuquerque, NM  
December 12, 2013

**STATE OF NEW MEXICO  
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2013**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

1. Type of auditors’ report issued Unmodified

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 Unmodified

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:

<b>CFDA Numbers Funding Source</b>	<b>Name of Federal Programs</b>	<b>Funding Source</b>
66.818	ARRA – Brownfields Assessment	US Environmental Protection Agency

Dollar threshold used to distinguish between  
Type A and Type B programs \$300,000

Auditee qualified as low-risk Auditee No

**STATE OF NEW MEXICO  
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2013**

Reference FY- Finding #	Findings	Status of Prior Year Findings	Financial Statement Finding	Federal Award Finding	Material Weakness	Significant Deficiency	Other Matter
<b>Prior Year Findings</b>							
12-01	INTERNAL CONTROLS OVER PAYROLL AND RELATED ACCOUNTS	RESOLVED	Yes	No	No	No	Yes
<b>Current Year Findings</b>							
13-01	CONTROLS OVER REIMBURSEMENTS	CURRENT	Yes	No	No	No	Yes

**13-01 – CONTROLS OVER REIMBURSEMENTS – OTHER MATTERS**

**Statement of Condition**

During testing of the travel sample it was noted that the Council reimbursed an employee for alcohol of \$8.00. It was also noted that 3 out of 24 transactions that were tested did not have a detail (itemized) receipts. Those meals totaled \$152.87.

**Criteria**

Public funds cannot be spent on alcohol. Better business practices state that detail (itemized) meal receipts should be used for reimbursement purposes, rather than summary receipts.

**Effect**

When summary receipts are provided instead of detail receipts, there is the risk that alcohol or other unallowable costs could be reimbursed by the Council. There is also the risk that federal money could be used to pay for these unallowable costs.

**Cause**

The Council did not review the meal receipt thoroughly for unallowable costs. Also the written travel policy does not require detail (itemized) receipts to be turned in, in order to receive travel reimbursements.

**Recommendation**

We recommend that the Council review receipts thoroughly for any unallowable purchases. We also recommend that the Council update their travel policy to require detail (itemized) receipts, in order to obtain reimbursement.

**Management Response**

Management has thoroughly reviewed the \$8.00 reimbursement made for an ineligible expense, as well as the reimbursements for non-itemized meal expenses totaling \$152.87. Council management affirms its understanding of the State Rule regarding ineligible expenses and will tighten up internal protocols (a) to require the employee, whenever possible, to obtain separate receipts for ineligible purchases (such as for alcohol), which would not be submitted as part of the Travel Reimbursement Request, and (b) to deny reimbursement requests for meals when not accompanied by an itemized receipt of the purchase. Noting, it may occasionally be difficult or impossible for an employee to obtain such itemization, such as when some establishments may not provide these accommodations, Council management can approve a waiver of the protocol and can approve an Affidavit of Expense in lieu of itemized receipt, subject to the daily maximum meal allowance as provided in the State Rule. Management concurs with the auditors that internal travel reimbursement protocols should be tightened up to ensure that no reimbursement is made for ineligible expenses under the State Rule.

**STATE OF NEW MEXICO  
NORTHWEST NEW MEXICO COUNCIL OF GOVERNMENTS  
EXIT CONFERENCE  
For The Year Ended June 30, 2013**

An exit conference was held on December 12, 2013. 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.