



**LOFTIS GROUP** LLC  
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS

# **Northwest New Mexico Council of Governments**

Financial Statements  
and  
Independent Auditors' Report

June 30, 2014

# Northwest New Mexico Council of Governments

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# Northwest New Mexico Council of Governments

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**Northwest New Mexico  
Council of Governments  
Official Roster  
June 30, 2014**

<b>DIRECTORS</b>	<b>POSITION</b>	<b>MEMBER GOVERNMENT/TITLE</b>
Billy Moore	Chairman	McKinley County - Citizen Appointee
GloJean Todacheene	1st Vice-Chair	San Juan County - Commissioner
Lloyd Felipe	2nd Vice-Chair	Cibola County - Commissioner
Louie Bonaguidi	Board Treasurer	City of Gallup - Citizen Appointee
Dr. William Hall	Immediate Past Chair	City of Farmington - Citizen Appointee
Jeff Kiely	Board Secretary ( <i>ex officio</i> )	Northwest NM Council of Governments
Sally Burbridge	Member	City of Aztec - Mayor
Teresa Brevik	Member	City of Bloomfield - Projects Director
Keith Johns	Member	San Juan County - 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
Ruben Sandoval	Member	City of Grants - Councilor
Michael Lewis	Member	City of Grants - Councilor
Pat Simpson	Member	Cibola County - Commissioner
George Knotts	Member	Village of Milan - Mayor
<b>Administrative Officers</b>		
Jeff Kiely, Executive Director		
Evan Williams, Deputy Director		

## Independent Auditors' Report

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the budgetary comparison for the general fund of the Northwest New Mexico Council of Governments (the "Council"), as of and for the year ended June 30, 2014 and the related notes to the 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.

### **Auditor's 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 auditor's 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, the business-type activities and each major fund of the Council as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general 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 4-12 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2015, 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 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 the Council's internal control over financial reporting and compliance.

Loftis Group LLC

Albuquerque, New Mexico  
April 1, 2015

**Northwest New Mexico  
Council of Governments  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

This section of the financial report presents a discussion and analysis of the Northwest New Mexico Council of Governments (the "Council") financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the Council's financial statements, which follow this section.

The Management's Discussion and Analysis and the accompanying financial statements cover all activities of the Council.

### **Financial Highlights**

- ◆ During fiscal year 2014, the Council's total net position decreased approximately \$63,000 to approximately \$615,000. The net position of the governmental activities decreased approximately \$51,000 to approximately \$302,000 at June 30, 2014, while net position of the business-type activities decreased approximately \$12,000 to approximately \$313,000 at June 30, 2014.
- ◆ Expenses of the Council's governmental activities were \$734,444 for 2014, a decrease of approximately \$750,000 from 2013 expenses all of which was for regional community development. The decrease is primarily attributable to the U.S Environmental Protection Agency Brownfields Assessment grant that was completed in 2013 and which accounted for approximately \$641,000 of prior year expenses.
- ◆ Overall, the Council's financial condition deteriorated during fiscal year 2014.

### **Overview of Financial Statements**

This annual report consists of two parts:

1. Management's discussion and analysis (this section).
2. The basic financial statements.

The basic financial statements include two kinds of statements that present different views of the Council. The first two statements, the statement of net position and the statement of activities, are Council-wide financial statements that provide both long-term and short-term information about the Council's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Council, reporting operations in more detail than the Council-wide statements. The fund financial statements include the following:

**Northwest New Mexico  
Council of Governments  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

- ◆ Governmental fund financial statements tell how the Council's regional community development activities were financed in the short-term as well as what remains for future spending.
- ◆ Proprietary fund financial statements that offer short and long-term financial information on the Council's Enterprise Loan Fund enterprise.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail. The statements are followed by a section of required supplementary information that compares budget and actual activities for the Council's general fund.

### **Council-wide Statements**

The Council-wide financial statements are designed to provide readers with a broad overview of the Council's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Council's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position serves as a useful indicator of whether the financial position of the Council is improving or deteriorating.

The statement of activities presents information showing how the Council's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. accrued vacation leave)

In the statement of net position and the statement of activities, we divide the Council into two kinds of activities:

- ◆ *Governmental Activities* – The Council's regional community development activities are reported here. These activities are financed primarily through federal, state and local grants, and membership dues.
- ◆ *Business-Type Activities* – Include the Council's Enterprise Loan Fund enterprise.



**Northwest New Mexico  
Council of Governments  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds, not the Council as a whole. Separate funds are established by the Council to help control and manage revenues and expenditures for particular purposes or to show that it is meeting legal responsibilities for using certain grants and other money. The two fund types, governmental and proprietary, use different accounting approaches:

- ◆ *Governmental Funds* – Most of the Council's services are reported in governmental funds. Governmental funds focus on how cash and other financial assets flow in and out, and the balances left at year-end are available for spending. Consequently, the governmental funds provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Council's programs. Because this information does not encompass the additional long-term focus of the Council-wide statements, we provide additional information at the bottom of the governmental funds balance sheet, or on a subsequent page, that explains the relationship (or differences) between the amounts reported in the statement of net assets and the statement of activities and the governmental funds statements.
  
- ◆ *Proprietary Funds* – When the Council charges customers for the services it provides these services are generally reported in proprietary funds, which are reported the same way that all activities are reported in the statement of net assets and the statement of activities. In fact, the proprietary funds present the same information as the business-type activities reported in the Council-wide statements but provide more detail and additional information, such as cash flows.

**Northwest New Mexico  
Council of Governments**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014

**Financial Analysis of the Council as a Whole**

*Net position.* As of June 30, 2014, the Council's total net position decreased \$63,000. During the year ended June 30, 2014, current assets increased due to the write-off of uncollectible receivables. Table 1 summarizes the Council's net position of its governmental and business-type activities.

**Table 1  
The Council's Net Position  
As of June 30, 2014**

	Governmental Activities		Business-Type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 119,060	\$ 191,692	\$ 321,894	\$ 332,599	\$ 440,954	\$ 524,291
Capital assets	<u>307,579</u>	<u>317,948</u>	<u>-</u>	<u>-</u>	<u>307,579</u>	<u>317,948</u>
<b>Total assets</b>	<u><b>426,639</b></u>	<u>509,640</u>	<u><b>321,894</b></u>	<u>332,599</u>	<u><b>748,533</b></u>	<u>842,239</u>
Current and other liabilities	<b>104,849</b>	139,778	<b>8,784</b>	7,628	<b>113,633</b>	147,406
Long-term liabilities	<u>19,953</u>	<u>17,375</u>	<u>-</u>	<u>-</u>	<u>19,953</u>	<u>17,375</u>
<b>Total liabilities</b>	<u><b>124,802</b></u>	<u>157,153</u>	<u><b>8,784</b></u>	<u>7,628</u>	<u><b>133,586</b></u>	<u>164,781</u>
Net position						
Net investment in capital assets	<b>307,579</b>	317,948	-	-	<b>\$ 307,579</b>	317,948
Restricted	-	-	<b>313,110</b>	324,971	<b>313,110</b>	324,971
Unrestricted	<u>(5,742)</u>	<u>34,539</u>	<u>-</u>	<u>-</u>	<u>(5,742)</u>	<u>34,539</u>
<b>Total net position</b>	<u><b>\$ 301,837</b></u>	<u>\$ 352,487</u>	<u><b>313,110</b></u>	<u>324,971</u>	<u><b>\$ 614,947</b></u>	<u>677,458</u>

**Northwest New Mexico  
Council of Governments  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

*Change in Net Position.* Total revenues for 2014 and 2013 were approximately \$686,000 and \$1.5 million compared with expenditures of approximately \$749,000 and \$1.5 million, respectively. The decrease in revenues and expenditures is due primarily to a decrease in federal grant expenditures and revenues. The U.S. EPA Brownfields Assessment grant was completed in fiscal year 2013 and whose expenditures were approximately \$641,000. Table 2 summarizes the Council's change in net position for its governmental and business-type activities:

**Table 2  
Changes in the Council's Net Position  
For the Years Ended June 30,**

	Governmental Activities		Business-Type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Program revenues						
Operating grants and contributions	\$ 422,920	\$1,212,653	\$ -	\$ -	\$ 422,920	\$1,212,653
Capital grants and contributions	6,000	-	-	-	6,000	-
Charges for services	251,500	266,500	2,328	-	253,828	266,500
General revenues						
Interest income	5	11	-	6,543	5	6,554
Other	3,368	5,478	-	75	3,368	5,553
Total revenues	<u>683,793</u>	<u>1,484,642</u>	<u>2,328</u>	<u>6,618</u>	<u>686,121</u>	<u>1,491,260</u>
Expenses						
Regional community development	734,444	1,484,533	-	-	734,444	1,484,533
Enterprise loan fund	-	-	14,189	3,568	14,189	3,568
Total expenses	<u>734,444</u>	<u>1,484,533</u>	<u>14,189</u>	<u>3,568</u>	<u>748,633</u>	<u>1,488,101</u>
Change in net position	(50,651)	109	(11,861)	3,050	(62,512)	3,159
Net position, beginning of year, as restated	<u>352,488</u>	<u>352,378</u>	<u>324,971</u>	<u>321,921</u>	<u>677,459</u>	<u>674,299</u>
Net position, end of year	<u>\$ 301,837</u>	<u>\$ 352,487</u>	<u>\$ 313,110</u>	<u>\$ 324,971</u>	<u>\$ 614,947</u>	<u>\$ 677,458</u>

**Northwest New Mexico  
Council of Governments  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

***Governmental activities***

Spending for governmental activities was approximately \$734,000 and \$1.5 million for 2014 and 2013, respectively, which was offset by approximately \$684,000 and \$1.5 million in revenues primarily from grants and contracts and membership dues. The decrease in expenses and revenues is mainly due to less grant monies being spent as the U.S. EPA Brownfields grant was completed in 2013 and accounted for approximately \$641,000 in expenditures.

***Business-type activities***

Spending for business-type activities was approximately \$14,000 and \$4,000 for 2014 and 2013, respectively, which was offset by approximately \$2,300 and \$6,600 of revenues in each year for charges for services. The increase in expenses is mainly due to an increase in the loan loss provision and the decrease in revenues is mainly due to a decrease in loan interest income received.

**Financial Analysis of the Council's Funds**

The general fund is the chief operating fund of the Council. During the year ended June 30, 2014, the general fund's fund balance decreased approximately \$37,000 to approximately \$21,000.

Substantially all of the Council's proprietary fund net position is restricted for economic development activities. Net position of the proprietary fund decreased approximately \$12,000 to \$313,000 at June 30, 2014 and primarily due to loan write-offs and decreased loan interest income.

**General Fund Budgetary Highlights**

General fund budgeted revenues exceeded actual revenues by approximately \$42,000. General fund expenditures exceeded budgeted expenditures by approximately \$9,000.

**Capital Assets**

As of June 30, 2014, governmental activities had net capital assets of approximately \$308,000 while business-type activities capital assets had become fully depreciated in prior years. Significant additions during 2014 consisted of software development costs. Additional details for capital assets can be found in the notes to the financial statements.

**Northwest New Mexico  
Council of Governments  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Economic Factors and Next Year's Activities**

For the coming fiscal year, we anticipate further reductions in the overall budget of the organization, owing to the expiration of current grants and contracts, with no other certain prospects in place to replace those sources. However, that portion of the budget committed to staffing and day-to-day operations should remain relatively stable. Other factors and specific trends are outlined here below:

- ◆ Membership: Membership dues should continue at similar levels in the coming couple of years to those realized in fiscal year 2014, still topping out at a total that is about 20% below pre-recession levels. Stresses on the budgets of local government members remain similar to those experienced in the past couple of years, i.e.: decreases in state and federal funding, uncertainties in local gross receipt tax revenue, including projected decreases that would result from the progressive phasing out of the “hold harmless” compensations to local governments related to elimination of the food tax, and volatility in the region’s traditional industries.
- ◆ State Grant-in-Aid: The annual appropriations 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 fiscal year 2015 and proposed for fiscal year 2016. The New Mexico Association of Regional Councils (NewMARC) continues to pursue additional funding relationships with State agencies going forward, and there is current legislation proposed to add appropriations to the regional planning councils (variously estimated at \$14,000 to \$50,000 per Council, but with a chance that the proposed appropriation will fail) for coordination of data and development of local capacity for project development.
- ◆ U.S. Economic Development Administration: Funding for the annual grant from the Economic Development Administration (EDA) of the US Department of Commerce, administered under three-year grant agreements, continued at \$60,000 per year and proposals are being debated in the US Congress that would increase nationwide funding for planning and technical assistance grants to Economic Development Districts (which is a designation enjoyed by Northwest New Mexico Council). The Council provides a 25% match of this annual allocation. The existing three-year agreement in place has a start date of January 1, 2015 and is set to run through December 31, 2017. Annual renewal is assumed within the agreement, but may be subject to certain factors, including (a) Congressional reauthorization of and appropriations to the EDA and (b) EDA compliance and peer reviews. The Council again participated in a program evaluation process in November 2014, organized as a peer exchange involving 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 and Analysis  
For the Year Ended June 30, 2014**

*Economic Factors and Next Year's Activities-continued*

The Council's Executive Director serves on the Peer Review Committee of the Southwest Region Executive Director's Association, which organizes the evaluation and peer process under contract from the EDA regional office in Audits, TX.

- ◆ New Mexico Department of Transportation Regional Transportation Planning (NMDOT): The Council's annual contract from the NMDOT for management of the Northwest Regional Transportation Planning Organization (NWRTPO) is administered under three-year agreements. Funding for this agreement was increased by about \$20,000 to \$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 NMDOT remain strong, and this year the Council again received very positive feedback from NMDOT's program audit. NMDOT further invested in the Council with \$120,000 in separate funding in fiscal year 2015 for the "Four Corners Integrated Transportation Equinox" (4CITE) study on road infrastructure systems supporting economic development in the Gallup metro area, matched by \$30,000 contributed by local participating entities.

Initiatives to grow the budget in fiscal years 2015 and 2016 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 U.S. 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, which can serve as an implementation avenue for various initiatives while at the same time diversifying funding into the Council; and

**Northwest New Mexico  
Council of Governments  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

*Economic Factors and Next Year's Activities-continued*

- 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.

**Request for Information**

This financial report is designed to provide a general overview of the Council's finances and demonstrate its accountability for funds received. If you have questions about this report or need additional financial information contact the Council at the following address:

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

## **Financial Statements**



**Northwest New Mexico  
Council of Governments**  
Statement of Net Position  
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 10,602	\$ -	\$ 10,602
Cash restricted for loan programs	-	286,584	286,584
Receivables, net	99,674	-	99,674
Due from Enterprise Loan Fund	8,784	-	8,784
Loans receivable, net	-	35,310	35,310
Total current assets	<u>119,060</u>	<u>321,894</u>	<u>440,954</u>
Noncurrent assets			
Capital assets	580,606	-	580,606
Less accumulated depreciation	<u>(273,027)</u>	<u>-</u>	<u>(273,027)</u>
Total noncurrent assets	<u>307,579</u>	<u>-</u>	<u>307,579</u>
Total assets	<u>\$ 426,639</u>	<u>\$ 321,894</u>	<u>\$ 748,533</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 79,366	\$ -	\$ 79,366
Accrued payroll liabilities	18,472	-	18,472
Compensated absences	7,011	-	7,011
Due to general fund	-	8,784	8,784
Total current liabilities	<u>104,849</u>	<u>8,784</u>	<u>113,633</u>
Noncurrent liabilities			
Compensated absences	<u>19,953</u>	<u>-</u>	<u>19,953</u>
Total noncurrent liabilities	<u>19,953</u>	<u>-</u>	<u>19,953</u>
Total liabilities	<u>\$ 124,802</u>	<u>\$ 8,784</u>	<u>\$ 133,586</u>
<b>Net position</b>			
Net investment in capital assets	\$ 307,579	\$ -	\$ 307,579
Restricted	-	313,110	313,110
Unrestricted	<u>(5,742)</u>	<u>-</u>	<u>(5,742)</u>
Total net position	<u>\$ 301,837</u>	<u>\$ 313,110</u>	<u>\$ 614,947</u>

The accompanying notes are an integral part of these financial statements.

**Northwest New Mexico  
Council of Governments  
Statement of Activities  
For the Year Ended June 30, 2014**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>							
Governmental activities							
General government	\$ 734,444	\$ 251,500	\$ 422,920	\$ 6,000	\$ (54,024)		\$ (54,024)
Total governmental activities	<u>734,444</u>	<u>251,500</u>	<u>422,920</u>	<u>6,000</u>	<u>(54,024)</u>		<u>(54,024)</u>
Business-type activities							
Enterprise loan fund	14,189	2,328	-	-	-	(11,861)	(11,861)
Total business-type activities	<u>14,189</u>	<u>2,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,861)</u>	<u>(11,861)</u>
Total	<u>\$ 748,633</u>	<u>\$ 253,828</u>	<u>\$ 422,920</u>	<u>\$ 6,000</u>	<u>(54,024)</u>	<u>(11,861)</u>	<u>(65,885)</u>
General revenues:							
Interest					5	-	5
Miscellaneous income					3,368	-	3,368
Total general revenues					<u>3,373</u>	<u>-</u>	<u>3,373</u>
Changes in net position					(50,651)	(11,861)	(62,512)
Net position—beginning of year, as restated (Note 19)					<u>352,488</u>	<u>324,971</u>	<u>677,459</u>
<b>Net position—end of year</b>					<u>\$ 301,837</u>	<u>\$ 313,110</u>	<u>\$ 614,947</u>

The accompanying notes are an integral part of these financials statements.

## **Fund Financial Statements**

**Northwest New Mexico  
Council of Governments  
Balance Sheet  
Governmental Fund  
June 30, 2014**

	<u>General Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 10,602
Grants receivable	99,674
Due from enterprise loan fund	8,784
Total assets	<u>\$ 119,060</u>
<b>Liabilities and Fund Balances</b>	
Liabilities	
Accounts payable	\$ 79,366
Accrued payroll liabilities	18,472
Total liabilities	<u>97,838</u>
Fund balance	
Unassigned	<u>21,222</u>
Total fund balance	<u>21,222</u>
Total liabilities and fund balance	<u>\$ 119,060</u>
<b>Fund Balance - Governmental Fund</b>	<b>\$ 21,222</b>
<p>Amounts reported for governmental activities in the statement of net position are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>	
	307,579
<p>Some liabilities, listed below, are not due and payable in the current period and, therefore, are not reported in the funds</p>	
Compensated absences	<u>(26,964)</u>
<b>Net position of governmental activities</b>	<b><u>\$ 301,837</u></b>

The accompanying notes are an integral part of these financial statements.

**Northwest New Mexico  
Council of Governments**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**For the Year Ended June 30, 2014**

	General Fund
<b>Revenues</b>	
Federal grants and contracts	\$ 195,295
State and local grants and contributions	233,625
Membership dues	251,500
Interest income	5
Miscellaneous income	3,368
Total revenue	683,793
<b>Expenditures</b>	
General government	708,591
Capital outlay	12,000
Total expenditures	720,591
Net change in fund balance	(36,798)
Fund balance, beginning of year, as restated (note 19)	58,020
<b>Fund balance</b> , end of year	<b>\$ 21,222</b>
<b>Net change in fund balances - governmental fund</b>	<b>(36,798)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay	12,000
Depreciation expense	(22,369)
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:	
Current year increase uncompensated absences	(3,484)
<b>Change in net position of governmental activities</b>	<b>\$ (50,651)</b>

The accompanying notes are an integral part of these financial statements.

**Northwest New Mexico  
Council of Governments**  
Statement of Net Position  
Proprietary Fund  
June 30, 2014

	<u>Enterprise Loan Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 286,584
Loans receivable, net	<u>35,310</u>
Total assets	<u><u>\$ 321,894</u></u>
<b>Liabilities and Net Position</b>	
Liabilities	
Due to other funds	<u>\$ 8,784</u>
Total liabilities	<u>8,784</u>
Net Position	
Restricted for economic development	<u>313,110</u>
Total net position	<u>313,110</u>
Total liabilities and net position	<u><u>\$ 321,894</u></u>

The accompanying notes are an integral part of these financial statements.

**Northwest New Mexico  
Council of Governments**  
Statement of Revenues, Expenses and Changes in Fund Net Position -  
Proprietary Fund  
For the Year Ended June 30, 2014

	Enterprise Loan Fund
<b>Operating Revenues</b>	
Interest income	\$ 2,303
Miscellaneous income	25
Total operating revenues	2,328
<b>Operating Expenses</b>	
Personnel and fringe	1,157
Bad debt	13,032
Total operating expenses	14,189
Operating loss	(11,861)
Net position, beginning of year, as restated (Note 19)	324,971
<b>Net position, end of year</b>	<b>\$ 313,110</b>

The accompanying notes are an integral part of these financial statements.

**Northwest New Mexico  
Council of Governments  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2014**

	<u>Enterprise Loan Fund</u>
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 11,618
Net cash provided by operating activities	<u>11,618</u>
Net increase in cash and cash equivalents	11,618
Cash and cash equivalents, beginning of year	<u>274,966</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 286,584</u></b>
 <b>Reconciliation of operating loss to net cash provided by operating activities</b>	
Operating loss	<u>\$ (11,861)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities	
Provision for loan losses	13,032
Change in assets and liabilities	
Loans receivable	9,291
Due to other funds	<u>1,156</u>
Total adjustments	<u>23,479</u>
Net cash provided by operating activities	<u>\$ 11,618</u>

The accompanying notes are an integral part of these financial statements.



**Northwest New Mexico  
Council of Governments**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – General Fund**  
**For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Grants and contracts	\$ 379,403	\$ 438,886	\$ 428,920	\$ (9,966)
Membership dues	251,500	251,500	251,500	-
Interest	-	4	5	1
Miscellaneous income	29,400	35,707	3,368	(32,339)
Total revenues	<u>660,303</u>	<u>726,097</u>	<u>683,793</u>	<u>(42,304)</u>
<b>Expenditures</b>				
General government	660,303	711,157	708,591	2,566
Capital outlay	-	-	12,000	(12,000)
Total expenditures	<u>660,303</u>	<u>711,157</u>	<u>720,591</u>	<u>(9,434)</u>
Revenues over/(under) expenditures	-	14,940	(36,798)	(51,738)
Fund balance, beginning of year	<u>58,020</u>	<u>58,020</u>	<u>58,020</u>	
Fund balance, end of year	<u>\$ 58,020</u>	<u>\$ 72,960</u>	<u>\$ 21,222</u>	

The accompanying notes are an integral part of these financial statements.

**Northwest New Mexico  
Council of Governments**  
Notes to Financial Statements  
June 30, 2014

**1) Summary of Significant Accounting Policies**

Reporting Entity

The Northwest New Mexico Council of Governments (the “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. For the fiscal year ended June 30, 2014, 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.

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

1) Summary of Significant Accounting Policies – continued

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, 2014.

Accounting Standards

The financial statements of the Council conform with generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute GAAP for governments and their enterprises.

**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.

**Basis of Accounting**

Council-wide Financial Statements

The Council-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 Council-wide statements and the governmental fund statements. The Council-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 Council-wide financial statements.

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

1) Summary of Significant Accounting Policies – continued

Net Position Restricted by Enabling Legislation — Council-wide

Net position in the Council-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.”

Fund Financial Statements

The fund financial statements provide information about the Council’s funds. Separate statements for each fund category-governmental and proprietary-are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. The Council’s sole governmental fund is its general fund.

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

1) Summary of Significant Accounting Policies – continued

The Council's major, and only, enterprise fund is as follows:

- *Enterprise Loan Fund* – makes loans to new and growing businesses through “gap” or “bridge” financing. It is the intent of this fund to fill the gap in financing, by partnering with a bank or other lending agency.

The Council-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place.

Proprietary fund *operating* revenues result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. *Operating* expenses of proprietary funds include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as *nonoperating* revenues and expenses.

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.

**Northwest New Mexico  
Council of Governments**  
Notes to Financial Statements  
June 30, 2014

1) Summary of Significant Accounting Policies – continued

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) are legally or contractually required to be maintained intact;

*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 a specific purpose(s); and

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

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

1) Summary of Significant Accounting Policies – continued

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:

<u>Assets</u>	<u>Years</u>
Leasehold improvements	Life of the lease
Furniture and equipment	5
Software	5
Vehicles	5

Budgets

An annual operating budget is prepared by the Council staff for the general and proprietary funds after the New Mexico Department of Finance and Administration (DFA) 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 and certified by DFA with respect to the budget and work program under the State Grant in Aid funding. The Council's Board of Directors exercises budgetary control at the fund level for capital outlay and all other operations. Subsequent budget adjustments must be approved by the governing board of the Council but are not subject to approval 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.

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

1) Summary of Significant Accounting Policies – continued

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 general fund 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 Position.

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 Financial Statements  
June 30, 2014

1) Summary of Significant Accounting Policies – continued

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.

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 did not have any special revenue funds during fiscal year 2014.

The following are the grant and contract programs included in the General Fund during fiscal year 2014:

**Federal Grants and Contracts**

*EDA/Planning and Technical Assistance* — A multi-year grant from the Economic Development Administration (EDA) of the U.S. 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 significant downsizing disaster designations, base realignments or closures, or any other

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

2) Key programs of the Council – continued

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.

**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.

**Northwest New Mexico  
Council of Governments**  
Notes to Financial Statements  
June 30, 2014

2) Key programs of the Council – continued

*WWKF: NMIF* – An agreement with New Mexico Community Capital (NMCC) to provide resources to perform tasks on projects directed by the NMCC. Tasks include but not limited to establishing a micro-enterprise incubator program for Navajo Artisans and micro-entrepreneurs with a particular focus on women entrepreneurs.

*NCNMEDD: Panoramic* – An agreement with North Central New Mexico Economic Development District (NCNMEDD) for the purpose of providing design and implementation of a pilot website constructed by Paladin Data Systems Corporation utilizing its proprietary Panoramic web-based project collaboration, mapping and tracking software technology, with specific inclusion of the capability for the NCNMEDD to organize, track and monitor project data for Aging & Long Term Services, Transportation and other capital outlay in its capacity as the Area Agency on Aging (AAA), Economic Development District and Regional Planning Organization (RPO) administrator.

*GGEDC: UNMG* – An agreement with Greater Gallup Economic Development Corporation to facilitate and provide technical support to the “Energizing the Workforce” initiative enabled by Memorandum of Understanding between Greater Gallup Economic Development Corp, Associated General Contracts, and the University of New Mexico-Gallup Campus.

*JP&D* – An agreement between Joyce Planning and Development (Joyce Planning) and the Council in which the Council is to provide facilitation, documentation and writing services, and produce an implementation strategy for RMCHCS to meet the U.S. Internal Revenue Service (IRS) requirements for a tax-exempt hospital in accordance with IRS Reg-106499-12.

*McK/BOR-RWS* – An 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/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.

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

2) Key programs of the Council – continued

**Enterprise Loan Fund**

The Council administers the Enterprise Loan Fund (the “ELF”), which makes loans to new and growing businesses through “gap” or “bridge” financing. It is the intent of this fund to fill the gap in financing, by partnering with a bank or other lending agency. Typically, the ELF program can lend up to 50 percent of the total project cost and cannot exceed \$150,000. Average loans are \$38,000. Job creation is the primary goal of the ELF with a target of one job created or saved for every \$25,000 borrowed.

3) **Cash Balances**

In accordance with Section 6-10-17, NMSA 1978 Compilation, deposits of public money are required to be collateralized 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 Federal Deposit Insurance Corporation (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 a bank failure, the Council's deposits may not be returned to it. The Council's deposit policy is to collateralize one-half of the uninsured public money amount in each account.

**Northwest New Mexico  
Council of Governments**  
Notes to Financial Statements  
June 30, 2014

3) Cash Balances - continued

<u>Pinnacle Bank</u>	<u>Type</u>	<u>Balance Per Bank 6/30/2014</u>	<u>Balance Per Books 6/30/2014</u>
General fund	Checking	\$ 21,823	\$ -
General fund	Savings	10,602	10,602
Enterprise loan fund - revolving loan fund	Checking	128,811	128,811
Enterprise loan fund - forest service loan fund	Checking	62,316	62,316
Enterprise loan fund - sequestered	Checking	<u>95,457</u>	<u>95,457</u>
Total cash in banks		<u>\$ 319,009</u>	<u>\$ 297,186</u>

As reported in the financial statements:

Cash	\$ 10,602
Restricted cash	<u>286,584</u>
	<u>\$ 297,186</u>

<u>Pledged Collateral at Banks</u>	<u>Pinnacle Bank</u>
Deposits	\$ 319,009
Less FDIC coverage	<u>(250,000)</u>
Total uninsured public funds	<u>69,009</u>
50% collateral requirement	34,505

<u>Collateral Pledged</u>	
Zuni NM Public: Cusip 98981 RAHO maturing 8/1/2019; security interest rate of 4%	<u>144,333</u>
Over(under) collateralized	<u>\$ 109,828</u>

**Northwest New Mexico  
Council of Governments**  
Notes to Financial Statements  
June 30, 2014

**4) Grants receivable**

Grant receivable balances at June 30, 2014, are composed of the following:

	Grants Receivable
U.S. Department of Commerce	\$ 15,000
Regional Planning Organization	20,210
State of New Mexico Local Government Division	23,936
U.S. Department of Agriculture	40,000
New Mexico State University	528
Total	\$ 99,674

**5) Loans Receivables**

Loans receivable in the Enterprise Loan Fund as of June 30, 2014 consist of five loans made through the Revolving Loan Fund loan program for business and job creation in the tri-county region of Cibola County, San Juan County, and McKinley County.

	Enterprise Loan Fund
Loans receivable	\$ 151,998
Less allowance	(116,688)
Loans receivable, net	\$ 35,310

The following is the breakdown of the interest receivable as of June 30, 2014:

Interest receivable	\$ 7,552
Less allowance	(7,552)
Interest receivable, net	\$ -

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

**6) Capital Assets**

A summary of changes in capital assets for governmental activities during the year ended June 30, 2014, are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities</i>				
Capital assets not being depreciated				
Software development in progress	\$ -	\$ 12,000	\$ -	\$ 12,000
Total capital assets not being depreciated	<u>-</u>	<u>12,000</u>	<u>-</u>	<u>12,000</u>
Capital assets being depreciated				
Leasehold improvements	478,087	-	-	478,087
Furniture & fixtures	24,759	-	-	24,759
Software	30,496	-	-	30,496
Vehicles	<u>35,264</u>	<u>-</u>	<u>-</u>	<u>35,264</u>
Total capital assets being depreciated	<u>568,606</u>	<u>-</u>	<u>-</u>	<u>568,606</u>
Less accumulated depreciation for				
Leasehold improvements	160,139	22,369	-	182,508
Furniture & fixtures	24,759	-	-	24,759
Software	30,496	-	-	30,496
Vehicles	<u>35,264</u>	<u>-</u>	<u>-</u>	<u>35,264</u>
Total accumulated depreciation	<u>250,658</u>	<u>22,369</u>	<u>-</u>	<u>273,027</u>
Capital assets, net	<u>\$ 317,948</u>	<u>\$ (10,369)</u>	<u>\$ -</u>	<u>\$ 307,579</u>

Depreciation expense of \$22,369 was allocated to the general government function in the Council-wide statement of activities, which is the Council's only governmental activity function.

Business-type activities capital assets is made up of a software program with an acquisition cost of \$4,178 that became fully depreciated in a prior fiscal year. There was no business-type capital asset activity during the year ended June 30, 2014.

**Northwest New Mexico  
Council of Governments**  
Notes to Financial Statements  
June 30, 2014

**7) Accounts Payable and Accrued Liabilities**

A summary of accounts payable and accrued liabilities at June 30, 2014, is as follows:

	Vendors	Salaries and Benefits	Total
<i>Governmental activities</i>			
General fund	\$ 79,366	\$ 18,472	\$ 97,838
Total government activities	\$ 79,366	\$ 18,472	\$ 97,838

**8) Compensated Absences**

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 Council-wide financial statements. These liabilities are allocated to the general fund and the enterprise loan 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 of 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.



**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

8) **Compensated Absences - continued**

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 23,480	\$ 33,524	\$ 30,040	\$ 26,964	\$ 7,011
Total long-term liabilities	<u>\$ 23,480</u>	<u>\$ 33,524</u>	<u>\$ 30,040</u>	<u>\$ 26,964</u>	<u>\$ 7,011</u>

9) **Restricted Net Position – Enterprise Loan Fund**

The Enterprise Loan Fund’s restricted net position of \$313,110 at June 30, 2014 is restricted for economic development activity (i.e. loan programs) as a result of agreements with the granting organizations.

10) **Membership Dues**

Membership dues consist of annual assessments to member organizations. Membership dues are determined by a formula established by the Council based on membership level.

11) **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 June 30, 2015. Monthly payments under this lease are \$125 per month.

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

11) Lease Commitments - continued

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>Year ending June 30,</u>		
2015	\$	5,928
2016		2,470
	\$	<u>8,398</u>

Total lease expense for the year ended June 30, 2014 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.

12) **Pension Plan - Public Employees Retirement Association**

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>.

**Northwest New Mexico  
Council of Governments**  
Notes to Financial Statements  
June 30, 2014

12) Pension Plan - Public Employees Retirement Association - continued

Funding Policy

Plan members are required to contribute 10.65% 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, 2014, 2013, and 2012 were \$31,446, \$26,188, and \$27,636 respectively, which equal the amount of the required contributions for each fiscal year.

**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, 2014, 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, 2014, \$8,784 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, 2014.

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

**16) Related Party Transaction**

The by-laws of the 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, 2014 was \$251,500.

**17) Other Required Individual Fund Disclosures**

There were no funds in a deficit fund balance position as of June 30, 2014. The general fund exceeded its final approved budgeted expenditure amount of \$711,157 by \$9,434.

**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 April 1, 2015, which is the date the financial statements were available to be issued.

**Northwest New Mexico  
Council of Governments  
Notes to Financial Statements  
June 30, 2014**

**19) Restatement of Prior Balances and Fund Changes**

In fiscal year 2013 the Council reported the Enterprise Loan Fund as a governmental fund. Beginning in fiscal year 2014, the Council decided it was more appropriate to report this fund as a major proprietary fund. The funds activities are “business-like” and its transactions, since the fund’s inception, have been recorded on a full-accrual basis. As a result, previously reported 2013 fund balances/net position in the governmental activities, governmental funds, business-type activities and proprietary fund have been restated from amounts previously reported as follows:

	Governmental Funds	Proprietary Fund	Governmental Activities	Business-type Activities
Beginning fund balance/net position, as previously reported	\$ 382,991	\$ -	\$ 677,458	\$ -
Adjustment to properly reflect fund change	<u>(324,971)</u>	<u>324,971</u>	<u>(324,971)</u>	<u>324,971</u>
Beginning fund balance/net position, as restated	<u>\$ 58,020</u>	<u>\$ 324,971</u>	<u>\$ 352,487</u>	<u>\$ 324,971</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. Timothy Keller, 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, the business-type activities, each major fund, and the budgetary comparison of the general fund of the Northwest New Mexico Council of Governments (the "Council") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements and have issued our report thereon dated April 1, 2015.

**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.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies. 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. We consider the deficiency described in the accompanying schedule of findings and responses as item FS 2014-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS 2014-002 and FS 2014-003 to be significant deficiencies.

### **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 is described in the accompanying schedule of findings and responses as items FS 2014-002 and FS 2014-004.

### **The Council's Response to Findings**

The Council's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Council's responses were 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.

Loftis Group <sup>uc</sup>

Albuquerque, New Mexico  
April 1, 2015

**Northwest New Mexico  
Council of Governments  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2014**

**Section I - Status of Prior Year Audit Findings**

13-01 Controls Over Reimbursements Repeated and Modified. See FS 2014-002.



**Northwest New Mexico  
Council of Governments  
Schedule of Findings and Responses  
For the Year Ended June 30, 2014**

**Section II — Financial Statement Findings**

**FS 2014-001 – Financial Statement Preparation – Material Weakness**

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*Condition:* During fieldwork it became clear that the trial balance was not ready for audit. The Council had to contract with a Certified Public Accountant to assist them with account reconciliations and as a result many significant adjusting journal entries were required after the accounting records were closed for the year ended June 30, 2014. Eleven audit adjustments were needed to correct Council accounts and ranging from approximately \$1,600 to \$129,000. Several accounts required extensive analysis and correcting journal entries. Cash, loan and other receivables, unearned revenue, accounts payable, accrued liabilities and fund balance/net position required correcting adjustments. Additionally, various reclass entries were required to move revenue to the proper revenue account and fund. It was also noted that fiscal year 2013 was not closed out properly in the accounting system which contributed to the reconciliation issues. The Council does not have adequate internal controls designed to provide for the complete preparation of the financial statements and accompanying footnotes under audit. Subsidiary report balances differed materially from the amounts recorded on the general ledger.

*Criteria:* An accounting system should provide timely and accurate information for management. To achieve this, accounting personnel must periodically reconcile general ledger accounts to sub-ledgers and other supporting documents. The Council's internal control system should be designed to provide the complete preparation of the Council's financial statements and accompanying footnotes under audit.

*Effect:* Financial information provided to management and the Board may not be accurate. Also, the probability that errors will occur and go undetected is greatly increased. The auditors were not able to rely on the Council's trial balance due to the condition stated above.

*Cause:* The Council does not have adequate internal controls designed to provide for the complete preparation of the financial statements and accompanying footnotes under audit. The Council's current general ledger account reconciliation process does not include the reconciliation of several significant account balances.

*Auditors' Recommendation:* Implement procedures to review the trial balance after recording prior year adjusting journal entries and reconcile it to ensure accuracy. The Council should hire a qualified Certified Public Accountant to assist with the accounting records to ensure all significant balance sheet accounts are reconciled monthly and to establish a schedule for reconciliation and monitoring of account activity, including the preparation of schedules and account reconciliations needed to prepare the Council's financial statements and accompanying footnotes.

**Northwest New Mexico  
Council of Governments**  
Schedule of Findings and Responses — continued  
For the Year Ended June 30, 2014

**Section II — Financial Statement Findings**

**FS 2014-001 – Financial Statement Preparation Material Weakness - continued**

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*Management's Response:* The Council acknowledges that its books for fiscal year 2014 were not ready for audit at the time of the auditors field work in October 2014. The Council retained a certified public accountant to assist with preparation of the trial balance for audit. Council has acted to retain CPA counsel, to include periodic review and reconciliation of accounting records to ensure ongoing accurate reporting to management and the Board. In addition, Council staff and Board are researching software alternatives to determine whether an accounting system change is called for to better meet the needs of the Council.

**Northwest New Mexico  
Council of Governments**  
Schedule of Findings and Responses — continued  
For the Year Ended June 30, 2014

**Section II — Financial Statement Findings**

**FS 2014-002 – Credit Card Charges Supporting Documentation and Personal Use  
– Significant Deficiency and Noncompliance**

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*Condition:* In testing the propriety of credit card charges, we found that many of the credit card purchases charged to various expenditure accounts were not supported by itemized receipts or other documentation necessary to determine the nature and propriety of the charge. We also noted two transactions that were personal charges and that personal charges are not always paid back timely. Per review of four months of credit card statements we noted 10 transactions totaling approximately \$975 for which receipts were either not available or were not itemized.

*Criteria:* Support for credit card charges should include detailed receipts and other documentation necessary to substantiate the business purpose of the charge. All charges appearing on monthly billing statements from credit card companies should be agreed to the supporting receipts and other documentation to determine propriety and proper account coding.

*Effect:* The Council may be paying for credit card charges that are not for prudent business purposes of the Council and its funders.

*Cause:* A policy or administrative requirement requiring itemized credit card receipts and other support to be submitted to the accounting department to support the credit card charges and that prohibits credit card use for personal charges has not been implemented.

*Auditors' Recommendation:* Require itemized receipts and other documentation supporting the business purpose of each credit card transaction to be submitted to the accounting department. Accounting personnel should use such information to audit credit card statements to assure that all charges are for valid business purposes of the Council. All unsupported charges should be recorded as receivables from the card user and deducted from their paychecks timely. Unsupported or unauthorized credit card charges that are not reimbursed by Council employees should be reported as income on annual employee W-2 forms submitted to the IRS. A policy strictly prohibiting the use of Council credit cards for personal use should be developed and implemented.

*Management's Response:* Council management acknowledges the lack of itemized receipts and other supporting documentation for prudent business purposes for each credit card transaction. All personal charges have been paid back to the Council. Council management has acted by reviewing current policy and began updating the financial policy and procedure to ensure timely submission of all itemized receipts and requiring credit cards only be used for valid business purposes.

**Northwest New Mexico  
Council of Governments**  
**Schedule of Findings and Responses — continued**  
**For the Year Ended June 30, 2014**

Section II — Financial Statement Findings – continued

**FS 2014-003 – Health Premiums Supporting Documentation – Significant  
Deficiency**

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*Condition:* During our internal control testwork over payroll transactions we noted that the Council could not provide support for the amount of health insurance premiums withheld from employee checks. The Council is under the health plan of McKinley County and therefore should pay in accordance with the “July 2013 – June 2014 New Mexico State Employees Only Bi-Weekly Contribution Schedule.”

*Criteria:* Payroll withholdings should be adequately supported by an invoice or other supporting documentation. Premiums withheld from employees should be in accordance with the rate scheduled referred to in the “condition” section above, unless the Council’s board formally elects a different amount.

*Effect:* The Council and/or its personnel may be paying more than is required for health insurance premiums.

*Cause:* The Council does not obtain an invoice or other documentation from the County detailing the amount the Council and its employees should be paying. There is no reconciliation process over the amounts paid by the Council to McKinley County.

*Auditors’ Recommendation:* Ensure health insurance premiums paid by the Council are properly supported by an invoice or other supporting documentation that substantiates the amount paid by the Council and its personnel.

*Management’s Response:* Council management acknowledges the absence of invoice documentation for a period of time from McKinley County itemizing premium amounts due from the Council for employee coverage. As a sub-group beneficiary under the County’s plan, the Council followed the lead of the County in calculating and paying these premiums. During the time gap when no invoices were provided, Council staff sought to resolve the apparent communication gaps between State, County and Council, but in the meantime undertook to pay the premium amounts as advised by the County and the General Services Department contractor, rather than discontinue payments while awaiting for updated invoices. This invoicing issue was resolved in early fiscal year 2015.

**Northwest New Mexico  
Council of Governments**  
Schedule of Findings and Responses — continued  
For the Year Ended June 30, 2014

Section II — Financial Statement Findings – continued

**FS 2014-004 – Timely Submission of Financial Statements – Noncompliance**

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*Condition:* The fiscal year 2014 financial statements were not submitted to the New Mexico Office of the State Auditor by the December 15, 2014 submission deadline.

*Criteria:* Section 2.2.2.9.A of NMAC Audit Rule 2014 requires that annual audit reports for local public bodies be received in the Office of the State Auditor on or before December 15, 2014.

*Effect:* The Council is not in compliance with State Auditor Rule NMAC 2.2.2.9.A for fiscal year 2014. The users of the financial statements do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on state, federal and other funding and the Council's internal budgeting.

*Cause:* The Council was unable to close the books in a timely manner and have the records ready for the audit. There was a significant delay in providing the auditors with information to test net position/fund balance, cash, receivables, and payables and because various re-class entries were needed to clear out revenue suspense accounts.

*Auditors' Recommendation:* The Council should work towards having their books closed and ready for audit in a timely manner.

*Management's Response:* Management acknowledges that the financial statements were not submitted by the December 15, 2014 deadline. Management is aware of the questions and delays affecting the audit and has begun taking steps to ensure the timely submission of future reports.

**Northwest New Mexico  
Council of Governments  
Exit Conference  
June 30, 2014**

The financial statements presented in this report were prepared by the auditors, Loftis Group, LLC.

The content of this report was discussed at an exit conference held on April 1, 2015 with the following in attendance:

**Northwest New Mexico Council of Governments**

Jeff Kiely, Executive Director

Teresa Mecale, Finance Manager

Martina Whitmore, Finance Assistant

Billy Moore, Board Chairman

Louie Bonaguidi, Board Treasurer

**Loftis Group, LLC**

Armando Sanchez, CPA, CFE, Principal

We appreciate the many courtesies and assistance extended to us by the management and employees of the Northwest New Mexico Council of Governments.