



Northwest New Mexico Council of Governments

Financial Statements
and
Independent Auditor's Report

June 30, 2018

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, 2018**

DIRECTORS	POSITION	MEMBER GOVERNMENT/TITLE
Billy Moore	Interim Chair	McKinley County - Citizen Appointee
Genevieve Jackson	1st Vice-Chair	McKinley County - County Commissioner
Martha Garcia	2nd Vice-Chair	Cibola County - County Commissioner
Louie Bonaguidi	Board Treasurer	City of Gallup - Citizen Appointee
Julie Baird	Member	City of Farmington - Assistant City Manager
Austin Randall	Member	City of Aztec - City Commissioner
Dorothy Nobis	Member	City of Bloomfield - Marketing Specialist
Larry Hathaway	Member	San Juan County- General Services Administrator
Fran Palochak	Member	City of Gallup - City Councilor
Allan Landavazo	Member	City of Gallup - City Councilor
Maryann Ustick	Member	City of Gallup - City Manager
Anthony Dimas	Member	McKinley County - County Manager
Carol Bowman Muskett	Member	McKinley County - County Commissioner
Manuel Vasquez	Member	City of Grants - City Councilor
Modey Hicks	Member	City of Grants - Mayor
Robert Armijo	Member	Cibola County - Commissioner
Ellen Baca	Member	Village of Milan - Mayor Pro Tem
Administrative Officers		
Jeff Kiely, Executive Director & Board Secretary <i>ex officio</i>		
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. Wayne Johnson, 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, 2018 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.

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 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 present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the budgetary comparison for the general fund of the Council as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof 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 4-13 and the Public Employee Retirement Association schedules on page 47 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 November 30, 2018, 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 ^{uc}

Albuquerque, New Mexico
November 30, 2018

**Northwest New Mexico
Council of Governments
Management’s Discussion and Analysis
For the Year Ended June 30, 2018**

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, 2018. 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 2018, the Council’s total net position increased approximately \$80,000 to approximately \$290,000. This increase was almost completely in governmental activities, which began the year with a deficit of \$49,000 and ended the year with a net position of \$30,000. Net position of business-type activities only increased by \$10 to remain at \$259,000.

- ◆ Expenses of the Council’s governmental activities were approximately \$756,000 in fiscal year 2018, a decrease of approximately \$329,000 from fiscal year 2017 expenses, all of which was for regional community development activities. The decrease is primarily attributable to the completion of the “Four Corners Intermodal Trans-loading Equinox” (4CITE) and US Economic Development Administration (EDA) Partnership for Opportunity and Workforce & Economic Revitalization (POWER) projects which were largely completed during 2017.

Overview of Financial Statements

This annual report consists of four parts:

1. Management’s discussion and analysis (this section).
2. The basic financial statements.
3. Required supplementary information.
4. Compliance Section.

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, 2018**

- Governmental fund financial statements report 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 report 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 provides schedules for the Council's participation in the Public Employees Retirement Association (PERA).

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* – The Council's Enterprise Loan Fund operation is reported here.

**Northwest New Mexico
Council of Governments
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

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 Council-wide statements (statement of net position 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 position 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 a statement of cash flows.

**Northwest New Mexico
Council of Governments
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Financial Analysis of the Council as a Whole

Net position. As of June 30, 2018, the Council's total net position increased by approximately \$80,000. 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,**

	Governmental Activities		Business-Type Activities		Totals	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 271,843	\$ 112,547	\$ 259,326	\$ 259,316	\$ 531,169	\$ 371,863
Capital assets	<u>365,159</u>	<u>379,318</u>	<u>-</u>	<u>-</u>	<u>365,159</u>	<u>379,318</u>
Total assets	<u>637,002</u>	<u>491,865</u>	<u>259,326</u>	<u>259,316</u>	<u>896,328</u>	<u>751,181</u>
Deferred outflows - pension related	<u>231,435</u>	<u>217,552</u>	<u>-</u>	<u>-</u>	<u>231,435</u>	<u>217,552</u>
Current and other liabilities	142,902	130,251	-	-	142,902	130,251
Long-term liabilities	<u>637,701</u>	<u>585,770</u>	<u>-</u>	<u>-</u>	<u>637,701</u>	<u>585,770</u>
Total liabilities	<u>780,603</u>	<u>716,021</u>	<u>-</u>	<u>-</u>	<u>780,603</u>	<u>716,021</u>
Deferred inflows - pension related	<u>57,568</u>	<u>42,585</u>	<u>-</u>	<u>-</u>	<u>57,568</u>	<u>42,585</u>
Net position						
Net investment in capital assets	351,022	359,776	-	-	351,022	359,776
Restricted	-	-	259,326	259,316	259,326	259,316
Unrestricted (deficit)	<u>(320,756)</u>	<u>(408,965)</u>	<u>-</u>	<u>-</u>	<u>(320,756)</u>	<u>(408,965)</u>
Total net position (deficit)	<u>\$ 30,266</u>	<u>\$ (49,189)</u>	<u>\$ 259,326</u>	<u>\$ 259,316</u>	<u>\$ 289,592</u>	<u>\$ 210,127</u>

**Northwest New Mexico
Council of Governments
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Change in Net Position. Total revenues for 2018 and 2017 were approximately \$836,000 million and \$1.3 million compared with expenses of approximately \$756,000 million and \$1.1 million, respectively. The decrease in revenues is primarily attributable the 2018 wrap-up and completion of projects that we were substantially completed in 2017. Total expenses decreased similar to revenues in fiscal year 2018 due to a majority of the work being completed on current projects in fiscal year 2017. 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues						
Program revenues						
Operating grants and contributions	\$ 376,728	\$ 770,100	\$ -	\$ -	\$ 376,728	\$ 770,100
Charges for services	221,572	-	-	-	221,572	-
General revenues						
Membership dues	226,500	241,500	-	-	226,500	241,500
Donation of capital assets	-	309,000	-	-	-	309,000
Gain on sale of capital assets	-	2,500	-	-	-	2,500
Miscellaneous income	10,722	3,770	10	10	10,732	3,780
Total revenues	<u>835,522</u>	<u>1,326,870</u>	<u>10</u>	<u>10</u>	<u>835,532</u>	<u>1,326,880</u>
Expenses						
Regional community development	756,067	1,085,434	-	-	756,067	1,085,434
Enterprise loan fund	-	-	-	-	-	-
Total expenses	<u>756,067</u>	<u>1,085,434</u>	<u>-</u>	<u>-</u>	<u>756,067</u>	<u>1,085,434</u>
Change in net position	79,455	241,436	10	10	79,465	241,446
Net position (deficit), beginning of year	(49,189)	(290,625)	259,316	259,306	210,127	(31,319)
Net position (deficit), end of year	<u>\$ 30,266</u>	<u>\$ (49,189)</u>	<u>\$ 259,326</u>	<u>\$ 259,316</u>	<u>\$ 289,592</u>	<u>\$ 210,127</u>

Governmental activities

Spending for governmental activities was approximately \$756,000 and \$1.1 million for 2018 and 2017, respectively, which was offset by approximately \$836,000 and \$1.3 million in revenues primarily from grants and contracts and membership dues. The decrease in revenues is represented by the completion of multi-year grant funded projects in 2018. Total expenses decreased similar to revenues in fiscal year 2018 due to a majority of the work being completed on projects in fiscal year 2017.

**Northwest New Mexico
Council of Governments
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Business-type activities

Activity in the Council's Revolving Loan Fund was limited to \$10 of interest income for the years-ended June 30, 2018, and 2017.

Financial Analysis of the Council's Funds

The general fund is the chief operating fund of the Council. During the year ended June 30, 2018, the general fund's fund balance increased approximately \$211,000 to a balance of approximately \$144,000. During the year ended June 30, 2017, the general fund's fund balance decreased approximately \$89,000 to a deficit of approximately \$66,000.

All of the Council's proprietary fund net position is restricted for economic development activities. Net position of the proprietary fund increased by \$10 to \$259,326 at June 30, 2018.

General Fund Budgetary Highlights

General fund revenues were higher than budgeted revenues by approximately \$59,000. General fund expenditures were more than budgeted expenditures by approximately \$33,000.

Capital Assets

Governmental activities had net capital assets of approximately \$365,000 and \$379,000 as of June 30, 2018 and 2017, respectively. The Council purchased capital assets totaling \$4,000 and recorded depreciation expense of approximately \$18,000.

Additional details for capital assets can be found in the notes to the financial statements.

Debt Administration

During fiscal year 2017, the Council entered into a note to purchase a vehicle for use by the Council. The note was issued for \$22,576, and will be paid over a four-year term with interest at 4.84%. The note is secured by the vehicle that was purchased. The Council made principal payments on this note of \$5,405 and \$3,034 during fiscal years 2018 and 2017, respectively.

**Northwest New Mexico
Council of Governments
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Economic Factors and Next Year's Activities

The Council's budget continues to reflect the overall economy of local communities, the region, State and nation, as well as public funds available from each level. As federal funding becomes less available, and as budgets are stretched for states, municipalities, counties and tribes, entities such as the Council have also struggled to re-shape budget resources while continuing their robust relevance and presence in the work of supporting local and regional economies and quality of life.

Public funding for the Council has been somewhat stable, and members sometimes tap other resources to subcontract with the Council for specialized services. Among those services, New Mexico Executive Order 2013-006 imposed restrictions on all units of government with problematic financial reporting or audit issues. To allow for the continued flow of appropriated funds to those entities, the Governor's office permitted the use of "alternative fiscal agents" to provide the necessary oversight on the local expenditure of State appropriations. The State authorized the Council to serve as an alternative fiscal agent for these purposes and to charge a fee. The Northwest Council entered into alternative fiscal agency agreements with five such entities, covering more than 50 different appropriated projects. Upon project completion and drawdown of funds, the Council will be reimbursed per a percentage management fee. These revenues may assist the Council with cash flow and reserve capacity.

Operational budget continues to be relatively stable. Other factors are outlined below:

- ◆ Membership: Membership dues should continue at similar levels in the coming couple of years to those realized in fiscal year 2018, i.e., on a plateau that is still about 20% below pre-recession levels. Local governmental members have experienced increasing budget stress as a consequence of ongoing decreases in state and federal funding, uncertainties in local gross receipt tax revenue, projected decreases resulting 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.

**Northwest New Mexico
Council of Governments
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Economic Factors and Next Year's Activities-continued

- ◆ US Economic Development Administration (EDA):
 - Planning and Technical Assistance Grant: Planning and technical assistance funding for the annual "Partnership Planning Program" grant to "Economic Development Districts" from EDA (US Department of Commerce), administered under a renewed three-year grant agreement for Calendar Years 2016 through 2018, received an increase in Fall 2016, adding \$20,000 to the original \$180,000 three-year agreement and resulting in adjusted annual budgets of about \$70,000 for each of the Federal fiscal years beginning 10/1/16. The Council matches the federal funds at the rate of 25% of grant funds (which computes to 20% of "total project cost") for this economic development function. 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 continued service on the Peer Review Committee of the Southwest Region Executive Directors Association (SWREDA), which carried out EDA's mandated peer review process involving economic development districts in the five Southwestern states under contract with the EDA Austin Regional Office; this Council was scheduled for a formal Peer Review in July 2018 at the SWREDA annual conference.
 - The Council continued to administer the multi-year grant awarded by EDA effective August 2015 under the inter-agency "POWER" initiative, tapping resources reflecting the government's commitment to coal-impacted regions. Two-thirds of this funding was committed to an outside contract for performance of a regional economic assessment related to the coal industry, and the balance of POWER grant funds were sufficient to support senior-level staffing of the project up through Summer 2017, and thereafter to support the major regional Forum held in Farmington in November 2017.
- ◆ State Grant-in-Aid: Annual appropriations from the State Legislature, administered by the Local Government Division and identified as grant-in-aid funding for regional planning councils were subjected to a series of budget cuts administered "across the board" in State government, reducing annual SGIA budgets by over 10% since January 2016.
- ◆ 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 (RTPO) is administered under three-year agreements. Annual funding for this agreement continued at \$85,000 for Federal Fiscal Year 2017 (October 2016-September 2017 funding cycle), with the requirement of a 25% match (or 20% of total project).

**Northwest New Mexico
Council of Governments
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Economic Factors and Next Year's Activities-continued

Future funding is subject to numerous federal and state budget processes, and managerial demands and requirements have increased in the past two years, resulting in numerous adjustments in the documentation of services and expenses for the program.

- ◆ Local Grants and Contracts: Additional subcontracts have been entered into with local governments for special projects related to local and regional infrastructure, with new opportunities shaping up for fiscal year 2019.

Initiatives to grow the budget in fiscal year 2019 will continue to be pursued, e.g.:

- Assumption of administration of the Farmington Metropolitan Planning Organization (FMPO) under subcontract with the City of Farmington under its contract with the State of New Mexico utilizing Federal Highway Administration funding; this new program was due to commence October 1, 2018.
- The Council has been involved in community meetings and planning efforts with respect to workforce development in McKinley County and has been recommended for a leadership role and funding from the W.K. Kellogg Foundation in the coming years.
- 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 the Council;
- 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 building short and long-term reserves.

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
106 West Aztec Ave
Gallup, NM 87301
(505) 722-4327

Council-Wide Financial Statements

**Northwest New Mexico
Council of Governments**
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 140,027	\$ -	\$ 140,027
Cash restricted for loan programs	-	259,270	259,270
Grants receivable, net	131,872	-	131,872
Internal balances	(56)	56	-
Total current assets	<u>271,843</u>	<u>259,326</u>	<u>531,169</u>
Noncurrent assets			
Nondepreciable	106,284	-	106,284
Depreciable, net of accumulated depreciation	<u>258,875</u>	<u>-</u>	<u>258,875</u>
Total noncurrent assets	<u>365,159</u>	<u>-</u>	<u>365,159</u>
Total assets	<u>637,002</u>	<u>259,326</u>	<u>896,328</u>
Deferred Outflows - Pension Related	<u>231,435</u>	<u>-</u>	<u>231,435</u>
Liabilities			
Current liabilities			
Accounts payable	36,705	-	36,705
Accrued payroll liabilities	90,902	-	90,902
Compensated absences, current portion	9,623	-	9,623
Long-term debt, current portion	<u>5,672</u>	<u>-</u>	<u>5,672</u>
Total current liabilities	<u>142,902</u>	<u>-</u>	<u>142,902</u>
Noncurrent liabilities			
Net pension liability	601,849	-	601,849
Compensated absences, net of current portion	27,387	-	27,387
Long-term debt, net of current portion	<u>8,465</u>	<u>-</u>	<u>8,465</u>
Total noncurrent liabilities	<u>637,701</u>	<u>-</u>	<u>637,701</u>
Total liabilities	<u>780,603</u>	<u>-</u>	<u>780,603</u>
Deferred Inflows - Pension Related	<u>57,568</u>	<u>-</u>	<u>57,568</u>
Net Position			
Net investment in capital assets	351,022	-	351,022
Restricted for loan programs	-	259,326	259,326
Unrestricted (deficit)	<u>(320,756)</u>	<u>-</u>	<u>(320,756)</u>
Total net position	<u>\$ 30,266</u>	<u>\$ 259,326</u>	<u>\$ 289,592</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, 2018**

	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
Functions/Programs:							
Governmental activities							
Regional community development	\$ 755,225	\$ 221,572	\$ 376,728	\$ -	\$ (156,925)		\$ (156,925)
Interest	842	-	-	-	(842)		(842)
Total governmental activities	<u>756,067</u>	<u>221,572</u>	<u>376,728</u>	<u>-</u>	<u>(157,767)</u>		<u>(157,767)</u>
Business-type activities							
Enterprise loan fund	-	-	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 756,067</u>	<u>\$ 221,572</u>	<u>\$ 376,728</u>	<u>\$ -</u>	<u>(157,767)</u>	<u>-</u>	<u>(157,767)</u>
General revenues:							
Interest income					-	10	10
Membership dues					226,500	-	226,500
Miscellaneous income					10,722	-	10,722
Total general revenues					<u>237,222</u>	<u>10</u>	<u>237,232</u>
Changes in net position					79,455	10	79,465
Net position (deficit), beginning of year					<u>(49,189)</u>	<u>259,316</u>	<u>210,127</u>
Net position, end of year					<u>\$ 30,266</u>	<u>\$ 259,326</u>	<u>\$ 289,592</u>

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

Fund Financial Statements

**Northwest New Mexico
Council of Governments
Balance Sheet
Governmental Fund
June 30, 2018**

	General Fund
Assets	
Cash and cash equivalents	\$ 140,027
Grants receivable	131,872
Total assets	\$ 271,899
Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 36,705
Accrued payroll liabilities	90,902
Due to enterprise loan fund	56
Total liabilities	127,663
Fund Balance	
Unassigned	144,236
Total fund balance	144,236
Total liabilities and fund balance	\$ 271,899

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

**Northwest New Mexico
Council of Governments
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2018**

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	365,159
Some liabilities, listed below, are not due and payable in the current period and, therefore, are not reported in the funds	
Compensated absences	(37,010)
Long-term debt	(14,137)
Defined benefit pension plan deferred outflows are not financial resources and, therefore, are not reported in the funds	231,435
Defined benefit pension plan deferred inflows are not financial resources and, therefore, are not reported in the funds	(57,568)
The net pension liability is not due and payable in the current period and, therefore, is not reported in the funds	<u>(601,849)</u>
Net Position - Governmental Activities	<u><u>\$ 30,266</u></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
Governmental Fund
For the Year Ended June 30, 2018

	General Fund
Revenues	
Membership dues	\$ 226,500
State and local grants and contributions	232,106
Federal grants and contracts	209,281
Project management and fiscal agent fees	221,572
Miscellaneous income	10,722
Total revenue	900,181
Expenditures	
Current	
Regional community development	678,986
Capital outlay	4,305
Debt service	
Principal	5,405
Interest	842
Total expenditures	689,538
Net change in fund balance	210,643
Fund balance (deficit), beginning of year	(66,407)
Fund balance , end of year	\$ 144,236

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

**Northwest New Mexico
Council of Governments**
**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2018**

Net change in fund balance - governmental fund	210,643
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	4,305
Depreciation expense	(18,464)
Current financial resources reported as revenues in the funds previously recognized in the statement of activities in prior periods	(64,659)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position in the statement of activities:	
Principal payment on long-term debt	5,405
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 decrease in compensated absences	3,565
Changes in deferred outflows of resources-pension related, deferred inflows of resources-pension related, and the net pension liability	(61,340)
Change in net position - governmental activities	\$ 79,455

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, 2018

	Enterprise Loan Fund
Assets	
Cash and cash equivalents	\$ 259,270
Due from general fund	56
Total assets	259,326
Liabilities	
Due to general fund	-
Total liabilities	-
Net Position	
Restricted for loan programs	259,326
Total net position	\$ 259,326

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, 2018

	Enterprise Loan Fund
Operating Revenues	
Interest income	\$ 10
Total operating revenues	10
Operating income	10
Net position, beginning of year	259,316
Net position, end of year	\$ 259,326

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, 2018**

	<u>Enterprise Loan Fund</u>
Cash flows from operating activities	
Interest income received	\$ 10
Net cash provided by operating activities	<u>10</u>
Net increase in cash and cash equivalents	10
Cash and cash equivalents, beginning of year	<u>259,260</u>
Cash and cash equivalents, end of year	<u><u>\$ 259,270</u></u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 10
Adjustments to reconcile operating income to net cash provided by operating activities	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 10</u></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, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Grants and contracts	\$ 738,372	\$ 270,973	\$ 441,387	\$ 170,414
Membership dues	251,500	229,700	226,500	(3,200)
Project management and fiscal agent fees	-	338,307	221,572	(116,735)
Miscellaneous income	5,500	2,500	10,722	8,222
Total revenues	<u>995,372</u>	<u>841,480</u>	<u>900,181</u>	<u>58,701</u>
Expenditures				
Current				
Regional community development	995,372	656,173	678,986	(22,813)
Capital outlay	-	-	4,305	(4,305)
Debt service				
Principal	-	-	5,405	(5,405)
Interest	-	-	842	(842)
Total expenditures	<u>995,372</u>	<u>656,173</u>	<u>689,538</u>	<u>(33,365)</u>
Net change in fund balance	-	185,307	210,643	(25,336)
Fund balance (deficit), beginning of year	<u>(66,407)</u>	<u>(66,407)</u>	<u>(66,407)</u>	
Fund balance (deficit), end of year	<u>\$ (66,407)</u>	<u>\$ 118,900</u>	<u>\$ 144,236</u>	

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

**Northwest New Mexico
Council of Governments**
Notes to the Financial Statements
June 30, 2018

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, 2018, 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
- Northwest New Mexico 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:

- Obtain grants, contracts and other sources of funds for local governments and various agencies and entities;
- Disseminate information regarding federal programs and the establishment of new programs;
- Provide technical assistance to members in the developing, financing and implementing of local programs and projects;
- Serve as a liaison and facilitator of communications between and among local members and other public and private agencies;
- Sponsor workshops, seminars and forums on local and regional issues, as well as on public and private programs available for members;
- 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; and
- 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, 2018.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

1) Summary of Significant Accounting Policies – continued

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.

Net Position

Components of net position include the following:

- Net investment in capital assets — represents the cost of capital assets netted with accumulated depreciation and the outstanding balance of any debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets
- Restricted net position — when constraints placed on the use of net position 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.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

1) Summary of Significant Accounting Policies – continued

- Unrestricted net position — represents all other net position that does 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, with 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.

The Council’s 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 the current financial resources measurement focus and the 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.

**Northwest New Mexico
Council of Governments**
Notes to the Financial Statements
June 30, 2018

1) Summary of Significant Accounting Policies – continued

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.

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.

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.

Fund Balance Classifications

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.

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

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

1) Summary of Significant Accounting Policies – continued

Capital Assets and Depreciation

The Council capitalizes expenditures over \$5,000 according to 12-6-10 NMSA 1978. 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.

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>
Building	30
Leasehold improvements	Life of the lease
Furniture and fixtures	5-10
Software	3-5
Vehicles	5

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Budgets

An annual operating budget is prepared by the Council staff for the general and proprietary fund 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.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

1) Summary of Significant Accounting Policies – continued

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.

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.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

1) Summary of Significant Accounting Policies – continued

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Council will sometimes report deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. Also, in addition to liabilities, the Council 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2018, the Council reported deferred outflows of resources of \$231,435 and deferred inflows of resources of \$57,568, both related to the Council’s participation in PERA.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term highly liquid investments, which are readily convertible to cash within ninety (90) days of purchase.

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 balances, revenues 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 2018.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

2) Key Programs of the Council – continued

The following are the grant and contract programs included in the General Fund during fiscal year 2018:

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 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.

EDA/POWER Grant — A multi-year \$327,300 federal grant from the US Economic Development Administration to support internal staffing of economic development planning activity and to contract for expertise in a regional study of the impacts of the coal industry on the Northwest New Mexico and Four Corners economy. The project, which requires a substantial in-kind match, began in spring 2016 and concluded at the end of December 2017.

USDA: Rural Business Development Grant (RBDG) — A \$25,000 grant from the US Department of Agriculture for the pilot “Cibola SoloWorks Job Creation Center” project. The Council drew no funds directly from the grant, but passed them on to prime contractors for development of the Center; a small reimbursement contract was established with the contractor to return non-grant funds to the Council for its administrative role.

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.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

2) Key Programs of the Council – continued

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. This grant was concluded in fiscal year 2018.

GLP: NM-LCO Fiscal Agent – An intergovernmental agreement between the City of Gallup and the Council to provide alternative Fiscal Agency Services in connection with fund projects as appropriated by the State Legislator for utilization by the City of Gallup.

McK: NM-LCO Fiscal Agent – An intergovernmental agreement between the McKinley County and the Council to provide alternative Fiscal Agency Services in connection with fund projects as appropriated by the State Legislator for utilization by McKinley County.

CC: NM-LCO Fiscal Agent – An intergovernmental agreement between the Cibola County and the Council to provide alternative Fiscal Agency Services in connection with fund projects as appropriated by the State Legislator for utilization by Cibola County.

Milan: NM-LCO Fiscal Agent – An intergovernmental agreement between the Village of Milan and the Council to provide alternative Fiscal Agency Services in connection with fund projects as appropriated by the State Legislator for utilization by Village of Milan.

GLP: US Bureau of Reclamation “WaterSmart” Grant for Drought Preparedness Planning – The Council operates a subgrant under this federal initiative, to involve subcontracting for expertise in drought management planning and engaging local stakeholders in the planning process.

McK: CWPP: – The Council operated a grant from McKinley County to oversee consulting work to produce a Community Wildfire Protection Plan.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

2) Key Programs of the Council – continued

McK & Cib: ZMTP – The Council operated a combined program under two planning grants received by McKinley and Cibola Counties respectively, to conduct fieldwork, prepare maps and trail designs, and assist with oversight and quality control on field construction work on trails under the Zuni Mountains Trails Project.

McK: Comp Plan – The Council was contracted by McKinley County to staff and produce a five-year update to its Comprehensive Plan.

Enterprise Loan Fund

The Council administers the Enterprise Loan Fund (the “ELF”), funded in part by the US Economic Development Administration under its Revolving Loan Fund program, which makes loans to new and growing businesses through “gap” or “bridge” financing.

3) **Cash Balances**

In accordance with Section 6-10-17, NMSA 1978 Compilation, the Council is required to obtain pledged collateral from each bank that is a depository of public funds, in an aggregate amount 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 insured depository institution. For more information, visit www.fdic.gov.

Custodial Credit Risk is the risk that in the event of a bank failure, the Council’s deposits may not be returned to it. The Council’s deposit policy is to collateralize one-half of the uninsured public money amount in each account.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

3) Cash Balances – continued

A summary of the Council’s deposits, as well as pledged collateral in place over deposits, is as follows:

<u>Pinnacle Bank</u>	<u>Type</u>	<u>Balance Per Bank 6/30/2018</u>	<u>Balance Per Books 6/30/2018</u>
General fund	Checking	\$ 159,792	\$ 140,027
Enterprise loan fund - revolving loan fund	Checking	101,459	101,459
Enterprise loan fund - forest service loan fund	Checking	95,495	95,495
Enterprise loan fund - sequestered	Checking	<u>62,316</u>	<u>62,316</u>
Total cash in banks		<u>\$ 419,062</u>	<u>\$ 399,297</u>

As reported in the financial statements:

Cash	\$ 140,027
Restricted cash	<u>259,270</u>
	<u>\$ 399,297</u>

<u>Pledged Collateral at Banks</u>	<u>Pinnacle Bank</u>
Deposits	\$ 419,062
Less FDIC coverage	<u>(250,000)</u>
Total uninsured public funds	<u>169,062</u>
50% collateral requirement	84,531

<u>Collateral Pledged</u>	
Zuni NM Public: Cusip 98981 RAHO maturing 8/1/2019; security interest rate of 4%	<u>137,773</u>
Over (under) collateralized	<u>\$ 53,242</u>

**Northwest New Mexico
Council of Governments**
Notes to the Financial Statements
June 30, 2018

4) Grants Receivable

Grant receivable balances at June 30, 2018, are composed of the following:

U.S. Department of Commerce	\$ 35,131
Cibola County	30,000
City of Gallup	26,272
McKinnley County	23,361
New Mexico Department of Transportation	17,108
Total	<u>\$ 131,872</u>

5) Loans Receivable

Loans receivable in the Enterprise Loan Fund as of June 30, 2018, 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.

Loans receivable	\$ 173,438
Less allowance	<u>(173,438)</u>
Loans receivable, net	<u>\$ -</u>

6) 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, 2018, \$56 was due to the enterprise loan fund from the general fund for reimbursement purposes. There were no interfund transfers for the fiscal year ended June 30, 2018.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

7) Capital Assets

A summary of changes in capital assets for governmental activities during the year ended June 30, 2018, are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities</i>				
Capital assets not being depreciated				
Land	\$ 73,244	\$ -	\$ -	\$ 73,244
Construction in progress	28,735	4,305	-	33,040
Total capital assets not being depreciated	<u>101,979</u>	<u>4,305</u>	<u>-</u>	<u>106,284</u>
Capital assets being depreciated				
Buildings	235,756	-	-	235,756
Leasehold improvements	20,273	-	-	20,273
Furniture and fixtures	32,760	-	-	32,760
Software	42,496	-	-	42,496
Vehicles	24,576	-	-	24,576
Total capital assets being depreciated, at cost	<u>355,861</u>	<u>-</u>	<u>-</u>	<u>355,861</u>
Less accumulated depreciation for				
Buildings	7,204	7,204	-	14,408
Leasehold improvements	4,986	673	-	5,659
Furniture and fixtures	24,559	2,005	-	26,564
Software	38,496	3,667	-	42,163
Vehicles	3,277	4,915	-	8,192
Total accumulated depreciation	<u>78,522</u>	<u>18,464</u>	<u>-</u>	<u>96,986</u>
Total capital assets being depreciated, net	<u>277,339</u>	<u>(18,464)</u>	<u>-</u>	<u>258,875</u>
Capital assets, net	<u>\$ 379,318</u>	<u>\$ (14,159)</u>	<u>\$ -</u>	<u>\$ 365,159</u>

Depreciation expense of \$18,464 was allocated to the regional community development 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, 2018.

**Northwest New Mexico
Council of Governments**
Notes to the Financial Statements
June 30, 2018

8) Accounts Payable and Accrued Payroll Liabilities

A summary of accounts payable and accrued payroll liabilities at June 30, 2018, is as follows:

	Vendors	Salaries and Benefits	Total
<i>Governmental activities</i>			
General fund	\$ 36,705	\$ 90,902	\$ 127,607
Total government activities	\$ 36,705	\$ 90,902	\$ 127,607

9) Long-Term Debt

Compensated Absences

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 applicable fund(s) 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 their hourly rate of pay.

Note Payable

During fiscal year 2017, the Council entered into a note to purchase a vehicle for use by the Council. The note was issued for \$22,576, and will be paid over a four-year term with interest at 4.84%. The note is secured by the vehicle that was purchased.

**Northwest New Mexico
Council of Governments**
Notes to the Financial Statements
June 30, 2018

9) Long-Term Debt – continued

A summary of changes in long-term debt for the year ended June 30, 2018 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Governmental activities					
Note payable	\$ 19,542	\$ -	\$ (5,405)	\$ 14,137	\$ 5,672
Compensated absences	40,575	16,153	(19,718)	37,010	9,623
Total long-term debt	<u>\$ 60,117</u>	<u>\$ 16,153</u>	<u>\$ (25,123)</u>	<u>\$ 51,147</u>	<u>\$ 15,295</u>

Future maturities of the note payable are as follows:

Year ending June 30,	Principal	Interest	Total
2019	\$ 5,672	\$ 559	\$ 6,231
2020	5,953	279	6,232
2021	2,512	30	2,542
	<u>\$ 14,137</u>	<u>\$ 868</u>	<u>\$ 15,005</u>

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

The Enterprise Loan Fund’s restricted net position of \$259,326 at June 30, 2018 is restricted for economic development activity (i.e. loan programs) as a result of agreements with the granting organizations.

11) **Membership Dues**

Membership dues consist of annual assessments to member organizations. Membership dues are established by the Council based on a schedule of dues and service levels aligned with apportionment of Board seats and negotiated annually with the respective members.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

12) Lease Commitments

Equipment Leases

In March 2017, the Council entered into a new copier lease agreement for office equipment. The lease is accounted for as an operating lease and has a term of 60 months.

In March 2017, the Council entered into a postage machine lease agreement. The lease is accounted for as an operating lease and has a term of 60 months.

Future minimum payments for operating leases are as follows:

<u>Year ending June 30,</u>	
2019	6,423
2020	6,423
2021	6,423
2022	4,817
	<u>\$ 24,086</u>

Total lease expense for the year ended June 30, 2018 was approximately \$9,700. 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.

13) Public Employees Retirement Association (PERA) Pension Plan

General Information about the Pension Plan

Plan description. *Public Employees Retirement Fund* is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978).

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

13) PERA Pension Plan – continued

Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits Provided. Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for TIER I members. Generally, the amount of retirement pension is based on final average salary, which is defined under TIER I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II. The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (TIER II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (TIER I) remain eligible to retire at any age with 25 or more years of service credit. Under TIER II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in TIER II may retire at age 60 with 6 or more years of service credit. Generally, under TIER II pension factors were reduced by 0.5%, employee contributions increased 1.5% and effective July 1, 2014 employer contributions were raised 0.05%. The computation of final average salary increased as the average of salary for 60 consecutive months.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

13) PERA Pension Plan – continued

Contributions. See PERA’s comprehensive annual financial report for Contribution provided description.

PERA Contribution Rates and Pension Factors as of July 1, 2017						
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than	Annual Salary greater than		TIER	TIER	
STATE PLAN						
State Plan 3	7.42%	8.92%	16.99	3.0%	2.5%	90%
MUNICIPAL PLANS 1 - 4						
"Municipal Plan 1 (plan open to new employers)"	7.0%	8.5%	7.4%	2.0%	2.0%	90%
"Municipal Plan 2 (plan open to new employers)"	9.15%	10.65%	9.55%	2.5%	2.0%	90%
"Municipal Plan 3 (plan closed to new employers)"	13.15%	14.65%	9.55%	3.0%	2.5%	90%
"Municipal Plan 4 (plan closed to new employers)"	15.65%	17.15%	12.05%	3.0%	2.5%	90%
MUNICIPAL POLICE PLANS 1 - 5						
Municipal Police Plan 1	7.0%	8.5%	10.40	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90	3.5%	3.0%	90%
MUNICIPAL FIRE PLANS 1 - 5						
Municipal Fire Plan 1	8.0%	9.5%	11.40	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.9%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65	3.5%	3.0%	90%
MUNICIPAL DETENTION OFFICER PLAN 1						
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05	3.0%	3.0%	90%
STATE POLICE AND ADULT CORRECTIONAL OFFICER PLANS, ETC.						
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.50	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

13) PERA Pension Plan- continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the Council reported a liability of \$601,849 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2017. The Council's proportion of the net pension liability was based on a projection of the Council's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the Council's proportion was 0.0438%, which was an increase of 0.0099% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Council recognized pension expense of \$61,340. At June 30, 2018, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,649	\$ 30,825
Changes of assumptions	27,754	6,219
Net difference between projected and actual investment earnings on pension plan investments	49,378	-
Changes in proportion and differences between the Council's contributions and proportionate share of contributions	102,846	20,524
The Council's contributions subsequent to the measurement date	<u>27,808</u>	<u>-</u>
Total	<u>\$ 231,435</u>	<u>\$ 57,568</u>

**Northwest New Mexico
Council of Governments**
Notes to the Financial Statements
June 30, 2018

13) PERA Pension Plan – continued

\$27,808 reported as deferred outflows of resources related to pensions resulting from the Council’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 38,708
2020	87,388
2021	34,393
2022	(14,430)
Total	<u>\$ 146,059</u>

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percentage pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 year smoothed market value
Actuarial assumptions:	
- Investment rate of return	7.51% annual rate, net of investment expense
- Projected benefit payment	100 years
- Payroll growth	2.75% for first 9 years, then 3.25% annual rate
- Projected salary increases	2.75% to 14.00% annual rate
- Includes inflation at	2.25% annual rate for first 9 years, then 2.75% for all other years
- Mortality assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
- Experience study dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 to June 20, 2016 (economic)

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

13) PERA Pension Plan – continued

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board and used in the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

All Funds - Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	43.5%	7.4%
Risk reduction and mitigation	21.5%	1.8%
Credit oriented fixed income	15.0%	5.8%
Real assets	<u>20.0%</u>	7.4%
Total	<u>100.0%</u>	

Discount rate. A single discount rate of 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

**Northwest New Mexico
Council of Governments
Notes to the Financial Statements
June 30, 2018**

13) PERA Pension Plan – continued

Sensitivity of the Council's proportionate share of the net pension liability to changes in the discount rate. The following presents the Council's proportionate share of the net pension liability calculated using the discount rate of 7.51%, as well as what the Council's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51%) or 1-percentage-point higher (8.51%) than the current rate:

	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
<u>PERA Fund Division: Municipal General</u>			
The Council's proportionate share of the net pension liability	\$ 943,296	\$ 601,849	317,888

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERA financial report.

Payables to the pension plan. At June 30, 2018, the Council did not have any payables to PERA for fiscal year 2018 contributions.

14) **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).

15) **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, 2018, the Council did not have any probable risks of loss.

**Northwest New Mexico
Council of Governments**
Notes to the Financial Statements
June 30, 2018

16) Related Party Transactions

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, 2018 was \$226,500.

17) Recently Issued Accounting Pronouncements

GASB has issued several statements which have not yet been implemented by the Council. The Council believes that none of these statements will have a significant impact on the Council.

18) Tax Abatements

None of the Council's revenue sources are impacted by tax abatements. Therefore, there is nothing to disclose under GASBS No. 77 – *Tax Abatement Disclosures*.

Required Supplementary Information

**Northwest New Mexico
Council of Governments
Schedules of Required Supplementary Information
June 30, 2018**

**Schedule of the Council's Proportionate Share of the
Net Pension Liability of PERA Fund Division: Municipal General
Public Employees Retirement Association (PERA) Plan
Last 10 Fiscal Years* (in thousands)**

	June 30,				
	Fiscal year Measurement date	2018 2017	2017 2016	2016 2015	2015 2014
The Council's proportion of the net pension liability (asset)		0.0438%	0.0339%	0.0304%	0.0369%
The Council's proportionate share of the net pension liability (asset)		\$ 602	\$ 542	\$ 310	\$ 288
The Council's covered-employee payroll		\$ 295	\$ 373	\$ 290	\$ 243
The Council's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		204.07%	145.31%	106.90%	118.52%
Plan fiduciary net position as a percentage of the total pension liability		73.74%	69.18%	81.29%	81.29%

**Schedule of the Council's Contributions to
Public Employees Retirement Association (PERA) Plan
PERA Fund Division: Municipal General
Last 10 Fiscal Years (in thousands)***

	June 30,				
	Fiscal year Measurement date	2018 2017	2017 2016	2016 2015	2015 2014
Statutory required contribution		\$ 28	\$ 36	\$ 31	\$ 27
Contributions in relation to the statutorily required contributions		28	36	31	27
Annual contribution deficiency (excess)		\$ -	\$ -	\$ -	\$ -

**Governmental Accounting Standards Board Statement 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Council is not available prior to fiscal year 2015, the year the statement's requirements became effective.

**Northwest New Mexico
Council of Governments**
Notes to the Required Supplementary Information
June 30, 2018

Changes of benefit terms. The PERA, COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CAFR (<https://www.saonm.org>).

Assumptions. The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2017 report is available at <http://www.nmpera.org/>.

Compliance Section

Independent Auditor's 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. Wayne Johnson, 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, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements and have issued our report thereon dated November 30, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2018-003.

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 subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 ^{uc}

Albuquerque, New Mexico
November 30, 2018

**Northwest New Mexico
Council of Governments
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018**

Section I – Status of Prior Year Audit Findings

Finding 2017-001 – Untimely Remittance of Payroll Liabilities (Material Weakness)

Current status: Repeated and modified. See current year finding 2018-001.

Finding 2017-002 – Internal Control Structure over Financial Reporting (Material Weakness)

Current status: Repeated. See current year finding 2018-002.

Finding 2017-003 – Internal Control Structure over Payroll (Other noncompliance)

Current status: Repeated. See current year finding 2018-003.

**Northwest New Mexico
Council of Governments
Schedule of Findings and Responses
For the Year Ended June 30, 2018**

Section II — Financial Statement Findings

2018-001 (2017-001) Untimely Remittance of Payroll Liabilities (Material Weakness)

Condition: During our review of payroll expenditures and associated payroll liabilities we noted instances where the Council did not remit timely deposits for payroll taxes. The Council did not file any of the required Internal Revenue Service (IRS) Form 941, “Employer’s Quarterly Federal Tax Return” for fiscal year 2018. As a result, the Council incurred approximately \$3,845 in penalties from the IRS for the late remittance of payroll taxes for the period of October through December 2017. Additionally, at June 30, 2018, the Council owes the IRS \$69,321 for payroll taxes from October 2017 through June 2018.

Regarding prior year planned corrective actions management was successful in ensuring PERA contributions and health insurance premium payments were made timely throughout 2018. No progress was made in implementing controls to ensure payroll taxes were remitted timely or to ensure that amounts owed in arrears were paid or resolved timely.

Criteria: The IRS requires payroll tax withholdings to be remitted by the fifteenth of the following month. IRS Form 941 must be filed by the end of the month following the end of the quarter.

Effect: The Council is not in compliance with the IRS requirements for the remittance of payroll taxes. As a result, the IRS leveled penalties of approximately \$3,845. If not resolved timely there is exposure to additional penalties and adverse actions being taken by the IRS against the Council.

Cause: Internal controls are not in place to ensure federal payroll taxes and quarterly IRS 941 reports are remitted timely and in accordance with the applicable rules and regulations.

Auditor’s Recommendation: Implement internal controls to ensure payroll taxes and quarterly 941 reports are filed and transmitted in accordance with Internal Revenue Service rules and regulations.

Management’s Response: The Council has contracted with a new public accounting firm with substantially more resources to dedicate to the Council’s accounting and financial reporting needs. Processes for recording transactions, reconciling accounts, and improving financial reporting have been and continue to be modified and streamlined. In January 2019, the Council’s payroll function has been outsourced to a payroll service provider who will calculate, pay, and file the Council’s federal, state and local payroll taxes. The Council’s Executive Director and Deputy Director are responsible for ensuring these corrective actions are fully implemented.

**Northwest New Mexico
Council of Governments
Schedule of Findings and Responses
For the Year Ended June 30, 2018**

2018-002 (2017-002) Internal Control Structure over Financial Reporting (Material Weakness)

Condition: Internal controls have not been implemented to ensure all general ledger balances are properly supported by account reconciliations that have been reviewed and approved by management on a timely basis. Significant adjusting journal entries were required to correct balances after the books were closed at year-end. Adjustments were needed to properly record cash, accounts payable and accounts receivable.

Regarding prior year planned corrective actions management was unable to make any substantial progress in this area.

Criteria: Maintenance of complete and accurate accounting records and preparation of annual financial statements and footnotes, required supplementary information, and supplementary information in accordance with generally accepted accounting principles (GAAP) ensures that timely, accurate and useful information is available to management, those charged with governance and other interested parties. Internal controls must be in place to safeguard assets and ensure accurate financial accounting and reporting. Fundamental to a good system of internal control is thorough review processes, accurate record keeping of accounting transactions, and preparation of the annual financial statements.

Effect: An adequate review of significant transactions to ensure proper accounting treatment was not performed for the accounts listed above resulting in significant audit adjustments needed to correct the accounting records.

Cause: The accounting records and financial statements were not maintained in accordance with GAAP and significant additional effort was required in order to prepare the audited financial statements.

Auditor's Recommendation: Implement effective internal control that ensures all significant matters impacting the accounting records and financial statements are evaluated for proper accounting treatment in a timely manner.

Management's Response: The Council has contracted with a new public accounting firm with substantially more resources to dedicate to the Council's accounting and financial reporting needs. Processes for recording transactions, reconciling accounts, and improving financial reporting have been and continue to be modified and streamlined. In January 2019, the Council's payroll function has been outsourced to a payroll service provider who will calculate, pay, and file the Council's federal, state and local payroll taxes. The contract with the new accounting firm includes year-end audit preparation services and management does not anticipate this finding repeating for the fiscal year ending June 30, 2019. The Council's Executive Director and Deputy Director are responsible for ensuring these corrective actions are fully implemented.

**Northwest New Mexico
Council of Governments
Schedule of Findings and Responses
For the Year Ended June 30, 2018**

2018-003 (2017-003) Internal Control Structure over Payroll (Other noncompliance)

Condition: During our review of twenty-five payroll disbursements, we noted the following:

- Eighteen instances where Medicare and Social Security tax withholdings were not calculated in accordance with IRS guidelines which resulted in excess employee withholdings of approximately \$2,500 for the fiscal year ended June 30, 2018;
- Four instances where withholdings for employee health, dental, and/or vision insurance were incorrectly calculated which resulted in the Council withholding approximately \$20 less than it should have.

Regarding prior year planned corrective actions management was unable to make any substantial progress in this area.

Criteria: Section 6-5-2 NMSA 1978 requires that all agencies implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect: The Council is not in compliance with Section 6-5-2 NMSA 1978 as the Council and its employees are not paying the correct amount of Medicare and Social Security taxes or health insurance premiums each pay period.

Cause: Internal controls are not in place to ensure payroll tax calculations and employee insurance withholdings are accurate.

Auditor's Recommendation: Implement internal controls to ensure wages subject to Medicare and Social Security taxes are accurately calculated. Additionally, implement internal controls to ensure that health insurance withholdings are accurately established in the payroll system.

Management's Response: The Council has contracted with a new public accounting firm with substantially more resources to dedicate to the Council's accounting and financial reporting needs. In January 2019, the Council's payroll function has been outsourced to a payroll service provider who will calculate, pay, and file the Council's federal, state and local payroll taxes, which will resolve the Medicare and Social Security tax withholding issues noted above. The Council's new accounting firm has implemented a process for calculating, reconciling and accurately recording all of the Council's employee benefits. Employees are in the process of being reimbursed for the excess Medicare and Social Security tax withholding. The Council's Executive Director and Deputy Director are responsible for ensuring these corrective actions are fully implemented.

**Northwest New Mexico
Council of Governments
Exit Conference
June 30, 2018**

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 November 30, 2018 with the following in attendance:

Northwest New Mexico Council of Governments

Jeff Kiely, Executive Director

Billy Moore, Chair

Louie Bonaguidi, Treasurer

Evan Williams, Deputy Director

Martina Whitmore, Administrative Assistant

Loftis Group, LLC

Armando Sanchez, CPA, CFE, Managing Principal

Jeremiah Armijo, CPA, Audit Manager

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