

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE
NUMBER 2
NEW MEXICO

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2005

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE NO. 2

Table of Contents

For the year ended June 30, 2005

	Page
Official Roster	1
Independent Auditor's Report	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	4
Statement of Activities	5
Government Fund Financial Statements:	
Balance Sheet - Governmental Funds	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Special Education Fund	10
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - LANL Foundation	10a
Reconciliation of Government Funds Balance Sheet to the Statement of Net Assets	11-11a
Notes to the Basic Financial Statements	12-21
Schedule of Cash Accounts	22
Schedule of Pledged Collateral	23
Additional Independent Auditor's Report	
Report on Internal Control over Financial Reporting and on Compliance and other matters based on an Audit of Financial Statements in Accordance with Government Auditing Standards	24-25
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	26-27
Schedule of Expenditures and Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29
Schedule of Expenditures of Federal Awards	30
Schedule of Findings and Questioned Costs	31 - 35
Schedule of Prior Year Audit Findings	36
Exit Conference and Other Information	37

STATE OF NEW MEXICO
NORTHWEST REGIONAL CENTER COOPERATIVE #2
OFFICIAL ROSTER
JUNE 30, 2005

COOPERATIVE COUNCIL

Robert Archuleta	Council President, Superintendent – Jemez Mountain Schools
Dr. Danny Trujillo	Executive Director
Manual Valdez	Superintendent – Chama Valley
Pancho Guardiola	Superintendent– Cuba Schools
Loren Cushman	Superintendent – Dulce Schools
Andy Torres	Superintendent – Mesa Vista
Dorothy Sanchez	Superintendent – Penasco
Tony Archuleta	Superintendent – Questa

A.J. PERKINS, CPA PC

INDEPENDENT AUDITOR'S REPORT

To: Hector H. Balderas, NM State Auditor
Santa Fe, New Mexico

To: Councilors, Northwest Regional Educational Cooperative No. 2 (NWREC2), New Mexico

We have audited the accompanying financial statements of the governmental activities the major fund, and the aggregate remaining fund information of the NWREC2, as of and for the year ended June 30, 2005, which collectively comprise NWREC2's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the NWREC2's management. Our responsibility is to express an opinion on these financial statements based on this audit.

We conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidences supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for my opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the NWREC2, as of June 30, 2005, and the respective changes in financial position and the budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

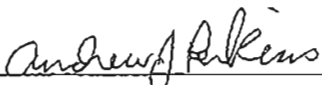
The accompanying financial statements have been prepared assuming that NWREC2 will continue as a going concern. As discussed in Note 1 to the financial statements, NWREC2 has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008 based our consideration of the NWREC2's internal control over financial reporting and our tests of its compliances with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control or on financial reporting or on

compliances. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The NWREC2 has not presented the *Management's Discussion and Analysis* that the Government Accounting Standard's Board (GASB) has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the NWREC2's basic financial statements. The accompanying schedule of expenditure of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of NWREC2. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Andrew J. Perkins
Santa Fe, New Mexico
December 29, 2008

Northwest Regional Educational Cooperative # 2

STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS	Governmental Activities
Cash	\$ 327,154
Accrued Interest Receivable	-
Accounts Receivable (net)	-
Taxes Receivable (net)	-
Payroll Clearing account	6,741
Total Current Assets	<u>333,895</u>
 Capital Assets:	
Land	-
Infrastructure	-
Buildings and Improvements	-
Computer Equipment	594,544
Furniture, Fixture, and Equipment	125,680
Less: Accumulated Depreciation	<u>(664,230)</u>
Total Non-current Assets	<u>35,994</u>
 Total Assets	 <u>\$ 369,889</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 7,734
Accrued Liabilities	-
Compensated Absences Payable	6,045
Deferred Revenues	-
Total Liabilities	<u>13,779</u>
 Net Assets	
Invested in Capital Assets	35,994
Unrestricted Net Assets	320,117
Total Net Assets	<u>356,110</u>
Total Liabilities and Net Assets	<u>\$ 369,889</u>

The accompanying notes are an integral part of these financial statements

Northwest Regional Educational Cooperative # 2

STATEMENT OF ACTIVITIES
JUNE 30, 2005

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<u>Governmental Activities</u>						
Instruction						
Special Education	\$ 1,348,795	97,756	\$ 1,499,306	-	\$ 248,266	248,266
Other Instructional programs	46,964	-	-	-	(46,964)	(46,964)
Support Services						
Student	7,087	-	-	-	(7,087)	(7,087)
Instructional	2,428	-	-	-	(2,428)	(2,428)
General administration	59,668	-	-	-	(59,668)	(59,668)
School administration	127,499	-	-	-	(127,499)	(127,499)
Business	-	-	-	-	-	-
Student transportation	1,451	-	-	-	(1,451)	(1,451)
Other	62,585	-	-	-	(62,585)	(62,585)
Depreciation	34,981	-	-	-	(34,981)	(34,981)
Total Governmental Activities	<u>1,691,458</u>	<u>97,756</u>	<u>1,499,306</u>	<u>-</u>	<u>(94,396)</u>	<u>(94,396)</u>
Total Government	<u>\$ 1,691,458</u>	<u>\$ 97,756</u>	<u>\$ 1,499,306</u>	<u>\$ -</u>	<u>\$ (94,396)</u>	<u>\$ (94,396)</u>
General Revenues						
Local effort taxes					-	-
State shared taxes					-	-
Interest Income					-	-
Total General Revenues					-	-
Change in net assets					(94,396)	(94,396)
Net assets - July 1, 2004					450,507	450,507
Net Assets - June 30, 2005					<u>\$ 356,111</u>	<u>\$ 356,111</u>

The accompanying notes are an integral part of these financial statements

Northwest Regional Educational Cooperative # 2

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2005	Special Education Fund	LANL Foundation Fund	Total Governmental Funds
ASSETS			
Cash	\$ 324,239	\$ 2,915	\$ 327,154
Payroll Transfers	6,741	-	6,741
Total Assets	<u>330,980</u>	<u>2,915</u>	<u>333,895</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	7,734		7,734
Total Liabilities	7,734	-	7,734
 FUND BALANCES:			
Unreserved	323,246	2,915	326,161
 Total Liabilities and Fund Balances	 <u>\$ 330,980</u>	 <u>\$ 2,915</u>	 <u>\$ 333,895</u>

The accompanying notes are an integral part of these financial statements

Northwest Regional Educational Cooperative # 2
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2005

Total fund balances for governmental funds (Page 8) \$ 326,161

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Capital Assets less Accumulated Depreciation \$ 35,994

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. Those liabilities consist of:

Compensated absences payable (6,045)

Total net assets of governmental activities (Page 5) \$ 356,111

The accompanying notes are an integral part of the basic financial statements

Northwest Regional Educational Cooperative # 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Education Fund	LANL Foundation Fund	Total Governmental Funds
Revenues:			
Federal Aid	1,499,306	\$ -	\$ 1,499,306
Interest Revenue	-	-	-
Miscellaneous	97,756	-	97,756
Total revenues	<u>1,597,062</u>	<u>-</u>	<u>1,597,062</u>
Expenditures			
Current			
Special Education	1,365,696	-	1,365,696
Other Instruction Program	-	-	-
Support Services	110,829	-	110,829
Other	175,723	-	175,723
Capital Outlay	15,206	-	15,206
Total expenditures	<u>1,667,454</u>	<u>-</u>	<u>1,667,454</u>
Excess (Deficiency) of Revenues over Expenditure	(70,392)	-	(70,392)
Other Financing Sources (Uses):	-	-	-
Transfers In	-	-	-
Transfers (Out)	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(70,392)	-	(70,392)
Fund balance, July 1, 2004	393,638	2,915	396,553
Fund balance, June 30, 2005	<u>323,246</u>	<u>\$ 2,915</u>	<u>326,161</u>

The accompanying notes are an integral part of these financial statements

Northwest Regional Educational Cooperative # 2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
June 30, 2005

Net change in fund balances-total governmental funds (Page 8) (70,392)
Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reports as depreciation expense

Asset Capitalization	12,283
Depreciation expense	<u>(34,981)</u>

Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Accrued Compensated Absences	<u>(1,306)</u>
------------------------------	----------------

Change in net assets of governmental activities (Page 5)	<u><u>(94,396)</u></u>
--	------------------------

Northwest Regional Center Cooperative # 2

**SPECIAL EDUCATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues:				-
Federal Aid	1,215,600	1,658,876	1,499,306	159,570
Miscellaneous	-	-	97,756	(97,756)
	<u>1,215,600</u>	<u>1,658,876</u>	<u>1,597,062</u>	<u>61,814</u>
Expenditures:				
Current				
Special Education	1,082,044	1,361,311	1,365,696	4,385
Other instructional programs	-	-	-	-
Support Services	44,664	98,691	110,829	12,138
Other	82,392	193,374	176,444	(16,930)
Capital Outlay	6,500	5,500	15,206	9,706
Total expenditures	<u>1,215,600</u>	<u>1,658,876</u>	<u>1,668,175</u>	<u>9,299</u>
Excess of revenues and other sources over (under)				
Expenditures and other uses	-	-	(71,113)	71,113
Fund balance, July 1, 2004			393,638	557,215
Fund balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 322,525</u>	<u>\$ 628,328</u>

The accompanying notes are an integral part of these financial statements

Northwest Regional Educational Cooperative # 2

LOS ALAMOS NATIONAL FOUNDATION
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Interest	-	-	-	-
Federal Assistance	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Current				
Special Education				
Other instructional programs				
Support Services				
Other				
Capital Outlay				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under)				
Expenditures and other uses				
Fund balance, July 1, 2004			2,915	
Fund balance, June 30, 2005			<u>\$ 2,915</u>	

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 RECONCILIATION OF GOVERNMENT FUNDS
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2005

	Special Education <u>Fund</u>
Sources/Inflows of Resources:	
Actual amounts (budgetary basis) "available to appropriation" from the budgetary comparison statement.	\$1,597,062
Differences -Budget to GAAP:	
Accrual of Revenues and associated receivables that are not considered an inflow of resources for the budgetary basis but are considered revenues for financial reporting purposes	0
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances -governmental funds	<u>1,597,062</u>
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement.	1,668,175
Differences -Budget to GAAP:	
The Cooperative budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities is not included in the budgetary basis but is a expenditure for financial reporting purposes.	0
The Cooperative budgets for salaries paid for during the current accounting period. The accruals of salaries are not included in the budgetary basis but are expenses for financial reporting purposes.	0
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 1,668,175</u>

The accompanying notes are an integral part of the basic financial statements

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 RECONCILIATION OF GOVERNMENT FUNDS
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2005

	<u>Special Education Fund</u>
Other Sources (Uses) of Resources:	
Actual amounts (budgetary basis) transfers in and(out) from the budgetary comparison statement.	\$ 0
 Budget -Differences to Actual:	
<i>The Town budgets for payment of principal and interest of notes payable for debt belonging to the joint utility fund within the general fund. For financial reporting purposes, the payment is treated as a transfer to the joint utility fund. The joint utility fund utilizes the transfer to reduce the debt and to pay the interest expense.</i>	0
 Total other financing sources (uses) as reported of revenues, expenditures, and balances governmental funds	\$ <u>0</u>

The accompanying notes are an integral part of the basic financial statements

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Regional Cooperative Education Act, Sections 22-2B-1 to 22-2B-6 NMSA 1978, provides for the formation of a Regional Education Cooperative (REC) among local school boards or other state-supported educational institutions to provide education related services. Cooperatives shall be deemed individual state agencies administratively attached to the Public Education Department. REC services may include technical assistance, staff development, cooperative purchasing, fiscal management, administration of federal programs, and additional services as may be determined to be appropriate by the regional education coordinating council.

The Northwest Regional Educational Cooperative Number Two (NWREC2) was organized in 1985 for the purpose of promoting the education opportunities of handicapped children. The members of NWREC2 are Chama, Cuba, Dulce, Jemez Mountain, Mesa Vista, Penasco, Questa, and Jemez Valley School. NWREC2 operates under a central administrative office whereby revenues and expenditures are allocated to each member school Cooperative. NWREC2 also operates under the direction of a cooperative council.

The financial statements of NWREC2 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP and used by the District is discussed below. The entity does not contain any component units.

GOING CONCERN

The Legislative Finance Committee Report #07-13, May 2007 made the following recommendation

“Consider consolidating Gallina (NWREC) REC #2 into Albuquerque REC #5 as well as Raton REC #3 and Las Vegas REC #4 into one REC to take advantage of economies of scale and reduce overall REC expenditures.”

The entity as it stands now is capable to continue as a going concern but in lieu of the Committee’s findings, there is a possibility that the NWREC2 may be merged with another REC.

BASIS OF PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

NWREC2's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities show information about the overall financial position and activities of NWREC2.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of NWREC2 are financed through federal grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from grants are recognized in the fiscal year in which eligibility requirements have been met.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The statement of activities presents a comparison between direct expenses and program revenues for each function of the government activities. Direct expenses are those that are specifically associated with a program or function. Program revenues include grants and contributions that are restricted to meeting the operational and capital requirements of a particular function of activity.

Fund Financial Statements – These statements provide information about NWREC2’s funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. Any remains funds would be aggregated and reported in a single column as other governmental funds.

All governmental funds of NWREC2 follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is NWREC2's policy to use restricted resources first, and then unrestricted resources as they are needed.

NWREC2 has the following fund type:

Special Revenue Fund -Special Education

The program of federal financial assistance is a State of New Mexico administered grant that provides formula grants to assist them in meeting the costs of providing special education and related services to children with disabilities. In general, if the appropriation increases, funds to states, the District of Columbia, and Puerto Rico are distributed based on the amounts each state received for FY 1999 and the relative numbers of children aged 3 through 21 in their general populations and living in poverty who are within the age range for which each of these entities mandates services to children with disabilities. The formula contains numerous provisions for situations in which the appropriation for the program remains constant, increases or decreases, and several maximum, and minimum funding limitations. Funds not reserved for state level activities must be distributed to local education agencies (LEA's). Funds reserved for state-level activities may be used for state administration and other state-level activities, including an LEA high cost fund.

Special Revenue Fund -Los Alamos National Labs (LANL) Foundation

The LANL Foundation is designed to help area school districts address critical public education needs and improve the quality of education for Northern New Mexico children.

Governmental funds are used to account for NWREC2’s general governmental activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

period. The District considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related funds liability is incurred.

Federal aid is susceptible to accrual. Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

NWREC2 includes the following governmental fund type:

The special revenue fund accounts for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts of major capital projects).

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

NWREC2's cash is considered to be cash on hand.

NWREC2 Interest income is allocated to participating funds based on the specific identification of the source of funds for a given investment.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Fixed Assets

Purchased assets are reported at cost (of assets at least \$5,000) or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. NWREC2's fixed assets includes software under the heading "computer equipment."

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture, fixtures, and equipment	5
Computer Equipment	3

Implementation of New Accounting Principles

GASB Statement 33

The NWREC2 has adopted the provisions of GASB 33 for non-exchange revenue transactions. Federal grants are received that are passed through the New Mexico Public Education Department. Accordingly, NWREC2 records revenue and expenditures when all eligibility requirements are met and the resources are available.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

GASB Statement 34

NWREC2 has adopted the provisions of GASB Statement No. 34, Basic Financial Statements.

This statement affects the manner in which NWREC2 records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports. GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

NWREC2 has recorded capital and certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

GASB Statement 37

NWREC2 adopted the provisions of GASB Statement No. 37, Basic Financial Statement-Management's Discussion and Analysis-for Local and Government Omnibus. This statement amends GASB Statement No. 34 to either (1) clarify certain provisions or (2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, NWREC2 considered the effect of this statement when adopting the provisions of GASB Statement No. 34 as previously described.

GASB Statement 38

NWREC2 adopted the provisions of GASB Statement No. 38, Certain Financial Statement Note Disclosures. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Accordingly, footnote disclosures have been revised to conform to the provisions of GASB No. 38.

GASB Statement 39

NWREC2 adopted the provisions of GASB Statement No. 39, *Determining whether certain Organizations are Component Units*. The purpose of the statement is to amend GASB Statement No. 14, (1) to provide additional criteria to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government and (2) to clarify reporting requirements for those organizations. NWREC2 has no component units.

GASB Statement 40

NWREC2 adopted the provisions of GASB Statement No. 40, Deposit and Investment Risk. Paragraph 8 requires that deposits that are exposed to custodial credit risk and not covered by depository insurance are uncollateralized, and shall be disclosed in the notes: the amount of the bank balances, the fact that the balances are uninsured, and whether the balances are exposed as to the particular collateral that is pledged by the financial institution (or the trust department of the financial institution).

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Compensated Absences

NWREC2 permits certain employees to accumulate a limited amount of earned, but unused, annual leave, which will be paid to employees upon separation from NWREC2's service. For governmental funds, expenditures are recognized during the period in which vacation costs become payable from available, expendable resources. A liability for amounts earned but not payable from available, expendable resources is reported in the government-wide financial statements.

Annual leave is earned up to a maximum of twenty (20) days at the end of each calendar year. Unused annual leave may be carried over in the following year, but upon cancellation of an employee's contract, no payment shall be made for more than twenty (20) days of accumulated unused annual leave.

Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as liabilities in the applicable governmental activities, statement of net assets.

Changes in general long-term debt during the year ended June 30, 2005, were as follows:

	Beginning Balance 6/30/2004	Addition	Deletion	Ending Balance 6/30/2005	Amounts Due within One Year
Compensated Absences	\$4,739	\$5,259	(\$3,953)	\$6,045	\$0

Other Liabilities - Overdrafts

As of June 30, 2005 NWREC2 had \$195,977 in over-drafts. This over-draft was due to a funding allotment that was not received until July of new fiscal year.

Net Assets

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as follows:

Investment in capital assets, net of related debt - This category reflects the portion of net assets that are associated with capital assets less outstanding capital asset related debt.

Restricted net assets - None.

Unrestricted net assets - This category reflects net assets of NWREC2, not restricted for any project or other purpose.

Fund Equity Reservation and Designations

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plants that are subject to change.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Charges for Services

NWREC2 on occasion provides educational services for other educational entities. In 2005 they provided \$97,756 in services.

Operating Grants and Contributions

NWREC2 receives a monthly allotment for the Department of Education, flow-through grants for special education IDEA -A entitlement/discretionary and IDEA-B preschool federal funds.

Budgets

Budgets for all funds are prepared by management and approved by NWREC2 and the New Mexico Public Education Department, as well as the New Mexico Department of Finance and Administration. The business manager is responsible for preparing the budget. The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the Board of Trustees for approval by resolution.

The proposed budget is then submitted by June 15th to the New Mexico Public Education Department (PED) for approval. PED certifies a pending budget by July 15th with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding.

These budgets are prepared on the non-GAAP modified accrual basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds are re-appropriated in the budget of the subsequent fiscal year. The budget process in New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such appropriated balance is legally restricted and is, therefore presented as a reserved portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local board approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences between the Governmental Funds

A. Balance Sheet and the Governmental-Wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the governmental-wide

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including notes payable, that are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Capital Assets	\$35,994
Compensated absences payable	(6,045)
Net adjustments to reduce fund balance -total	
Governmental funds to arrive at net assets -	0
governmental activities	\$29,949

B. Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that, "Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses." The details of this difference are as follows:

Capital outlay	\$12,283
Depreciation expense	(34,981)
Net adjustment to increase net changes in fund balances- total	
Governmental funds to arrive at changes in net assets of	
Government activities	(\$22,698)

3. Deposits and Investments

A. Deposits

NWREC2 maintains deposits in one financial institution, Wells Fargo Bank. NWREC2's deposits are carried at cost. The Federal Depository Insurance Corporation (FDIC) insures the cash accounts at the two financial institutions.

As of June 30, 2005, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

	Per Institution	Reconciling Items	Per Financial Statements
Community Bank,		(\$87,133)	\$ 327,154

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Espanola NM	\$	414,287	
Totals	\$	414,287	(\$87,133) \$ 327,154

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by NWREC2. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of NWREC2s' carrying value of the deposits (demand and certificates of deposit). Total cash of \$327,154 is the net of \$523,131 in gross cash less overdrafts of \$195,977.

CUSTODIAL CREDIT RISK - DEPOSITS: Custodial credit risk is the risk that in the event of a bank failure, the government does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$14,287 of the REC's bank balance was exposed to custodial credit risk as follows:

DEPOSITORY ACCOUNT	BANK BALANCE
Insured	\$ 100,000
Collateral held by Community Bank in NWREC's name	300,000
Uninsured and uncollateralized	14,287
Total Deposits	\$ 414,287

The amounts reported as cash for the primary government within the financial statements are composed of the following amounts.

Cash balances held at financial institutions	\$414,287
Total reconciled cash balance	\$414,287
Statement of Net Assets:	
Cash	\$327,154
Total cash reported on financial statements	\$327,154

The deposits are covered by the standard federal depository insurance and the balance collateralized at 100% in the form of: 1) a Federal Home Loan Bank Note for \$300,000 par value, CUSIP 3133XOE88, interest rate 3.125%, maturity date of 8/15/2007 institution's agent in the Bank's name holds the bond. The required amount of collateral is \$157,150.

Cash Reconciliation Schedule for 2004 to 2005

JUNE 30, 2005

Cash Reconciliation Schedule

	Special Education	LANL	Totals
Beginning Cash Balance	\$392,905	\$2,915	\$395,820
ADD: Receipts			
Federal Assistance	1,499,306	-	1,499,306

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Other programs	97,756	97,756
SUBTRACT: Disbursements		-
Special Education	1,365,696	- 1,365,696
Support Services	110,829	- 110,829
Other	176,444	- 176,444
Capital Outlays	15,206	- 15,206
Total Cash Disbursements	1,668,175	- 1,668,175
 Ending Balance	 324,239	 2,915 327,154

4. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2005 are as follows:

	Beginning					Ending
	Balance	Additions	Adjustments	Transfers	Retirements	Balance
GOVERNMENTAL ACTIVITIES						
Depreciable Assets						
Buildings and Improvements						
Computers	\$585,757	\$ 8,788	\$ -	\$ -	\$ -	\$594,545
Equipment	122,185	3,495				125,680
Total depreciable assets	707,942	12,283	-	-	-	720,225
Accumulated Depreciation						
Infrastructure	-	-	-	-	-	-
Buildings and Improvements	-		-	-	-	-
Computers	546,062	28,933	-	-	-	574,995
Equipment	103,187	6,048	-	-	-	109,235
Total Accumulated Depreciation	649,249	34,981	-	-	-	684,230
Governmental activities capital assets-net	\$ 58,693	(\$22,698)	\$ -	\$ -	\$ -	\$ 35,995

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

5. COMPENSATED ABSENCES

A liability for unused vacation for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered.
- leave or compensation is not contingent on a specific event (such as illness).

Per GASB Interpretation No.6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e., are due for payment). Compensated absences are accrued in the government-wide statements. The compensated absences liability attributable to the governmental activities will be liquidated primarily by the general fund.

6. RETIREMENT PLAN

Plan Description

Substantially, all of the full-time employees of NWREC2 participate in a defined benefit contributory retirement plan through the Educational Retirement Board (ERB) is the administrator of the plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERB, PO BOX 26129, Santa Fe, NM 87502.

7. POST-EMPLOYMENT BENEFITS

The Retiree Health Care Act, Chapter IV, Article 7C, NMSA 1978 provides a comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. NWREC2 has elected not to participate in the post-employment health insurance plan. NM Employee Retirement Health Care issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: New Mexico Employee Retiree Health Care, Ste 104, 4308 Carlisle Blvd NE Suite 104, Albuquerque, NM 87107

8. RISK MANAGEMENT

NWREC2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NWREC2 purchases commercial insurance to cover potential losses.

9. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although NWREC2 expects such amounts, if any, to be immaterial.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE, #2
NEW MEXICO
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2005

<u>COMMUNITY BANK, NEW MEXICO</u>	<u>TYPE</u>	<u>BANK BALANCE</u>	<u>RECONCILING ITEMS</u>	<u>BOOK BALANCE</u>
CHECKING ACCOUNT	DEMAND	414,287	108,843	327,154

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE, # 2
NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
YEAR ENDED JUNE 30, 2005

<u>SECURITY</u>	<u>CUSIP #</u>	<u>RATE</u>	<u>MATURITY DATE</u>	<u>MARKET VALUE</u>
FHLB	3133XOE88	3.125%	8/15/2007	\$295,688

A.J. PERKINS, CPA PC

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*

To: Hector H. Balderas, New Mexico State Auditor

To: Councilors, Northwest Regional Educational Cooperative No. 2 (NWREC2), New Mexico

We have audited the financial statements of the governmental activities, and each major fund, the aggregate remaining fund information and the budgetary comparison statement for the general fund of NWREC2, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered NWREC2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the agency's internal control over financial reporting.

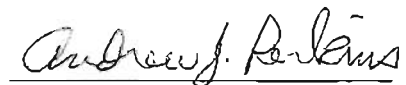
Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NWREC2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed two instances of reportable conditions (2004-01, 2005-02), and three instances of noncompliance (2002-02, 2002-03 and 2003-01) or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of

questioned costs as items A. Reportable condition, 2004-01; B. Non-compliance and other matters- 2002-01, 2002-03, and 2003-01.

This report is intended solely for the information and use of NWREC2's management, the New Mexico State Auditor, the New Mexico State legislature's audit committees, New Mexico Department of Finance and Administration and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Andrew J. Perkins
Santa Fe, New Mexico
December 29, 2008

A.J. PERKINS, CPA PC

Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

To: Hector H. Balderas, New Mexico State Auditor

To: Councilors, Northwestern Regional Educational Cooperative, No. 2 (NWREC2), New Mexico

Compliance

We have audited the compliance of NWREC2 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. NWREC2's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of NWREC2's management. Our responsibility is to express opinions on NWREC2's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NWREC2's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on NWREC2's compliance with those requirements.

In our opinion, the NWREC2 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. The results of our auditing procedures also disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item: 2002-03.

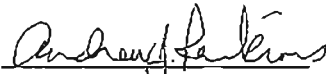
Internal Control Over Compliance

The management of NWREC2 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

In planning and performing our audit we considered the NWREC2's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no other matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, the New Mexico State Auditor, New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Andrew J. Perkins
Santa Fe, New Mexico
December 29, 2008

STATE OF NEW MEXICO
 NORTHWEST REGIONAL CENTER COOPERATIVE #2
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2005

<u>Federal Grantor/Program Title</u>	<u>Agency or Pass-Through Entity</u>	<u>Entity Identifying Number</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
U.S. Department of Education <i>Flowthrough New Mexico Public Education Department</i>				
IDEA-B Entitlement/Discretionary/Competitive	Department of Education	P.L. 94-192	84.027	\$ 1,554,156
IDEA-B Preschool	Department of Education	P.L. 94-192	84.173	56,211
Total Federal Expenditures of federal awards				<u>\$ 1,610,367</u>

See independent auditor's report.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2005

NOTE A- GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal awards programs of Northwest Regional Educational Cooperative #2 (NWREC2) for the year ended June 30, 2005. The Cooperative's reporting entity is defined in Note 1 to the NWREC2's June 30, 2005 basic financial statements.

NOTE B- BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using a basis of accounting which is consistent with the basic financial statements, as described in Note 1 to the NWREC2's basic financial statements.

NOTE C- RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance revenues reported in the NWREC2's basic financial statements are included with operating grants and contributions.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE, # 2
NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE.

III. PRIOR-YEAR AUDIT FINDINGS

A.

Item 2004-01 - Audit Report Submission to the New Mexico State Auditor-Late
Repeated

Item 2004-02 - Late submission of data collection form and reporting package to
the federal clearing house.
Repeated

B.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 JUNE 30, 2005
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting

. Material weakness(es) identified? _____ yes No

. Reportable condition(s) identified that are not considered to be material weaknesses? yes _____ No

Noncompliance material to financial statements noted? _____ yes No

FEDERAL AWARDS

Internal control over financial reporting

. Material weakness(es) identified? _____ yes No

. Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes No

Type of Auditor's Report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes _____ No

Identification of major programs:

CFDA Number	<u>Name of Federal Program</u>
84.027	IDEA-B Entitlement/Discretionary/Competitive
84.173	IDEA-B Preschool

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

Audittee qualified as low-risk audittee? yes _____ No

See Independent Auditor's Report

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE, # 2
NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SECTION II - FINDINGS - FINANCIAL STATEMENTS

A. REPORTABLE CONDITIONS

Item 2004-01 - Statement of Condition - NWREC2 has not met the standards for documenting a Child Find (state/local program) for the employees on July 10 through July 11, 2004. The following is a list of questioned costs:

No.	Date	Warrant	Name	Amount	Purpose	Documentation
1	07/22/04	10446	Andre Cordova	\$ 250.00	Services Rendered	None
2	07/22/04	10452	Matthew Guitierrez	250.00	Services Rendered	None
3	07/22/04	10466	Fred Unzueta (Spouse)	250.00	Services Rendered	None
4	07/13/08	10443	Kathy Borrego	1,200.00	Supplies for Retreat	None
5	07/09/04	10442	Diane Unzueta	750.00	Services Rendered	None
6	07/09/04	10441	Donika Trujillo	500.00	Services Rendered	None
7	07/09/04	10440	Demetria Navarrette	750.00	Services Rendered	None
8	07/09/04	10439	Matthew Guitierrez	750.00	Services Rendered	None
9	07/09/04	10438	Jeanelle Gutierrez	750.00	Services Rendered	None
10	07/09/04	10437	Darlene Chavez	750.00	Services Rendered	None
11	07/09/04	10436	Kathy Borrego	250.00	Services Rendered	None
Total				<u>\$6,450.00</u>		

Criteria - PED Regulation 6.20.2.11 INTERNAL CONTROL STRUCTURE STANDARDS:

Every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations. The internal control structure shall include written administrative controls (rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE, # 2
NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Effect - Disbursements were made in violation of PED 6.20.2.11, lacking internal and accounting controls which would have prevented undocumented expenses for the junket.

Cause - NWREC2 improperly paid expenses for this event without required documentation.

Recommendation - NWREC2 should be diligent in spending public funds, which would require documentation of expenses to include invoices, payment requests, purchase orders or other like documentation.. Although a retreat under most circumstances is allowable, proper documentation is necessary to vouch for the actual expenditures.

Response from NWREC2: The NWREC has consistently had strong internal procedures; however, the aforementioned lack of proper documentation, which is evident with regard to two activities cited by the auditor, will be addressed appropriately by the director and fiscal staff. The activities were undertaken during the closure of one fiscal year (2004) and the beginning of the 2005 fiscal year. The activities lacking proper documentation include: 1) the purchase of supplies for the governing council retreat and, 2) a contract to provide "Child Find Services" for Special Education for a school district during the summer months. The business manager, director and bookkeeper will ensure that all activities funded by the organization will include purchase requisitions, purchase orders, receipts, agendas for activities, and contracts as required and be especially vigilant during activities undertaken during the closure of a fiscal year.

Item 2005-02 - Statement of Condition - NWREC2 has a "Activity Fund" that was unbudgeted and contained amounts for services rendered to other districts.

Criteria - Sound financial management and 6-6-6 NMSA 1987 require that budgets not be exceeded at the legal level of control. For educational cooperatives, the expenditure function is the legal level of control.

Effect - NWREC2 was not in compliance with New Mexico law.

Cause - NWREC2 did not make the provide a budget for this fund.

Recommendation - NWREC2 should be diligent in spending public funds, which would require that all funds has a budget.

Response from NWREC2:

The 23002 account is an Agency Fund. These funds may be used for assets that are held in custodial capacity by a school district or charter school for individuals, private organizations, or other governments. In the past the School District has not budgeted Agency Funds. Here forward the REC #2 will budget the Agency Funds.

III. NON COMPLIANCE AND OTHER MATTERS

Item 2003 -01- Overspending budgeted amounts.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE, # 2
NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Statement of Condition - NWREC2's actual expenditures in the Special Education Fund exceeded budgetary authority by \$8,578. The budgeted amounts were exceeded for the following functions:

Function	Over (Under) Expended Amount
Special Education	\$ 4,385
Support Services	12,138
Capital Outlay	9,706
Total exceeded	\$ 26,229

Criteria - Sound financial management and 6-6-6 NMSA 1987 require that budgets not be exceeded at the legal level of control. For educational cooperatives, the expenditure function is the legal level of control.

Effect - NWREC2 was not in compliance with New Mexico law.

Cause - NWREC2 did not make the appropriate budgetary transfers to alleviate the over-expenditure

Recommendation -NWREC2 should establish a policy of budgetary review at year-end, and make necessary budget adjustments.

Response from NWREC2's officials - NWREC2 will monitor its budget more closely at year-end to make any necessary budget transfers to prevent over budgeted expenditures, as well as defer any unnecessary expenditures to the next fiscal year.

Item 2002 -02- Audit Report Submission to the New Mexico State Auditor

Statement of Condition - The required submission date of the audit report for the fiscal year ended June 30, 2004 to the New Mexico State Auditor was September 15, 2004. NWREC2 did not submit the report until September 22, 2008.

Criteria - New Mexico State Statute's Section 12-6-12 requires the state auditor to promulgate reasonable regulations necessary to carry out the duties of the office. New Mexico Administrative Code Title 2, Chapter 2, Part 2, Audits of Governmental Entities Requirements for Contracting and Conducting Audits of Agencies requires that the Schools submit their audit report by September 15, following the end of each fiscal year at June 30th.

Effect - Submission of a late audit report could impact state and federal funding provided to NMREC2. Also, users of the financial statements will not have timely financial statements and audit reports for their review.

Cause - NWREC2 was unable to secure an auditing firm until late 2007.

Recommendation -NWREC2 needs to engage an auditing firm on a timely basis as required by the New Mexico State Auditor's Office.

Response from NWREC2's officials - Management agrees with this finding. REC#2 had been unable to locate an auditor to complete it's 2002, 2003, 2004, 2005 and 2006 audits. We now have a contract with Andrew Perkins and will work diligently to assure that the audits are completed in a timely manner in the future.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE, # 2
NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Item 2002-03- Late Submission of data collection form and reporting package to the federal clearing house.

Statement of Condition - NMREC2 failed to submit the data collection form and the reporting package to the federal clearing house and the federal agencies within 9 months after fiscal year end. The audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Criteria - The data collection form and the reporting package to the federal clearing house and the federal agencies within 9 months after fiscal year end as required by OMB Circular A-133.320.

Effect - Submission of a late audit report could impact state and federal funding provided to NMREC2. Also, users of the financial statements will not have timely financial statements and audit reports for their review.

Cause - NWREC2 was unable to secure an auditing firm until late 2007 therefore they were unable to submit the data collection form and the reporting package.

Recommendation -Upon approval of the 2004 audit the auditor and the auditee will complete the data collection form.

Response from NWREC2's officials - Management agrees with this finding. REC#2 had been unable to locate an auditor to complete it's 2002, 2003, 2004, 2005 and 2006 audits. We now have a contract with Andrew Perkins and will work diligently to assure that the data collection report and the reporting packages are completed in a timely manner in the future.

NEW MEXICO
JUNE 30, 2005
PRIOR YEAR AUDIT FINDINGS

PRIOR-YEAR AUDIT FINDINGS

A.

Item 2004-01-Lack of standards for documentation for a Child Find Program.

Repeated.

B. Item 2002-03- Late Submission of data collection form and reporting package to the federal clearing house.

Repeated.

Item 2002-02- Audit Report Late Submission to the New Mexico State Auditor

Repeated.

Item 2003-01 Overspending budgeted amounts

Repeated.

Item 2004-03-Pledged Collateral requirement not met.

Corrected.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
NEW MEXICO
EXIT CONFERENCE AND OTHER INFORMATION
JUNE 30, 2005

Exit Conference

The audit report for the fiscal year ended June 30, 2005, was discussed during the exit conference held on December 29, 2008. Attendees were:

Adan Delgado, NWREC2 Council

Dr. Linda Coy, Executive Director

Andrew J. Perkins, CPA

FINANCIAL STATEMENT PREPARATION

The auditing firm of A.J. Perkins, Certified Public Accountant, PC prepared the financial statements of the Northwest Regional Education Cooperative, No. 2, as of June 30, 2005. NWREC2's upper management has reviewed and approved the financial statements and related notes, and they believe that the Village's books and records adequately support them.