

**NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE
NUMBER 2**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2008

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE NO. 2
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STATE OF NEW MEXICO
NORTHWEST REGIONAL CENTER COOPERATIVE NO. 2
OFFICIAL ROSTER
JUNE 30, 2008

COOPERATIVE COUNCIL

Adan Delgado	Council Chair Superintendent- Jemez Mountain Schools
Manuel Valdez	Council Vice-Chair Superintendent- Chama Valley
Victor Velarde	Superintendent- Cuba Schools
Ralph Friedly	Superintendent- Dulce Schools
Robert Archuleta	Superintendent- Mesa Vista Schools
Ernesto Valdez	Superintendent- Penasco Schools
Richard Romero	Superintendent- Questa Schools
Linda Coy	Executive Director

**PAUL A. DONISTHORPE, LLC
1011 4TH STREET NW
ALBUQUERQUE, NM 87102**

INDEPENDENT AUDITOR'S REPORT

To: Hector H. Balderas, NM State Auditor
Santa Fe, New Mexico
To: Councilors, Northwest Regional Educational Cooperative No. 2

We were engaged to audit the accompanying financial statements of the governmental activities the major fund, and the aggregate remaining fund information of the Northwest Regional Educational Cooperative No. 2 (the "Cooperative"), as of and for the year ended June 30, 2008, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management.

The Cooperative did not maintain and/or was unable to provide, adequate accounting records to provide sufficient information for the preparation of basic financial statements as required. Current management and staff of the Cooperative were not in place in the fiscal year ended June 30, 2008, and the individual responsible for the accounting and financial statement function of the Cooperative, entered a plea to fraud charges relating to activities as an employee at the school district which served as fiscal agent to the Cooperative during the year ended June 30, 2008. Current management and staff of the Cooperative was unable to provide verifiable budget information, interim financial reports detailing budget and actual information, and an up-to-date inventory of assets purchased with funds provided to the Cooperative. Additionally, intergovernmental agreements between the Cooperative and its members were not provided to document and substantiate expenditures made to the members from funds received by the Cooperative from the State of New Mexico Public Education Department.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2011 based our consideration of the Cooperative'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 describe the scope 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 engagement.

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

We were engaged to perform an audit for the purpose of forming opinions on the financial statements collectively comprising the Cooperative'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 State, Local Governments, and Non-Profit organizations*, and is also not a required part of the basic financial statements of the Cooperative. Because of the significance of the matters discussed above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the schedule of expenditures of federal awards.

A handwritten signature in black ink that reads "Paul A. Bernthompson LLC". The signature is written in a cursive, flowing style.

Albuquerque, New Mexico
February 16, 2011

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE # 2
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
ASSETS	
Total current assets	-
Capital assets	
Computer equipment	1,447,677
Furniture, fixtures and equipment	125,680
Less: accumulated depreciation	(1,171,825)
Total non-current assets	401,532
Total assets	\$ 401,532
LIABILITIES AND FUND BALANCES	
Liabilities	
Bank overdraft	\$143,874
Compensated absences payable	6,045
Total liabilities	149,919
Net assets	
Invested in capital assets	401,532
Unrestricted net assets	(149,919)
Total net assets	251,613
Total liabilities and net assets	\$ 401,532

The notes to financial statements are an integral part of this statement.

**NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

	Program Revenues			Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Instruction					
Special education	\$ 309,809	\$ 99,057	\$ 894,014	-	\$ 683,262
Other instructional programs					
Support services					
Student	4,278	-	-	-	4,278
Instructional	58,812	-	-	-	(58,812)
General administration	353,291	-	-	-	(353,291)
Student transportation	27,387	-	-	-	(27,387)
Depreciation	239,786	-	-	-	(239,786)
Total governmental activities	993,362	99,057	894,014	-	(291)
Total government	993,362	99,057	894,014	-	(291)
General revenues					
Interest income					812
Total general revenues					812
Change in net assets					521
Net assets - July 1, 2007					251,092
Net assets - June 30, 2008					\$ 251,613

The notes to financial statements are an integral part of this statement.

**NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008**

	Special Education Fund	LANL Foundation Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash	\$ -	\$ 2,915	\$ 2,915
Total assets	<u>\$ -</u>	<u>\$ 2,915</u>	<u>\$ 2,915</u>
Liabilities and fund balances			
Liabilities			
Bank overdraft	<u>146,789</u>	<u>-</u>	<u>146,789</u>
Total Liabilities	<u>146,789</u>	<u>-</u>	<u>146,789</u>
Fund balances			
Unreserved	<u>(146,789)</u>	<u>2,915</u>	<u>(143,874)</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 2,915</u>	<u>\$ 2,915</u>

The notes to financial statements are an integral part of this statement.

**NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE # 2
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2008

Total fund balances for governmental funds (Page 8) \$ (143,874)

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 \$ 401,532

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 6) **\$ 251,613**

The notes to financial statements are an integral part of this statement.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Special Education Fund	LANL Foundation Fund	Total Governmental Funds
Revenues			
Federal aid	\$ 894,014	\$ -	\$ 894,014
Charges for services	99,057		99,057
Total revenues	<u>993,071</u>	<u>-</u>	<u>993,071</u>
Expenditures			
Current			
Special education	372,899		372,899
Support services	353,291		353,291
Student transportation	27,387		27,387
Capital outlay	<u>303,836</u>		<u>303,836</u>
Total expenditures	1,057,413	-	1,057,413
Excess (deficiency) of revenues over expenditures	(64,342)	-	(64,342)
Other financing sources (uses):			
Interest	<u>812</u>	<u>-</u>	<u>812</u>
Total other financing sources (uses)	<u>812</u>	<u>-</u>	<u>812</u>
Net change in fund balance	(63,530)	-	(63,530)
Fund balance - July 1, 2007	<u>(83,259)</u>	<u>2,915</u>	<u>(80,344)</u>
Fund balance - June 30, 2008	<u>\$ (146,789)</u>	<u>\$ 2,915</u>	<u>\$ (143,874)</u>

The notes to financial statements are an integral part of this statement.

**NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE # 2
RECONCILIATION OF THE REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES**

JUNE 30, 2008

Net change in Fund Balances- total governmental funds (Page 10) \$ (63,530)

Amounts reported for governmental activities in the
statement of activities are different because:

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

Asset Capitalization	303,837
Depreciation Expense	<u>(239,786)</u>

Change in net assets of governmental activities (page 7) \$ (521)

The notes to financial statements are an integral part of this statement.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

SPECIAL EDUCATION FUND
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues				
Federal aid	1,406,981	791,931	\$ 894,014	102,083
Charges for services	-	-	99,869	99,869
Total revenues	<u>1,406,981</u>	<u>791,931</u>	<u>993,883</u>	<u>201,952</u>
Expenditures				
Current:				
Instruction	1,122,164	467,062	372,899	94,163
Support services	196,647	274,542	353,291	(78,749)
Operation of Non-Instructional Services	4,840	2,579	27,387	(24,808)
Capital outlay	-	11,143	303,836	(292,693)
Total expenditures	<u>1,323,651</u>	<u>755,326</u>	<u>1,057,413</u>	<u>(302,086)</u>
Excess of revenues and other sources over (under) expenditures and other uses	83,330	36,605	(63,530)	(100,134)
Fund balance - July 1, 2007	<u>(146,789)</u>	<u>(146,789)</u>	<u>(146,789)</u>	<u>(146,789)</u>
Fund balance - June 30, 2008	<u>\$ (63,459)</u>	<u>\$ (110,184)</u>	<u>\$ (210,319)</u>	<u>\$ (246,923)</u>

Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/Inflows of Resources:

Actual amounts – Budgetary Basis	\$ 993,883
Differences – Budget to GAAP	<u>(812)</u>
Total Revenues – GAAP Basis	<u>\$ 993,071</u>

Uses/Outflows of Resources:

Actual amounts – Budgetary Basis	\$1,057,413
Differences – Budget to GAAP	<u>-</u>
Total Expenditures – GAAP Basis	<u>\$1,057,413</u>

The notes to financial statements are an integral part of this statement.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

**LOS ALAMOS NATIONAL FOUNDATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues				
Federal aid	-	-	\$ -	-
Charges for services	-	-	-	-
Total revenues	-	-	-	-
Expenditures				
Current:				
Special education	-	-	-	-
Other instructional programs	-	-	-	-
Support services	-	-	-	-
Other	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues and other sources over (under) expenditures and other uses				
	-	-	-	-
Fund balance - July 1, 2007	-	-	2,915	-
Fund balance - June 30, 2008	\$ -	\$ -	\$ 2,915	\$ -

The notes to financial statements are an integral part of this statement.

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE # 2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The regional Cooperative Education Act, Sections 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 (the "Cooperative") was organized in 1985 for the purpose of promoting the education opportunities of handicapped children. The members of the Cooperative are Chama, Cuba, Dulce, Jemez Mountain, Mesa Vista, Penasco, Questa and Jemez Valley Schools. The Cooperative operates under a central administrative office whereby revenues and expenditures are allocated to each member school cooperative. The Cooperative also operates under the direction of a cooperative council.

The financial statements of the Cooperative are required to be 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 required to be 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 economics of scale and reduce overall REC expenditures."

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

Basis of Presentation, Basis of Accounting and Measurement Focus

The Cooperative'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 the Cooperative.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the Cooperative are financed through federal grants distributed through the New Mexico Public Education Department. 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.

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 of a particular function of activity.

NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2008

Fund Financial Statements

These statements provide information about the Cooperative's funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. Any remains would be aggregated and reported in a single column as other governmental funds.

All governmental funds of the Cooperative follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Operations, 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 the Cooperative's policy to use restricted resources first, and then unrestricted resources as they are needed.

The Cooperative has the following fund types:

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.

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 the Cooperative's general governmental activities. Governmental fund types use the flow of current financial resources measurement focus on 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 period. The Cooperative considers all revenues available if they are collected within 60 days after yearend. 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 Cooperative 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.

The Cooperative includes the following governmental fund type:

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

NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2008

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

The Cooperative's cash is considered to be cash on hand.

Cooperative 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. The Cooperative'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 No. 40, effective for the Cooperative after June 15, 2004 has been implemented as noted in Note 2 below.

Compensated Absences

The Cooperative permits certain employees to accumulate a limited amount of earned, but unused, annual leave, which will be paid to employees upon separation from the Cooperative'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.

NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2008

Changes in general long-term debt during the year ended June 30, 2008, were as follows:

	Beginning Balance 6/30/2007	Addition	Deletion	Ending Balance 6/30/2008	Amounts Due Within One Year
Compensated Absences	\$ 6,045			\$ 6,045	\$ 0

Net Assets

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

Investment in capital assets – 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 the Cooperative, 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 plans that are subject to change.

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

The Cooperative on occasion provides educational services for other educational entities.

Operating Grants and Contributions

The Cooperative 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 to be prepared by management and approved by the Cooperative and the New Mexico Public Education Department. The business manager is responsible for preparing the budget. The appropriated budget is to be 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 to be brought before the Board of Trustees for approval by resolution.

As noted in the findings herein, certain expenditures were in excess of budgetary amounts and budgeted expenditures exceeded budgeted revenues.

NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2008

The proposed budget is then to be submitted by June 15th to the New Mexico Public Education Department (PED) for approval. PED is to certify 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 to be 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 an expenditure function basis – i.e. actual expenditures by function must be within budgeted amounts. 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 Public Education Department.

NOTE 2. DEPOSITS AND INVESTMENTS

A. Deposits

The Cooperative maintains deposits in one financial institution, Community Bank of Espanola, NM. The Cooperative’s deposits are carried at cost. The Federal Depository Insurance Corporation (FDIC) insures the cash accounts at the financial institution.

As of June 30, 2008, 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:

	<u>Per Institution</u>	<u>Reconciling Items</u>	<u>Per Financial Statements</u>
Community Bank Espanola, NM	\$12,404	(\$156,278)	\$ (143,874)
	<hr/> \$ 12,404	<hr/> (\$156,278)	<hr/> \$ (143,874)

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the Cooperative. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the Cooperative’s carrying value of the deposits (demand and certificates of deposits).

CUSTODIAL CREDIT RISK – DEPOSITS: Custodial credit risk is the risk that in the event of such bank failure, the government does not have a deposit policy for custodial credit risk. As of June 30, 2008, none of the Cooperative’s bank balance was exposed to custodial credit risk as follows:

DEPOSITORY ACCOUNT	BANK BALANCE
Insured	\$ 100,000
Collateral held by Community Bank in Cooperative’s name	\$ 300,000
Uninsured and uncollateralized	<u>\$ -</u>
Total Deposits	\$ 12,404

NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2008

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	<u>\$ 12,404</u>
Total reconciled cash balance	<u>\$ (143,874)</u>
Statement of Net Assets:	
Cash	<u>\$ (143,874)</u>
Total cash reported on financial statements	<u>\$ (143,874)</u>

The deposits are covered by the standard federal depository insurance. The required amount of collateral is \$-0-.

Cash Reconciliation Schedule for 2007 to 2008

June 30, 2008

Cash Reconciliation Schedule

	<u>Special Education</u>	<u>LANL</u>	<u>Totals</u>
Beginning Cash Balance	\$ 424,473	\$2,915	\$427,388
ADD: Receipts			
Federal Assistance	894,014		894,014
Other Programs	102,545		102,545
SUBTRACT: Disbursements	<u>1,411,543</u>		<u>1,411,543</u>
Ending Balance	<u>\$ 9,489</u>	<u>\$2,915</u>	<u>\$ 12,404</u>

NOTE 3. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2008 are as follows:

	<u>Beginning</u>						<u>Ending</u>
Governmental Activities	<u>Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Transfers</u>	<u>Retirements</u>		<u>Balance</u>
Computers	\$1,143,840	\$303,837	\$ -	\$ -	\$ -	-	\$ 1,447,677
Equipment	125,680	-					125,680
Total Depreciable Assets	\$1,269,520	\$303,837	-	-		-	\$1,573,357

NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2008

Accumulated Depreciation

	Beginning Balance	Additions	Adjustments	Transfers	Retirements	Ending Balance
Computers	\$810,708	\$233,738	\$ -	\$ -	\$ -	\$1,044,446
Equipment	121,331	6,048				127,379
Total Accumulated Depreciation	<u>\$932,039</u>	<u>\$239,786</u>	-	-	-	<u>\$1,171,825</u>
Governmental Activities Capital Assets-Net	\$337,481	64,015	-	-	-	\$ 401,532

NOTE 4. 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 the government-wide statements. The compensated absences liability attributable to the government activities will be liquidated primarily by the general fund.

NOTE 5. RETIREMENT PLAN

Plan Description

Substantially, all of the full-time employees of the Cooperative participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA (1978). The Educational Retirement Board (ERA) is the administrator of the plan, which is a cost sharing multiple employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. ERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERA, PO BOX 26129, Santa Fe, NM 87502.

Funding Policy

Plan members are required to contribute 7.825% of their gross salary. The Cooperative is required to contribute 10.90% of the gross covered salary. The contributions requirements of plan members and the Cooperative are established in Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. Cooperative contributions to the ERA for the years ended June 30, 2008, 2007 and 2006 were not available to the Auditor.

NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2008

NOTE 6. 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. The Cooperative has elected not to participate in the post-employment health insurance plan.

NOTE 7. RISK MANAGEMENT

The Cooperative 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. The Cooperative purchases commercial insurance to cover potential losses.

NOTE 8. 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 the Cooperative expects such amounts, if any, to be immaterial.

**PAUL A. DONISTHORPE, LLC
1011 4TH STREET NW
ALBUQUERQUE, NM 87102**

***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

We were engaged to audit 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 Northwest Regional Educational Cooperative No. 2, New Mexico (the "Cooperative"), as of and for the year ended June 30, 2008, and have issued our report thereon dated February 16, 2011. Because of the significance of the matters discussed in our report dated February 16, 2011 the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

Internal Control over Financial Reporting

In planning and performing our engagement, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the agency's 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 was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the agency's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2006-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative'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 instances of reportable conditions (2006-01), and three instances on noncompliance (2006-02, 2003-01 and 2002-02) or other matters that are required to be reported under *Government Auditing Standards*.

The Cooperative's response to the findings identified above are described in the accompanying schedule of findings and questioned costs. We did not audit the Cooperative's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Cooperative'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.

A handwritten signature in black ink that reads "Paul A. Demuth, LLC". The signature is written in a cursive, flowing style.

February 16, 2011

**PAUL A. DONISTHORPE, LLC
1011 4TH STREET NW
ALBUQUERQUE, NM 87102**

***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, Northwest Regional Educational Cooperative No. 2

Compliance

We were engaged to audit the compliance of Northwest Regional Educational Cooperative No. 2, New Mexico (the "Cooperative") 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, 2008. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Cooperative's management.

Our engagement was required to be conducted 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 required that we plan and perform any audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. Because of the significance of the matters discussed in our report dated February 16, 2011, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

As described in the accompanying schedule of findings and questioned costs, the Cooperative did not comply with requirements regarding documenting expenditures that are applicable to its IDEA-B major federal program. Compliance with such requirements is necessary, in our opinion, for the Cooperative to comply with the requirements applicable to that program.

Accordingly, we are unable to express, and do not express an opinion with respect to whether the Cooperative 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, 2008. The results of our auditing procedures also disclosed other instances 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: 2004-01.

Internal Control Over Compliance

The management of the Cooperative 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 engagement we considered the Cooperative'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* exists in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2002-03 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We considered the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Cooperative's responses to the findings identified in our engagement are described in the accompanying schedule of findings and questioned costs. We did not audit the Cooperative's responses and, accordingly, we express no opinion on the responses.

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.

Handwritten signature in cursive script, appearing to read "Paul A. Demuth".

February 16, 2011

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE # 2
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
JUNE 30, 2008

Federal Grantor/ Program Title	Agency or Pass- Through Entity	Entity Identifying Number	Federal CFDA No.	Federal Expenditures
U.S. Department of Education				
<i>Flow through New Mexico Pubic Education Department</i>				
IDEA-B Entitlement/Discretionary/ Competitive	Department of Education	P.L. 94-192	84.027	\$587,156
IDEA-B Preschool	Department of Education	P.L. 94-192	84.173	67,868
Total Federal Expenditures of federal awards				<u>\$655,024</u>

NOTE A-GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal awards programs of Northwest Regional Cooperative #2 (the "Cooperative") for the year ended June 30, 2008. The Cooperative's reporting entity is defined in Note 1 to the Cooperative's June 30, 2008 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 Cooperative's basic financial statements.

NOTE C-RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

**NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2008**

A. SUMMARY OF AUDITOR'S RESULTS

• **FINANCIAL STATEMENTS**

Type of auditor's report issued: *Disclaimer*

Internal control over financial reporting

Material weakness(es) identified? X Yes ___ No

Significant deficiencies identified that are not
 Considered to be material weaknesses? X Yes ___ No

Noncompliance material to financial statements noted? X Yes ___ No

• **FEDERAL AWARDS**

Internal control over financial reporting

Material weakness(es) identified? ___X Yes ___ No

Significant deficiencies identified that are not
 Considered to be material weaknesses? ___ Yes X No

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

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

Identified of major programs:

<u>CFDA Number</u>	<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

Auditee qualified as low-risk auditee? ___ Yes X No

B. FINANCIAL STATEMENT FINDINGS

Item 2006-01 –Repeated – Lack of Standards for Documentation of Expenditures.

Statement of Condition - The Cooperative has not met the standards for documenting numerous expenditures. Testwork performed revealed 20 transactions totaling \$262,240 which are or may be questioned costs and expenditures.

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 of 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.

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

Cause – The Cooperative improperly paid expenses without required documents.

Recommendation – The Cooperative 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 the Cooperative:

Cooperative is under new management and financial system which will be more diligent and responsive to disbursement requirements than what existed at the fiscal agent in place during Fiscal Year 2007-2008.

Item 2006-02 –Modified and Repeated - No recordation or reporting of budgetary vs. actual expenditures

Statement of Condition – The Cooperative was unable to present evidence of budgetary approval for expenditures for the fiscal year as is required by State law. For fiscal 2008, the entity had a budgeted negative balance where budgeted expenditures exceeded budgeted revenues.

Criteria – Sound financial management and 6.20.2 NMAC (Title 6, Chapter 20, Part 2 NMAC) 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 – The Cooperative was not in compliance with New Mexico law.

Cause – The Cooperative was unable to document any budgetary information or appropriate budgetary transfers to avoid the expenditure.

Recommendation – The Cooperative should establish and maintain a policy of budgetary review at year-end, and make necessary budget adjustments.

Response from the Cooperative:

Cooperative is under new management and financial system which will be more diligent and responsive to budgetary reporting requirements than what existed at the fiscal agent in place during Fiscal Year 2007-2008

Item 2003-01 – Repeated – Over Expenditure of Budget.

Statement of Condition – The Cooperative’s actual expenditures in the Support Services function exceeded budgetary authority by \$78,749, actual expenditures in the Operation of Non-Instructional Services function exceeded budgetary authority by \$24,808 and actual expenditures in the Capital Outlay function exceeded budgetary authority by \$292,693.

Criteria – Sound financial management and 6.20.2 NMAC requires that budgets not be exceeded at the legal level of control. For educational cooperatives, the expenditure function is the legal level of control.

Effect – The Cooperative was not in compliance with New Mexico law.

Cause – The Cooperative did not make the appropriate budgetary transfers to alleviate the over-expenditure.

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

Response from the Cooperative – The Cooperative 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 expenditure to the next fiscal year.

Item 2002-02 – Repeated - 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 20, 2008 to the New Mexico State Auditor was not submitted until at least February, 2011.

Criteria – New Mexico State Statute’s Section 12-6-12 requires that 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 NWREC2. Also, users of the financial statements will not have timely financial statements and audit reports for their review.

Cause – The Cooperative was unable to secure an auditing firm until 2010.

Recommendation – The Cooperative needs to engage an auditing firm on a timely basis as required by the New Mexico State Auditor’s Office.

Response from Cooperative Officials – Management agrees with this finding. The Cooperative had been unable to locate an auditor to complete the 2006, 2007 and 2008 audits until June 2010. The Cooperative is working with the contracted firm to assure that the audits are completed in a timely manner in the future.

C. FEDERAL AWARD FINDINGS

Item 2004-01 – Repeated – Lack of Standards for Documentation of Child Find Program CFDA 84.173 IDEA-B Preschool US Department of Education P.L. 94-192 through New Mexico Department of Education .

Statement of Condition - The Cooperative has not met the standards for documenting numerous expenditures for the Child Find program. Testwork performed revealed numerous transactions which are or may be questioned costs and expenditures

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 of 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.

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

Cause – The Cooperative improperly paid expenses without required documents.

Recommendation – The Cooperative 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 the Cooperative:

Cooperative is under new management and financial system which will be more diligent and responsive to disbursement requirements than what existed at the fiscal agent in place during Fiscal Year 2007-2008.

Item 2002-03 – Repeated- Late Submission of data collection form and reporting package to the federal clearinghouse CFDA 84-173 IDEA-B Preschool US Dept of Education through New Mexico Department of Education and CFDA 84.027 IDEA B Discretionary US Department of Education P.L. 94-192 through New Mexico Department of Education.

State of Condition - The Cooperative failed to submit the data collection form and the reporting package to the federal clearinghouse 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 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 clearinghouse and the federal agencies within 9 months after fiscal year end as required by OMB Circular A-133.320. This criteria is applicable for monies received by the Cooperative under CFDA Nos. 84.027 and 84.173.

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

Cause – The Cooperative was unable to secure an auditing firm until mid 2010 therefore they were unable to submit the data collection form and the reporting package.

Recommendation – Upon approval of the 2008 audit the auditor and the auditee will complete the data collection form.

Response from Cooperative Officials – Management agrees with this finding. The Cooperative had been unable to locate an auditor to complete its 2006, 2007 and 2008 audits. We will work diligently to assure that the data collection report and the reporting packages are completed in a timely manner in the future.

NORTHWEST REGIONAL EDUCATION COOPERATIVE NO. 2
JUNE 30, 2008
PRIOR YEAR FINDINGS

PRIOR YEAR FINDINGS

1. 2006-01 – Lack of standards for documentation of expenditures
Repeated
2. 2006-02 - No recordation or reporting of budgetary vs. actual expenditures
Modified and repeated
3. Item 2004-01- Lack of standards for documentation for a Child Find Program
Repeated
4. Repeated Item 2003-01- Over Expenditure of Budget
Repeated
5. Item 2002-03- Late Submission of data collection form and reporting package to the federal clearinghouse.
Repeated
6. Item 2002-02- Audit Report Late Submission to the New Mexico State Auditor
Repeated

NORTHWEST REGIONAL EDUCATION COOPERATIVE NO. 2

**EXIT CONFERENCE AND OTHER INFORMATION
JUNE 30, 2008**

Exit Conference

The audit report for the fiscal year ended June 30, 2008, was discussed during the exit conference held on February 7, 2011. Attendees were:

Victor Velarde, Chair - NWREC2 Council

Dr. Linda Coy, Executive Director

Frank Mestas, NWREC2 Staff

Patty Nemmo, NWREC2 Staff

Paul A. Donisthorpe, CPA

FINANCIAL STATEMENT PREPARATION

The auditing firm of Paul A. Donisthorpe LLC prepared the financial statements of Northwest Regional Education Cooperative, No. 2, as of June 30, 2008. The Cooperative's upper management has reviewed and approved the financial statements and related notes as presented with the disclaimer of opinion by Paul A. Donisthorpe LLC.