

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL
COOPERATIVE #2

COMPREHENSIVE ANNUAL REPORT
AND
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2010
WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The logo for Keystone Accounting, LLC features a stylized, calligraphic 'K' and 'A' that are intertwined. The 'K' is on the left, and the 'A' is on the right, with their stems overlapping. The letters are in a serif font with decorative flourishes.
KEYSTONE ACCOUNTING, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

OFFICIAL ROSTER
June 30, 2010

Cooperative Council

| | |
|-----------------|--------------------|
| Manuel Valdez | Council Chair |
| Victor Velarde | Council Vice Chair |
| Eric Martinez | Council Secretary |
| Rose Rooth | Council Member |
| Randall Earwood | Council Member |
| Ernesto Valdez | Council Member |
| Adan Delgado | Council Member |

Cooperative Officials

| | |
|-----------|--------------------|
| Linda Coy | Executive Director |
|-----------|--------------------|

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FINANCIAL SECTION

FISCAL YEAR 2010

JULY 1, 2009 THROUGH JUNE 30, 2010

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KEYSTONE ACCOUNTING, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, New Mexico State Auditor
and the Governing Council of
Northwest Regional Educational Cooperative #2

We have audited the accompanying financial statements of the governmental activities, the major fund, the aggregate remaining fund information, and budgetary comparison for the general fund of the Northwest Regional Educational Cooperative #2, as of and for the year ended June 30, 2010, which collectively comprise the Northwest Regional Educational Cooperative #2's basic financial statement as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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 our opinions.

Due to the lack of substantiating evidence, we were not able to apply other auditing procedures to satisfy ourselves as to the correct posting and classification of the revenue and expenses for the year ended June 30, 2010. Accordingly, the scope of our work was not sufficient to enable us to express an opinion, and we do not express an opinion on the accompanying statements of activities for the year ended June 30, 2010.

Since there was not sufficient evidential matter and we were not able to apply other auditing procedures to satisfy ourselves as to the ending balances at June 30, 2010 of the revenues and expenditures and the related classifications for the year ended June 30, 2010 the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Activities of the Primary government, Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds, and Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non – GAAP Budgetary Basis) – General Fund.

In our opinion, except as discussed above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the major fund, and the aggregate remaining information of the Northwest Regional Education Cooperative #2, as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Hector H. Balderas, New Mexico State Auditor
and the Governing Council of
Northwest Regional Educational Cooperative #2

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2012, on our consideration of the Northwest Regional Educational Cooperative #2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in assessing the results of our audit.

The Cooperative has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not a required part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The additional schedules listed as "other supplemental information" in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. Because of the significance of the matter disclosed in the auditor's report, it is inappropriate to, and the auditor does not, express an opinion on the other supplemental information.

Keystone Accounting, LLC

March 15, 2012

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

STATEMENT OF NET ASSETS
June 30, 2010

| | Primary Government |
|---------------------------------|-----------------------------------|
| | Governmental <u>Activities</u> |
| ASSETS | |
| Cash and cash equivalents | \$ 115,191 |
| Receivables: | |
| Grant | 136,224 |
| Non-current: | |
| Depreciable capital assets, net | 66,190 |
| Total assets | \$ 317,605 |
| LIABILITIES | |
| Accounts payable | \$ 17,820 |
| Accrued salaries | 3,682 |
| Compensated absences | 1,754 |
| Total liabilities | 23,256 |
| NET ASSETS | |
| Invested in capital assets | 66,190 |
| Unrestricted | 228,159 |
| Total net assets | \$ 294,349 |

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

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

| Functions/Programs | Program Revenues | | |
|---|---|--|-------------|
| <u>Expenses</u> | <u>Operating Grants and Contributions</u> | <u>Primary Governmental Activities</u> | |
| Primary government: | | | |
| Governmental activities: | | | |
| Instruction | \$ 231,081 | \$ 216,932 | \$ (14,149) |
| Support Services - Students | 769,988 | 722,841 | (47,147) |
| Support Services - Instruction | 1,937 | 1,818 | (119) |
| Support Services - General Administration | 60,696 | 56,979 | (3,717) |
| Support Services - School Administration | 268,467 | 252,028 | (16,439) |
| Central Services | 76,739 | 72,040 | (4,699) |
| Operations & Maintenance of Plant | 22,753 | 21,360 | (1,393) |
| Student Transportation | 6,150 | - | (6,150) |
| Total governmental activities | \$ 1,437,811 | \$ 1,343,998 | (93,813) |
| | | General revenues: | |
| | | Unrestricted investments | 557 |
| | | Change in net assets | (93,256) |
| | | Net assets - beginning | 387,605 |
| | | Net assets - ending | \$ 294,349 |

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

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

GOVERNMENTAL FUNDS

Balance Sheet
June 30, 2010

| | General <u>Fund</u> |
|--|------------------------|
| ASSETS | |
| Pooled cash and investments | \$ 115,191 |
| Receivables: | |
| Grant | <u>136,224</u> |
| Total assets | <u>\$ 251,415</u> |
| LIABILITIES AND FUND BALANCE | |
| Liabilities: | |
| Accounts payable | 17,820 |
| Accrued salaries | <u>3,682</u> |
| Total liabilities | 21,502 |
| Fund balance: | |
| Unreserved, undesignated, and reported in: | |
| General fund | <u>229,913</u> |
| Total liabilities and fund balance | <u>\$ 251,415</u> |

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

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

RECONCILIATION OF THE BALANCE SHEET - ALL
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2010

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

| | |
|---|-------------------|
| Fund balances - total governmental funds | \$ 229,913 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Capital assets | 1,599,273 |
| Accumulated depreciation | (1,533,083) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds | |
| Accrued vacation payable | <u>(1,754)</u> |
| Net assets of governmental activities | <u>\$ 294,349</u> |

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

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and
Changes in Fund Balance
Year Ended June 30, 2010

| | <u>General Fund</u> |
|---|-------------------------|
| Revenues: | |
| Federal sources: | |
| Federal direct grants | \$ 62,436 |
| State sources: | |
| State flow through grants | 1,281,562 |
| Local sources: | |
| Earnings from investments | <u>557</u> |
| Total revenue | <u>1,344,555</u> |
| Expenditures: | |
| Current: | |
| Instruction | 209,271 |
| Support Services - Students | 697,316 |
| Support Services - General Administration | 54,967 |
| Support Services - School Administration | 243,129 |
| Central Services | 69,496 |
| Operations & Maintenance of Plant | 20,606 |
| Student Transportation | <u>5,570</u> |
| Total expenditures | <u>1,300,355</u> |
| Excess of revenues over expenditures | 44,200 |
| Fund balance at beginning of the year | <u>185,713</u> |
| Fund balance at end of the year | <u>\$ 229,913</u> |

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

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

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

| | |
|---|--------------------|
| Net change in fund balance - total governmental funds | \$ 44,200 |
| <p>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 expense. This is the amount by which capital outlays exceeded depreciation in the current year.</p> Depreciation | (135,702) |
| <p>Some expenses 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.</p> Current Year Compensated Absences | <u>(1,754)</u> |
| Change in net assets of governmental activities | <u>\$ (93,256)</u> |

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

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

GENERAL FUND
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with |
|---|------------------|-----------|-------------------|--|
| | Original | Final | (Budgetary Basis) | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Federal sources: | | | | |
| Federal flowthrough grant | \$ - | \$ 62,466 | \$ 62,436 | \$ (30) |
| State sources: | | | | |
| State flowthrough grant | - | 1,341,438 | 1,281,562 | (59,876) |
| Local sources: | | | | |
| Earnings from investments | - | - | 557 | 557 |
| Total revenues | - | 1,403,904 | 1,344,555 | (59,349) |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | - | 200,260 | 209,271 | (9,011) |
| Support Services - Students | - | 710,053 | 697,316 | 12,737 |
| Support Services - General Administration | - | 55,504 | 54,967 | 537 |
| Support Services - School Administration | - | 338,919 | 243,129 | 95,790 |
| Central Services | - | 73,502 | 69,496 | 4,006 |
| Operation & Maintenance of Plant | - | 20,096 | 20,606 | (510) |
| Student Transportation | - | 5,570 | 5,570 | - |
| Total expenditures | - | 1,403,904 | 1,300,355 | 103,549 |
| Excess of revenues over expenditures | - | - | 44,200 | 44,200 |
| Fund balance at beginning of the year | - | - | 185,713 | 185,713 |
| Fund balance at end of the year | \$ - | \$ - | 229,913 | \$ 229,913 |
| RECONCILIATION TO GAAP BASIS: | | | | |
| Change in payables | | | - | |
| | | | \$ 229,913 | |

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

I. SUMMARY OF ALL SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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 #2 (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 Governing Council.

The Cooperative's financial statements are required to be prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Cooperative does not contain any component units that are required to be presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*.

1. Blended Component Units

The Cooperative does not have any component units reported as blended component units.

2. Discretely Presented Component Units

The Cooperative does not have any component units reported as a discretely presented component unit.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

The summary of significant accounting policies of the Cooperative is presented to assist in the understanding of the Cooperative's financial statements. The financial statements and notes are the representation of Northwest Regional Educational Cooperative #2's management who is responsible for their integrity and objectivity. The financial statements of the Cooperative conform to 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 of the government's accounting policies are described below.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Cooperative. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Compensated absences and claims and judgments, are recorded only when payment is due.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The government reports the following major governmental funds:

General Fund – The general fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Similar to private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

The government’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the investment of the Cooperative’s funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The Cooperative is also allowed to invest in United States Government obligations. All funds for the Cooperative must follow the above investment policies.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

1. *Deposits and investments* (continued)

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Cooperative. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

3. *Inventories*

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. The Cooperative did not have any inventories as of June 30, 2010.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

4. *Capital assets*

Capital assets, which include property, plant, and equipment (software), are reported in the applicable governmental-wide financial statements. Beginning July 1, 2005, the threshold for defining Capital assets by the government was raised from \$1,000 to assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The costs of library books are not depreciated unless the individual cost is in excess of \$5,000. Software costs have been included with the cost of computer equipment and are capitalized with that equipment. The Cooperative does not develop software for internal use or any other use.

Property, plant, and equipment of the primary government are 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 |
| Vehicles | 5 |

5. *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 cost 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.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

6. *Fund balance*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Net assets*

Net assets are presented on the statement of net assets and may be presented in any of three components.

a. Invested in capital assets, net of related debt

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. That portion of the debt is included in restricted for capital projects.

b. Restricted net assets

Net assets are reported as being restricted when the restriction is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

c. Unrestricted net assets

Unrestricted net assets consist of net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

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

In the governmental environment, net assets often are designated to indicate that management does not consider them to be available for general operations. In contrast to restricted net assets, these types of constraints on resources are internal and management can remove or modify them. However, enabling legislation established by the reporting government should not be construed as an internal constraint.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

8. *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budgets for the General Fund are prepared by management and are approved by the Cooperative and the New Mexico Public Education Department.

These budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. The budget process in the State of New Mexico requires that the beginning cash balance be 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 line item basis, i.e., each budgeted expenditure must be within budgeted amounts. Budgets may be amended in two ways. If a budget transfer is necessary within a major category called a 'series', this may be accomplished with only Governing Council approval. If a transfer between 'series' or a budget increase is required, approval must also be obtained from the Public Education Department.

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. Budgetary Information (continued)

The Cooperative follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In April or May, the Executive Director submits to the Governing Council a proposed operating budget of the fiscal year commencing the following July. The operating budget includes proposed expenditures and the means of financing them, and has approval by the Department of Education.
2. In May or June, the budget is approved by the Governing Council.
3. The Governing Council meeting, while not intended for the general public, is open for the general public unless a closed meeting has been called for.
4. The Executive Director is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the board and the State of New Mexico Public Education Department.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The budget for the General is adopted on a basis not consistent with generally accepted accounting principles (GAAP). Encumbrances are treated the same way for GAAP purposes and for Budget purposes.

The Governing Council may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance. New Mexico state law prohibits a Governmental Agency to exceed an individual line item.

| | | | |
|--------------|------------------------|-----------------------|--|
| | <u>Original Budget</u> | <u>Final Budget</u> | |
| General Fund | \$ <u> -</u> | \$ <u> 1,403,904</u> | |

B. Budgetary Violations

All required budgetary information was not available for examination. There were over expenditures between actual and budgeted line item expenditures. The following funds had over expenditures:

| <u>Fund</u> | | <u>Final Budget</u> | <u>Expenditures</u> | <u>Over Expended</u> |
|-------------|-----------------------------------|---------------------|---------------------|----------------------|
| General | Instruction | \$ 200,260 | \$ 209,271 | \$ (9,011) |
| General | Operations & Maintenance of Plant | 20,096 | 20,606 | (510) |

C. Deficit fund equity

There was no deficit fund balance as of June 30, 2010.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Temporary Investments

At June 30, 2010, the carrying amount of the Cooperative's deposits was \$115,191 and the bank balance was \$211,863 with the difference consisting of outstanding checks. Of this balance \$211,863 was covered by federal depository insurance. The Cooperative was not required to have pledged collateral at June 30, 2010. The Cooperative had pledged collateral that was in excess of the requirements under state law by \$300,291.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Cooperative for at least one half of the amount on deposit with the institution. The statement listed below will meet the State of New Mexico Office of the State Auditor's requirement in reporting the uninsured portion of the deposits. As of June 30, 2010, none of the Cooperative's bank balance of \$211,863 was exposed to custodial risk as follows:

| | | |
|--|----|----------------------------|
| Uninsured and uncollateralized | \$ | - |
| Uninsured and collateral held by pledging bank's trust dept not in the Cooperative's name | | - |
| | | <hr style="width: 100%;"/> |
| Total uninsured | | - |
| Insured (FDIC) | | 211,863 |
| | | <hr style="width: 100%;"/> |
| Total deposits | \$ | <u>211,863</u> |
| State of New Mexico collateral requirement: | | |
| 50% of uninsured public fund bank deposits | \$ | - |
| Pledged security | | - |
| | | <hr style="width: 100%;"/> |
| Under collateralization | \$ | <u>-</u> |

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Cooperative. Time deposits, savings deposits and interest bearing "Now" accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

III. DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

The Cooperative had governmental receivables in the General Fund in the amount of \$136,224 at June 30, 2010.

An allowance for doubtful accounts has not been established. All receivables are expected to be collectible.

Governmental funds reported deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, there were not any deferred revenue or unearned revenue reported in the governmental funds.

C. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Adjustments</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|------------------|--------------------|---------------------------|
| Governmental activities: | | | | | |
| Capital assets, being depreciated: | | | | | |
| Furniture, fixtures, and equipment | \$ 125,680 | \$ - | \$ - | \$ - | \$ 125,680 |
| Vehicles | 25,916 | - | - | - | 25,916 |
| Computer equipment | 1,447,677 | - | - | - | 1,447,677 |
| Total capital assets being depreciated | <u>1,599,273</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,599,273</u> |
| Less accumulated depreciation for: | | | | | |
| Furniture, fixtures, and equipment | (125,680) | - | - | - | (125,680) |
| Vehicles | (5,183) | (5,183) | - | - | (10,366) |
| Computer equipment | (1,266,518) | (130,519) | - | - | (1,397,037) |
| Total accumulated depreciation | <u>(1,397,381)</u> | <u>(135,702)</u> | <u>-</u> | <u>-</u> | <u>(1,533,083)</u> |
| Total capital assets being depreciated, net | <u>\$ 201,892</u> | <u>\$ (135,702)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 66,190</u> |

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

III. DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets (continued)

Depreciation has been allocated to the functions by the following amounts:

| <u>Depreciation Allocation of Functions</u> | |
|---|-------------------|
| Instruction | \$ 21,841 |
| Support Services -Students | 72,770 |
| Support Services - General Administration | 5,736 |
| Support Services - School Administration | 25,372 |
| Central Services | 7,252 |
| Operations & Maintenance of Plant | 2,150 |
| Student Transportation | 581 |
| Total Depreciation Expense | <u>\$ 135,702</u> |

The Schedule of Capital Assets Used by Source and the Schedule of Changes in Capital Assets by Function and Activity have not been prepared because the detailed information is unavailable.

D. Inter-Fund Receivables and Payables

There were not any inter-fund receivables or payables at June 30, 2010.

IV. OTHER INFORMATION

A. 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; injury to employees; and natural disasters. The New Mexico Public Schools Insurance Authority (NMSIA) was formed on April 5, 1985 under the New Mexico Public Schools Insurance Authority Act, Chapter 22, Section 2 of the New Mexico Statutes Annotated (NMSA 1978), as amended, as an insurance fund to provide health, disability and life insurance coverage (benefits coverage), and property, casualty and worker's compensation insurance coverage (risk coverage) to participating public schools, school board members, public school employees, and retirees within the State of New Mexico. The Cooperative is one of 91 members that participate in NMPSIA. Participation in NMPSIA is mandatory for all K-12 public schools except those with enrollment exceeding 60,000 students. Participation is voluntary for other public education institutions. The Cooperative pays an annual premium to the pool for its general insurance coverage. The agreement for formation of NMPSIA provides that the pool will be self-sustaining through member premiums. NMPSIA establishes self-insured retentions by line of coverage and procures insurance and reinsurance, where indicated, in excess of the self-insured retention on a per occurrence basis. NMPSIA will publish its own financial report for the year ended June 30, 2010.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

IV. OTHER INFORMATION (continued)

B. Contingent Liabilities

Amounts received or receivable from grant 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 amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

C. Employee Retirement Plan

Plan Description - Substantially all of the Cooperative's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments for plan members (certified teachers, and other employees of State public school districts, colleges and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes the financial statements and required supplementary information for the plan. That report may be obtained by writing to:

ERB
P.O. Box 26129
Santa Fe, New Mexico 87502-6129
www.nmerb.org

Funding Policy – Plan members are required to contribute 7.90% of their gross salary. Northwest Regional Education Cooperative #2 is required to contribute 12.46% of the gross covered salary. The employer contribution will increase .75% each year until July 1, 2011 when the employer contribution will be 13.9%. The contribution requirements of plan members and the Cooperative are established in Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of legislature. The Cooperative's contributions to the ERB for the year ended June 30, 2010 was \$76,456. The Cooperative's contribution to the ERB for the years ended June 30, 2009 and 2008 were not available to the Auditor. The contribution rates will increase each year as follows:

| <u>Fiscal Year</u> | <u>Contribution</u> | <u>Contribution</u> |
|--------------------|---------------------|---------------------|
| 2010-2011 | 13.150% | 7.900% |
| 2011-2012 | 13.900% | 7.900% |

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

IV. OTHER INFORMATION (continued)

D. Post-Retirement Health Care Benefits

Plan Description – Northwest Regional Educational Cooperative #2's contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are:

- 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement;
- 2) retirees defined by the Act who retired prior to July 1, 1990;
- 3) former legislators who served at least two years; and
- 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to:

Retiree Health Care Authority
4308 Carlisle NE, Suite 104
Albuquerque, NM 87107

Funding Policy – The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute required each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee was required to contribute .65% of their salary.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2010

IV. OTHER INFORMATION (continued)

D. Post-Retirement Health Care Benefits (continued)

Employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Cooperative's contributions to the RHCA for the year ended June 30, 2010 was \$4,898. The Cooperative's contribution to the RHCA for the years ended June 30, 2009 and 2008 were not available to the Auditor.

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OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

SCHEDULE OF PLEDGED COLLATERAL
June 30, 2010

| | <u>Community Bank</u> | <u>Community Bank</u> | <u>Total</u> |
|---|---------------------------|---------------------------|-------------------|
| Cash on deposit at June 30, 2010 | \$ 211,208 | \$ 655 | \$ 211,863 |
| Less FDIC coverage | <u>211,208</u> | <u>655</u> | <u>211,863</u> |
| Uninsured funds | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| 50% collateral requirement | \$ - | \$ - | \$ - |
| Pledged collateral | <u>300,291</u> | <u>-</u> | <u>300,291</u> |
| Excess (deficiency) of pledged collateral | <u>\$ 300,291</u> | <u>\$ -</u> | <u>\$ 300,291</u> |

Pledged collateral of financial institutions consists of the following at June 30, 2010

| | <u>Maturity</u> | <u>CUSIP #</u> | <u>Market Value</u> |
|-----------------|-----------------|----------------|---------------------|
| Community Bank: | | | |
| FHLB | 7/6/2010 | 3133XCC50 | <u>\$ 300,291</u> |

The above securities are held at Federal Reserve Bank of Boston in Boston, MA.

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

CASH RECONCILIATION
June 30, 2010

| | <u>Beginning Cash</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Other</u> | <u>Net Cash End of Period</u> | <u>Adjustments to the report</u> | <u>Total Cash on Report</u> |
|---------------------|-----------------------|------------------|----------------------|--------------|-----------------------------------|--------------------------------------|---------------------------------|
| Operations | \$ 185,713 | \$ 1,229,833 | \$ (1,300,355) | \$ - | \$ 115,191 | \$ - | \$ 115,191 |
| <u>Account Name</u> | <u>Account Type</u> | <u>Bank Name</u> | <u>Bank Amount</u> | | Adjustments to report: | | |
| | | | | | Unreconciled differences | | <u>\$ -</u> |
| Operational | Checking | Community Bank | \$ 211,208 | | | | |
| Operational | Checking | Community Bank | <u>655</u> | | Adjustments to cash: | | |
| Total | | | <u>\$ 211,863</u> | | Bank Balance | \$ 211,863 | |
| | | | | | Ousting deposits | - | |
| | | | | | Ousting checks | (96,672) | |
| | | | | | Reconciling errors | - | |
| | | | | | Total adjustment to cash | <u>\$ 115,191</u> | |

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**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**

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4801 N Butler, Ste. 8101
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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

Hector H. Balderas, New Mexico State Auditor
and the Governing Council of
Northwest Regional Educational Cooperative #2

We have audited the financial statements of the governmental activities, the major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of Northwest Regional Educational Cooperative #2 as of and for the year ended June 30, 2010, which collectively comprise the Northwest Regional Educational Cooperative #2's basic financial statements and have issued our report thereon dated March 15, 2012. Since there was not sufficient evidential matter and we were not able to apply other auditing procedures to satisfy ourselves to the ending balances at June 30, 2010 of the revenues and expenditures and the related classifications for the year ended June 30, 2010 the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statement of Activities of the Primary government, Statement of Revenues, Expenditures, and changes in Fund Balance – Governmental Funds, and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund. Except as discussed in the preceding sentences, 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 the Northwest Regional Educational Cooperative #2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Northwest Regional Educational Cooperative #2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northwest Regional Educational Cooperative #2's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses. (2010-1 through 2010-13).

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Hector H. Balderas, State Auditor
and the Governing Council of
Northwest Regional Educational Cooperative #2

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (2010-1 through 2010-13)

Compliance and other matters

As part of obtaining reasonable assurance about whether Northwest Regional Educational Cooperative #2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as findings 2010-2.

We also noted a certain other matter that is required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6- 5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings (2010-1, 2010-3 through 2010-6, and 2010-8 through 2010-13).

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit management's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Northwest Regional Educational Cooperative #2, the U.S. Department of Education, State Auditor, the New Mexico Legislature, New Mexico Public Education Department, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Keystone Accounting, LLC

March 15, 2012

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2010

A. PRIOR YEAR AUDIT FINDINGS

2006 – 01 LACK OF STANDARDS FOR DOCUMENTATION OF EXPENDITURES

Current Status: Not resolved - repeated in the current year.

2006 – 02 NO RECORDATION OR REPORTING OF BUDGETARY VS. ACTUAL EXPENDITURES

Current Status: Not resolved - repeated in the current year.

2003 – 01 LACK OF TIMELY MONITORING OF BUDGET LINE ITEMS

Current Status: Not resolved - repeated in the current year.

2002 – 02 LATE AUDIT REPORT

Current Status: Not resolved - repeated in the current year.

2009 – 5 LACK OF STANDARD FOR DOCUMENTATION OF GRANT AGREEMENTS

Current Status: Resolved – not repeated in the current year..

2009 – 6 CASH ACCOUNT NOT RECONCILED TO THE GENERAL LEDGER

Current Status: Not resolved - repeated in the current year.

2009 – 7 PURCHASE ORDER APPROVED AFTER PURCHASE

Current Status: Not resolved - repeated in the current year.

2009 – 8 UNTIMELY PAYMENT OF PURCHASES

Current Status: Not resolved - repeated in the current year.

2009 – 9 BACKUP DOCUMENTATION FOR DISBURSEMENT MISSING

Current Status: Not resolved - repeated in the current year.

2009 – 10 CHECK NUMBERS NOT USED SEQUENTIALLY

Current Status: Resolved – not repeated in the current year.

2009 – 11 NO DETAIL CAPTIAL ASSET LIST

Current Status: Not resolved - repeated in the current year.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2010

A. PRIOR YEAR AUDIT FINDINGS (continued)

2009 – 12 DEPRECIATION CALCULATION IS INCORRECT

Current Status: Not resolved - repeated in the current year.

2009 – 13 NO INVENTORY OF CAPITAL ASSETS

Current Status: Not resolved - repeated in the current year.

2009 – 14 LACK OF DOCUMENTATION FOR REVENUE RECEIVED

Current Status: Not resolved - repeated in the current year.

2009 – 15 RECONCILIATION OF COMPENSATED ABSENCES

Current Status: Resolved – not repeated in the current year.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2009 – 1 LACK OF STANDARDS FOR DOCUMENTATION OF EXPENDITURES
 (repeat of original finding number 2006 – 01)

| | | | |
|--------------------------------|---------------------------|----------------------|--|
| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | | |
| <i>No</i> | <i>Yes</i> | | |
| <u>Internal Control?</u> | <u>Compliance?</u> | <u>Other Matter?</u> | |
| <i>Yes</i> | <i>No</i> | <i>Yes</i> | |

Condition: The Cooperative has not met the standards for documenting numerous expenditures. Testwork and substantive work performed revealed transactions which are or may be questioned costs and expenditures.

| <u>Questioned Costs</u> | |
|-------------------------|------------------|
| <u>Test of Controls</u> | |
| Check 14616 | \$ 210 |
| Check 14618 | 1,224 |
| Check 14737 | 5,600 |
| Check 14868 | 8,665 |
| Check 14926 | 10 |
| Check 14942 | 2,645 |
| Check 14991 | 3,581 |
| Check 15075 | 425 |
| Check 15093 | 3,000 |
| Check 15138 | 901 |
| Check 15164 | 78 |
| Check 15217 | 732 |
| Total | \$ 27,071 |

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 1 LACK OF STANDARDS FOR DOCUMENTATION OF EXPENDITURES (continued)

Criteria: Every Cooperative 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, as required by PED Regulation 6.20.11.

Effect of condition: Disbursements were made in violation of PED 6.20.11, 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.

Management's Response: The NWREC#2's management recognizes that expenses were paid without required documentation that reflects inadequate internal controls and will make appropriate changes in the subsequent year.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 2 NO RECORDATION OF REPORTING OF BUDGETARY VS. ACTUAL EXPENDITURES
 (repeat of original finding number 2006 – 02)

| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | | |
|--------------------------------|---------------------------|--------------------------|--------------------|
| <i>No</i> | <i>Yes</i> | <u>Internal Control?</u> | <u>Compliance?</u> |
| | | <i>Yes</i> | <i>Yes</i> |
| | | | |
| | | <u>Other Matter?</u> | |
| | | <i>No</i> | |

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 2010, 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 of condition: The Cooperative was not in compliance with New Mexico law.

Cause: The Cooperative was unable to document any budgetary information of 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.

Management's Response: The NWREC#2's management recognizes that transfers were inadequately managed will make appropriate changes in the subsequent year and ensure that staff will receive relevant training.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

C. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2009 – 3 LACK OF TIMELY MONITORING OF BUDGET LINE ITEMS
 (repeat of original finding number 2003 – 01)

| | | |
|--------------------------------|---------------------------|----------------------|
| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | |
| No | Yes | |
| <u>Internal Control?</u> | <u>Compliance?</u> | <u>Other Matter?</u> |
| Yes | No | Yes |

Condition: There were unfavorable variances between actual and budgeted line item expenditures. The following funds had unfavorable variances between budgeted amounts at fiscal yearend:

| <u>Fund</u> | <u>Final Budget</u> | <u>Expenditures</u> | <u>Over Expended</u> |
|---|---------------------|---------------------|----------------------|
| General Instruction | \$ 200,260 | \$ 209,271 | \$ (9,011) |
| General Operations & Maintenance of Plant | 20,096 | 20,606 | (510) |

Criteria: According to NMSA 1978 Section 22-8-11 B all fiscal agents of public monies have a responsibility to monitor spending to comply with established budget guidelines. As part of maintaining fiscal responsibility for the operations of the Cooperative, management is responsible for following the guidelines set out for expenses in the budget submitted at the beginning of the year, as well as any “BARS” that had been approved.

Effect of condition: Violation of NMSA 1978 Section 22-8-11 B, over spending of public monies. Improper monitoring could lead to expenditures being paid in excess of total budgeted amounts.

Cause: Improper monitoring of line item expenditures by comparing budgeted amounts and actual amounts spent allowed unfavorable (negative variances, overspending of line item budgets, to occur.

Recommendation: Management should implement immediate steps to provide adequate financial reports to allow for proper and timely monitoring of line item expenditures. Budget adjustment requests should be approved by the Board of Education and State Department of Education (when required) to receive approval to make necessary changes to the records prior to being presented for audit.

Management’s Response: The NWREC#2’s management recognizes that steps need to be taken to ensure adequate financial reports will allow for proper and timely monitoring of line item expenditures. Budget adjustment requests will be submitted on a timely and accurate basis. Appropriate changes will be made in the subsequent years.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 4 LATE AUDIT REPORT
 (repeat of original finding number 2002 – 02)

| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | <u>Internal Control?</u> | <u>Compliance?</u> | <u>Other Matter?</u> |
|--------------------------------|---------------------------|--------------------------|--------------------|----------------------|
| No | Yes | Yes | No | Yes |

Condition: The June 30, 2010 audit report was not submitted to the New Mexico State Auditor’s Office by the due date of September 30, 2010. The Audit was submitted to the New Mexico State Auditor’s Office on March 28, 2012.

Criteria: The New Mexico State Auditor has issued NMAC 2.2.2, Requirements for Contracting and Conduction Audits of Agencies, setting due dates for Cooperative audits to be in his office by September 30, 2010.

Effect of condition: The report was not available for the New Mexico Department of Education and other state agencies to review on a timely basis.

Cause: The Cooperative’s audit was not started until after the required reporting deadline of September 30, 2010.

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

Management’s Response: An auditing firm has been identified and hired for the 2008-09 fiscal years and two subsequent years.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 5 CASH ACCOUNT NOT RECONCILED TO THE GENERAL LEDGER
 (repeat of original finding number 2009 – 06)

| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | <u>Internal Control?</u> | <u>Compliance?</u> | <u>Other Matter?</u> |
|--------------------------------|---------------------------|--------------------------|--------------------|----------------------|
| No | Yes | Yes | No | Yes |

Condition: Reconciliations of bank balances to general ledger were out of balance.

Criteria: Reconciliation of bank statements to general ledger cash balances should be performed monthly, and reviewed by internal management to maintain fiscal responsibility and safeguarding of assets. Cash account reconciliation is required per NMSA 6-10-2.

Effect of condition: Over-expenditure of funds, overdraft of cash accounts, and exposure to possible consequences of fraudulent reporting to the New Mexico Board of Education and Federal oversight agencies.

Cause: Reconciling items are not being recorded properly in the general ledger.

Recommendation: Review bank reconciliation reports for each bank account and compare to actual balances in the general ledger. Any errors or variances should be researched and corrected, and reconciling items should be recorded in the general ledger where appropriate.

Management's Response: The NWREC#2's management will ensure that reconciliations of bank balances will match the general ledger.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 6 PURCHASE ORDER APPROVED AFTER PURCHASE
 (repeat of original finding number 2009 – 07)

| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | | |
|--------------------------------|---------------------------|--------------------------|--------------------|
| No | Yes | <u>Internal Control?</u> | <u>Compliance?</u> |
| | | Yes | No |
| | | <u>Other Matter?</u> | |
| | | Yes | |

Condition: Out of 78 items tested, 14 purchases were made prior to the approval of purchase orders.

Criteria: Authorization for a purchase is acquired through the completion of a purchase order, which is signed by a person given authority over purchase control. The purchase order must be approved prior to the purchase or ordering of goods as per PSAB Supplement 13.

Effect of condition: Any purchase made without prior authorization have the potential to cause cash deficits in the funds from which they are made or violations of the approved budget.

Cause: Proper procedures need to be adhered to so budgets can be followed, and personnel need to forgo their immediate need for purchases.

Recommendation: The importance of cash controls and adequate planning need to be made clear to all personnel that will be making purchases for the Cooperative.

Management's Response: The NWREC#2's management will ensure that purchases will not be made until purchase orders have been approved. NMASBO training will be undertaken by the business office staff to ensure compliance.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 7 UNTIMELY PAYMENT OF PURCHASES
 (repeat of original finding number 2009 – 08)

| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | | |
|--------------------------------|---------------------------|--------------------------|----------------------|
| No | Yes | <u>Internal Control?</u> | <u>Compliance?</u> |
| | | Yes | No |
| | | No | <u>Other Matter?</u> |
| | | | No |

Condition: 10 of the 78 disbursements tested were purchases that were not paid within 45 days of being invoiced.

Criteria: Disbursement payments made in remittance for products and/or services received by the Cooperative should be made in a timely manner as part of sound accounting practices. Payment should be made within vendor terms or within thirty days of the invoice date.

Effect of condition: Late fees can be added to the cost of purchases made that are not paid for in a timely manner. Payment of such late fees is not an allowable cost under the guidelines established by the federal government.

Cause: The Cooperative did not pay for purchases within an appropriate time.

Recommendation: A system should be implemented to ensure that invoices are paid within a period not to exceed thirty days from the invoice date.

Management's Response: The NWREC#2's management will ensure that payments are made in an appropriate manner and time not to exceed thirty days after the invoice date.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 8 BACKUP DOCUMENTATION FOR DISBURSEMENT MISSING
 (repeat of original finding number 2009 – 09)

| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | <u>Internal Control?</u> | <u>Compliance?</u> | <u>Other Matter?</u> |
|--------------------------------|---------------------------|--------------------------|--------------------|----------------------|
| No | Yes | Yes | No | Yes |

Condition: Invoices, purchase orders, and requisitions were missing for 7 out of 78 disbursements tested.

Criteria: A system on internal controls designed to prevent and/or detect errors or violations of state and federal law is required as per 1978 NMSA 6-5-2, 6-NMA-2.2.1.11 and 6-NMAC-2.2.1.14.

Effect of condition: The Cooperative’s internal controls over cash disbursements were limited in its ability to prevent and/or detect errors or violations of law due to the improper use of documents.

Cause: The Cooperative disbursed funds without required documentation.

Recommendation: Proper controls should be put into place to ensure that all documentation is on file before payment is made.

Management’s Response: The NWREC#2’s management will ensure that complete documentation on purchase requisitions, purchase orders, and invoices are maintained on all financial activity.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 9 NO DETAIL CAPITAL ASSET LIST
 (repeat of original finding number 2009 – 11)

Significant Deficiency?

No

Material Weakness?

Yes

Internal Control?

Yes

Compliance?

No

Other Matter?

Yes

Condition: The Cooperative was unable to present a detailed capital asset list.

Criteria: In accordance with GASB 34 and federal and state law the Cooperative is required to keep a detailed list of capital assets.

Effect of condition: The Cooperative was not in compliance with GASB 34.

Cause: The Cooperative has not compiled and recorded capital assets from year to year.

Recommendation: The Cooperative needs to track all assets so that a detailed list can be provided.

Management's Response: The NWREC#2 has developed and will continue to maintain a detailed list of assets for tracking.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 10 DEPRECIATION CALCULATION IS INCORRECT
 (repeat of original finding number 2009 – 12)

Significant Deficiency?

No

Material Weakness?

Yes

Internal Control?

Yes

Compliance?

No

Other Matter?

Yes

Condition: Depreciation is not correctly calculated at the end of the fiscal year.

Criteria: In accordance with GASB 34 and federal and state law the Cooperative is required to calculate, review and reconcile depreciation each year.

Effect of condition: The Cooperative has not calculated depreciation of capital assets and doesn't have documentation of the fixed assets that the entity owns.

Cause: Depreciation was not calculated on fixed assets.

Recommendation: The Cooperative needs to calculate, review and reconcile depreciation each year.

Management's Response: The NWREC#2 will work with the auditor to calculate, review and reconcile depreciation in the subsequent years. Training will be undertaken to ensure this will not happen in the future.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 11 NO INVENTORY OF CAPITAL ASSETS
 (repeat of original finding number 2009 – 13)

| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | | |
|--------------------------------|---------------------------|--------------------------|--------------------|
| No | Yes | <u>Internal Control?</u> | <u>Compliance?</u> |
| | | Yes | No |
| | | <u>Other Matter?</u> | |
| | | Yes | |

Condition: The Cooperative did not take a physical inventory of the capital assets as required by state law.

Criteria: According to Section 13-6-1 through 13-6-2 NMSA 1978 Cooperatives are required to take a capital asset inventory at least once every two years.

Effect of condition: The Cooperative has not maintained a fixed asset listing and has failed to present documentation for assets reported.

Cause: The Cooperative has not completed a capital asset inventory in the last two years.

Recommendation: The Cooperative should take a physical inventory once every two years.

Management's Response: The NWREC#2 will complete a physical inventory once every two years as required.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 12 LACK OF DOCUMENTATION FOR REVENUE RECEIVED
 (repeat of original finding number 2009 – 14)

| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | | |
|--------------------------------|---------------------------|--------------------------|--------------------|
| No | Yes | <u>Internal Control?</u> | <u>Compliance?</u> |
| | | Yes | No |
| | | | |
| | | <u>Other Matter?</u> | |
| | | Yes | |

Condition: The Cooperative was unable to provide documentation for revenue received.

Criteria: GASB 34 requires federal and state money to be recorded properly according to grant agreements.

Effect of condition: The Cooperative was unable to verify the source of revenue received.

Cause: Documentation was not adequately retained.

Recommendation: The Cooperative should be diligent in documenting revenue received so that assurance is maintained that funds are being disbursed properly.

Management's Response: The NWREC#2 will ensure that adequate tracking of revenue will include receipts so that there is an assurance that funds are both received and disbursed properly.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2010 – 13 IMPROPER FUND ACCOUNTING

| <u>Significant Deficiency?</u> | <u>Material Weakness?</u> | | |
|--------------------------------|---------------------------|--------------------------|--------------------|
| No | Yes | <u>Internal Control?</u> | <u>Compliance?</u> |
| | | Yes | No |
| | | | |
| | | <u>Other Matter?</u> | |
| | | Yes | |

Condition: The Cooperative is not using proper fund accounting to readily determine cash balances for each fund.

Criteria: The Cooperative must keep fund accounting.

Effect of condition: Not keeping track of cash per fund could allow for deficit cash balances in certain funds, double spending of expenditures, and improper spending of funds.

Cause: The Cooperative uses quickbooks accounting software to do fund accounting. This allows for a breakdown of revenue and expense accounts but doesn't breakout cash by fund.

Recommendation: The Cooperative should come up with a system that allows them to readily see the cash balance for each fund. They should be able to track cash, expenditures by check number, deposits and what was spent from each deposit.

Management's Response: The NWREC #2 Executive Director will work with the Business Manager to remedy this situation.

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REQUIRED DISCLOSURE

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

REQUIRED DISCLOSURES
Year Ended June 30, 2010

REQUIRED DISCLOSURE

The financial statements were prepared by the independent public accountants. The management of Northwest Regional Educational Cooperative #2 is responsible for those financial statements and the subsequent disclosures.

An exit conference was held March 27, 2012, during which the audit findings were discussed. The exit conference was attended by the following individuals:

NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Linda Coy
James Leshar

Executive Director
Council Member

KEYSTONE ACCOUNTING, LLC

Phil Rasband, CPA

Partner