

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL
COOPERATIVE #2

COMPREHENSIVE ANNUAL REPORT
AND
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2011
WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The logo for Keystone Accounting, LLC features a large, stylized 'K' with a decorative flourish that extends into the 'A' of 'ACCOUNTING'. The text 'KEYSTONE ACCOUNTING, LLC' is written in a serif font, with 'KEYSTONE' in a smaller size than 'ACCOUNTING'. Below the company name, the text 'CERTIFIED PUBLIC ACCOUNTANTS' is written in a smaller, all-caps serif font.
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
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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

OFFICIAL ROSTER
June 30, 2011

Cooperative Council

Victor Velarde	Council Chair
Randall Earwood	Council Vice Chair
Eric Martinez	Council Secretary
Anthony Casados	Council Member
Rose Rooth	Council Member
Ernesto Valdez	Council Member
Manuel Medrano	Council Member

Cooperative Officials

Linda Coy	Executive Director
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FINANCIAL SECTION

FISCAL YEAR 2011

JULY 1, 2010 THROUGH JUNE 30, 2011

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KEYSTONE ACCOUNTING, LLC

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Farmington, NM 87401

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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, 2011, which collectively comprise the Northwest Regional Educational Cooperative #2's basic financial statement as listed in the table of contents. We also have audited the financial statements of each of the Northwest Regional Educational Cooperative's nonmajor governmental funds and the budgetary comparisons for all nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2011, 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.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. 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.

In our opinion, 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, 2011, 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. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Northwest Regional Educational Cooperative #2 as of June 30, 2011, and the respective changes in financial position, thereof and the respective budgetary comparisons for all nonmajor funds 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 April 25, 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, and the combining and individual fund financial statements and budgetary comparisons. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


April 25, 2012

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BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

STATEMENT OF NET ASSETS
June 30, 2011

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 299,906
Receivables:	
Grant	188,329
Non-current:	
Depreciable capital assets, net	10,367
Total assets	\$ 498,602
LIABILITIES	
Accounts payable	\$ 3,520
Accrued salaries	5,770
Compensated absences	1,390
Total liabilities	10,680
NET ASSETS	
Invested in capital assets	10,367
Restricted for:	
Special revenue	7,915
Unrestricted	469,640
Total net assets	\$ 487,922

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, 2011

Functions/Programs	Program Revenues			
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Governmental Activities</u>	
Primary government:				
Governmental activities:				
Instruction	\$ 128,813	\$ 435,837	\$ 102,720	\$ 409,744
Support Services - Students	790,575	-	630,425	(160,150)
Support Services - Instruction	1,456	-	1,161	(295)
Support Services - General Administration	9,752	-	7,776	(1,976)
Support Services - School Administration	174,612	-	139,240	(35,372)
Central Services	101,800	-	81,178	(20,622)
Operations & Maintenance of Plant	22,888	-	18,251	(4,637)
Total governmental activities	\$ 1,229,896	\$ 435,837	\$ 980,751	186,692
General revenues:				
				6,000
				881
				6,881
				193,573
				294,349
				\$ 487,922

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, 2011

	<u>General Fund</u>	<u>IDEAL NM Fund</u>	<u>State Directed Activities Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Pooled cash and investments	\$ 294,405	\$ 7,641	\$ 274	\$ (2,414)	\$ 299,906
Receivables:					
Grant	<u>182,915</u>	<u>3,000</u>	<u>-</u>	<u>2,414</u>	<u>188,329</u>
Total assets	<u>\$ 477,320</u>	<u>\$ 10,641</u>	<u>\$ 274</u>	<u>\$ -</u>	<u>\$ 488,235</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 520	\$ 3,000	\$ -	\$ -	\$ 3,520
Accrued salaries	<u>5,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,770</u>
Total liabilities	<u>6,290</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>9,290</u>
Fund balance:					
Restricted for:					
Special revenue funds	-	7,641	274	-	7,915
Unassigned:					
General fund	<u>471,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>471,030</u>
Total fund balance	<u>471,030</u>	<u>7,641</u>	<u>274</u>	<u>-</u>	<u>478,945</u>
Total liabilities and fund balance	<u>\$ 477,320</u>	<u>\$ 10,641</u>	<u>\$ 274</u>	<u>\$ -</u>	<u>\$ 488,235</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, 2011

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

Fund balances - total governmental funds	\$ 478,945
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	25,916
Accumulated depreciation	(15,549)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
Accrued vacation payable	<u>(1,390)</u>
Net assets of governmental activities	<u>\$ 487,922</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, 2011

	General Fund	IDEAL NM Fund	Directed Activities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Federal direct grants	\$ -	\$ -	\$ -	\$ 28,732	\$ 28,732
State flow through grants	384,803	38,333	528,883	-	952,019
Charges for Services	435,837	-	-	-	435,837
Earnings from investments	881	-	-	-	881
Contributions and donations	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>6,000</u>
 Total revenue	 <u>821,521</u>	 <u>44,333</u>	 <u>528,883</u>	 <u>28,732</u>	 <u>1,423,469</u>
Expenditures:					
Current:					
Instruction	-	36,692	59,297	28,732	124,721
Support Services - Students	291,952	-	462,740	-	754,692
Support Services - General Administration	9,309	-	-	-	9,309
Support Services - School Administration	160,115	-	6,572	-	166,687
Central Services	97,179	-	-	-	97,179
Operations & Maintenance of Plant	<u>21,849</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,849</u>
 Total expenditures	 <u>580,404</u>	 <u>36,692</u>	 <u>528,609</u>	 <u>28,732</u>	 <u>1,174,437</u>
 Excess of revenues over expenditures	 241,117	 7,641	 274	 -	 249,032
 Fund balance at beginning of the year	 <u>229,913</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>229,913</u>
 Fund balance at end of the year	 <u>\$ 471,030</u>	 <u>\$ 7,641</u>	 <u>\$ 274</u>	 <u>\$ -</u>	 <u>\$ 478,945</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, 2011

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

Net change in fund balance - total governmental funds	\$	249,032
<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 depreciation exceeded capital outlays in the current year.</p>		
Depreciation		(55,823)
<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>		
PY Compensated Absences		1,754
Current Year Compensated Absences		<u>(1,390)</u>
Change in net assets of governmental activities	\$	<u><u>193,573</u></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, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
State flowthrough grant	\$ -	\$ 745,200	\$ 348,340	\$ (396,860)
Charges for services	-	-	435,838	435,838
Earnings from investments	-	-	<u>881</u>	<u>881</u>
Total revenues	<u>-</u>	<u>745,200</u>	<u>785,059</u>	<u>39,859</u>
Expenditures:				
Current:				
Support Services - Students	-	354,318	292,792	61,526
Support Services - General Administration	-	35,000	9,309	25,691
Support Services - School Administration	-	199,161	168,963	30,198
Central Services	-	126,988	97,179	29,809
Operation & Maintenance of Plant	-	<u>29,733</u>	<u>21,850</u>	<u>7,883</u>
Total expenditures	<u>-</u>	<u>745,200</u>	<u>590,093</u>	<u>155,107</u>
Excess of revenues over expenditures	-	-	194,966	194,966
Fund balance at beginning of the year	<u>-</u>	<u>-</u>	<u>229,913</u>	<u>229,913</u>
Fund balance at end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>424,879</u>	<u>\$ 424,879</u>
RECONCILIATION TO GAAP BASIS:				
Change in receivables			36,462	
Change in payables			<u>9,689</u>	
			<u>\$ 471,030</u>	

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

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

IDEAL NM SPECIAL REVENUE FUND
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State flowthrough grant	\$ -	\$ 35,333	\$ 35,333	\$ -
Contributions and donations	<u>-</u>	<u>6,000</u>	<u>6,000</u>	<u>-</u>
Total revenues	-	41,333	41,333	-
Expenditures:				
Current:				
Instruction	<u>-</u>	<u>41,333</u>	<u>33,692</u>	<u>7,641</u>
Excess of revenues over expenditures	-	-	7,641	7,641
Fund balance at beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of the year	<u>\$ -</u>	<u>\$ -</u>	7,641	<u>\$ 7,641</u>
RECONCILIATION TO GAAP BASIS:				
Change in grant receivable			3,000	
Change in payables			<u>(3,000)</u>	
			<u>\$ 7,641</u>	

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

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

STATE DIRECTED ACTIVITIES SPECIAL REVENUE FUND
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
State flowthrough grant	\$ -	\$ 539,684	\$ 635,460	\$ 95,776
 Expenditures:				
Current:				
Instruction	-	63,456	63,456	-
Support Services - Students	-	463,189	463,189	-
Support Services - General Administration	-	6,005	6,005	-
Support Services - School Administration	-	7,034	7,034	-
Total current expenses	-	539,684	539,684	-
Excess of revenues over expenditures	-	-	95,776	95,776
Fund balance at beginning of the year	-	-	-	-
Fund balance at end of the year	\$ -	\$ -	95,776	\$ 95,776
 RECONCILIATION TO GAAP BASIS:				
Change in grant receivable			(106,576)	
Change in payables			11,074	
			\$ 274	

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, 2011

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2011

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, and Questa. 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, 2011

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. 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, 2011

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.

IDEAL NM – To provide eLearning services to PK-12 schools, higher education institutions and government institutions. To perform services as regional service provider for IDEAL-NM and the Graduate New Mexico Program (GNM).

State Directed Activities – To support the improvement of educational results and functional outcomes for all children with disabilities.

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources – which are legally restricted to expenditures for specified purposes.

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.

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, 2011

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, 2011.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2011

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, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. *Fund balance*

a. Non-Spendable

The non-spendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

b. Restricted

Fund balance is reported as restricted when constraints placed on the use of resources are either (1) externally imposed by creditors, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

c. Committed

Amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the Cooperative’s Council should be reported as committed fund balance. The committed amounts cannot be used for any other purpose unless the Cooperative’s Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Cooperative did not have committed fund balances at June 30, 2011.

d. Assigned

Assigned fund balance includes (a) all remaining amounts, except for negative balances, that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and amounts in the general fund that are constrained by the Cooperative’s intent to be used for specific purposes, but are neither restricted nor committed. Intent, and removal of, is expressed by the Cooperative Council. The Cooperative did not have assigned fund balances at June 30, 2011.

e. Unassigned

The remaining fund balance, after all other classifications, within the general fund is reported as unassigned fund balance. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In governmental funds other than the general fund, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, a negative fund balance will be reported as unassigned fund balance.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. *Fund balance*

When committed, assigned and unassigned resources are available for use, it is the Cooperative's policy to use committed first followed by assigned and unassigned resources as they are needed.

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

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation.

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" 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, 2011

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 and Special Revenue Funds 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, 2011

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 and Special Revenue Funds are 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	\$ -	\$ 745,200
Special Revenue Fund	-	640,796
Totals	\$ -	\$ 1,385,996

B. Budgetary Violations

The Cooperative did not have any budgetary violations during the year ended June 30, 2011.

C. Deficit fund equity

There was no deficit fund balance as of June 30, 2011.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2011

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Temporary Investments

At June 30, 2011, the carrying amount of the Cooperative's deposits was \$299,906 and the bank balance was \$349,799 with the difference consisting of outstanding deposits and checks. Of this balance \$250,000 was covered by federal depository insurance and \$49,572 was covered by collateral held in joint safekeeping by a third party. The Cooperative had pledged collateral that was in excess of the requirements under state law by \$109,041.

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, 2011, none of the Cooperative's bank balance of \$349,799 was exposed to custodial risk as follows:

Uninsured and uncollateralized	\$	(59,142)
Uninsured and collateral held by pledging bank's trust dept not in the Cooperative's name		158,941
Total uninsured		99,799
Insured (FDIC)		250,000
Total deposits	\$	349,799
State of New Mexico collateral requirement:		
50% of uninsured public fund bank deposits	\$	49,900
Pledged security		158,941
Over collateralization	\$	109,041

The collateral pledged is listed on page 42 of this report. The types of collateral allowed are limited to direct obligations of the United State Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

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, 2011

III. DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

The Cooperative had governmental receivables in the General Fund in the amount of \$188,329 at June 30, 2011.

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, 2011 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>(1,573,357)</u>	<u>25,916</u>
Less accumulated depreciation for:					
Furniture, fixtures, and equipment	(125,680)	-	-	125,680	-
Vehicles	(10,366)	(5,183)	-	-	(15,549)
Computer equipment	(1,397,037)	(50,640)	-	1,447,677	-
Total accumulated depreciation	<u>(1,533,083)</u>	<u>(55,823)</u>	<u>-</u>	<u>1,573,357</u>	<u>(15,549)</u>
Total capital assets being depreciated, net	<u>\$ 66,190</u>	<u>\$ (55,823)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,367</u>

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2011

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	\$ 5,846
Support Services -Students	35,883
Support Services - Instruction	66
Support Services - General Administration	443
Support Services - School Administration	7,925
Central Services	4,621
Operations & Maintenance of Plant	1,039
Total Depreciation Expense	<u>\$ 55,823</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, 2011.

E. Compensated Absences

Compensated absences consist of the following at June 30, 2011:

	<u>Beginning</u>			<u>Ending</u>	<u>Amount</u>
	<u>Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	<u>Due within</u>
					<u>one year</u>
Compensated absences	<u>\$ 1,754</u>	<u>\$ 2,622</u>	<u>\$ 2,986</u>	<u>\$ 1,390</u>	<u>\$ 1,390</u>

The liability of compensated absences is liquidated with resources from the general fund and special revenue funds.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2011

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, 2011.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. 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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2011

IV. OTHER INFORMATION (continued)

C. Employee Retirement Plan (continued)

Funding Policy – Effective July 1, 2009 through June 30, 2011, plan members were required by statute to contribute 7.90% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually were required to contribute 9.4% of their gross salary. The Cooperative was required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 10.9% of the gross covered salary of employees earning more than \$20,000 annually. Effective July 1, 2011 plan members are required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually are required to contribute 11.15% of their gross salary. The Cooperative is required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 9.15% of the gross covered salary of employees earning more than \$20,000 annually. 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, 2011 and 2010 were \$75,339 and \$76,456, respectively. The Cooperative’s contribution to the ERB for the year ended June 30, 2009 was not available to the Auditor.

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Notes to the Financial Statements
June 30, 2011

IV. OTHER INFORMATION (continued)

D. Post-Retirement Health Care Benefits (continued)

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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution</u>	<u>Employee Contribution</u>
2011-2012	1.834%	0.917%
2012-2013	2.000%	1.000%

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, 2011 and 2010 were \$6,185 and \$4,898, respectively. The Cooperative’s contribution to the RHCA for the year ended June 30, 2009 was not available to the Auditor.

NONMAJOR GOVERNMENTAL FUNDS

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

GOVERNMENTAL FUNDS
Combining Balance Sheet
June 30, 2011

	Special Revenue Fun
	Carl D Perkins Secondary - Current <u>Fund</u>
ASSETS	
Pooled cash and investments	\$ (2,414)
Receivables:	
Grant	2,414
Total assets	\$ -
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ -
Fund balance:	
Unreserved, designated for, and reported in:	
Special revenue funds	-
Total liabilities and fund balance	\$ -

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

NON-MAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance
Year Ended June 30, 2011

	Special Revenue Funds
	Carl D Perkins Secondary - Current <u>Fund</u>
Revenues:	
Federal sources:	
Federal direct grants	\$ 28,732
Expenditures:	
Current:	
Instruction	<u>28,732</u>
Excess of revenues over expenditures	-
Fund balance at beginning of the year	<u>-</u>
Fund balance at end of the year	<u>\$ -</u>

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BUDETARY PRESENTATION

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

Special Revenue Funds
June 30, 2011

CARL D PERKINS SECONDARY – CURRENT

To develop more fully the academic, career, and technical skills of secondary and postsecondary students who elect to enroll in career and technical education programs. This program is funded through the Carl D. Perkins Career and Technical Education Improvement Act of 2006.

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

CARL D PERKINS SECONDARY - CURRENT SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Amounts <u>(Budgetary Basis)</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Federal sources:				
Federal direct grant	\$ -	\$ 59,779	\$ 55,965	\$ (3,814)
 Expenditures:				
Current:				
Instruction	<u>-</u>	<u>59,779</u>	<u>28,732</u>	<u>31,047</u>
Excess of revenues over expenditures	-	-	27,233	27,233
Fund balance at beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of the year	<u>\$ -</u>	<u>\$ -</u>	27,233	<u>\$ 27,233</u>
 RECONCILIATION TO GAAP BASIS:				
Change in grant receivable			<u>(27,233)</u>	
			<u>\$ -</u>	

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OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
Northwest Regional Education Cooperative #2

SCHEDULE OF PLEDGED COLLATERAL
June 30, 2011

	<u>Community Bank</u>	<u>Community Bank</u>	<u>Total</u>
Cash on deposit at June 30, 2011	\$ 349,144	\$ 655	\$ 349,799
Less FDIC coverage	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Uninsured funds	<u>\$ 99,144</u>	<u>\$ 655</u>	<u>\$ 99,799</u>
50% collateral requirement	\$ 49,572	\$ 328	\$ 49,900
Pledged collateral	<u>158,613</u>	<u>328</u>	<u>158,941</u>
Excess (deficiency) of pledged collateral	<u>\$ 109,041</u>	<u>\$ -</u>	<u>\$ 109,041</u>

Pledged collateral of financial institutions consists of the following at June 30, 2011

	<u>Maturity</u>	<u>CUSIP #</u>	<u>Market Value</u>
Community Bank:			
FNMAP	6/1/2024	31412PYE5	\$ 101,207
FNMAP	8/1/2022	31413MEC7	<u>57,734</u>
			<u>\$ 158,941</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, 2011

	<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	\$ 240,341	\$ 634,468	\$ (580,404)	\$ -	\$ 294,405	\$ -	\$ 294,405	
Federal Flowthrough Funds	(29,647)	55,965	(28,732)	-	(2,414)	-	(2,414)	
State Flowthrough Funds	<u>(95,503)</u>	<u>668,720</u>	<u>(565,302)</u>	<u>-</u>	<u>7,915</u>	<u>-</u>	<u>7,915</u>	
Total	<u>\$ 115,191</u>	<u>\$ 1,359,153</u>	<u>\$ (1,174,438)</u>	<u>\$ -</u>	<u>\$ 299,906</u>	<u>\$ -</u>	<u>\$ 299,906</u>	
<u>Account Name</u>	<u>Account Type</u>	<u>Bank Name</u>	<u>Bank Amount</u>					
Operational	Checking	Community Bank	\$ 349,144					
				Adjustments to cash:				
Operational	Checking	Community Bank	<u>655</u>	Bank Balance				\$ 349,799
				Outstanding deposits				79,284
			<u>\$ 349,799</u>	Outstanding checks				<u>(129,177)</u>
Total				Total adjustment to cash				<u>\$ 299,906</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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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 and major special revenue funds, and the combining and individual fund and related budgetary comparisons presented as supplemental information of Northwest Regional Educational Cooperative #2 as of and for the year ended June 30, 2011, and have issued our report thereon dated April 25, 2012. 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

Management of the Northwest Regional Educational Cooperative #2 is responsible for establishing and maintaining effective 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. (2011-1 through 2011-5).

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. (2011-1 through 2011-5)

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

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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 (2011-1 through 2011-3 and 2011-5).

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.


April 25, 2012

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATIONAL COOPERATIVE #2

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2011

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: Resolved – Not repeated in the current year.

2003 – 01 LACK OF TIMELY MONITORING OF BUDGET LINE ITEMS

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

2002 – 02 LATE AUDIT REPORT

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

2009 – 6 CASH ACCOUNT NOT RECONCILED TO THE GENERAL LEDGER

Current Status: Resolved – Not 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. Finding combined with 2011-1.

2009 – 11 NO DETAIL CAPITAL ASSET LIST

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

2009 – 12 DEPRECIATION CALCULATION IS INCORRECT

Current Status: Resolved – Not 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, 2011

A. PRIOR YEAR AUDIT FINDINGS (continued)

2009 – 13 NO INVENTORY OF CAPITAL ASSETS

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

2009 – 14 LACK OF DOCUMENTATION FOR REVENUE RECEIVED

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

2010 – 13 IMPROPER FUND ACCOUNTING

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, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2011 – 1 LACK OF STANDARDS FOR DOCUMENTATION OF EXPENDITURES
 (repeat of original finding number 2006 – 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: The Cooperative has not met the standards for documenting expenditures. Testwork and substantive work performed revealed transactions which are or may be questioned costs and expenditures and that were missing Invoices, purchase orders, and/or requisitions.

<u>Questioned Costs</u>	
<u>Test of Controls</u>	
Check 15280	\$ 792
Check 15286	1,500
Check 15308	1,030
Check 15502	603
Total	\$ 3,925

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, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2011 – 2 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, 2011 audit report was not submitted to the New Mexico State Auditor’s Office by the due date of September 30, 2011. The Audit was submitted to the New Mexico State Auditor’s Office on May 9, 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, 2011.

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, 2011.

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, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2011 – 3 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 95 items tested, 10 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, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2011 – 4 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
		<u>Other Matter?</u>	
		No	

Condition: 7 of the 95 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, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

2011 – 5 OVERPAYMENT OF TRAVEL REIMBURSEMENTS

Significant Deficiency?

No

Material Weakness?

Yes

Internal Control?

Yes

Compliance?

No

Other Matter?

Yes

Condition: Two travel reimbursements were overpaid.

Criteria: Travel reimbursements must only be paid for actual travel expenses.

Effect of condition: The Cooperative was unable to maintain an appropriate level of control.

Cause: Documentation was not adequately retained.

Recommendation: The Cooperative should be diligent in making sure that travel reimbursements are only paid for actual travel expenses.

Management's Response: Management will ensure that all travel requests are accurate and properly monitored.

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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, 2011

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 May 8, 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 Leshner

Executive Director
Council Member

KEYSTONE ACCOUNTING, LLC

Phil Rasband, CPA

Partner