

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
ANNUAL FINANCIAL REPORT
JUNE 30, 2013



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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
OFFICIAL ROSTER
YEAR ENDED JUNE 30, 2013

<u>Name</u>	<u>Cooperative Council</u>	<u>Title</u>
Anthony Casados		Chairman
Dr. Manuel Medrano		Vice Chairman
James Leshner		Secretary
Vicki Smith		Member
Ernesto Valdez		Member
Dr. Thereasa Watson		Member
Dr. Lillian Torrez		Member
	<u>Cooperative Officials</u>	
Dr. Kimberly Mizell		Executive Director
Frank Mestas		Coordinator
Patty Nemmo		Business Manager

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas, New Mexico State Auditor
And the Governing Council of
Northwest Regional Education Cooperative #2
Chama, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of Northwest Regional Education Cooperative #2 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Northwest Regional Education Cooperative #2's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of Northwest Regional Education Cooperative #2's non-major governmental funds and the budgetary comparisons for all non-major funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Regional Education Cooperative #2 as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparisons for the general fund and the major special revenue funds for the year then ended in accordance 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 non-major governmental fund of Northwest Regional Education Cooperative #2 as of June 30, 2013, and the respective changes in financial position thereof and the respective budgetary comparisons for all non-major funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the Northwest Regional Education Cooperative #2's financial statements, the combining and individual fund financial statements, and the budgetary comparison. The introductory section, pages i and ii, and the Other Supplemental Information, Schedules I through IV on pages 30 through 33, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules listed in the Other Supplemental Information, Schedules I through IV on pages 30 through 33, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules listed in the Other Supplemental Information, Schedules I through IV on pages 30 through 33, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the Schedule of Findings and Responses have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013 on our consideration of Northwest Regional Education 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* in considering Northwest Regional Education Cooperative #2 internal control over financial reporting and compliance.

Kirtland, New Mexico
September 23, 2013

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**BASIC
FINANCIAL STATEMENTS**

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
STATEMENT OF NET POSITION
JUNE 30, 2013

Exhibit A-1

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 434,337
Receivables (net of allowance for uncollectibles)	158,661
Prepaid expenses	2,871
Total current assets	595,869
Noncurrent assets	
Capital assets (net of accumulated depreciation):	
Vehicles	48,236
Less: accumulated depreciation	(30,380)
Total noncurrent assets	17,856
Total assets	\$ 613,725
LIABILITIES	
Current liabilities	
Accounts payable	\$ 8,660
Accrued payroll liabilities	9,264
Accrued compensated absences	1,285
Total current liabilities	19,209
NET POSITION	
Net investment in capital assets	17,856
Restricted for:	
Prepaid expenses	2,871
Unrestricted	573,789
Total net position	\$ 594,516

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Service</u>
Primary Government		
Governmental activities:		
Instruction	\$ 278,963	\$ 378
Support services:		
Students	446,508	37,077
General Administration	13,828	-
School Administration	461,916	-
Central Services	76,064	-
Operation & Maintenance of Plant	61,057	-
Total Primary Government	\$ 1,338,336	\$ 37,455

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

Program Revenues		Net (Expenses) Revenues and Changes in Net Position
Operating Grants and Contributions	Capital Grants and Contributions	
295,439	\$ -	\$ 16,854
472,879	-	63,448
14,645	-	817
489,198	-	27,282
80,556	-	4,492
64,663	-	3,606
<u>\$ 1,417,380</u>	<u>\$ -</u>	<u>116,499</u>

General Revenues:

Unrestricted investment earnings	657
Gain on disposal of fixed assets	<u>1,525</u>
Total general revenues	<u>2,182</u>
Change in net position	<u>118,681</u>
Net position - beginning	465,105
Prior period adjustment	<u>10,730</u>
Adjusted net position - beginning	<u>475,835</u>
Net position - ending	<u>\$ 594,516</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

Exhibit B-1

	General 27101	State Directed Activities 27200	Other Governmental Funds	Total Governmental Funds
ASSETS				
<i>Current Assets</i>				
Cash and temporary investments	\$ 434,337	\$ -	\$ -	\$ 434,337
Accounts receivable				
Due from other governments	33,206	125,455	-	158,661
Due from other funds	125,455	-	-	125,455
Prepaid expenses	361	2,510	-	2,871
<i>Total assets</i>	<u>593,359</u>	<u>127,965</u>	<u>-</u>	<u>721,324</u>
LIABILITIES AND FUND BALANCES				
<i>Current Liabilities:</i>				
Accounts payable	8,660	-	-	8,660
Accrued payroll liabilities	9,264	-	-	9,264
Due to other funds	-	125,455	-	125,455
Unavailable revenues - grant	-	125,455	-	125,455
<i>Total liabilities</i>	<u>17,924</u>	<u>250,910</u>	<u>-</u>	<u>268,834</u>
<i>Fund balance:</i>				
Restricted for:				
Prepaid expenses	361	2,510	-	2,871
Unassigned				
Special revenue	-	(125,455)	-	(125,455)
General fund	575,074	-	-	575,074
<i>Total fund balance</i>	<u>575,435</u>	<u>(122,945)</u>	<u>-</u>	<u>452,490</u>
<i>Total liabilities and fund balance</i>	<u>\$ 593,359</u>	<u>\$ 127,965</u>	<u>\$ -</u>	<u>\$ 721,324</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Exhibit B-2

		Governmental Funds
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Fund balances - total governmental funds	\$	452,490
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
The cost of capital assets is		48,236
Accumulated depreciation is		(30,380)
Revenues not collected within sixty days after year-end are considered "available" revenues and are shown as deferred revenues on the balance sheet		125,455
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Accrued compensated absences		(1,285)
Net position - total governmental activities	\$	594,516

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B-3

	General 27101	State Directed Activities 27200	Other Governmental Funds	Total Governmental Funds
<i>Revenues:</i>				
State grants	\$ 504,444	\$ 408,529	\$ -	\$ 912,973
Charges for services	378,952	-	-	378,952
Miscellaneous	37,455	-	-	37,455
Sale of personal property	1,525	-	-	1,525
Investment income	657	-	-	657
<i>Total revenues</i>	<u>923,033</u>	<u>408,529</u>	<u>-</u>	<u>1,331,562</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	-	279,977	-	279,977
Support services				
Students	255,720	198,798	-	454,518
General administration	14,462	-	-	14,462
School administration	410,991	52,699	-	463,690
Central services	77,418	-	-	77,418
Operation & maintenance of plant	61,283	-	-	61,283
<i>Total expenditures</i>	<u>819,874</u>	<u>531,474</u>	<u>-</u>	<u>1,351,348</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>103,159</u>	<u>(122,945)</u>	<u>-</u>	<u>(19,786)</u>
<i>Net change in fund balances</i>	<u>103,159</u>	<u>(122,945)</u>	<u>-</u>	<u>(19,786)</u>
<i>Fund balances - beginning of year</i>	295,094	139,561	26,891	461,546
<i>Prior period adjustment</i>	177,182	(139,561)	(26,891)	10,730
<i>Adjusted fund balance - beginning of year</i>	<u>472,276</u>	<u>-</u>	<u>-</u>	<u>472,276</u>
<i>Fund balances - end of year</i>	<u>\$ 575,435</u>	<u>\$ (122,945)</u>	<u>\$ -</u>	<u>\$ 452,490</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B-4

	Governmental Funds
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in fund balances - total governmental funds	\$ (19,786)
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeds capital outlays for the period.	
Depreciation expense	(9,648)
Capital outlays	22,320
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	
Change in deferred revenue related to grant receivable	125,455
In the Statement of Activities, certain operating expenses - compensated absences and interest expense - are measured by the amounts incurred during the year. In the fund financial statements, however, expenditures are measured by the amount of financial resources used (essentially the amounts actually paid). The (increases) decreases in the liabilities for the year were:	
Decrease in accrued compensated absences	340
Change in net position - total governmental activities	\$ 118,681

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
GENERAL FUND (27101)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON - GAAP BUDGETARY BASIS)
FOR THE YEAR ENDING JUNE 30, 2013

Exhibit C-1

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<i>Revenues:</i>				
State flow-through grant	\$ 1,349,280	\$ 873,066	\$ 478,141	\$ (394,925)
Charges for services	-	63,165	384,091	320,926
Local revenue	-	-	30,552	30,552
Earnings from investments	-	-	657	657
Sale of personal property	-	-	1,525	1,525
<i>Total revenues</i>	<u>1,349,280</u>	<u>936,231</u>	<u>894,966</u>	<u>(41,265)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Support Services				
Students	443,754	285,042	255,720	29,322
General Administration	40,000	20,000	14,462	5,538
School Administration	592,014	494,433	405,811	88,622
Central Services	211,512	105,756	75,853	29,903
Operation & Maintenance of Plant	62,000	31,000	53,787	(22,787)
<i>Total expenditures</i>	<u>1,349,280</u>	<u>936,231</u>	<u>805,633</u>	<u>130,598</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>89,333</u>	<u>89,333</u>
<i>Fund balances - beginning of year</i>	-	-	467,794	467,794
<i>Correction of inflated balance</i>	-	-	(174,517)	(174,517)
<i>Prior period adjustment</i>	-	-	177,182	177,182
<i>Adjusted fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>470,459</u>	<u>470,459</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>559,792</u>	<u>\$ 559,792</u>
<i>Reconciliation to GAAP Basis:</i>				
Change in receivables			21,931	
Change in prepaids			(4,523)	
Change in payables			4,426	
Change in accrued liabilities			(6,191)	
			<u>\$ 575,435</u>	

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
STATE DIRECTED ACTIVITIES FUND (27200)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON - GAAP BUDGETARY BASIS)
FOR THE YEAR ENDING JUNE 30, 2013

Exhibit C-2

	<u>Budgeted Amounts</u>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<i>Revenues:</i>				
State flow-through grant	\$ -	\$ 533,984	\$ 518,735	\$ (15,249)
<i>Total revenues</i>	<u>-</u>	<u>533,984</u>	<u>518,735</u>	<u>(15,249)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	-	281,328	281,327	1
Support Services				
Students	-	199,958	199,958	-
School Administration	-	52,698	52,699	(1)
<i>Total expenditures</i>	<u>-</u>	<u>533,984</u>	<u>533,984</u>	<u>-</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>(15,249)</u>	<u>(15,249)</u>
<i>Net changes in fund balances</i>	<u>-</u>	<u>-</u>	<u>(15,249)</u>	<u>(15,249)</u>
<i>Fund balances - beginning of year</i>	-	-	29,355	29,355
<i>Prior period adjustment</i>	-	-	(139,561)	(139,561)
<i>Adjusted fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>(110,206)</u>	<u>(110,206)</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>(125,455)</u>	<u>\$ (125,455)</u>
<i>Reconciliation to GAAP Basis:</i>				
Change in prepaids			<u>2,510</u>	
			<u>\$ (122,945)</u>	

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1. Summary of Significant Accounting Policies

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

The Northwest Regional Education Cooperative #2 (the "Cooperative") was organized in 1984 for the purpose of promoting the education opportunities of handicapped children. The members of the Cooperative are the Chama, Cuba, Dulce, Jemez Mountain, Mesa Vista, Penasco, and Questa school districts. The Cooperative operates under a central administrative office whereby revenues and expenditures are allocated to each member district. 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, GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14, and GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34.

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 Education 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. During the year ended June 30, 2013, the Cooperative adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements NO. 14 and No. 34*; Statement No 62, *Codification of Accounting and Financial Reporting guidance Contained in Pre-November 30, 1989 BASB and AICPA Pronouncements*; and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The more significant of the government's accounting policies are described below.

A. Reporting Entity

GASB Statement No. 14 established criteria for determining the government reporting entity and component units that should be included within the reporting entity. GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. Under provisions of these Statements, the Cooperative is considered a *primary government*, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the Cooperative may, without the approval or consent of another governmental entity, determine or modify its own budget. The Cooperative also has no *component units*, as defined by GASB Statement No. 14 and/or GASB Statement No. 39, and/or GASB Statement No 61, as there are no other legally separate organizations for which the Council members are financially accountable. There are no other primary governments with which the Council members are financially accountable. There are no other primary governments with which the Cooperative has a significant relationship. There are no other primary governments with which the Cooperative has operational responsibility.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities and Changes in Net Position) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 of the Cooperative and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment of the Cooperative. 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental funds are used to account for the Cooperative's general government activities, including the collection and disbursement of specific or legally restricted monies. Governmental funds include:

The *General Fund* (Fund 27101) is the primary operating fund of the Cooperative and accounts for all financial resources, except those required to be accounted for in other funds. Fund 27101 is authorized by Laws 2005, Chapter 33.

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Under the requirements of GASB #34, the Cooperative is required to present some of its governmental funds as major funds based upon certain criteria. The major funds presented in the fund financial statements include the following (in addition to the General Fund):

State Directed Activities (Fund 27200) – To support the improvement of educational results and functional outcomes for all children with disabilities. Funding authorized by the individuals with Disabilities Education Act, Part B, Sections 611-620, as amended, Public Laws 91-230, 936-380 ,94-142 ,98-199 ,99-457, 100-639, and 101-476, 20 U.S.C. 1411-1420. The fund was created by the authority of federal grant provisions

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As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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.

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.

The Cooperative reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The Cooperative does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function, except for that portion of depreciation that is identified as unallocated on the Statement of Activities.

D. *Assets, Liabilities and Net Position or Equity*

Cash and Temporary Investments: The Cooperative'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 Cooperative funds in a wide variety of instruments including certificates of deposit and other similar obligations, the State Treasurer's Investment Pool, money market accounts, and United States Government obligations.

Investments for the Cooperative are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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.

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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Certain Special Revenue funds are administered on a reimbursement method of funding; other funds are operated on a cash advance method of funding. The funds incurred the cost and submitted the necessary request for reimbursement or advance, respectively.

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

Inventory: 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, 2013.

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-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:

Furniture, fixtures, and equipment	5 years
Computer equipment	3 years
Vehicles	5 years

Unearned Revenues: The Cooperative recognizes grant revenue at the time the related expense is made if the expenditure of funds is the prime factor for determining eligibility for reimbursement; therefore, amounts received and not expended in the Special Revenue Funds are shown as unearned revenues.

Unavailable Revenues: Governmental funds report unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Revenues not received within sixty (60) days of year-end are not considered available; therefore, a receivable is recorded for the amount due and a corresponding liability, unavailable revenues, is recorded as well.

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

Vacation leave is earned up to a maximum of twelve (12) days, one day per month, for twelve (12) month employees. Unused vacation leave of forty (40) hours may be carried over in the following year. Upon cancellation of an employee's contract, the employee will be paid any accumulated unused vacation leave.

Qualified employees are entitled to accumulate sick leave according to a graduated leave schedule of one (1) day per month, depending on the employee's annual contract length. Employees may accumulate up to ninety (90) days of sick leave. No payment is made for accumulated sick leave upon cancellation of an employee's contract.

Fund Balance: In the fund financial statements, governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints

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on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications and therefore would not report amounts in all possible fund balance classifications.

In the governmental financial statements, fund balance is classified and is displayed in five components:

Nonspendable: Consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) 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.

Restricted: Consists of amounts that are restricted to specific purposes as a result of a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed: Consist of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Cooperative’s Council. Those 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 (for example, legislation, resolution, ordinance) it employed to previously commit those amounts.

Assigned: Consist of amounts that are constrained by the Cooperative’s *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned: 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.

Net Position: Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

In the government-wide financial statements, fund equity is classified as net position and is displayed in three components:

Investment in Capital Assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Restricted: Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) 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. The restricted component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted: All other net positions that do not meet the definition of “restricted” or “investment in capital assets.”

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Interfund Transactions: Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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. Significant estimates affecting the Cooperative's financial statements include management's estimate of the useful lives of capital assets.

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

Budgets for the General and Special Revenue Funds are prepared by management and are approved by the Cooperative's Governing Council and the School Budget and Planning Unit of the 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 Public School Finance Division of the Public Education Department.

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

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 and the District Budget Planning Unit (DBPU) of the New Mexico Public Education Department a proposed operating budget for the ensuing fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. All budgets submitted to the State of New Mexico Public Education Department (PED) by the Council shall contain headings and details as described by law and have been approved by the Public Education Department.
2. In May or June of each year, the proposed "operating" budget will be reviewed and approved by the DBPU and certified and approved by the Governing Council at a public hearing of which notice has been published by the Governing Council which fixes the estimated budget for the Cooperative for the ensuing fiscal year.
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.

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4. The “operating” budget will be used by the Cooperative until they have been notified that the budget has been approved by the DBPU and the Governing Council. The budget shall be integrated formally into the accounting system. Encumbrances shall be used as an element of control and shall be integrated into the budget system. The Cooperative shall make corrections, revisions and amendments to the estimated budgets fixed by the local Governing Council to recognize actual cash balances and carryover funds, if any. These adjustments shall be reviewed and approved by the DBPU.
5. 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 Governing Council and the State of New Mexico Public Education Department.
6. Budget change requests are processed in accordance with Supplement 1 (Budget Preparation and Maintenance) of the Manual of Procedures Public School Accounting and Budgeting. Such changes are initiated by the Governing Council and approved by the DBPU.
7. Legal budget control for expenditures is by function.
8. Appropriations lapse at fiscal year end. Funds unused during the fiscal year may be carried over into the next fiscal year by budgeting those in the subsequent fiscal year’s budget. The budget of Northwest Regional Education Cooperative #2 has been amended during the current fiscal year in accordance with these procedures. The budget schedules included in the accompanying financial statements reflect the approved budget and amendments thereto.
9. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
10. Budgets 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 from exceeding an individual line item.

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) present comparisons of the legally adopted budget with actual data on a budgetary basis.

NOTE 3. Cash and Temporary Investments

All invested funds of the Cooperative properly followed State investment requirements as of June 30, 2013.

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

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits, interest bearing NOW accounts, and non-interest-bearing accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate.

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Deposits

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 Schools for at least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico Office of the State Auditor's requirements in reporting the insured portion of the deposits.

Community Bank:	
Total amount of deposits	\$ 453,549
Less: FDIC coverage	<u>(250,000)</u>
Uninsured public funds	<u>203,549</u>
State of New Mexico collateral requirement - 50% of uninsured funds	101,775
Pledged collateral held by the pledging bank's trust department not in the Cooperative's name	<u>182,315</u>
Pledged collateral (over) the requirement	<u><u>\$ (80,540)</u></u>

While year-end collateralization was sufficient, the Cooperative didn't have sufficient collateralization in the month of May, being under collateralized by \$91,157.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

Deposits – The risk exists when a portion of the Cooperative's deposits are not covered by depository insurance and are:

1. Uncollateralized;
2. Collateralized with securities held by the pledging financial institution; or
3. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor's (Cooperative's) name.

At June 30, 2013, \$203,549 of the Cooperative's bank balance of \$453,549 was exposed to custodial credit risk as it was uninsured and the collateral was held by the pledging bank's trust department, not in the Cooperative's name.

Reconciliation of Cash to the Financial Statements

The carrying amounts of deposits shown above are included in the Cooperative's Statement of Net Position as follows:

Reconciliation to Statement of Net Position

Governmental Funds - Balance Sheet	
Cash and cash equivalents per Exhibit A-1	\$ 434,337
Add outstanding checks and other reconciling items	<u>19,212</u>
Bank balance of deposits	<u><u>\$ 453,549</u></u>

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NOTE 4. Receivables

The Cooperative had governmental receivables in the General Fund in the amount of \$33,206 at June 30, 2013. It also had governmental receivables of \$125,455 in the State Directed Activities Fund at June 30, 2013. Total governmental receivables at June 30, 2013 were \$158,661.

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

Governmental funds reported unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The State Directed Activities Fund reported \$125,455 of unavailable revenues at June 30, 2013.

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 no unearned revenues reported in the governmental funds.

NOTE 5. Inter-fund Receivables, Payables, and Transfers

“Inter-fund balances” have primarily been recorded when funds overdraw their share of pooled cash when the Cooperative is waiting for grant reimbursements. The composition of inter-fund receivables and payables at June 30, 2013 was as follows:

	Inter-fund Receivables	Inter-fund Payables
Major Funds:		
General	\$ 125,455	\$ -
State Directed Activities	-	125,455
	\$ 125,455	\$ 125,455

Review of three funds which are reimbursable funds – funds must be expended prior to receiving reimbursement from the state – identified that all three had expended proceeds provided to them through these funds. However, cash balances still existed in these funds and have been transferred back to the General Fund. This is further explained in Note 15 Prior Period Adjustments.

For the year ended June 30, 2013, inter-fund transfers were as follow:

	Transfers In	Transfers Out
Major Funds:		
General	\$ 177,182	\$ -
State Directed Activities	-	139,561
Non-major Funds:		
Carl Perkins Secondary	-	10,730
IDEAL-NM	-	26,891
	\$ 177,182	\$ 177,182

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NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows.

Capital Asset Class	Adjusted Balance July 01, 2012	Additions	Reclassifications and Deletions	Balance at June 30, 2013
Subject to depreciation:				
Vehicles	\$ 25,916	22,320	-	\$ 48,236
Less accumulated depreciation:				
Vehicles	20,732	9,648	-	30,380
Governmental activities capital assets, net	<u>\$ 5,184</u>	<u>12,672</u>	<u>-</u>	<u>\$ 17,856</u>
Depreciation expense by function:				
Instruction				\$ 772
Support services - students				6,097
General administration				482
Support services - school administration				1,351
Central services				772
Operations and maintenance of plant				174
				<u>\$ 9,648</u>

Capital assets, net of accumulated depreciation, at June 30, 2013 appear in the Statement of Net Position as follows:
Governmental activities \$17,856.

NOTE 7. Compensated Absences

Compensated absences consist of the following at June 30, 2013:

	Balance at July 01, 2012	Additions	Deletions	Balance at June 30, 2013	Due Within One Year
Compensated absences	<u>\$ 1,625</u>	<u>\$ 3,182</u>	<u>\$ 3,522</u>	<u>\$ 1,285</u>	<u>\$ 1,285</u>

Administrative employees of the Cooperative are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year ended June 30, 2013, compensated absences decreased \$340 over the prior year accrual. All amounts are estimated to be paid out in the next year, so all amounts are considered current. Compensated absences have been paid out of the General Fund. See Note 1 for more details.

NOTE 8. Risk Management

The Cooperative is a member of the New Mexico Public Schools Insurance Authority (NMPSIA). The Authority was created to provide comprehensive core insurance programs by expanding the pool of subscribers to maximize cost containment opportunities for required insurance coverage. The Cooperative pays an annual premium to the NMPSIA based on claim experience and the status of the pool. The Risk Management Program includes Workers Compensation, General and Automobile Liability, Automobile Physical Damage, and Property and Crime coverage.

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The NMPSIA provides coverage for up to a maximum of \$500,000,000 for each property damage claim with a \$1,000 deductible to each building. General liability coverage is afforded to all employees, volunteers and council members and the limit is subject to the NMSA Tort Claims Act on a per occurrence basis. The automobile and property liability limit is subject to the provisions of the Tort Claims Act. The crime limit is \$250,000 per occurrence for Faithful Performance. A limit of \$250,000 applies to Depositor's Forgery, Credit Card Forgery and Money Orders. A limit of \$100,000 applies to Money and Security, which includes a \$750 deductible. The automobile liability coverage includes a deductible of \$750. In case the NMPSIA's assets are not sufficient to meet its liability claims, the agreement provides that subscribers, including the Cooperative, cannot be assessed additional premiums to cover the shortfall. As of June 30, 2013, there have been no claims that have exceeded insurance coverage.

NOTE 9. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures as part of the Combined Statements of certain information concerning individual funds including:

- A.** Deficit fund balance of individual funds. The State Directed Activities Fund reported a deficit fund balance of \$122,945 at June 30, 2013. The deficit fund balance is expected to be recovered when reimbursements are received from the state in fiscal year 2014.
- B.** Excess of expenditures over appropriations. No funds exceeded approved budgetary authority for the year ended June 30, 2013.

Major Funds:	
General	\$ 22,787
State Directed Activities	<u>1</u>
Total all funds	<u><u>\$ 22,788</u></u>

NOTE 10. Pension Plan – Educational Retirement Board

Plan Description. Substantially all of the Northwest Regional Education Cooperative #2'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 to plan members (certified teachers, other employees of state public school districts, colleges and universities, and some state agency employees) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at www.nmerb.org.

Funding Policy:

Member Contributions

Plan members whose annual salary is \$20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over \$20,000 are required to make the following contributions to the Plan: 9.40% of their gross salary in fiscal year 2013; 10.1% of their gross salary in fiscal year 2014; and 10.7% of their gross salary in fiscal year 2015 and thereafter.

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Employer Contributions

In fiscal year 2013, the Northwest Regional Education Cooperative #2 was required to contribute 12.4% of the gross covered salary for employees whose annual salary is \$20,000 or less, and 10.9% of the gross covered salary for employees whose annual salary is more than \$20,000.

In the future, Northwest Regional Education Cooperative #2 will contribute the following percentages of the gross covered salary of employees: 13.15% of gross covered salary in fiscal year 2014; and 13.9% of gross covered salary in fiscal year 2015.

The contribution requirements of plan members and the Northwest Regional Education Cooperative #2 are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Cooperative's contributions to ERB for the fiscal years ending June 30, 2013, 2012, and 2011, were \$45,708, \$59,016, and \$75,339, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 11. Post-Employment Benefits – State Retiree Health Care Plan

Plan Description. Northwest Regional Education Cooperative #2 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 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 the Retiree Health Care Authority at 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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced

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retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

(1)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, 2013, the statute required each participating employer to contribute 2.000% of each participating employee's annual salary; each participating employee was required to contribute 1.000% of their salary.

Northwest Regional Education Cooperative #2's contributions to the RHCA for the years ended June 30, 2013, 2012, and 2011 were \$8,387, \$5,361, and \$6,185, respectively, which equal the required contributions for each year.

NOTE 12. Operating Leases

Northwest Regional Education Cooperative #2 has an operating lease on a copier. The lease was entered into in November 2011 and is for five years. The lease calls for payments of \$319 per month for five years. The lease provides for 6,000 black and white copies per month in the agreement. Amounts over the limit are paid at the rate of \$0.0075 per black and white copy and \$0.0491 per color copy. In the event of non-appropriation of funds, the lease may be cancelled prior to the original term. However, as likelihood of non-appropriation is seen as remote, the Cooperative is disclosing the amounts of future lease payments on this lease.

Future payments on the lease consist of the following as of June 30, 2013:

Fiscal Year	
Ended	Copier
June 30,	Lease
<hr/>	<hr/>
2014	\$ 3,828
2015	3,828
2016	3,828
2017	<hr/> 1,276
Total future lease payments	<hr/> <hr/> \$ 12,760

NOTE 13. Contingent Liabilities

Amounts received or receivable from grantor 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 which may be disallowed by the grantor cannot be determined at this time, although the Cooperative expects such amount, if any, to be immaterial.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 14. Unearned Revenue

In accordance with the terms of the various grant agreements within the Special Revenue Funds, revenues received in excess of expenditures carry over to the subsequent years, unless such excess revenues are requested to be returned to the grantor. No unearned revenue is recognized at June 30, 2013.

NOTE 15. Prior Period Adjustments

Northwest Regional Education Cooperative #2 has made a prior period adjustment to the following funds in the following amounts at June 30, 2013:

	Major Funds		Non-major Funds		Total
	General	State Directed Activities	Carl Perkins Secondary	Technology for Education	
Prior period increase	\$ 177,182	\$ -	\$ 10,730	\$ -	\$ 187,912
Prior period decrease	-	(139,561)	(10,730)	(26,891)	(177,182)
Net change to fund balance	<u>\$ 177,182</u>	<u>\$ (139,561)</u>	<u>\$ -</u>	<u>\$ (26,891)</u>	<u>\$ 10,730</u>

State Directed Activities, Carl Perkins Secondary, and Technology for Education (IDEAL-NM) are all reimbursement based funds which require the Cooperative to demonstrate that they have expended funds prior to receiving reimbursement for those expenditures. As such, each of those funds should maintain no cash balance or a negative cash balance as they wait for state reimbursement.

Through June 30, 2010, Northwest Regional Education Cooperative #2 presented only a General Fund in its financial statements though each of these programs existed at that time. In 2011, these funds were presented as separate funds with positive cash balances. In 2012, Carl Perkins Secondary was presented with \$10,730 in cash and an offsetting amount to unearned revenues.

After reviewing documentation from the state and Northwest Regional Education Cooperative #2's internal documents, it was determined that when the funds were presented separately, the cash balances were not accurately presented. Also, Technology for Education (IDEAL-NM) was a contract with the state and should have been handled within the General Fund instead of in its own designated fund.

These adjustments bring each of the three funds back to a "zero" balance with the residual being in the General Fund where the funds appear to have originated.

Additionally, the beginning fund balance of the General Fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) had a "correction of inflated balance" of \$174,517 to bring it into balance with the Governmental Balance Sheet.

NOTE 16. Subsequent Accounting Standard Pronouncements

In December of 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

The GASB issued Statement No. 64. Statement 64 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The objective of this statement is clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider is replaced. The Cooperative is reviewing the effects of the implementation of this statement but does not believe it will have an impact on their financial statements.

The GASB issued Statement No. 65, Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Cooperative is reviewing the effects of the implementation of this statement.

The GASB issued Statement No. 66, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this statement is to amend Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, government would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement also amends Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and that principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee. These changes would eliminate any uncertainty regarding the application of Statement No. 13, Accounting for Operating Leases with Schedule Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales of Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The Cooperative is reviewing the effects of the implementation of this statement.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68 Accounting and Financial Reporting for Pensions which is effective for annual reporting periods beginning after June 15, 2014. Statement No. 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. At this time, the Cooperative is evaluating the implications of GASB No. 68 and its impact on the financial statements.

NOTE 17. Subsequent Events

A review of subsequent events through September 23, 2013, which is the date the financial statements were available to be issued, indicated nothing of audit significance.

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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SPECIAL REVENUE FUNDS

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SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for Federal, State and Local funded grants. These grants are awarded to the Cooperative with the purpose of accomplishing specific educational tasks. Grants accounted for in the Special Revenue Funds include:

Carl D Perkins Secondary (24174) – To account for a federal program supporting career and technical skill training of secondary education students. Funding authorized by the Carl D Perkins Career and Technical Education Act of 1998 Public as extended pursuant to the General Education Provisions Act Section 422(a).

Technology for Education (IDEAL NM) (27117) – To improve eLearning services to PK-12 schools, higher education institutions and government institution. To perform services as regional service provider for IDEAL-NM and the Graduate New Mexico Program (GNM). Funding provided by the 2007 Cyber Academy Act (SB209).

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2013

Statement B-1

	Carl Perkins Secondary 24174	Technology for Education (IDEAL-NM) 27117	Total
ASSETS			
<i>Current Assets</i>			
Cash and temporary investments	\$ -	\$ -	\$ -
Accounts receivable			-
Due from other governments	-	-	-
Due from other funds	-	-	-
Prepaid expenses	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total assets</i>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
<i>Current Liabilities:</i>			
Accounts payable	-	-	-
Accrued payroll liabilities	-	-	-
Due to other funds	-	-	-
Unavailable revenue - grant	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total liabilities</i>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Fund Balance:</i>			
Restricted for:			
Prepaid Expenses	-	-	-
Special revenue	-	-	-
Unassigned	-	-	-
General fund	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total fund balance</i>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
 <i>Total liabilities and fund balance</i>	 <hr/> <hr/>	 <hr/> <hr/>	 <hr/> <hr/>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDING JUNE 30, 2013

Statement B-2

	Carl Perkins Secondary 24174	Technology for Education (IDEAL-NM) 27117	Total
<i>Revenues:</i>			
State grants	\$ -	\$ -	\$ -
Charges for services	-	-	-
Miscellaneous	-	-	-
Sale of personal property	-	-	-
Investment Income	-	-	-
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>			
Current:			
Instruction	-	-	-
Support services			
Students	-	-	-
General administration	-	-	-
School administration	-	-	-
Central services	-	-	-
Operation & maintenance of plant	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances - beginning of year</i>	-	26,891	26,891
<i>Prior period adjustment</i>	-	(26,891)	(26,891)
<i>Adjusted fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
CARL PERKINS SECONDARY FUND (24174)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON - GAAP BUDGETARY BASIS)
FOR THE YEAR ENDING JUNE 30, 2013

Statement B-3

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<i>Revenues:</i>				
State flow-through grant	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Local revenue	-	-	-	-
Earnings from investments	-	-	-	-
Sale of personal property	-	-	-	-
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Support Services				
Students	-	-	-	-
General Administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operation & Maintenance of Plant	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances - beginning of year</i>	-	-	-	-
<i>Prior period adjustment</i>	-	-	-	-
<i>Adjusted fund balances - beginning of year</i>	-	-	-	-
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 TECHNOLOGY FOR EDUCATION (IDEAL-NM) FUND (27117)
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON - GAAP BUDGETARY BASIS)
 FOR THE YEAR ENDING JUNE 30, 2013

Statement B-4

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<i>Revenues:</i>				
State flow-through grant	\$ -	\$ -	\$ -	\$ -
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
Instruction	-	-	-	-
Support Services				
Students	-	-	-	-
School Administration	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net changes in fund balances</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances - beginning of year</i>	-	-	26,891	26,891
<i>Prior period adjustment</i>	-	-	(26,891)	(26,891)
<i>Adjusted fund balances - beginning of year</i>	-	-	-	-
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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OTHER SUPPLEMENTAL INFORMATION

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF PLEDGED COLLATERAL
FOR THE YEAR ENDING JUNE 30, 2013

Schedule I

<u>Security Description</u>	<u>CUSIP Number</u>	<u>Market Value</u>	<u>Maturity Date</u>
Community Bank:			
Federal Home Loan Bank Security	313375RN9	\$ 101,249	3/11/2016
Federal Home Loan Mortgage Corporation Security	3128MMPP2	<u>81,066</u>	3/1/2027
Total		<u>\$ 182,315</u>	

The securities are held at the Federal Reserve Bank in Boston, MA, not in the Cooperative's name at the following address:
600 Atlantic Avenue
Boston, MA 02210

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF CASH AND TEMPORARY INVESTMENT ACCOUNTS
JUNE 30, 2013

Schedule II

Bank Account Type	Community Bank	Totals
Checking - Interest Bearing Account	\$ 453,549	\$ 453,549
Total On Deposit	453,549	453,549
Reconciling Items	(19,212)	(19,212)
Reconciled Balance June 30, 2013	<u>\$ 434,337</u>	<u>\$ 434,337</u>
Cash per Government-wide Financial Statements		<u>\$ 434,337</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF CASH RECONCILIATIONS
JUNE 30, 2013

Schedule III

	Operational Account 27101	Federal Flowthrough 24000	State Flowthrough 27000	Total
Cash, June 30, 2012	\$ 293,277	\$ 10,730	\$ 56,246	\$ 360,253
Add:				
2012-13 revenues	894,966	-	518,735	1,413,701
Loans from other funds	-	-	125,455	125,455
Prior period adjustments	177,182	-	-	177,182
Total cash available	1,365,425	10,730	700,436	2,076,591
Less:				
2012-13 expenditures	(805,633)	-	(533,984)	(1,339,617)
Prior period adjustment	-	(10,730)	(166,452)	(177,182)
Loans to other funds	(125,455)	-	-	(125,455)
Cash, June 30, 2013	<u>\$ 434,337</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 434,337</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF JOINT POWERS AGREEMENTS
JUNE 30, 2013

Schedule IV

Title: Regional Education Cooperative

Participants: Northwest Regional Education Cooperative #2, Chama Valley Independent School District, Cuba Independent Schools, Dulce Independent Schools, Jemez Mountain Public Schools, Mesa Vista Consolidated Schools, Penasco Independent School District, and Questa Independent School District

Responsible Party: Northwest Regional Education Cooperative #2's Governing Council

Description: The parties have agreed to form a Regional Education Cooperative to participate in cooperative programs relating to education related services, provide professional services to the districts, and provide other optional services as needed.

Dates of Operation: September 14, 2013 until the end of any fiscal year during which 1) a participating district or institution gives Notice of Intent to Terminate pursuant to the agreement, or 2) a non-participating district or institution gives Notice of Intent to Participate and the Council agrees to such participation for the ensuing fiscal year.

Projected Cost: Based upon budget approved by the Public Education Department.

Current Cost: \$1,351,348 in expenditures for year ended June 30, 2013

Audit Responsibility: Northwest Regional Education Cooperative #2

Fiscal Agent: Northwest Regional Education Cooperative #2

Reporting Agency: Northwest Regional Education Cooperative #2

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

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COMPLIANCE SECTION

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**Manning Accounting and Consulting
Services, LLC**

**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**

Independent Auditor's Report

Hector H. Balderas, New Mexico State Auditor
And the Governing Council of
Northwest Regional Education Cooperative #2
Chama, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds of the Northwest Regional Education Cooperative #2, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Northwest Regional Education Cooperative #2's basic financial statements, and the combining and individual funds and related budgetary comparisons of Northwest Regional Education Cooperative #2, presented as supplemental information, and have issued our report thereon dated September 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northwest Regional Education Cooperative #2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northwest Regional Education Cooperative #2's internal control. Accordingly, we do not express an opinion on the effectiveness of Northwest Regional Education Cooperative #2's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. (FS 2013-01, FS 2013-02, and FS 2013-08)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies. (FS 2012-01, FS 2012-02, FS 2012-04, FS 2013-03, FS 2013-04, and FS 2013-06)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Regional Education Cooperative #2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 items FS 2013-05, FS 2013-07, and FS 2013-09.

Northwest Regional Education Cooperative #2's Response to Findings

Northwest Regional Education Cooperative #2's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Northwest Regional Education Cooperative #2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Regional Education Cooperative #2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kirtland, New Mexico
September 23, 2013

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

Schedule V

Section I – Summary of Audit Results

Financial Statements:

- | | |
|---|-------------|
| 1. Type of auditors' report issued | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Control deficiencies identified not considered to be significant deficiencies? | Yes |
| d. Noncompliance material to financial statements noted? | Yes |

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings

FS 2012 – 01 Revenue Posted in Expense Accounts – Repeated and Revised

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
<i>Internal Control</i>	Yes	No
Yes	<i>Compliance</i>	<i>Other Matter</i>
	Yes	No

Criteria: In accordance with proper accounting procedures and guidance provided by PSAB Supplement 1 – expenses and revenues should be reported separately. Per Supplement 1, “anticipated revenues for local, state, and federal categories should be consistently reviewed for accuracy and if conditions change, budget authority shall be adjusted in a timely manner.”

Reimbursements received from the member districts are actually revenues to the Cooperative and should be accounted for in that manner. The expenditures which the Cooperative incurs should also be recorded and reported accurately for readers of the financial statements.

Condition: The Cooperative posted deposits received totaling \$30,174 as abatements in expense accounts rather than recording the revenue from the member districts in a revenue account.

Cause: The Cooperative informed the auditors that they had been advised by a program person at the Public Education Department to just off-set reimbursements from member districts against the expenditures which the Cooperative had incurred on their behalf. As such, the Cooperative has used this method of accounting for the reimbursements from those member districts.

Effect: Actual revenues and expenditures of the Cooperative are underreported. The actual costs of communication services, general supplies and materials, and other contract services have been underreported, and the actual revenues received by the Cooperative have been underreported as well.

Auditor’s Recommendation: We recommend that all proceeds from member districts as well as revenues from any source be recorded in a revenue account and that all expenditure accounts accurately reflect the total expenditures incurred by the Cooperative.

Responsible Official’s View: The NWREC2 paid for services as GCI billed. The bill was paid then the NWREC2 invoiced the districts for their percentage/portion of the amount paid. NWREC2 was not aware that this process was considered an abatement process. In the future NWREC2 will follow expense and revenue protocols as identified in the auditor’s recommendations.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings (Continued)

FS 2012 – 02 No Insufficient Pledged Collateral – Repeated and Revised

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
<i>Internal Control</i>	Yes	No
Yes	<i>Compliance</i>	<i>Other Matter</i>
	Yes	Yes

Criteria: According to 6-10-16 NMSA 1978, “deposits of public money shall be secured by (1) securities of the United States, its agencies or instrumentalities ; (2) securities of the state of New Mexico, its agencies, instrumentalities, counties, municipalities or other subdivisions; (3) securities, including student loans, that are guaranteed by the United State or the State of New Mexico; (4) revenue bonds that are underwritten by a member of the financial industry regulatory authority, known as FINRA, and are rated “BAA” or above by a nationally recognized bond rating services; or (5) letters of credit issued by a federal home loan bank”.

Condition: During our testing of cash and pledged collateral requirements, one month of the four months tested had pledged collateral fair value which was insufficient according to state statute. The collateral shortage for the month of May was \$91,157.

Cause: The Cooperative received a large deposit in the month of May 2012, and according to the Business Manager, the Cooperative had contacted the bank to make sure their collateralization was increased. However, no increase occurred in the collateralization, leaving the Cooperative’s deposits under-collateralized.

Effect: The Cooperative’s deposits of public monies were not sufficiently collateralized according to state statute in the event of a bank failure which could cause the loss of assets.

Auditor’s Recommendation: We recommend that management adequately monitor the collateralization of its deposits. This should include informing the bank when it knows it is receiving large deposits that may affect collateralization requirements. This monitoring should also include following up with the bank to ensure that sufficient collateralization has been put in place. Management should require written confirmation from the bank regarding the type and fair value of the increased collateralization.

Responsible Official’s View: An email was sent to Commercial Bank on September 20, 2012 requesting a collateralization increase. The NWREC2 received a response from Shalesa Biship (cash manager at Commercial Bank) stating that the NWREC2 needed to alert the bank when the pledged collateral needed to be increased. NWREC2 requested an increase in February 2013 in anticipation of the SDAA funds. However, the funds were not received until May 2013. It is the NWREC2’s understanding that pledged collateral increase was a short-term increase made in February and the delay in SDAA funds being received didn’t coincide with the short-term increase. NWREC2 was not aware that the increase was short-term and will make sure in the future to follow the auditor’s recommendations.

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 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings (Continued)

FS 2012 – 04 Payment for Services not Rendered – Repeated and Revised

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
<i>Internal Control</i>	Yes	No
Yes	<i>Compliance</i>	<i>Other Matter</i>
	Yes	Yes

Criteria: According to 30-23-2 NMSA 1978, “paying or receiving public money for services not rendered consists of knowingly making or receiving payment or causing payment to be made from public funds where such payment purports to be for wages, salary or remuneration for personal services which have not in fact been rendered.

Nothing in this section shall be construed to prevent the payment of public funds where such payments are intended to cover lawful remuneration to public officers or public employees for vacation periods or absences from employment because of sickness, or for other lawfully authorized purposes.

Whoever commits paying or receiving public money for services not rendered is guilty of a fourth degree felony.”

Condition: During our testing of accrued compensated absences, we discovered that the previous Executive Director was paid for unused leave in July 2012, though the individual was not entitled to payment for unused leave as she was not a full-time, twelve month employee. The hourly rate paid to the individual was also calculated incorrectly. Fortunately, the rate was calculated at an amount significantly lower than the individual’s actual rate.

Cause: The individual was mistakenly paid for leave when she left the Cooperative, and the rate was calculated incorrectly at a rate much lower than the individual’s actual rate. Management did not review its leave payment policy prior to making the payment.

Effect: The Cooperative paid for services which were not earned according to Cooperative leave payment policies. The amount was lower than it might have been as the rate was calculated incorrectly. This saved the Cooperative resources that could have been incorrectly paid if the amount had been calculated correctly.

Auditor’s Recommendation: We recommend that management take greater care in reviewing its leave payment policy when an employee leaves the Cooperative in order to prevent improper payment of leave to individuals who have not earned the right to payment.

Responsible Official’s View: The amount and payment for the Executive Director was for \$138.53. The business manager was following traditional protocol for employees who didn’t utilize all their vacation leave. She didn’t realize that part-time employees didn’t qualify for compensation. In the future the business manager will follow the NWREC2 policies and procedures.

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 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings (Continued)

FS 2013 – 01 Improper Recording of Journal Entries

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
<i>Internal Control</i>	No	Yes
Yes	<i>Compliance</i>	<i>Other Matter</i>
	Yes	No

Criteria: According to 6-5-2C NMSA 1978, “state agencies shall implement accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.”

Condition: During our testing of manual journal entries, we discovered that journal entries are not being properly recorded. We reviewed a journal entry which was designed to move expenditures from one fund to another fund because of improper recording. However, only half of the journal entry was recorded. The expenditures were moved from one fund to the other, but the related cash side of the journal entry was not recorded as well.

Cause: The business manager did not understand that when moving expenditures from one fund to another, the journal entry must also include a correlating cash amount being moved from one fund to the other.

Effect: The Cooperative’s cash balances for each of the two funds affected will not be correct as one fund will be overstated and the other fund will be understated with regards to cash balances. Additionally, the funds cannot balance when journal entries are entered in this manner. This may be part of the issue related to finding FS 2013-08.

Auditor’s Recommendation: We recommend that management record all journal entries properly and ensure that all funds have proper cash balances and transfer of cash balances when expenditures or revenues are moved between funds.

Responsible Official’s View: In the future the NWREC2 will take care in making journal entries that cross lines and make sure that there are four entries indicating proper cash balances and transfer of cash balances when expenditures or revenues are moved between funds.

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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings (Continued)

FS 2013 – 02 Deleting “Void” Checks from the Financial System

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
	No	Yes
<i>Internal Control</i>		<i>Compliance</i>
Yes		Yes
		<i>Other Matter</i>
		No

Criteria: According to 6-5-2C NMSA 1978, “state agencies shall implement accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.”

Condition: During our testing of “void” checks, we discovered the following:

- Eleven of sixteen “void” checks had been deleted from the financial system
- One internally spoiled “void” check could not be found

Cause: The business manager was “deleting” checks from the accounting system, QuickBooks, rather than simply “voiding” the check when it was determined that a check should be voided. The one internally spoiled check that could not be located was misfiled or thrown away as all other internally spoiled checks were located.

Effect: The Cooperative’s accounting system will not maintain a proper tracking of all check numbers used, whom checks are written to, and the dates of the checks when these checks are deleted. It will also not track what checks are actually being “voided” in the financial system. This provides fewer controls for review by management and outside personnel as proper sequencing of checks is not maintained nor does it allow for identifying “red flags” regarding the number of void checks or the individuals or companies associated with those void checks.

Auditor’s Recommendation: We recommend that management not “delete” checks from the financial system which removes all trace of their existence. Instead, all checks should be “voided” in the normal process so that the information related to the “voided” check remains in the financial system with regards to check number, payee, and date. We also recommend that a file be maintained for all void checks. Additionally, while the Cooperative is properly marking the spoiled check stock as “VOID”, we recommend that the signature area of the check be cut out of the check. Check washing capabilities have increased significantly, so it is possible to “wash” the “VOID” stamp off the check and then use the check. Removing the signature area of the check physically spoils the check preventing this misuse of a void check.

Responsible Official’s View: The NWREC2 will no longer delete voided checks and will keep all original spoiled voided checks on file. The adjustment to processes and procedures will be made to ensure great care in document collections. The auditor’s recommendations will be followed.

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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings (Continued)

FS 2013 – 03 Incomplete Bidding Procedures and Purchases Requiring Quotations

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
<i>Internal Control</i>	Yes	No
Yes	<i>Compliance</i>	<i>Other Matter</i>
	Yes	No

Criteria: According to Northwest Regional Education Cooperative #2’s purchasing guidelines, the governing council is to approval all bids and requests for proposals. Additionally, pursuant to the Cooperative’s internal policies and 13-1-125 NMSA 1978, purchases of more than \$5,000 and not more than \$20,000 for tangible goods require three written proposals; purchases of professional services of more than \$50,000 require formal requests for proposals.

Additionally, 2.40.2.12 NMAC sets forth the guidelines when an agency determines that it has a “sole source” contract. These guidelines require that the agency provide a “written determination and an estimate of the dollar amount of the contract shall be submitted to the bureau for review and approval by the DFA secretary or his designee and shall include the following information:

- (1) a detailed, sufficient explanation of the reasons, qualifications, proprietary rights, or unique capabilities that make the prospective contractor a sole source;
- (2) an explanation of the criteria developed and specified by the state agency as necessary to perform the contract and upon which the state agency reviewed available sources;
- (3) a description of the procedures used by the state agency in conducting a good faith review of available sources, including without limitation, a narrative description of all steps taken by the state agency as evidence of the good-faith review performance such as:
 - (a) researching trade publications and industry newsletters;
 - (b) reviewing telephone books or other advertisements;
 - (c) reviewing current contract;
 - (d) contacting similar service providers; and
 - (e) reviewing the state purchasing agents vendor list; and
- (4) a list of all businesses contacted and an explanation of why those businesses could not perform the contract, or, a reasonable explanation of why the state agency has determined that no businesses, besides the prospective contractor, exist.

B. The bureau must obtain written approval of the agency’s sole source determination from the DFA secretary or his designee prior to approving a sole source contract or amendment to a sole source contract.”

Condition: During our testing of disbursements (40 selections) and individually significant disbursements (32 selections), we identified the following issue:

- JRM Educational Consulting was provided a contract to provide consulting services in relations to the reading grant. No bid or request for proposal was performed prior to awarding the contract. Management had discussed awarding the contract to JRM with state personnel who stated that JRM met their criteria; however, the state had also done no bidding process regarding these services. No “sole source” documentation was provided for this vendor. Total payments to JRM Educational Consulting for the fiscal year were \$74,369.08

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FOR THE YEAR ENDED JUNE 30, 2013

Schedule V

Section II – Financial Statement Findings (Continued)

Cause: With regards to JRM Educational Consulting, the Cooperative assumed when the state gave its approval for the use of the firm that this met approval criteria to use them as a sole source provider in northern New Mexico. However, this was not the case as the state had done no bidding process either.

Effect: The Cooperative is not following its own in-house purchasing guidelines or those of the state. Proper documentation for sole source providers and purchases requiring multiple quotations are not being maintained in the purchasing file. Not following these procedures may also cost the Cooperative resources as the best obtainable prices may not be realized.

Auditor’s Recommendation: We recommend that management reinforce the necessity of following proper purchasing guidelines. These guidelines should be reinforced through additional training to management, business office personnel, and member districts, all of which were involved in the issues identified above.

Responsible Official’s View: In the course of providing reading coaches for four districts in San Juan County it was discovered that finding highly qualified reading coaches willing to work on a one-year contract was very difficult. The NWREC2 received PED approval to contract for services with JRM who provided retired reading coaches to service the four districts. JRM was a “sole source” contractor in San Juan County. However, the NWREC2 failed to provide “sole source” documentation. In the future the NWREC2 will provide documentation and follow the auditor’s recommendations.

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 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings (Continued)

FS 2013 – 04 Payment for Products not Yet Received

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
<i>Internal Control</i>	Yes	No
Yes	<i>Compliance</i>	<i>Other Matter</i>
	Yes	No

Criteria: According to 13-1-158 NMSA 1978, “no warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction or items of tangible personal property have been received and meet specifications or unless prepayment is permitted under Section 13-1-98 NMSA 1978....”

Condition: During our testing for existing liabilities at year-end, we discovered that a payment of \$800.00 was made on an invoice of \$293.63 for fuel, overpaying the company by \$506.37.

Cause: When reviewing the invoice, the amount remaining on the purchase order was paid instead of the amount of the invoice.

Effect: The Cooperative prepaid for fuel which it had not yet received. Any prepayment for products or services puts the Cooperative at risk of loss in the amount of that prepayment and is a violation of state statute.

Auditor’s Recommendation: We recommend that management take precautions to make sure products or services are not prepaid unless permitted by state and internal guidelines.

Responsible Official’s View: A blanket PO was created and a processing error was made in the amount of the check paid for fuel expenses. If the correct amount of the check is not entered into QuickBooks the system automatically creates a check for the total amount applied to the PO. This is how the full payment was made, and a human error occurred. In the future the auditor’s recommended controls will be implemented.

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Section II – Financial Statement Findings (Continued)

FS 2013 – 05 Improper Carryover of Unused Leave

	<i>Significant Deficiency</i>	<i>Material Weakness</i>	
<i>Internal Control</i>	No	No	<i>Other Matter</i>
Yes	No	No	Yes

Criteria: According to Northwest Regional Education Cooperative #2 leave policies, “up to forty (40) hours of vacation leave can be carried forward from year to year.”

Condition: During our testing of accrued compensated absences, we identified that one of two employees entitled to accrued vacation leave had a 6/30/2013 balance of 74 hours, 34 hours in excess of Cooperative policies.

Cause: The Cooperative changed its policy in December 2012 from allowing carryover of all unused, annual leave from year-to-year to carryover of up to 40 hours of unused leave. However, the employee was not required to take sufficient leave as to reduce the carryover balance to the new requirements.

Effect: The Cooperative has one employee whose leave balance is in excess of stated policies.

Auditor’s Recommendation: We recommend that management and the Governing Council establish criteria whereby the employee takes sufficient leave to reduce the outstanding balance to Cooperative policy.

Responsible Official’s View: Upon the December 2012 policy changes to accrued vacation the business manager had accumulated a lot of vacation time (the vacation time prior to the policy changes was 160 hours and was reduced to 40 hours) therefore the business manager had not taken any vacation time prior to the policy changes. The business manager’s vacation time was carried over into the 2013 school year, which resulted in her having accrued vacation leave. In the future vacation time will be taken and no more than 40 hours will be carried over.

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SCHEDULE OF FINDINGS AND RESPONSES
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Section II – Financial Statement Findings (Continued)

FS 2013 – 06 Changing Vendor Names in the Financial System

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
<i>Internal Control</i>	<i>Compliance</i>	<i>Other Matter</i>
Yes	No	Yes

Criteria: According to 6-5-2C NMSA 1978, “state agencies shall implement accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.”

Condition: During our testing of individually significant items and our testing of fuel cards we identified that the listed names of vendors per the financial system – QuickBooks – were not the same as those on the actual cancelled checks. Eleven checks made to two different vendors did not agree with the vendors listed in the general ledger.

Cause: Two vendors changed names during the year. The vendor’s names were changed in the financial system – QuickBooks. When the names were changed by the Business Manager, QuickBooks changed the names in the system in all areas as well – invoices, checks, receipts, etc. The previous names no longer existed in the system and all previous occurrences of the names changed to the new names. Therefore, checks that were already printed had the old name and the general ledger listed the new name for the same checks.

Effect: The fact that QuickBooks changes the names on all documents already in the system when a name change is made means that source documents are going to be different than the Cooperative’s general ledger. This provides an opportunity to circumvent controls built into the Cooperative’s policies.

Auditor’s Recommendation: We recommend the following items in order to add additional controls to the Cooperative’s procedures:

- Do not change the names of any vendors in the system. When vendors have a name change, set up a new vendor file. When company names changes, tax identification numbers normally change as well, so simply changing names will cause a mismatch between vendors and tax identification information.
- The Executive Director or Coordinator should take extra care prior to signing any checks, and all supporting documentation should be reviewed and matched to the check prior to signing any checks. Any variations or discrepancies should be reviewed prior to signing.
- When the Executive Director reconciles the bank statement, the check copies provided in the bank statement should be reviewed, both front and back, and matched to the general ledger listing provided with the bank reconciliation. Any variations or discrepancies should be reviewed immediately.

Responsible Official’s View: Any time a change occurs in the name of a vendor the business manager will enter changes into the system under a new vendor instead of just changing the name on the checks. In addition, reconciliation of bank statements will include controls where the actual checks will be corresponded to the reconciliation documents.

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SCHEDULE OF FINDINGS AND RESPONSES
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Section II – Financial Statement Findings (Continued)

FS 2013 – 07 Budgetary Controls

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
<i>Internal Control</i>	No	No
Yes	<i>Compliance</i>	<i>Other Matter</i>
	Yes	Yes

Criteria: Sections 6-3-1 through 6-3-25 NMSA 1978 require, in part, that expenditures not exceed budgetary authority.

Condition: The Cooperative incurred expenditures in excess of budgetary authority in the following funds and functions:

Fund & Function	Amount
General Fund – Operation & Maintenance of Plant	\$ 22,787
State Directed Activities – Support Services – School Admin.	<u>1</u>
Total	<u>\$ 22,788</u>

Cause: In the General Fund, the Cooperative had been offsetting expenditures made on behalf of member districts with revenues paid to the Cooperative by those districts as reimbursement. When \$30,174 of revenues were adjusted to a revenue line out of the expenditure line, this caused true expenditures to exceed the budget. In the State Directed Activities Fund, expenditures exceeded budget by a single dollar.

Effect: The internal controls established by adherence to budgets have been compromised, and excess spending could, and did, result. In addition, New Mexico statutes have been violated.

Auditor’s Recommendation: We recommend that the Cooperative adhere to their policy of reviewing expenditures on an on-going basis and requesting budget adjustments where necessary. Also, if the Cooperative records its revenues and expenditures in appropriate lines, it will know when adjustments need to be made to expenditure lines which are used to provide services to member districts which are later reimbursed by those districts.

Responsible Official’s View: The NWREC2 will follow the auditor’s recommendations of reviewing expenditures on an on-going basis and request budget adjustments when necessary following PSAB procedures and guidelines.

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 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings (Continued)

FS 2013 – 08 General Ledger System Controls

	<i>Significant Deficiency</i>	<i>Material Weakness</i>
<i>Internal Control</i>	No	Yes
Yes	Compliance	<i>Other Matter</i>
No	Yes	No

Criteria: According to 2.20.5.8 NMAC:

A. Statute requires that the administrative head of each agency ensure that the model accounting practices, established by the division, are followed. In order to ensure that model accounting practices are followed, it is incumbent upon the agency head to carry out the responsibilities of the chief financial officer, outlined in Subsection C of 2.20.5.8 NMAC.

C. It is the responsibility of the chief financial officer to ensure that:

- (1) **an internal control structure exists at the state agency and is functioning properly.**
- (2) all transactions are recorded daily in the agency’s accounting records.
- (3) **all transactions are properly classified in the agency’s records.**
- (4) cash account records are reconciled timely each month to the division’s reports and to the state treasurer’s reports.
- (5) all transactions comply with federal and state law.
- (6) all expenditures have a public benefit or purpose, are necessary, and are consistent with the appropriation, the expenditure authority from the legislature and comply with Section 6-5-3 NMSA 1978, as amended.
- (7) **all accounting systems, including subsidiary systems, are recording transactions timely, completely, and accurately.**
- (8) all payments to vendors are accurate, timely and the state agency has certified they are for services rendered or goods received in accordance with Section 13-1-158 NMSA 1978, as amended.
- (9) all information requested by the division from the state agency is provided timely and accurately.
- (10) all reporting of financial information must be timely, complete and accurate, to the state agency’s management and to oversight agencies and entities.
- (11) the state agency’s annual financial statement audit is completed by the deadline established by the state auditor and the audit report includes an unqualified opinion.
- (12) a budgetary control system, approved by the state budget division of the department of finance and administration, is in place and functioning.

Condition: The accounting system of Northwest Regional Education Cooperative #2 does not meet the criteria established above in C. (1), (3), and (7). At 6/30/2013, the General Fund (27101) is \$207,298 out of balance; the State Directed Activities Fund (27200) is \$352,821 out of balance; IDEA-B (24106) is \$2,516 out of balance; “unclassified” is out of balance by \$562,635. In total, the amounts out of balance off-set each other so that the total is in balance. However, the Cooperative has not even used Fund 24106 in years.

Each fund has assets, liabilities, and fund balances maintained at each function level. State Directed Activities has over 50 separate sub-functions being used, some in balance and some not. The General Fund has seven sub-functions with all but one out of balance.

Cause: QuickBooks allows for the establishment of “classes” which allows the Cooperative to attempt to track financial information by district, by function, by the particular cost area. However, not all items are being properly coded by class in the balance sheet section of the funds. Revenues and expenditures appear to be coded by class in all situations; however, that is not the case when transactions affect assets, liabilities, and fund balance.

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Schedule V

Section II – Financial Statement Findings (Continued)

Errors such as the one reported in finding FS 2013-01 are also an issue which is causing the internal financial statements to be out of balance.

Additionally, according to management, the Cooperative has not received adjusting journal entries from the previous auditors to ensure that the organizational financial statements agree with the audited financial statements.

Effect: The Cooperative’s trial balance does not give a true representation of the financial position of the organization, and significant numbers of journal entries are needed to attempt to bring the various funds back into balance. This means that there is uncertainty when reporting any financial information other than revenues and expenditures.

Auditor’s Recommendation: We recommend that the Cooperative 1) begin working to bring all of its funds into balance within its financial system; 2) receive more training in its financial system – QuickBooks – in order to more fully understand how to use the system to track items appropriately for a fund accounting setting; 3) record all journal entries into its system which are mutually agreed upon between management and the auditor; and 4) complete a monthly “Cash Report” as is completed by school districts in the state of New Mexico in order to identify quickly when funds become out of balance so that errors may be found and corrected on a timely basis.

Responsible Official’s View: NWREC2 recognizes that adapting QuickBooks to meet the needs of fund accounting has its limitations. The challenges identified appear to be a result of a financial system that is not conducive to school finance. NWREC2 needs to consider a financial system more conducive to school finance and fund management such as Apta Funds Financial Management Systems.

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 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings (Continued)

FS 2013 – 09 Improper Purchase of High Grade Fuel

	<i>Significant Deficiency</i>	<i>Material Weakness</i>	
<i>Internal Control</i>	No	No	<i>Other Matter</i>
Yes			Yes
	<i>Compliance</i>		
	Yes		

Criteria: In accordance with 1.5.4.12 NMAC, fuel cards are to be used for the purchase of regular unleaded fuel only; premium grade fuels are not to be purchased with state approved gas cards.

Condition: During our testing of fuel card usage, we identified that in five of the twelve months tested premium fuel was purchased with the fuel gas cards in violation of New Mexico laws. There was one purchase of premium fuel in three of the months identified and two purchases of premium fuel in the other two months identified for a total of seven purchases. The total purchases accounted for 71.2 gallons at a cost of \$256.06. The last purchase identified was in January of 2013.

Cause: For the months of August through January, at least three separate individuals purchased premium fuel for their Cooperative vehicles.

Effect: The Cooperative is in violation of state statute and is spending funds on products which are considered excessive.

Auditor’s Recommendation: We recommend that the Cooperative adhere to state law regarding the purchase of fuel with gas cards. All individuals who drive Cooperative vehicles and use the gas cards should be instructed in the law as to what is and is not proper with regards to gas cards. Relevant sections may be found at 1.5.3.19, 1.5.3.20, and 1.5.4.12 NMAC.

Responsible Official’s View: NWREC2 staff will ensure that no premium fuel will be utilized in the vehicles in the future. NWREC2 staff members don’t recall pushing the premium fuel button and feel that the use of premium fuel was an accident or human error. NWREC2 staff will be more careful in the future.

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Schedule V

Section III – Prior Year Audit Finding

- 2002-02 Late Audit Report – Resolved
- 2009-07 Purchase Order Approved After Purchase – Resolved
- 2009-08 Untimely Payment of Purchases – Resolved
- 2012-01 Revenue Posted in Expense Accounts – Repeated and Revised
- 2012-02 Insufficient Pledged Collateral – Repeated and Revised
- 2012-03 No Background Check on File for Employee – Resolved
- 2012-04 Payment for Service not Rendered – Repeated and Revised

Section IV – Other Disclosures

Auditor Prepared Financials

Manning Accounting and Consulting Services, LLC assisted in the preparation of the financial statements presented in this report. The Cooperative's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

Exit Conference

The contents of this report were discussed on September 23, 2013. The following individuals were in attendance.

NWREC #2

Anthony Casados, Council Chairman
James Leshner, Council Secretary
Dr. Kimberly Mizell, Executive Director
Patty Nemmo, Business Manager
Frank Mestas, Coordinator

Manning Accounting and Consulting Services, LLC

Byron R. Manning, CPA