



STATE OF NEW MEXICO

NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

INTRODUCTORY SECTION

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
OFFICIAL ROSTER
FOR THE YEAR ENDED JUNE 30, 2014

<u>Name</u>		<u>Title</u>
	<u>Cooperative Council</u>	
Anthony Casados		Chairman
Dr. Manuel Medrano		Vice Chairman
Tom Savage		Member
Kirk Hartom		Member
Darlene Ulibarri		Member
Ernesto Valdez		Member
Dr. Lillian Torrez		Member
	<u>Cooperative Officials</u>	
Dr. Kimberly Mizell		Executive Director
Frank Mestas		Coordinator
Patty Nemmo		Business Manager

FINANCIAL SECTION



Manning Accounting and Consulting Services, LLC

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, 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, 2014, 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.

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 and each major fund of Northwest Regional Education Cooperative #2 as of June 30, 2014, 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.

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 23 through 26, 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 23 through 26, 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 26 through 26, 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 25, 2014 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's internal control over financial reporting and compliance.

Manning Accounting and Consulting Services, LLC

Kirtland, New Mexico
September 25, 2014

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 STATEMENT OF NET POSITION
 JUNE 30, 2014

Exhibit A-1

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 294,143
Receivables (net of allowance for uncollectibles)	254,296
Prepaid expenses	4,424
<i>Total current assets</i>	<u>552,863</u>
Noncurrent assets	
Capital assets (net of accumulated depreciation):	
Vehicles	48,236
Less: accumulated depreciation	(34,844)
<i>Total noncurrent assets</i>	<u>13,392</u>
<i>Total assets</i>	<u>\$ 566,255</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 807
Accrued payroll liabilities	8,081
Accrued compensated absences	1,611
<i>Total current liabilities</i>	<u>10,499</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred revenue	<u>-</u>
NET POSITION	
Net investment in capital assets	13,392
Restricted for:	
Prepaid expenses	4,424
Special revenue funds	1,099
Unrestricted	<u>536,841</u>
<i>Total net position</i>	<u>555,756</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u>\$ 566,255</u>

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, 2014

Exhibit A-2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government					
Governmental activities:					
Instruction	\$ 349,852	-	373,086	\$ -	\$ 23,234
Support services:					
Students	234,477	10,941	250,049	-	26,513
General Administration	17,060	-	18,193	-	1,133
School Administration	417,783	-	445,529	-	27,746
Central Services	94,984	-	101,292	-	6,308
Operation & Maintenance of Plant	16,554	-	17,653	-	1,099
Total Primary Government	\$ 1,130,710	\$ 10,941	\$ 1,205,802	\$ -	86,033
General Revenues:					
					662
					-
					<u>662</u>
					86,695
					<u>86,695</u>
					594,516
					<u>(125,455)</u>
					<u>469,061</u>
					\$ <u>555,756</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, 2014

Exhibit B-1

	General 27101	State Directed Activities 27200	Total Governmental Funds
ASSETS			
<i>Current Assets:</i>			
Cash and temporary investments	\$ 294,143	\$ -	\$ 294,143
Accounts receivable			
Due from other governments	86,788	167,148	253,936
Other Receivables	-	360	360
Due from other funds	166,409	-	166,409
Prepaid expenses	728	3,696	4,424
	<u>548,068</u>	<u>171,204</u>	<u>719,272</u>
<i>Total assets</i>			
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts payable	807	-	807
Accrued payroll liabilities	8,081	-	8,081
Due to other funds	-	166,409	166,409
Unearned revenues	-	-	-
	<u>8,888</u>	<u>166,409</u>	<u>175,297</u>
<i>Total liabilities</i>			
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - grants	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total liabilities</i>			
FUND BALANCES			
Restricted for:			
Prepaid expenses	728	3,696	4,424
Grant mandates	-	1,099	1,099
Unassigned	538,452	-	538,452
	<u>539,180</u>	<u>4,795</u>	<u>543,975</u>
<i>Total fund balances</i>			
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 548,068</u>	<u>\$ 171,204</u>	<u>\$ 719,272</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, 2014

Exhibit B-2

	<u>Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Fund balances - total governmental funds	\$ 543,975
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	(34,844)
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	(1,611)
	<hr/>
Net position - total governmental activities	<u>\$ 555,756</u>

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

STATE OF NEW MEXICO

Exhibit B-3

NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	General 27101	State Directed Activities 27200	Total Governmental Funds
<i>Revenues:</i>			
State grants	\$ 619,192	\$ 586,610	\$ 1,205,802
Charges for services	10,941	-	10,941
Investment income	662	-	662
<i>Total revenues</i>	<u>630,795</u>	<u>586,610</u>	<u>1,217,405</u>
<i>Expenditures:</i>			
<i>Current:</i>			
Instruction	-	349,495	349,495
Support services			
Students	122,289	109,375	231,664
General administration	16,837	-	16,837
School administration	417,158	-	417,158
Central services	94,301	-	94,301
Operation & maintenance of plant	16,465	-	16,465
<i>Total expenditures</i>	<u>667,050</u>	<u>458,870</u>	<u>1,125,920</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(36,255)</u>	<u>127,740</u>	<u>91,485</u>
<i>Net change in fund balances</i>	<u>(36,255)</u>	<u>127,740</u>	<u>91,485</u>
<i>Fund balances - beginning of year</i>	575,435	(122,945)	452,490
<i>Fund balances - end of year</i>	<u>\$ 539,180</u>	<u>\$ 4,795</u>	<u>\$ 543,975</u>

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

STATE OF NEW MEXICO

Exhibit B-4

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, 2014**

Governmental
Funds

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

Net change in fund balances - total governmental funds \$ 91,485

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 (4,464)

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:

Increase in accrued compensated absences (326)

Change in net position - total governmental activities \$ 86,695

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

STATE OF NEW MEXICO

Exhibit C-1

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 ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
State flow-through grant	\$ 605,548	\$ 825,058	\$ 569,207	\$ (255,851)
Charges for services	-	-	-	-
Local revenue	-	-	7,344	7,344
Earnings from investments	600	600	662	62
Sale of personal property	-	-	-	-
<i>Total revenues</i>	<u>606,148</u>	<u>825,658</u>	<u>577,213</u>	<u>(248,445)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	-	-	-	-
Support Services				
Students	134,830	174,190	123,203	50,987
General Administration	17,500	16,837	16,837	-
School Administration	301,137	463,400	417,598	45,802
Central Services	114,481	116,331	94,297	22,034
Operation & Maintenance of Plant	38,200	54,900	24,518	30,382
<i>Total expenditures</i>	<u>606,148</u>	<u>825,658</u>	<u>676,453</u>	<u>149,205</u>
<i>Net changes in fund balances</i>	<u>-</u>	<u>-</u>	<u>(99,240)</u>	<u>(99,240)</u>
<i>Fund balances - beginning of year</i>	-	-	559,792	559,792
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 460,552</u>	<u>\$ 460,552</u>
<i>Reconciliation to GAAP Basis:</i>				
Net changes in fund balance (cash basis)			\$ (99,240)	
Adjustments to revenues			53,582	
Adjustments to expenditures			9,403	
Net changes in fund balance (GAAP Basis)			<u>\$ (36,255)</u>	

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

STATE OF NEW MEXICO

Exhibit C-2

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 ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
State flow-through grant	\$ -	\$ 461,157	\$ 419,462	\$ (41,695)
<i>Total revenues</i>	<u>-</u>	<u>461,157</u>	<u>419,462</u>	<u>(41,695)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	-	348,509	348,505	4
Support Services				
Students	-	112,648	111,911	737
General Administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operation & Maintenance of Plant	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>461,157</u>	<u>460,416</u>	<u>741</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>(40,954)</u>	<u>(40,954)</u>
<i>Net changes in fund balances</i>	-	-	(40,954)	(40,954)
<i>Fund balances - beginning of year</i>	-	-	(125,455)	(125,455)
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (166,409)</u>	<u>\$ (166,409)</u>
<i>Reconciliation to GAAP Basis:</i>				
Net changes in fund balance (cash basis)			\$ (40,954)	
Adjustments to revenues			167,148	
Adjustments to expenditures			1,546	
Net changes in fund balance (GAAP Basis)			<u>\$ 127,740</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, 2014

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, 2014, the Cooperative adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No 53*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. 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, 2014

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014.

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.

Deferred Inflows of Resources – Deferred 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 deferred revenue, 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.

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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 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 (a) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (b) 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.

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

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.

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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.
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, 2014.

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 amounts of deposits	\$ 359,783
FDIC coverage	250,000
Total uninsured public funds	109,783
Collateral requirement (50% of uninsured public funds)	54,892
Pledged security	168,547
Total under (over) collateralized	\$ (145,886)

Funds in Community Bank are maintained in an interest bearing checking account.

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, 2014, \$109,783 of the Cooperative's bank balance of \$359,783 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	\$ 294,143
Add outstanding checks and other reconciling items	65,640
Bank balance of deposits	\$ 359,783

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NOTE 4 Receivables

The Cooperative had governmental receivables in the General Fund in the amount of \$86,788 at June 30, 2014. It also had governmental receivables of \$167,148 in the State Directed Activities Fund at June 30, 2014. Total governmental receivables at June 30, 2014 were \$253,936.

The Cooperative also had \$360 due from a vendor in the State Directed Activities Fund at June 30, 2014.

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. There were no unavailable revenues at June 30, 2014.

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, 2014 was as follows:

	Inter-fund Receivables	Inter-fund Payables
Major Funds:		
General	\$ 166,409	\$ -
State Directed Activities	-	166,409
	\$ 166,409	\$ 166,409

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NOTE 6 Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2014, including those changes pursuant to the implementation of GASB Statement No. 34, follows.

Capital Asset Class	Adjusted Balance July 01, 2013	Additions	Reclassifications and Deletions	Balance at June 30, 2014
Subject to depreciation:				
Vehicles	\$ 48,236	-	-	\$ 48,236
Less accumulated depreciation:				
Vehicles	30,380	4,464	-	34,844
Governmental activities capital assets, net	<u>\$ 17,856</u>	<u>(4,464)</u>	<u>-</u>	<u>\$ 13,392</u>
Depreciation expense by function:				
Instruction				\$ 357
Support services - students				2,813
General administration				223
Support services - school administration				625
Central services				357
Operations and maintenance of plant				89
				<u>\$ 4,464</u>

Capital assets, net of accumulated depreciation, at June 30, 2014 appear in the Statement of Net Position as follows:
Governmental activities \$13,392.

NOTE 7 Compensated Absences

Compensated absences consist of the following at June 30, 2014:

	Balance at July 01, 2013	Additions	Deletions	Balance at June 30, 2014	Due Within One Year
Compensated absences	<u>\$ 1,285</u>	<u>\$ 3,840</u>	<u>\$ 3,514</u>	<u>\$ 1,611</u>	<u>\$ 1,611</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, 2014, compensated absences increased \$326 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, 2014, 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. There were no funds with deficit balances at June 30, 2014.
- B. Excess of expenditures over appropriations. No funds exceeded approved budgetary authority for the year ended June 30, 2014.

NOTE 10 Pension Plan – Educational Retirement Board

Plan Description. Substantially all of 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: 10.10% of their gross salary in fiscal year 2014; and 10.70% of their gross salary in fiscal year 2015 and thereafter.

Employer Contributions

Northwest Regional Education Cooperative #2 was required to contribute 13.15% of the gross covered salary in fiscal year 2014. In fiscal year 2015 Northwest Regional Education Cooperative #2 will contribute 13.90% of gross covered salary.

The contribution requirements of plan members and 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, 2014, 2013, and 2012, were \$48,908, \$45,708, and \$59,016, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 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, 2014, 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, 2014, 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.

Northwest Regional Education Cooperative #2's contributions to the RHCA for the years ended June 30, 2014, 2013, and 2012 were \$7,438, \$8,387, and \$5,361, respectively, which equal the required contributions for each year.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014:

Fiscal Year	
Ended	Copier
June 30,	Lease
<hr/>	<hr/>
2015	3,828
2016	3,828
2017	1,276
<hr/>	<hr/>
Total future lease payments	<u><u>\$ 8,932</u></u>

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.

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, 2014.

NOTE 15 Restatement – Statement of Activities

Northwest Regional Education Cooperative #2 has made a restatement to the Statement of Activities for the beginning net position. During the creation of the Statement of Net Position and the Statement of Activities for the year ended June 30, 2013, the fund balance for the State Directed Activities Fund was mistakenly left out of the final net position balance. The final net position had been reported at \$594,516 instead of at \$469,061, a reduction of \$125,455.

NOTE 16 Subsequent Accounting Standard Pronouncements

In December of 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting*. 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. Due to the implementation of GASB 68 in fiscal year 2015, Northwest Regional Education Cooperative #2's financial statements will include a material

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

liability for pension participation costs which have not been previously disclosed. The amount of this liability cannot be determined at this time, but it will have a significant effect on the financial statement presentation in the next fiscal year.

NOTE 17 Subsequent Events

A review of subsequent events through September 25, 2014, which is the date the financial statements were available to be issued, indicated nothing of audit significance.

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OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF PLEDGED COLLATERAL
FOR THE YEAR ENDED JUNE 30, 2014

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	\$ 100,980	3/11/2016
Federal Home Loan Mortgage Corporation Security	3128MMPP2	<u>67,567</u>	3/1/2027
Total		<u>\$ 168,547</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

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 SCHEDULE OF CASH AND TEMPORARY INVESTMENT ACCOUNTS
 JUNE 30, 2014

Schedule II

Bank Account Type	Community Bank	Totals
Checking - Interest Bearing Account	\$ 359,783	\$ 359,783
Total On Deposit	359,783	359,783
Reconciling Items	<u>(65,640)</u>	<u>(65,640)</u>
Reconciled Balance June 30, 2014	<u>\$ 294,143</u>	<u>\$ 294,143</u>
Cash per Government-wide Financial Statements		<u>\$ 294,143</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, 2014

Schedule III

	Operational Account 27101	State Flowthrough 27000	Total
Cash, June 30, 2013	\$ 559,792	\$ (125,455)	\$ 434,337
Add:			
Current year revenues	577,213	419,462	996,675
Loans from other funds	-	166,409	166,409
Total cash available	1,137,005	460,416	1,597,421
Less:			
Current year expenditures	(676,453)	(460,416)	(1,136,869)
Loans to other funds	(166,409)	-	(166,409)
Cash, June 30, 2014	<u>\$ 294,143</u>	<u>\$ -</u>	<u>\$ 294,143</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, 2014

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 20, 2012 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: \$1,125,920 in expenditures for year ended June 30, 2014

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.

COMPLIANCE SECTION



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, 2014, and the related notes to the financial statements, which collectively comprise Northwest Regional Education Cooperative #2's basic financial statements, and have issued our report thereon dated September 25, 2014.

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 2014-008)

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 2014-004, FS 2014-007, FS 2014-009)

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 2014-001, FS 2014-002, FS 2014-003, FS 2014-005, and FS 2014-006.

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 responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Manning Accounting and Consulting Services, LLC

Kirtland, New Mexico
September 25, 2014

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Schedule V

Section I – Summary of Audit Results

Financial Statements:

- | | |
|-----------------------------------------------------------------------------------|------------|
| 1. Type of auditors' report issued | Unmodified |
| 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, 2014

Schedule V

Section II – Financial Statement Findings

FS 2014-001 Timeliness of Deposits (Material Non-Compliance)

Criteria: NMAC 6.20.2.6 states that deposits must be made within a 24 hour period from the receipt of the monies.

Condition: During our testwork of receipts, we noted one out of twenty samples in which a receipt was not deposited timely. The payment was received from Questa Independent School District on 5/23/2014, but was not deposited until 5/29/2014.

Cause: The staff of the District did not deposit the funds within 24 hours after receipt. Proper procedures relating to cash receipts were not followed.

Effect: Non-adherence to state statutes places the District in noncompliance and lack of timeliness of deposits could subject the District to a possible occurrence of fraud.

Auditors' Recommendations: We recommend that the District emphasize the importance of timely deposits of receipts, and monitor receipts more closely in order to be compliant with state statutes. The District should cross-train employees so that more than one individual is able to make deposits to ensure timely deposits are possible.

Responsible Official's View: This transaction was recorded incorrectly in Quick Books. The actual check was dated 05/23/2014 (Friday), so it had to be received later the next week, either the 28th or 29th. The office is quite diligent about depositing all checks within 24 hours.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Schedule V

Section II – Financial Statement Findings (Continued)

FS 2014-002 [2013 – 04] Payment for Products not Yet Received (Finding that does not Rise to the Level of a Significant Deficiency) – Revised

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 of credit card expenditures, we discovered that a payment of \$800.00 was made on an invoice of \$293.63 for fuel, overpaying the company by \$506.37. This item was also identified in the previous year during testing of subsequent disbursements.

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: This is the same finding from last year – was not repeated this year.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Schedule V

Section II – Financial Statement Findings (Continued)

FS 2014-003 [2013 – 09] Improper Purchase of High Grade Fuel (Finding that does not Rise to the Level of a Significant Deficiency) – Repeated and Revised

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 two 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 each of the months identified.

Cause: For the months of July and August, two separate individuals purchased premium fuel for their Cooperative vehicles, one on each statement period in the amounts of \$22.98 and \$55.48, respectively.

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 be more careful in purchasing fuel for the two vehicles, ensuring that premium fuel is not purchased in the future.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Schedule V

Section II – Financial Statement Findings (Continued)

FS 2014-004 [2013-01] Improper Recording of Journal Entries (Significant Deficiency) – Repeated and Revised

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 budget journal entries, we discovered that one journal entry was not properly recorded. We reviewed a journal entry which was designed to increase the fund balance after a budget adjustment request. However, one of the object codes was recorded \$1,000.00 too much while the second object code was underfunded \$1,000.00.

Cause: The business manager did not properly record the budget adjustment as it was approved by the PED and the Board. When recording the adjustment fund 2700-2100-53330 was recorded at \$36,405 instead of \$37,405, and 2700-2100-55915 was recorded at \$4,000 instead of \$3,000.

Effect: The Cooperative’s budget balances for each of the two object codes will not be correct as one code will be overstated and the other code will be understated with regards to budget balances.

Auditor’s Recommendation: We recommend that management record all journal entries properly and ensure that all funds have proper budget balances.

Responsible Official’s View: NWREC2 management will do their best to record all journal entries properly, double checking these entries, to ensure that all funds have proper budget balances.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Schedule V

Section II – Financial Statement Findings (Continued)

FS 2014 – 005 Improper Approval of Budget Adjustment (Material Noncompliance)

Criteria: According to 6-20-2-9 NMSA 1978, “Approval of the proposed budget by the local board shall be in a public hearing.”

Condition: During our testing of budget adjustment requests, we discovered that a budget adjustment was not discussed at a public hearing after giving the public proper notice according to the Open Meetings Act, Section 10-15-1.

Cause: The Cooperative mistakenly believed that a conference call held with 4 members of the Board was sufficient to approve the budget adjustment request.

Effect: The budget has not been properly authorized according to statute.

Auditor’s Recommendation: We recommend that the Cooperative ensure that all budget adjustments are presented to the public after giving proper notice according to the Open meetings Act, Section 10-15-1.

Responsible Official’s View: NWREC2 will present all budget adjustment requests to the public in accordance with the Open Meetings Act.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Schedule V

Section II – Financial Statement Findings (Continued)

FS 2014-006 Improper Documentation of Travel Reimbursement (Finding that does not Rise to the Level of a Significant Deficiency)

Criteria: According to 2.42.2.8 NMAC, “On the last day of travel when overnight lodging is no longer required, partial day reimbursement shall be made to calculate the number of hours in the partial day, begin with the time the traveler initially departed. Divide the number of hours traveled by 24. The hours remaining constitute the partial day which shall be reimbursed...”

Condition: During our testing of travel and per-diem expenses, we discovered that initial departure and return times are not being recorded on travel and reimbursement forms in all situations.

Cause: The Cooperative has not been recording initial departure and return times.

Effect: There is no way to properly verify per-diem payments according to statute, as there is no initial departure and return time recording to calculate full and partial day per-diem payments.

Auditor’s Recommendation: We recommend that management require leave and return times to be recorded on all travel and reimbursement forms, so that full and partial day per-diem rates are being paid according to statute and can be confirmed by auditors.

Responsible Official’s View: NWREC2 management will inform all employees that they are to record leave and return times on all travel reimbursement requests in order to be reimbursed. Management will ensure that leave and return times are recorded on forms before approving payment.

STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Schedule V

Section II – Financial Statement Findings (Continued)

FS 2014-007 Payments are Processed without Proper Receiving Controls (Significant Deficiency)

Criteria: Per Northwest Regional Education Cooperative’s receiving procedures and the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing, “all verified items or services should be recorded on the receiving document or other recording instrument (i.e., electronic file)”, and “upon verifying and recording the receipt of all the items or services ordered, the receiving document or recording instrument shall be manually or electronically signed by authorized receiving personnel and processed for payment according to procedures established by school District or charter school boards’ of education local procedures.”

Condition: During our testing of individually significant items, we identified twelve of forty one items in which payments were made without an authorizing signature to verify when products and services were received and by whom. The value of the products and services ranged from a value of \$3,500 to \$15,000.

Cause: Cooperative personnel have not followed state guidelines or good internal procedures when processing payments, and the Cooperative has not placed appropriate emphasis on adherence to stated control policies. Some items are received at the member school districts and individuals at these districts have not followed these procedures.

Effect: Internal control over goods and services paid for by Cooperative funds are not in effect. Control measures are not being implemented to assure that goods and services paid for by the Cooperative are actually received at the Cooperative or member districts. This creates the possibility for fraud or misappropriation of Cooperative assets.

Auditor Recommendation: We recommend that all disbursements require proper signatures on supporting documentation indicating the individual accepting responsibility that the goods or services have been received and the date that items were received.

Management Response: NWREC2 staff always verifies with the districts on the receipt of goods/services but was not requiring signatures from districts. NWREC2 has informed district employees that NWREC2 will require either a proper signature or electronic verification of receipt of goods/services before payment is authorized.

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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Schedule V

Section II – Financial Statement Findings (Continued)

FS 2014–008 [2013-08] General Ledger System Controls (Material Weakness) – Repeated and Revised

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 6/30/2014, the General Fund (27101) is \$1,195,299 out of balance; the State Directed Activities Fund (27200) is \$13,583 out of balance; and "unclassified" is out of balance by \$1,181,716. In total, the amounts out of balance off-set each other so that the total is in balance.

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.

Additionally, while journal entries were created in the prior audit to bring the accounts into balance, the Cooperative did not attempt to record those journal entries into their own books of record until July of 2014, eleven months after receiving the journal entries.

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

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. As an alternative, we recommend that the Cooperative obtain a financial software system designed to manage fund accounting properly.

Responsible Official's View: NWREC2 has purchased a new financial system, AptaFund, which is more appropriate for fund accounting. NWREC2 will work to bring all funds into balance within the new system, is receiving training in the new system, will record appropriate journal entries into the system, and complete a monthly cash report as recommended by the auditor.

Section II – Financial Statement Findings (Continued)

FS 2014 – 009 Internal Controls Over Journal Entry (Significant Deficiency)

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: During our testing of journal entries, adjusting and budget, we discovered that journal entries are not reviewed or approved by a party other than the Business Manager.

Cause: The Cooperative had not considered the risks that occur with only one individual recording journal entries without the review of another independent party.

Effect: Any type of adjustment may be made to the books of record, and no second party will be aware of the entries. This lack of internal control could potentially lead to the cover-up of fraud or misuse of Cooperative funds in the extreme case or to simple errors that may be discovered through a second set of eyes reviewing normal journal entries.

Auditor's Recommendation: We recommend that the Cooperative identify additional individuals who may review and sign-off on each journal entry. Each journal entry should include the name and date of the individual entering the journal entry and the name and date of review of the journal entry by a second individual. We understand that in small organizations, there may be some difficulty in identifying a second individual with the skills and expertise to understand the journal entry and have knowledge of its correctness. However, with some training this can be obtained, at least to the level of understanding so that it discourages illegal or improper acts.

Responsible Official's View: The NWREC2 Executive Director will review and sign off on all journal entries which will include the date and name of the individual entering the journal entry.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Schedule V

Section III – Prior Year Audit Finding

FS 2012-01 Revenue Posted in Expense Accounts – Resolved
FS 2012-02 Insufficient Pledged Collateral – Resolved
FS 2012-04 Payment for Services not Rendered – Resolved
FS 2013-01 Improper Recording of Journal Entries – Repeated and Revised
FS 2013-02 Deleting “Void” Checks from the Financial System – Resolved
FS 2013-03 Incomplete Bidding Procedures and Purchases Requiring Quotations – Resolved
FS 2013-04 Payment for Products not Yet Received – Revised
FS 2013-05 Improper Carryover of Unused Leave – Resolved
FS 2013-06 Changing Vendor Names in the Financial System – Resolved
FS 2013-07 Budgetary Controls – Resolved
FS 2013-08 General Ledger System Controls – Repeated and Revised
FS 2013-09 Improper Purchase of High Grade Fuel – 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 25, 2014. The following individuals were in attendance.

NWREC #2

Dr. Kimberly Mizell, Executive Director
Patty Nemmo, Business Manager
Kirk Hartom, Council Member
Frank Mestas, Coordinator
Vanessa Martinez, Administrative Assistant

Manning Accounting and Consulting Services, LLC

Byron R. Manning, CPA, Managing Partner
Denise Manning, Staff