



**STATE OF NEW MEXICO**

**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2015**

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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2015

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**STATE OF NEW MEXICO**  
**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**  
**OFFICIAL ROSTER**  
**FOR THE YEAR ENDED JUNE 30, 2015**

<u><b>Name</b></u>		<u><b>Title</b></u>
	<u>Cooperative Council</u>	
Anthony Casados		Chairman
Tom Savage		Vice-Chairperson
Kirk Hartom		Secretary
Dr. Manuel Medrano		Member
Darlene Ulibarri		Member
Ernesto Valdez		Member
Valerie Trujillo		Member
	<u>Cooperative Officials</u>	
Adan Delgado		Executive Director
Frank Mestas		Coordinator
Patty Eaton		Business Manager

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**FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

Timothy Keller, 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 fund of Northwest Regional Education Cooperative #2 as of and for the year ended June 30, 2015, 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, 2015, and the respective changes in financial position and the respective budgetary comparisons for the general fund and the major special revenue fund 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 VII on pages 29 through 35, 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 VI on pages 29 through 35, 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 VII on pages 29 through 35, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of findings and responses has 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 10, 2015 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 10, 2015

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**BASIC  
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO  
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
 STATEMENT OF NET POSITION  
 JUNE 30, 2015

Exhibit A-1

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 32,895
Receivables (net of allowance for uncollectibles)	521,395
<i>Total current assets</i>	<u>554,290</u>
Noncurrent assets	
Capital assets (net of accumulated depreciation):	
Vehicles	48,236
Less: accumulated depreciation	<u>(39,308)</u>
<i>Total noncurrent assets</i>	<u>8,928</u>
<i>Total assets</i>	<u>563,218</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Subsequent employer contributions - pensions	<u>62,506</u>
<i>Total assets and deferred outflows of resources</i>	<u>\$ 625,724</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 105,363
Accrued payroll liabilities	5,173
Accrued compensated absences	<u>2,206</u>
<i>Total current liabilities</i>	<u>112,742</u>
Noncurrent liabilities	
Net pension liability	<u>769,695</u>
<i>Total liabilities</i>	<u>882,437</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Change in pension experience and proportion	<u>164,020</u>
<b>NET POSITION</b>	
Net investment in capital assets	(900,139)
Restricted for:	
Special revenue funds	137,709
Unrestricted	<u>341,697</u>
<i>Total net position</i>	<u>(420,733)</u>
<i>Total liabilities, deferred inflows of         resources, and net position</i>	<u>\$ 625,724</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, 2015

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>	
<b>Primary Government</b>					
Governmental activities:					
Instruction	\$ 237,716	-	219,987	\$ -	\$ (17,729)
Support services:					
Students	234,037	85,789	216,583	-	68,335
General Administration	22,573	-	20,890	-	(1,683)
School Administration	1,433,907	-	1,326,967	-	(106,940)
Central Services	102,492	-	94,848	-	(7,644)
Operation & Maintenance of Plant	24,687	-	22,846	-	(1,841)
Total Primary Government	<u>\$ 2,055,412</u>	<u>\$ 85,789</u>	<u>\$ 1,902,121</u>	<u>\$ -</u>	<u>(67,502)</u>

**General Revenues:**

Unrestricted investment earnings	<u>80</u>
Total general revenues	<u>80</u>
Change in net position	(67,422)
Beginning net position	<u>555,756</u>
Restatement - change in accounting principle	<u>(909,067)</u>
Beginning net position as restated	<u>(353,311)</u>
Ending net position	<u>\$ (420,733)</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, 2015

Exhibit B-1

	General 27101	State Directed Activities 27200	Total Governmental Funds
<b>ASSETS</b>			
<i>Current Assets:</i>			
Cash and temporary investments	\$ 32,895	\$ -	\$ 32,895
Accounts receivable			
Due from other governments	67,942	453,453	521,395
Due from other funds	315,744	-	315,744
	<u>416,581</u>	<u>453,453</u>	<u>870,034</u>
<b>LIABILITIES</b>			
<i>Current Liabilities:</i>			
Accounts payable	105,363	-	105,363
Accrued payroll liabilities	5,173	-	5,173
Due to other funds	-	315,744	315,744
	<u>110,536</u>	<u>315,744</u>	<u>426,280</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - grants	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted for:			
Grant mandates	-	137,709	137,709
Unassigned	306,045	-	306,045
	<u>306,045</u>	<u>137,709</u>	<u>443,754</u>
<i>Total fund balances</i>	<u>306,045</u>	<u>137,709</u>	<u>443,754</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 416,581</u>	<u>\$ 453,453</u>	<u>\$ 870,034</u>

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

**STATE OF NEW MEXICO**

Exhibit B-2

NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2015

	<u>Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Fund balances - total governmental funds	\$ 443,754
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	(39,308)
Contributions to the pension plan are expensed in the governmental funds but are deferred outflows for government-wide statements	62,506
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	(2,206)
Net pension liability	(769,695)
Changes in pension actuarial experience, investment experience, and change in proportion are not recorded in the governmental funds but are recorded as deferred inflows for the government-wide statements	(164,020)
Net position - total governmental activities	<u>\$ (420,733)</u>

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

**STATE OF NEW MEXICO**  
**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

Exhibit B-3

	General 27101	State Directed Activities 27200	Total Governmental Funds
<i>Revenues:</i>			
State grants	\$ 548,084	\$ 1,346,189	\$ 1,894,273
Miscellaneous	7,848	-	7,848
Charges for services	85,789	-	85,789
Investment income	80	-	80
<i>Total revenues</i>	<u>641,801</u>	<u>1,346,189</u>	<u>1,987,990</u>
<i>Expenditures:</i>			
<i>Current:</i>			
Instruction	1,400	235,959	237,359
Support services			
Students	75,354	160,727	236,081
General administration	22,350	-	22,350
School administration	645,051	816,589	1,461,640
Central services	106,175	-	106,175
Operation & maintenance of plant	24,606	-	24,606
<i>Total expenditures</i>	<u>874,936</u>	<u>1,213,275</u>	<u>2,088,211</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(233,135)</u>	<u>132,914</u>	<u>(100,221)</u>
<i>Net change in fund balances</i>	<u>(233,135)</u>	<u>132,914</u>	<u>(100,221)</u>
<i>Fund balances - beginning of year</i>	539,180	4,795	543,975
<i>Fund balances - end of year</i>	<u>\$ 306,045</u>	<u>\$ 137,709</u>	<u>\$ 443,754</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, 2015**

Governmental  
Funds

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

Net change in fund balances - total governmental funds \$ (100,221)

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, interest and pension 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 (595)  
Pension contributions - current year 62,506  
Pension expense (24,648)

Change in net position - total governmental activities \$ (67,422)

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

**STATE OF NEW MEXICO**  
**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**  
**GENERAL FUND (27101)**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL (NON - GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
State flow-through grant	605,595	920,627	556,430	\$ (364,197)
Charges for services	-	-	85,789	85,789
Local revenue	-	-	18,348	18,348
Earnings from investments	750	750	80	(670)
<i>Total revenues</i>	<u>606,345</u>	<u>921,377</u>	<u>660,647</u>	<u>(260,730)</u>
<i>Expenditures:</i>				
Current:				
Instruction	-	8,280	1,400	6,880
Support Services				
Students	143,305	115,805	75,354	40,451
General Administration	17,000	24,000	22,350	1,650
School Administration	260,875	588,127	542,555	45,572
Central Services	124,950	124,950	106,165	18,785
Operation & Maintenance of Plant	60,215	60,215	24,736	35,479
<i>Total expenditures</i>	<u>606,345</u>	<u>921,377</u>	<u>772,560</u>	<u>148,817</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>(111,913)</u>	<u>(111,913)</u>
<i>Net changes in fund balances</i>	<u>-</u>	<u>-</u>	<u>(111,913)</u>	<u>(111,913)</u>
<i>Cash or fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>460,552</u>	<u>460,552</u>
<i>Cash or fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 348,639</u>	<u>\$ 348,639</u>
<i>Reconciliation to GAAP Basis:</i>				
Net changes in fund balance (cash basis)			\$ (111,913)	
Adjustments to revenues			(18,846)	
Adjustments to expenditures			(102,376)	
Net changes in fund balance (GAAP Basis)			<u>\$ (233,135)</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, 2015

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
State flow-through grant	\$ -	\$ 1,897,954	\$ 1,059,884	\$ (838,070)
<i>Total revenues</i>	<u>-</u>	<u>1,897,954</u>	<u>1,059,884</u>	<u>(838,070)</u>
<i>Expenditures:</i>				
Current:				
Instruction	-	221,323	235,599	(14,276)
Support Services				
Students	-	172,211	157,031	15,180
General Administration	-	-	-	-
School Administration	-	1,504,420	816,589	687,831
Central Services	-	-	-	-
Operation & Maintenance of Plant	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>1,897,954</u>	<u>1,209,219</u>	<u>688,735</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>(149,335)</u>	<u>(149,335)</u>
<i>Net changes in fund balances</i>	-	-	(149,335)	(149,335)
<i>Cash or fund balances - beginning of year</i>	-	-	(166,409)	(166,409)
<i>Cash or fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (315,744)</u>	<u>\$ (315,744)</u>
<i>Reconciliation to GAAP Basis:</i>				
Net changes in fund balance (cash basis)			\$ (149,335)	
Adjustments to revenues			286,305	
Adjustments to expenditures			(4,056)	
Net changes in fund balance (GAAP Basis)			<u>\$ 132,914</u>	

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

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**STATE OF NEW MEXICO**  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

**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, 2015, the Cooperative adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Statements No. 68 and 71 require 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.

**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, 2015

**NOTE 1**      **Summary of Significant Accounting Policies (Continued)**

**B.**      *Government-wide and fund financial statements (continued)*

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):

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**NOTE 1**      **Summary of Significant Accounting Policies (Continued)**

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

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. Funding included in the fund also is authorized by New Mexico Intervention for D and F Schools; Laws of 2014, Chapter 63, Section I, Subsection X.

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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.

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**NOTE 1**      **Summary of Significant Accounting Policies (Continued)**

**D.**      *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)*

**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.

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, 2015.

**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.



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**NOTE 1**      **Summary of Significant Accounting Policies (Continued)**

**D.**      *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)*

**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.

**Net Pension Liability:** The Cooperative records its proportionate share of the difference between the value of total pension liabilities and plan assets for the State of New Mexico's Employee Retirement Board pension plan.

**Deferred Outflows of Resources – Subsequent Employer Contributions – Pensions:** The government-wide financial statements report pension related expenses and liabilities for the cost-sharing plan one year in arrears, i.e. expenses and liabilities as of June 30, 2014. Contributions made by the Cooperative in the current fiscal year are thus applicable to a future reporting period where they will then be expensed. As such, they are presented in the Statement of Net Position as a deferred outflow of resources in the current period.

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

**Deferred Inflows of Resources – Change in Pension Experience and Proportion:** Changes in actuarial experience, investment experience, and change in proportion for the Cooperative are applicable to a future reporting period and will be expensed over a five-year period beginning in the next fiscal year. As such, these amounts are presented in the Statement of Net Position as deferred inflows of resources in the current period.

**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.

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**NOTE 1**      **Summary of Significant Accounting Policies (Continued)**

**D.**      *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)*

*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.

*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.

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**NOTE 1**      **Summary of Significant Accounting Policies (Continued)**

**D.**      *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)*

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.

**Pensions:** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Board (ERB) and additions to/deductions from ERB's fiduciary net position have been determined on the same basis as they are reported by ERB, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**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.

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**NOTE 2      Stewardship, Compliance and Accountability (Continued)**

*Budgetary Information (continued)*

2. In May or June of each year, the proposed “operating” budget will be reviewed and approved by the DBPU and certified and approved by the Governing Council at a public hearing of which notice has been published by the Governing Council which fixes the estimated budget for the Cooperative for the ensuing fiscal year.
3. The Governing Council meeting, while not intended for the general public, is open for the general public unless a closed meeting has been called.
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.

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**NOTE 3 Cash and Temporary Investments**

All invested funds of the Cooperative properly followed State investment requirements as of June 30, 2015.

No pledged collateral was required as the Cooperative's cash balances did not exceed FDIC amounts. 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.

***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	\$ 199,798
FDIC coverage	199,798
Total uninsured public funds	-
Collateral requirement (50% of uninsured public funds)	-
Pledged security	-
Total over (under) collateralized	\$ -

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, 2015, none of the Cooperative's bank balance of \$199,798 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.

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**NOTE 3 Cash and Temporary Investments (Continued)**

***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	\$ 32,895
Add outstanding checks and other reconciling items	<u>166,903</u>
Bank balance of deposits	<u><u>\$ 199,798</u></u>

**NOTE 4 Receivables**

The Cooperative had governmental receivables in the General Fund in the amount of \$67,942 at June 30, 2015. It also had governmental receivables of \$453,453 in the State Directed Activities Fund at June 30, 2015. Total governmental receivables at June 30, 2015 were \$521,395.

The Cooperative also had - due from a vendor in the State Directed Activities Fund at June 30, 2015.

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, 2015.

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, 2015 was as follows:

<b>Governmental Activities</b>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<b>Major Funds:</b>		
Operational (27101)	\$ 315,744	\$ -
State Directed Activities (27200)	<u>-</u>	<u>315,744</u>
<b>Totals</b>	<u><u>\$ 315,744</u></u>	<u><u>\$ 315,744</u></u>

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**NOTE 6 Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2015, including those changes pursuant to the implementation of GASB Statement No. 34, follows.

	Balance <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	Balance <u>June 30, 2015</u>
Capital assets used in governmental activities:					
Vehicles	\$ 48,236	\$ -	\$ -	\$ -	\$ 48,236
Less accumulated depreciation:					
Vehicles	<u>34,844</u>	<u>4,464</u>	<u>-</u>	<u>-</u>	<u>39,308</u>
Total capital assets, net of depreciation	<u>\$ 13,392</u>	<u>\$ (4,464)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,928</u>

Depreciation expense for the year ended June 30, 2015 was charged to governmental activities as follows:

Governmental activities:

Instruction	\$ 357
Support services - students	2,821
Support services - general administration	223
School administration	625
Central services	357
Operation and maintenance of plant	<u>81</u>
Total depreciation	<u>\$ 4,464</u>

Capital assets, net of accumulated depreciation, at June 30, 2015 appear in the Statement of Net Position as follows:  
 Governmental activities \$8,928.

**NOTE 7 Compensated Absences**

Compensated absences consist of the following at June 30, 2015:

	<u>Balance at July 01, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>	<u>Due Within One Year</u>
<b>Compensated absences</b>	<u>1,611</u>	<u>\$ 4,819</u>	<u>\$ 4,224</u>	<u>\$ 2,206</u>	<u>\$ 2,206</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, 2015, compensated absences increased \$595 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.

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**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.

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, 2015, 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, 2015.
- B. Excess of expenditures over appropriations. The following funds reported expenditures over appropriations:

Fund #	Fund Name	Function	Amount
<b>Major Funds:</b>			
27200	State Directed Activities	Instruction	\$ 14,276

**NOTE 10 General Information on the Pension Plan – Educational Retirement Board**

**Plan Description.** ERB was created by the state's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates. ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at [www.nmerb.org](http://www.nmerb.org).

**Benefits provided.** A member's retirement benefit is determined by a formula which includes three component parts: the member's final average salary (FAS), the number of years of service credit, and a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater. A brief summary of Plan coverage provisions follows:

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member's age and earned service credit add up to the sum of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.



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**NOTE 10      General Information on the Pension Plan – Educational Retirement Board (Continued)**

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, reemployed after that date is as follows: the member's age and earned service credit add up to the sum of 80 or more; the member is at least sixty-seven years of age and has five or more years of earned service credit; or the member has service credit totaling 30 years or more.

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied.

A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

**Contributions.** The contribution requirements of defined benefit plan members and the Northwest Regional Education Cooperative #2 are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2014 employers contributed 13.15% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed 10.10% of their gross annual salary. For fiscal year ended June 30, 2015 employers contributed 13.90%, and employees earning \$20,000 or less continued to contribute 7.90% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross annual salary. Contributions to the pension plan from the Northwest Regional Education Cooperative #2 were \$62,226 for the year ended June 30, 2015.

**STATE OF NEW MEXICO**  
**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 10      General Information on the Pension Plan – Educational Retirement Board (Continued)**

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2014. At June 30, 2015, the Northwest Regional Education Cooperative #2’s reported a liability of \$769,695 for its proportionate share of the net pension liability. The Northwest Regional Education Cooperative #2’s proportion of the net pension liability is based on the employer contributing entity’s percentage of total employer contributions for the fiscal year ended June 30, 2014. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2014, the Northwest Regional Education Cooperative #2’s proportion was 0.01349% percent, which was a decrease of 0.00177% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Northwest Regional Education Cooperative #2 recognized pension expense of \$24,648. At June 30, 2015, the Northwest Regional Education Cooperative #2 reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Net (Inflows) Outflows</b>
Differences between expected and actual experience	\$       -	\$    (11,468)	\$    (11,468)
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	(69,985)	(69,985)
Changes in proportion and differences between Northwest Regional Education Cooperative #2 contributions and proportionate share of contributions	-	(82,567)	(82,567)
Northwest Regional Education Cooperative #2 contributions subsequent to the measurement date	62,226	-	62,226
Total	<u>\$    62,226</u>	<u>\$    (164,020)</u>	<u>\$    (101,794)</u>

**STATE OF NEW MEXICO**  
**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 10      General Information on the Pension Plan – Educational Retirement Board (Continued)**

Deferred outflows of resources of \$62,226 related to pensions resulting from Northwest Regional Education Cooperative #2's contributions subsequent to the measurement date of June 30, 2014 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30,</b>	
<b>2016</b>	\$    50,141
<b>2017</b>	50,141
<b>2018</b>	46,224
<b>2019</b>	17,514
<b>2020</b>	-
<b>Thereafter</b>	-
<b>Total</b>	<u><u>\$    164,020</u></u>

**Actuarial assumptions.** As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014. Specifically, the liabilities measured as of June 30, 2014 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2014 and 10.7% thereafter.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on April 26, 2013 in conjunction with the six-year experience study period ending June 30, 2012.

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5 year smoothed market for funding valuation (fair value for financial valuation)
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of age and service rates



**STATE OF NEW MEXICO**  
**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 10      General Information on the Pension Plan – Educational Retirement Board (Continued)**

*Sensitivity of the Northwest Regional Education Cooperative #2's proportionate share of the net pension liability to changes in the discount rate.* The following table shows the sensitivity of the net pension liability to changes in the discount rate as of the fiscal year end 2014. In particular, the table presents the (employer's) net pension liability under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Northwest Regional Education Cooperative #2's proportionate share of the net pension liability	\$ 1,047,261	\$ 769,695	\$ 537,982

**Pension plan fiduciary net position.** Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2014 and 2013 which are publicly available at [www.nmerb.org](http://www.nmerb.org).

**Payables to the pension plan.** Northwest Regional Education Cooperative #2 has no outstanding liability to the pension plan at June 30, 2015 as all amounts owed were paid by year-end.

**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](http://www.nmrhca.state.nm.us).

**STATE OF NEW MEXICO**  
**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 11 Post-Employment Benefits – State Retiree Health Care Plan (Continued)**

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, 2015, 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, 2015, 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, 2015, 2014, and 2013 were \$9,000, \$7,438, and \$8,387, respectively, which equal the required contributions for each year.

**NOTE 12 Operating Leases**

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

Future payments on the lease consist of the following as of June 30, 2015:

<b>Fiscal Year</b>	
<b>Ended</b>	<b>Copier</b>
<b>June 30,</b>	<b>Lease</b>
<hr/>	<hr/>
2016	3,828
2017	1,276
<hr/>	<hr/>
Total future lease payments	<u>\$ 5,104</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.

**STATE OF NEW MEXICO**  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

**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, 2015.

**NOTE 15      Restatement – Change in Accounting Principle**

During the year ended June 30, 2015, there was a restatement in the Cooperative's financial statements resulting in a reduction in net position in the amount of \$909,067. This is due to the implementation of GASB 68 and GASB 71. This amount was derived from the Cooperative's proportionate share of the beginning net pension liability of \$957,975 less the 2014 contributions to the pension plan in the amount of \$48,908.

**NOTE 16      Subsequent Accounting Standard Pronouncements**

In January 2013, GASB Statement No. 69, *Government Combinations and Disposals of Government Operation*, was issued. Effective Date: The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application is encouraged. The provisions of this Statement generally are required to be applied prospectively. The Cooperative is still evaluating how this standard will affect the Cooperative.

In February 2015, GASB Statement No. 71, *Fair Value Measurement and Application*, was issued. Effective Date: The provisions of this Statement provide guidance for determining a fair value measurement for financial reporting purposes to enhance comparability of financial statements among governments in financial reporting periods beginning after June 15, 2015. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

In June 2015, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. Effective Date: The provisions of this Statement established requirements for defined benefit pensions that are not within the scope of Statement No. 68 in financial reporting periods beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

In June 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. Effective Date: The provisions of this Statement are effective for postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for fiscal years beginning after June 15, 2016. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for addressing accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

In June 2015, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued. Effective Date: The provisions of this Statement identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP) which supersedes Statement No. 55 and is effective for fiscal years beginning after June 15, 2015 and should be applied retroactively. Early application is permitted. The Cooperative is still evaluating how this standard will affect the Cooperative.

**STATE OF NEW MEXICO**  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

**NOTE 16**      **Subsequent Accounting Standard Pronouncements (Continued)**

In August 2015, GASB Statement No. 77, *Tax Abatement Disclosures*, was issued. Effective Date: The provisions of this Statement require governments that enter into tax abatement agreements to disclose relevant information about those agreements and is effective for fiscal years beginning after December 15, 2015. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

**NOTE 17**      **Subsequent Events**

A review of subsequent events through September 10, 2015, 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 #.  
 SCHEDULE OF CASH AND TEMPORARY INVESTMENT ACCOUNTS  
 JUNE 30, 2015

Schedule I

Bank Name/Account Type	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Adjustments	Book Balance
Community Bank Operational Account	Standard	<u>\$ 199,798</u>	<u>\$ 45,256</u>	<u>\$ (212,266)</u>	<u>\$ 107</u>	<u>\$ 32,895</u>
Cash per financial statements						
Cash and cash equivalents - Government Activities Exhibit A-1						<u>\$ 32,895</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, 2015**

Schedule II

	Operational Account 27101	State Directed 27000	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Cash, June 30, 2014	\$ 460,552	\$ (166,409)	\$ 294,143
Add:			
Current year revenues	660,647	1,059,884	1,720,531
Prior period adjustments	-	-	-
Loans from other funds	<u>-</u>	<u>315,744</u>	<u>315,744</u>
Total cash available	1,121,199	1,209,219	2,330,418
Less:			
Current year expenditures	(772,560)	(1,209,219)	(1,981,779)
Prior period adjustment	-	-	-
Loans to other funds	<u>(315,744)</u>	<u>-</u>	<u>(315,744)</u>
Cash, June 30, 2015	<u>\$ 32,895</u>	<u>\$ -</u>	<u>\$ 32,895</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, 2015

Schedule III

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: \$1,981,424 in expenditures for year ended June 30, 2015

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.

**STATE OF NEW MEXICO**  
**NORTHWEST REGIONAL EDUCATION COOPERATIVE #2**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**EDUCATIONAL RETIREMENT BOARD (ERB) PLAN**  
**LAST 10 FISCAL YEARS\***  
**JUNE 30, 2015**

Schedule IV

	2015
Northwest Regional Education Cooperative #2's proportion of the net pension liability	0.01349%
Northwest Regional Education Cooperative #2's proportionate share of the net pension liability	\$ 769,695
Northwest Regional Education Cooperative #2's covered-employee payroll	\$ 371,919
Northwest Regional Education Cooperative #2's proportionate share of the net pension liability as a percentage of covered-employee payroll	206.95%
Plan fiduciary net position as a percentage of total pension liability	66.54%

\* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Northwest Regional Education Cooperative #2 will present information for those years for which information is available.

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

**STATE OF NEW MEXICO**  
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
 SCHEDULE OF PENSION CONTRIBUTIONS  
 EDUCATIONAL RETIREMENT BOARD (ERB) PLAN  
 LAST 10 FISCAL YEARS\*  
 JUNE 30, 2015

Schedule V

	2015
Contractually required contribution	\$ 48,908
Contributions in relation to the contractually required contribution	48,908
Contribution deficiency (excess)	\$ -
Northwest Regional Education Cooperative #2's covered- employee payroll	\$ 371,919
Contributions as a percentage of covered-employee payroll	13.15%

\* This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is complied, the Northwest Regional Education Cooperative #2 will present information for those years for which information is available.

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

**STATE OF NEW MEXICO**  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
EDUCATIONAL RETIREMENT BOARD (ERB) PLAN  
JUNE 30, 2015

Schedule VI

***Changes of benefit terms*** . The COLA and retirement eligibility benefits changes in recent years are described in the ***Benefits Provided*** section of the financial statement note disclosure ***General Information on the Pension Plan - Educational Retirement Board*** .

**Changes of assumptions.**

ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on April 26, 2013, ERB implemented the following changes in assumptions for fiscal years 2014 and 2013:

1. Fiscal year 2014 and 2013 valuation assumptions that changed based on this study:
  - a. Lower wage inflation from 4.75% to 4.25%
  - b. Lower payroll growth from 3.75% to 3.50%
  - c. Minor changes to demographic assumptions
  - d. Population growth per year from 0.75% to 0.50%
  
2. Assumptions that were not changed:
  - a. Investment return will remain at 7.75%
  - b. Inflation will remain at 3.00%

See also the ***Actuarial Assumptions*** subsection of the financial statement not disclosure ***General Information on the Pension Plan - Educational Retirement Board*** .

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



**STATE OF NEW MEXICO**  
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
 SCHEDULE OF VENDOR INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2015

Schedule VII

Bid/RFP #	Names of Respondents	Winning Vendor	Vendor Location		Vendor Selected Preference	
			In-State	Out-of-State	In-State	Veteran
	None					
<b>Value of Contract:</b>	\$ -					
<b>Scope of Work:</b>						

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**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**

Timothy Keller, 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 fund of the Northwest Regional Education Cooperative #2, as of and for the year ended June 30, 2015, 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 10, 2015.

**Internal Control Over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (FS 2013-008)

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 2014-009, and FS 2015-001)

### **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 2014-005, FS 2014-006, FS 2014-007, and FS 2015-002.

### **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 10, 2015

**STATE OF NEW MEXICO**  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015

Schedule VIII

**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        |

STATE OF NEW MEXICO  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015

Schedule VIII

**Section II – Financial Statement Findings (Continued)**

**FS 2013 – 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 did not meet the criteria established above in C. (1), (3), and (7) for the month of July of the 2014-2015 fiscal year. In August 2014, the Cooperative made a transition to a financial reporting system which does have the proper controls and features necessary to meet the above guidelines.

However, the Cooperative was not able to balance and incorporate the July transactions into the new accounting system until the end of the fiscal year. This meant that cash and the trial balance could not be balanced on a monthly basis until July 2015. The Cooperative would review its bank statements on a monthly basis and "reconcile" as best they could, but without a complete and accurate general ledger or trial balance true reconciliations did not occur until after year-end.

*Cause:* QuickBooks allowed for the establishment of "classes" which allowed the Cooperative to attempt to track financial information by district, by function, by the particular cost area. However, not all items were being properly coded by class in the balance sheet section of the funds. Revenues and expenditures appeared 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 late in the 2014-2015 fiscal year. This was completed at the time of incorporation of the QuickBook records into the new AptaFund financial system.

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NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
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Schedule VIII

**Section II – Financial Statement Findings (Continued)**

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

**Auditor's Recommendation:** We recommend that the Cooperative continue on the course it laid out and implemented in the 2014-2015 fiscal year with the conversion from the QuickBooks system to the AptaFund system. As is the case with many software transitions, there was a time lag between implementing the system, reconciling the system, and producing accurate and reliable financial information. We recommend that the Cooperative continue on the course it achieved by July 2015 of reconciling its cash and general ledger accounts on a timely basis and reaching a point where the financial system could produce the necessary reports for the Council and management.

**Responsible Official's Plan:**

- Specific corrective action plan for finding:

NWREC#2 has fully transitioned to the new accounting system, AptaFund and funds are in balance. Training will take place on a continuous basis so that NWREC#2 personnel have a better understanding. Training includes, NMASBO training, an ongoing contract with a CPA firm that specializes in AptaFund, and contracted services with a veteran business manager who uses AptaFund.

- Timeline for completion of corrective action plan:

Starting July 2015 this has been the process being followed. The conversion has taken place and NWREC#2 will now be able to reconcile cash and general ledger accounts on a timely basis and monitor the integrity of the reports being produced.

- Employee position(s) responsible for meeting the timeline:

Business Manager



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NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
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FOR THE YEAR ENDED JUNE 30, 2015

Schedule VIII

**Section II – Financial Statement Findings (Continued)**

**FS 2014 – 005 – Improper Approval of Budget Adjustment (Non-Compliance) Repeated and Revised**

**Criteria:** According to 6.20.2.10 NMAC 1978;

B. School districts shall submit budget adjustment requests for the operating budget to the department for budget increases, budget decreases, transfers between functional categories, and transfers from the emergency reserve account. The department must take action on budget adjustment requests within 30 calendar days from the date of receipt by the department or such requests will otherwise be considered approved. Expenditures shall not be made by the school district until budget authority has been established and approval received from the department. Budget adjustments shall not be incorporated into the school district's accounting system until approval is received by the department.

**Condition:** During our testing of budget adjustment requests, we discovered one instance out of 17 tested in which the Cooperative entered the budget adjustment prior to approval from the PED.

In the previous audit the REC approved a budget adjustment that was not discussed at a public hearing.

**Cause:** The REC recorded the adjustment on 8/4/2014 but the PED did not approve the adjustment until 8/25/2014.

**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 not recorded in the REC's ledger until after approval from the PED.

**Responsible Official's Plan:**

- Specific corrective action plan for finding:

The business manager was unfamiliar with entering budget adjustments in the new AptaFund system and was unaware that "entering" it would automatically date-stamp it on the date of entry, regardless of "posting" which was thought to be the case. Additional training in AptaFund will continue, specifically addressing entering adjustments and entering proper dates.

- Timeline for completion of corrective action plan:

Training will be scheduled beginning September 2015 with an experienced accountant who has vast knowledge of the AptaFund financial system. The training will be ongoing as needed for various modules in Apta.

- Employee position(s) responsible for meeting the timeline:

Business Manager

**Section II – Financial Statement Findings (Continued)**

**FS 2014-006 – Improper Documentation of Travel Reimbursement (Non-Compliance) Repeated and Revised**

**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 as follows:”

**Condition:** During our testing of cash disbursements we found several instances in which proper procedures were not followed:

- In 3 of 30 items tested there was no documentation to verify departure and return times or odometer readings or maps indicating mileage as required by statute. The value of these reimbursements were \$495.00, \$210.60, and \$400.00

During our testing of travel reimbursements we noted one instance in which proper procedures were not followed:

- In 1 of 30 items tested there was no documentation to verify leave and return times or odometer readings. The amount of this reimbursement was \$212.03. In the same instance the travel reimbursement was approved by and for the Executive Director without a second signature.
- We also noted that the Executive Director is approving her own travel reimbursements.

In the previous audit the REC did not record departure and return times for any travel reimbursement.

**Cause:** The Cooperative has not recorded all departure and return times. Additionally proper safeguards are not in place as the Executive Director is approving reimbursements without a secondary approving signature.

**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. Additionally, state guidelines require that either a beginning and ending odometer reading is provided for mileage reimbursement, a standard mileage chart is used, or a printout, such as MapQuest, is used that indicates mileage between two locations.

**Auditor’s Recommendation:** We recommend that management require leave and return times to be recorded on 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. Additionally, we recommend that all mileage reimbursements include the established documentation to verify proper mileage reimbursements.

***Responsible Official’s Plan:***

- Specific corrective action plan for finding:

Since July of 2014, travel forms include start times and end times for traveler to enter upon return of travel, in order to properly calculate full and partial-day reimbursements. Travel reimbursements are not being processed without proper documentation and signature approvals.

- Timeline for completion of corrective action plan:

Travel forms were changed in July 2014 to include start and end times. There is a new individual in place as the NWREC#2 Executive Director and a new process was approved by the Governing Council, allowing approval for a designee to sign the Executive Director’s travel requests and travel reimbursements.

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Schedule VIII

**Section II – Financial Statement Findings (Continued)**

**FS 2014-006 – Improper Documentation of Travel Reimbursement (Non-Compliance) Repeated and Revised (continued)**

- Employee position(s) responsible for meeting the timeline:  
Business Manager

**STATE OF NEW MEXICO**  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
SCHEDULE OF FINDINGS AND RESPONSES  
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Schedule VIII

**Section II – Financial Statement Findings (Continued)**

**FS 2014-007 – Purchase Orders (Non-compliance) Repeated and Revised**

**Criteria:** Per the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing, “the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services or construction.” Additionally, “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.” Relevant statutes include 13-1-157 and 13-1-158 NMSA 1978.

**Condition:** During our testing of travel and per diem we noted one instance in which the purchase order was entered more than 30 days after the expense was incurred.

In the previous audit we identified 12 instances in which there were no receiving signatures to verify that goods and services were received by the REC.

**Cause:** Cooperative personnel did not ensure that there was a valid purchase order in file prior to incurring an expense.

**Effect:** The Cooperative has not followed state guidelines and proper procedures

**Auditor Recommendation:** We recommend that Cooperative personnel ensure that a valid purchase order is in place prior to any goods or services being purchased.

**Responsible Official’s Plan:**

- Specific corrective action plan for finding:

NWREC#2 is diligent in ensuring that a purchase order is in place prior to any goods or services being purchased. In this instance, there were issues surrounding the training and process involved in the new accounting system (AptaFund). Processes and procedures were re-emphasized with the individual who made the purchase, and additional training on the system was provided. The problems were taken seriously and the superintendent of the District involved in the purchase was notified about proper protocol.

- Timeline for completion of corrective action plan:

This policy is and has been effective. Employees and member district representatives will continue to be more conscientious about adhering to this policy.

- Employee position(s) responsible for meeting the timeline

All NWREC#2 employees and member district representatives who place orders with funds managed by the NWREC#2.

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SCHEDULE OF FINDINGS AND RESPONSES  
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Schedule VIII

**Section II – Financial Statement Findings**

**FS 2014 – 009 – Internal Controls Over 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.”

Good accounting procedures require that all manual journal entries should have proper supporting documentation and be reviewed by at least two individuals who should sign and date the journal entry. This should be performed in order to detect errors and to prevent improper movement of funds. This provides an internal deterrent to errors, fraud, and misappropriation of assets.

**Condition:** During our review of journal entries we noted several instances in which proper procedures were not followed:

- In 4 of 15 journal entries tested there was no supporting documentation to support the adjustment, nor was there any signature to verify who approved and verified the adjustment.
- In 1 of 15 journal entries tested the entry was posted into the wrong year.

In the previous audit the Cooperative recorded a journal entry improperly causing ending fund balances to be misstated by \$1,000.

**Cause:** The business manager did not provide documentation to support the need for the adjustment, and there are no signatures authorizing the adjustment.

**Effect:** The Cooperative has not followed good accounting procedures and has opened itself up to the possibility of error and improper movement of funds.

**Auditor’s Recommendation:** We recommend that management record all journal entries properly and ensure that all adjustments have proper documentation and are signed off by two separate individuals.

**Responsible Official’s Plan:**

- Specific corrective action plan for finding:

During the conversion from QuickBooks to AptaFund, some of the journal entries were performed by AptaFund personnel in order to move transactions over from QuickBooks to AptaFund, and subsequently, no backup documentation was provided. A lack of familiarity with AptaFund, allowed for Journal Entries to be made without identification by the business manager. NWREC#2 is now fully converted to AptaFund, and since the conversion, the business department has ensured that all journal entries are recorded with proper documentation attached, and are signed-off by two separate individuals.

- Timeline for completion of corrective action plan:

This corrective action has been in place since April, 2015.

- Employee position(s) responsible for meeting the timeline:

Business Manager

STATE OF NEW MEXICO  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
SCHEDULE OF FINDINGS AND RESPONSES  
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Schedule VIII

**Section II – Financial Statement Findings (Continued)**

**FS 2015-001 Incomplete Bidding Procedures and Purchases Requiring Written Quotes (Significant Deficiency)**

**Criteria:** According to 1.4.1.15 NMSA 1978, All procurement shall be achieved by competitive sealed bids except procurement achieved pursuant to the following methods:

- A. competitive sealed proposals;
- B. small purchases;
- C. sole source procurement;
- D. emergency procurement;
- E. procurement under existing contracts; and
- F. purchases from anti-poverty program businesses.

Additionally, 1.4.1.48 NMAC sets forth the guidelines for small purchases. The provisions of 1.4.1.48 through 1.4.1.52 NMAC of this rule apply to the procurement of nonprofessional services, construction or items of tangible personal property having a value not exceeding sixty thousand dollars (\$60,000) and to the procurement of professional services having a value not exceeding sixty thousand dollars (\$60,000) the use of a statewide price agreement, an existing contract or the methods of procurement set forth in 1.4.1.50 through 1.4.1.52 NMAC of this rule provide alternatives to the competitive sealed bid and competitive sealed proposal methods of procurement. If an existing statewide price agreement, an existing contract or, the procurement methods set forth in 1.4.1.50 through 1.4.1.52 NMAC of this rule are not used, the competitive sealed bid or competitive sealed proposal methods shall apply.

**Condition:** During our testing of individually significant disbursements we identified the following instance in which proper procedures were not followed:

- Payment to vendor Embassy Suites exceeded \$60,000. Bids for this service were not obtained. Amount paid to Embassy Suites was \$118,119.40.
- A payment to vendor Albuquerque Boca Hotel of \$44,757.39 was issued without securing written quotes to ensure that the Cooperative was securing the best price for goods and or services greater than \$20,000 as required by the Cooperative's guidelines.

Additionally, review of documentation seemed to indicate that the Executive Director received personal "Hilton Hhonor Benefits" for the expenditures obtained through Embassy Suites. This documentation indicated that the Executive Director would receive "one Hhonor bonus point and one airline mile for every eligible dollar spent" (room rentals).

A large purchase without proper bidding procedures in which the Executive Director is also receiving personal "compensation" for the Cooperative purchases is extremely improper. Any benefits received should accrue to the Cooperative, not to the Executive Director.

**Cause:** The Cooperative has not followed proper state statutes or Cooperative policy in requirement of securing written quotes when award amounts will be greater than \$20,000 and for large purchases greater than \$60,000 requiring competitive bids.

**Effect:** The Cooperative is not in compliance with State Purchasing Guidelines. This opens the Cooperative up to possible incidences of fraud.

**Auditor's Recommendation:** We recommend that the Cooperative ensure that all purchased of \$20,000 are secured according to policy. The Cooperative should ensure that all no-bid awards have proper documentation on file for inspection.

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Schedule VIII

**Section II – Financial Statement Findings (Continued)**

**FS 2015-001 Incomplete Bidding Procedures and Purchases Requiring Written Quotes (Significant Deficiency)**

*Responsible Official's Plan:*

- Specific corrective action plan for finding:

The Executive Director referenced in this process is no longer employed with the NWREC#2. Additionally, the NWREC#2's business manager has completed New Mexico Edge Certified Procurement Officer Training and passed the NMCPO certification as a Certified Procurement Officer. Subsequent to these changes, the NWREC#2 has strictly adhered to NM Procurement Code and has continued to refine its processes for procurement. The NWREC#2 has utilized the services of the Cuddy & McCarthy law firm to review procurement procedures, including a public Request for Proposal (RFP) for the procurement of lodging, in the current fiscal year. This process was not used in the past. The NWREC#2 is now utilizing greater internal and external expertise to assure that all procurement strictly adheres to state statutes and regulations. Also, any benefits received through procurement of services or goods will not be received by any NWREC#2 employee, but will go directly to the organization.

- Timeline for completion of corrective action plan:

One employee has already been CPO certified and will continue training to further procurement knowledge. Other NWREC#2 employees will attend procurement training, as available (including multiple trainings hosted by the NWREC#2 for member districts), which will also help ensure compliance with New Mexico procurement guidelines.

- Employee position(s) responsible for meeting the timeline

Business Manager, Coordinator, and Executive Director

**STATE OF NEW MEXICO**  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015

**Section II – Financial Statement Findings (Continued)**

**FS 2015-002 – Budgetary Controls (Non-Compliance)**

*Criteria:* According to 22-8-11 B. NMSA 1978:

B. No School district or state-chartered school or officer or employee of a school district or state-chartered school shall make any expenditure or incur any obligation for the expenditure of public funds unless that expenditure or obligation is made in accordance with an operating budget approved by the department. This prohibition does not prohibit the transfer of funds pursuant to the department's rules and procedures.

*Condition:* The Cooperative incurred expenditures in excess of budgetary authority in the following fund and function:

<b>Fund &amp; Function</b>	<b>Amount</b>
27200 State Directed Activities – Instruction	\$14,276

*Cause:* These items were missed while reviewing for budget adjustments and not included in a maintenance BAR prior to year-end.

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

*Auditor's Recommendation:* We recommend that the Cooperative adhere to their policy of obtaining budgets and maintaining those budgets during the year as prescribed by State statutes.

***Responsible Official's Plan:***

- Specific corrective action plan for finding:

Because of the transition from QuickBooks to AptaFund, the budget was separated to several codes and this was not properly done when conversion took place and the over-expenditure was not detected. New reports in the new AptaFund system will be developed to help monitor fund balances separately as required to maintain over-expenditures.

- Timeline for completion of corrective action plan:

Some reports have already been developed to alleviate this problem. More reports will be developed throughout the year to ensure all lines are being properly monitored and adjusted as needed, on a timely basis.

- Employee position(s) responsible for meeting the timeline

Business Manager and trained successor(s)



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**Section III – Prior Year Audit Finding**

FS 2013-001 Improper Recording of Budget Journal Entries – Resolved  
FS 2013-004 Payment for Services not Yet Received – Resolved  
FS 2013-008 General Ledger System Controls – Repeated and Revised  
FS 2013-009 Improper Purchase of High Grade Fuel – Resolved  
FS 2014-001 Timeliness of Deposits – Resolved  
FS 2014-005 Improper Approval of Budget Adjustment – Repeated and Revised  
FS 2014-006 Improper Documentation of Travel Reimbursement – Repeated and Revised  
FS 2014-007 Payments are Processed without Proper Receiving Controls – Repeated and Revised  
FS 2014-009 Internal Controls Over Journal Entries – Repeated and Revised

**STATE OF NEW MEXICO**  
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2  
OTHER DISCLOSURES  
FOR THE YEAR ENDED JUNE 30, 2015

**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 10, 2015. The following individuals were in attendance.

NWREC #2

Anthony Casados, Council Chairperson  
Adan Delgado, Executive Director  
Frank Mestas, Coordinator  
Patty Eaton, Business Manager

Manning Accounting and Consulting Services, LLC

Byron Manning, CPA, Managing Partner