



STATE OF NEW MEXICO

NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

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INTRODUCTORY SECTION

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
OFFICIAL ROSTER
FOR THE YEAR ENDED JUNE 30, 2016

<u>Name</u>		<u>Title</u>
	<u>Cooperative Council</u>	
Anthony Casados		Chairperson
Dr. Manuel Medrano		Vice-Chairperson
Tom Savage		Secretary
Tony Archuleta		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



Manning Accounting and Consulting Services, LLC

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 the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund of Northwest Regional Education Cooperative #2 (the "Cooperative") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. We also have audited the financial statements of the Cooperative's nonmajor governmental fund and the budgetary comparison for the nonmajor fund presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016, 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 and the aggregate remaining fund information of Northwest Regional Education Cooperative #2 as of June 30, 2016 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.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the nonmajor governmental fund of the Cooperative as of June 30, 2016, and the respective changes in financial position thereof and the respective budgetary comparisons for the nonmajor 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.

Accounting principles generally accepted in the United States of America requires the Schedules I and II and the notes to the Required Supplementary Information on pages 30 through 32 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Cooperative's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The introductory section and the other supplemental information, Schedules III through VII, 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 III through V on pages 37 through 39, required by 2.2.2 NMAC 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 III through V on pages 37 through 39, required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section on pages i through iii and Schedules VI through VII on pages 40 through 41 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016 on our consideration of the Cooperative'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 the Cooperative's internal control over financial reporting and compliance.

Manning Accounting and Consulting Services, LLC

Manning Accounting and Consulting Services, LLC
Kirtland, New Mexico
September 22, 2016

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BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 STATEMENT OF NET POSITION
 JUNE 30, 2016

Exhibit A-1

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 379,005
Receivables (net of allowance for uncollectibles)	632,258
<i>Total current assets</i>	<u>1,011,263</u>
Noncurrent assets	
Capital assets (net of accumulated depreciation):	
Vehicles	48,236
Less: accumulated depreciation	(43,772)
<i>Total noncurrent assets</i>	<u>4,464</u>
<i>Total assets</i>	<u>1,015,727</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension - change in assumptions	35,245
Pension - investment experience	55,938
Pension - change in proportion	99,036
Pension - employer contributions after measurement date	55,709
<i>Total deferred outflows</i>	<u>245,928</u>
<i>Total assets and deferred outflows of resources</i>	<u>\$ 1,261,655</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 491,535
Accrued payroll liabilities	372
Accrued compensated absences	4,852
<i>Total current liabilities</i>	<u>496,759</u>
Noncurrent liabilities	
Accrued compensated absences	4,864
Net pension liability	1,024,704
<i>Total noncurrent liabilities</i>	<u>1,029,568</u>
<i>Total liabilities</i>	<u>1,526,327</u>
DEFERRED INFLOWS OF RESOURCES	
Pension - actuarial experience	9,267
Pension - change in proportion	53,915
<i>Total deferred inflows</i>	<u>63,182</u>
NET POSITION	
Net investment in capital assets	(866,745)
Restricted for:	
Special revenue funds	5,115
Unrestricted	533,776
<i>Total net position</i>	<u>(327,854)</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u>\$ 1,261,655</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, 2016

Exhibit A-2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government					
Governmental activities:					
Instruction	\$ 250,008	-	255,454	\$ -	\$ 5,446
Support services:					
Students	145,460	182	148,628	-	3,350
General Administration	16,847	-	17,214	-	367
School Administration	3,161,321	-	3,230,179	-	68,858
Central Services	132,703	-	135,593	-	2,890
Operation & Maintenance of Plant	24,730	-	25,269	-	539
Total Primary Government	<u>\$ 3,731,069</u>	<u>\$ 182</u>	<u>\$ 3,812,337</u>	<u>\$ -</u>	<u>81,450</u>

General Revenues:

Unrestricted investment earnings	85
Miscellaneous	11,344
Total general revenues	<u>11,429</u>
Change in net position	92,879
Beginning net position	<u>(420,733)</u>
Ending net position	<u>\$ (327,854)</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, 2016

Exhibit B-1

	General 27101	State Directed Activities 27200	Other Governmental Funds	Total Governmental Funds
ASSETS				
<i>Current Assets:</i>				
Cash and temporary investments	\$ 373,890	\$ -	\$ 5,115	\$ 379,005
Accounts receivable				
Due from other governments	86,974	542,033	-	629,007
Other receivables	3,251	-	-	3,251
Due from other funds	59,123	-	-	59,123
<i>Total assets</i>	<u>523,238</u>	<u>542,033</u>	<u>5,115</u>	<u>1,070,386</u>
LIABILITIES				
<i>Current Liabilities:</i>				
Accounts payable	8,625	482,910	-	491,535
Accrued payroll liabilities	372	-	-	372
Due to other funds	-	59,123	-	59,123
<i>Total liabilities</i>	<u>8,997</u>	<u>542,033</u>	<u>-</u>	<u>551,030</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - grants	60,565	87,455	-	148,020
<i>Total deferred inflows of resources</i>	<u>60,565</u>	<u>87,455</u>	<u>-</u>	<u>148,020</u>
FUND BALANCES				
Restricted for:				
Grant mandates	-	-	5,115	5,115
Assigned	446,292	-	-	446,292
Unassigned	7,384	(87,455)	-	(80,071)
<i>Total fund balances</i>	<u>453,676</u>	<u>(87,455)</u>	<u>5,115</u>	<u>371,336</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 523,238</u>	<u>\$ 542,033</u>	<u>\$ 5,115</u>	<u>\$ 1,070,386</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, 2016

	<u>Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total fund balances - governmental funds	\$ 371,336
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	
The cost of capital assets is	48,236
Accumulated depreciation is	(43,772)
Contributions to the pension plan are expensed in the governmental funds but are deferred outflows for government-wide statements.	55,709
Revenues not collected within sixty days after year-end are considered "available" revenues and are shown as deferred revenues on the balance sheet.	
State revenues	148,020
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in governmental funds.	
Deferred outflows of resources related to changes in assumptions	35,245
Deferred outflows of resources related to investment experience	55,938
Deferred outflows of resources related to changes in proportion	99,036
Deferred inflows of resources related to changes in actuarial experience	(9,267)
Deferred inflows of resources related to changes in proportion	(53,915)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term and other liabilities at year-end consist of:	
Accrued compensated absences	(9,716)
Net pension liability	(1,024,704)
Total net position - governmental activities	<u>\$ (327,854)</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, 2016

Exhibit B-3

	General 27101	State Directed Activities 27200	Other Governmental Funds	Total Governmental Funds
<i>Revenues:</i>				
State grants	\$ 890,330	\$ 2,770,419	\$ 3,568	\$ 3,664,317
Miscellaneous	11,344	-		11,344
Charges for services	182	-	-	182
Investment income	85	-	-	85
<i>Total revenues</i>	<u>901,941</u>	<u>2,770,419</u>	<u>3,568</u>	<u>3,675,928</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	-	249,651	-	249,651
Support services				
Students	1,441	140,805	393	142,639
General administration	16,624	-	-	16,624
School administration	616,027	2,568,111	-	3,184,138
Central services	130,564	-	-	130,564
Operation & maintenance of plant	24,730	-	-	24,730
<i>Total expenditures</i>	<u>789,386</u>	<u>2,958,567</u>	<u>393</u>	<u>3,748,346</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>112,555</u>	<u>(188,148)</u>	<u>3,175</u>	<u>(72,418)</u>
<i>Other financing sources (uses):</i>				
Operating transfers	(1,940)	-	1,940	-
<i>Total other financing sources (uses)</i>	<u>(1,940)</u>	<u>-</u>	<u>1,940</u>	<u>-</u>
<i>Net change in fund balances</i>	<u>110,615</u>	<u>(188,148)</u>	<u>5,115</u>	<u>(72,418)</u>
<i>Fund balances - beginning of year</i>	306,045	137,709	-	443,754
<i>Prior period adjustment</i>	37,016	(37,016)	-	-
<i>Adjusted fund balance - beginning of year</i>	<u>343,061</u>	<u>100,693</u>	<u>-</u>	<u>443,754</u>
<i>Fund balances - end of year</i>	<u>\$ 453,676</u>	<u>\$ (87,455)</u>	<u>\$ 5,115</u>	<u>\$ 371,336</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, 2016

Governmental
 Funds

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

Net change in fund balances - total governmental funds \$ (72,418)

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)

Revenues not collected within 60 days after the fiscal year-end are not considered available revenues in the governmental funds. They are considered revenues in the Statement of Activities. The increase (decrease) in revenues receivable for the year end were:

Unavailable revenue related to grant receivables 148,020

In the Statement of Activities, certain operating expenses - compensated absences and interest expense - are measured by the amounts incurred during the year. In the fund financial statements, however, expenditures are measured by the amount of financial resources used (essentially the amounts actually paid). The (increases) decreases in the liabilities for the year were:

Increase in accrued compensated absences (7,510)

Governmental funds report Cooperative pension contributions as expenditures. However, in the Statement of Activities, the pension benefits earned net of employee contributions is reported as pension expense.

Pension contributions - current year 55,709
 Pension expense (26,458)

Change in net position - total governmental activities \$ 92,879

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, 2016

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
State flow-through grant	585,516	1,157,583	931,863	\$ (225,720)
Charges for services	800	800	182	(618)
Local revenue	-	-	11,344	11,344
Earnings from investments	750	750	85	(665)
<i>Total revenues</i>	<u>587,066</u>	<u>1,159,133</u>	<u>943,474</u>	<u>(215,659)</u>
<i>Expenditures:</i>				
Current:				
Instruction	-	-	-	-
Support Services				
Students	-	1,967	1,441	526
General Administration	16,500	22,500	16,624	5,876
School Administration	396,841	924,326	720,566	203,760
Central Services	119,102	155,680	130,578	25,102
Operation & Maintenance of Plant	54,623	54,660	24,967	29,693
<i>Total expenditures</i>	<u>587,066</u>	<u>1,159,133</u>	<u>894,176</u>	<u>264,957</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>49,298</u>	<u>49,298</u>
<i>Other financing sources (uses):</i>				
Designated cash	-	-	-	-
Operating transfers	-	-	(1,940)	(1,940)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>(1,940)</u>	<u>(1,940)</u>
<i>Net changes in fund balances</i>	<u>-</u>	<u>-</u>	<u>47,358</u>	<u>47,358</u>
<i>Cash or fund balances - beginning of year</i>	-	-	348,639	348,639
<i>Prior period adjustment</i>	-	-	37,016	37,016
<i>Adjusted fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>385,655</u>	<u>385,655</u>
<i>Cash or fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 433,013</u>	<u>\$ 397,937</u>
<i>Reconciliation to GAAP Basis:</i>				
Net changes in fund balance (cash basis)			\$ 47,358	
Adjustments to revenues			(41,533)	
Adjustments to expenditures			104,790	
Net changes in fund balance (GAAP Basis)			<u>\$ 110,615</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 SPECIAL REVENUE FUND (27200)
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON - GAAP BUDGETARY BASIS)
 FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
State flow-through grant	\$ -	\$ 3,682,747	\$ 2,769,294	\$ (913,453)
<i>Total revenues</i>	<u>-</u>	<u>3,682,747</u>	<u>2,769,294</u>	<u>(913,453)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	-	276,349	249,651	26,698
Support Services				
Students	-	140,449	140,805	(356)
General Administration	-	-	-	-
School Administration	-	3,265,949	2,085,201	1,180,748
Central Services	-	-	-	-
Operation & Maintenance of Plant	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>3,682,747</u>	<u>2,475,657</u>	<u>1,207,090</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>293,637</u>	<u>293,637</u>
<i>Net changes in fund balances</i>	-	-	293,637	293,637
<i>Cash or fund balances - beginning of year</i>	-	-	(315,744)	(315,744)
<i>Prior period adjustment</i>	-	-	(37,016)	(37,016)
<i>Adjusted fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>(352,760)</u>	<u>(352,760)</u>
<i>Cash or fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (59,123)</u>	<u>\$ (59,123)</u>
<i>Reconciliation to GAAP Basis:</i>				
Net changes in fund balance (cash basis)			\$ 293,637	
Adjustments to revenues			1,125	
Adjustments to expenditures			(482,910)	
Net changes in fund balance (GAAP Basis)			<u>\$ (188,148)</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, 2016

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. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to this same limitation.

During the year ended June 30, 2016, the Cooperative adopted GASB Statement No. 71 *Fair Value Measurement and Application*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*. The provisions of GASB No. 71 provide guidance for determining a fair value measurement for financial reporting purposes to enhance comparability of financial statements among governments. The provisions of GASB No. 76 identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP) which supersedes Statement No. 55. The Provisions of GASB No. 79 address accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. These pronouncements are not expected to have a material effect on the Cooperative.

The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

In evaluating how to define the Cooperative, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14 and No. 39. 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. Blended component units, although legally separate entities, are in substance part of the government's operations.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

A. *Financial Reporting Entity (continued)*

Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basis, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criteria used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the 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. Based upon the application of these criteria, the Cooperative does not have a component unit and is not a component unit of another government agency.

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 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*.

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.

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

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

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*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the period for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB No. 65, *Items Previously Reported as Assets and Liabilities*, amend GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, to incorporate deferred outflows of resources and deferred inflows of resources in the financial reporting model.

Deferred outflows of resources – a consumption of net position by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets; therefore, it is not recognized as an outflow of resources (expense) until then.

Deferred inflows of resources – an acquisition of net position by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities; therefore, it is not recognized as an inflow of resources (revenue) until that time.

Net position – the residual of the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

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

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

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

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

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

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016.

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

Deferred Outflows of Resources– 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, 2015. Contributions of \$55,709 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. The Cooperative also recorded three other deferred outflows which arise due to the implementation of GASB 68; change in assumptions \$35,245; change in investment experience \$55,938; and change in proportion \$99,036.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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)

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.

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) days 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 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 \$9,267, investment experience (netted with deferred outflows), and change in proportion \$53,915 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.

Net Position or Fund Equity: 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,

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NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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)

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.”

Fund Balance: In the fund financial statements, governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications and therefore would not report amounts in all possible fund balance classifications.

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

Nonspendable: Consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

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

Committed: Consist of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Cooperative’s Council. Those committed amounts cannot be used for any other purpose unless the Cooperative’s Council removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts.

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

Unassigned: Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In governmental funds other than the general fund, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, a negative fund balance will be reported as unassigned fund balance.

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.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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 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.

STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 Cash and Temporary Investments

All invested funds of the Cooperative properly followed State investment requirements as of June 30, 2016.

Pledged collateral was required as the Cooperative's cash balances did 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.

	New Mexico Bank & Trust
Total amounts of deposits	\$ 482,881
FDIC coverage	250,000
Total uninsured public funds	232,881
Collateral requirement (50% of uninsured public funds)	116,441
Pledged security	539,785
Total over (under) collateralized	\$ 423,344

Funds in New Mexico Bank & Trust are maintained in a non-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, 2016, \$232,881 of the Cooperative's bank balance of \$482,881 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.

STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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	\$ 379,005
Add outstanding checks and other reconciling items	<u>103,876</u>
Bank balance of deposits	<u><u>\$ 482,881</u></u>

The Cooperative utilized pooled accounts for their programs and funds. Negative cash balances in individual funds that were part of the pooled accounts should be reclassified as due to/due from accounts in the combining balance sheets at June 30, 2016. Fund 27200 had a negative cash balance of \$59,123 as of June 30, 2016.

NOTE 4 Receivables

The Cooperative had governmental receivables in the General Fund in the amount of \$86,974 at June 30, 2016. It also had governmental receivables of \$542,033 in the State Directed Activities Fund at June 30, 2016. Total governmental receivables at June 30, 2016 were \$629,007.

The Cooperative also had \$3,251 due from a vendor in the General Fund at June 30, 2016.

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

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. At June 30, 2016, the Cooperative had the following:

Governmental Activities	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
Operational (27101)	\$ 59,123	\$ -
State Directed Activities (27200)	<u>-</u>	<u>59,123</u>
Totals	<u><u>\$ 59,123</u></u>	<u><u>\$ 59,123</u></u>

During the year ended June 30, 2016 the Cooperative transferred \$1,940 to the Medicaid HSD Fund from the General Fund to establish the new fund with cash that had been maintained in the General Fund previously.

Governmental Activities	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
The General Fund (27101)	\$ -	\$ 1,940
Non-major Funds:		
Medicaid HSD (28144)	1,940	-
Totals	<u><u>\$ 1,940</u></u>	<u><u>\$ 1,940</u></u>

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NOTE 6 Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2016, including those changes pursuant to the implementation of GASB Statement No. 34, follows.

Capital assets used in governmental activities:	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance June 30, 2016</u>
Capital assets being depreciated:					
Vehicles	\$ 48,236	\$ -	\$ -	\$ -	\$ 48,236
Less accumulated depreciation:					
Vehicles	39,308	4,464	-	-	43,772
Total capital assets, net of depreciation	<u>\$ 8,928</u>	<u>\$ (4,464)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,464</u>

Depreciation expense for the year ended June 30, 2016 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	81
Total depreciation	<u>\$ 4,464</u>

Capital assets, net of accumulated depreciation, at June 30, 2016 appear in the Statement of Net Position as follows:
Governmental activities \$4,464.

NOTE 7 Compensated Absences

Compensated absences consist of the following at June 30, 2016:

	<u>Balance at July 01, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>	<u>Due Within One Year</u>
Compensated absences	<u>2,206</u>	<u>\$ 12,362</u>	<u>\$ 4,852</u>	<u>\$ 9,716</u>	<u>\$ 4,852</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, 2016, compensated absences increased \$7,510 over the prior year accrual. All amounts are estimated to be paid out in the next year, so all amounts are considered current. Compensated absences have been paid out of the General Fund. See Note 1 for more details.

NOTE 8 Unearned Revenues

In accordance with the terms of the various grant agreements within the General and State Directed Activities Fund, revenues received in excess of expenditures carry over to the subsequent years, unless such excess revenues are requested to be returned to the grantor. There were no unearned revenues at June 30, 2016.

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NOTE 9 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, 2016, there have been no claims that have exceeded insurance coverage.

NOTE 10 Other Required Individual Fund Disclosures

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

A. Deficit fund balance of individual funds. The following fund reported a deficit fund balance at June 30, 2016.

Fund #	Fund Description	Amount
27200	State Directed Activities	\$ 87,455

B. Excess of expenditures over appropriations. The following fund exceeded its approved budgetary authority for the fiscal year ended June 30, 2016:

Fund #	Fund and Function	Amount
27200	State Directed Activities - Support Services - Students	\$ 356

C. Cash appropriations in excess of available cash balance. For the year ended June 30, 2016, the Cooperative had no cash appropriations in excess of available cash balance.

NOTE 11 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.

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:

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NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

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.

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 years ended June 30, 2015 and 2014 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 \$55,709 for the year ended June 30, 2016.

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NOTE 11 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, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2015. At June 30, 2016, the Northwest Regional Education Cooperative #2’s reported a liability of \$1,024,704 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, 2015. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2015, the Northwest Regional Education Cooperative #2’s proportion was 0.01582% percent, which was an increase of 0.00233% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Northwest Regional Education Cooperative #2 recognized pension expense of \$26,458. At June 30, 2016, the Northwest Regional Education Cooperative #2 reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net (Inflows) Outflows
Differences between expected and actual experience	\$ -	\$ (9,267)	\$ (9,267)
Changes of assumptions	35,245	-	35,245
Net difference between projected and actual earnings on pension plan investments	56,929	(991)	55,938
Changes in proportion and differences between Northwest Regional Education Cooperative #2 contributions and proportionate share of contributions	99,036	(53,915)	45,121
Northwest Regional Education Cooperative #2 contributions subsequent to the measurement date	55,709	-	55,709
Total	<u>\$ 246,919</u>	<u>\$ (64,173)</u>	<u>\$ 182,746</u>

Deferred outflows of resources of \$55,709 related to pensions resulting from Northwest Regional Education Cooperative #2’s contributions subsequent to the measurement date of June 30, 2015 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:

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

Year ended June 30,

2017	\$	40,318
2018		39,811
2019		32,705
2020		14,203
Thereafter		-
Total	<u>\$</u>	<u>127,037</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, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 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, 2015. Specifically, the liabilities measured as of June 30, 2015 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.70% during the fiscal year ending June 30, 2015 and 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
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment projected to 2014 using Scale AA (one year setback for females)

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NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2015 and 2014 for 30- year return assumptions are summarized in the following table:

Asset Class	2015 Long-Term Expected Real Rate of Return	2014 Long-Term Expected Real Rate of Return
Cash	3.25%	1.50%
Treasuries	3.50%	2.00%
IG Corp Credit	4.75%	3.50%
MBS	3.75%	2.25%
Core Bonds	3.98%	2.53%
TIPS	4.00%	2.50%
High Yield Bonds	5.75%	4.50%
Bank Loans	6.00%	5.00%
Global Bonds (Unhedged)	2.25%	1.25%
Global Bonds (Hedged)	2.41%	1.38%
EMD External	6.00%	5.00%
EMD Local Currency	6.75%	5.75%
Large Cap Equities	7.50%	6.25%
Small/Mid Cap	7.75%	6.25%
International Equities (Unhedged)	8.00%	7.25%
International Equities (Hedged)	8.47%	7.50%
Emerging International Equities	9.25%	9.50%
Private Equity	9.50%	8.75%
Private Debt	8.00%	8.00%
Private Real Assets	7.75%	7.75%
Real Estate	6.50%	6.25%
Commodities	5.75%	5.00%
Hedge Funds	6.75%	5.50%

Discount rate: A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2015 and June 30, 2014. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

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 2015. 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.

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NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

	1% Decrease	Current	1% Increase
	(6.75%)	Discount Rate	(8.75%)
		(7.75%)	
Northwest Regional Education Cooperative #2's proportianate share of the net pension liability	\$ 1,378,807	\$ 1,024,704	\$ 727,220

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, 2015 and 2014 which are publicly available at www.nmerb.org.

Payables to the pension plan. Northwest Regional Education Cooperative #2 remits the legally required employer and employee contributions on a monthly basis to ERB. The ERB requires that the contributions be remitted by the 15th day of the month following the month for which contributions are withheld. At June 30, 2016 there were no contributions due and payable for the Cooperative.

NOTE 12 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.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 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, 2016, 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, 2016, 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, 2016, 2015, and 2014 were \$8,024, \$9,000, and \$7,438, respectively, which equal the required contributions for each year.

NOTE 13 Operating Leases

Northwest Regional Education Cooperative #2 has an operating lease on a copier. The lease was entered into in February 2016 and is for five years. The lease calls for payments of \$459.75 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 \$0.008 per black and white copy and \$0.06 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, 2016:

Fiscal Year	Copier
Ended	Lease
June 30,	Lease
<hr/>	<hr/>
2017	\$ 5,517
2018	5,517
2019	5,517
2020	5,517
2021	3,678
<hr/>	<hr/>
Total future lease payments	<u><u>\$ 25,746</u></u>

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 14 Unavailable Revenues

The Cooperative received \$148,020 from various funds subsequent to year-end. However, these funds were received more than 60 days after year-end. As such, the amounts are recorded as a receivable and a deferred inflow of resources in the funds statements; however, for the government-wide statements the amounts are recorded as a receivable and a revenue. Those funds and amounts are as follows:

	Unavailable Revenues
Major Funds:	
General Fund (27101)	\$ 60,565
State Directed Activities (27200)	87,455
Totals	\$ 148,020

NOTE 15 Concentrations

The Cooperative depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the Cooperative is subject to changes in the specific flows of intergovernmental revenues based on modifications to the Federal and State laws and Federal and State appropriations.

NOTE 16 Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Cooperative expects such amount, if any, to be immaterial.

NOTE 17 Subsequent Accounting Standard Pronouncements

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 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

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 17 **Subsequent Accounting Standard Pronouncements (Continued)**

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.

In December 2015, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was issued. Effective Date: The provisions of this Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plans and is effective for fiscal years beginning after December 15, 2015. The Cooperative is still evaluating how this standard will affect the Cooperative.

In January 2016, GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, was issued. Effective Date: The provisions of this Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and is effective for reporting periods beginning after June 15, 2016. The Cooperative is still evaluating how this standard will affect the Cooperative.

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued. Effective Date: The provisions of this Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period and is effective for reporting periods beginning after December 15, 2016. The Cooperative is still evaluating how this standard will affect the Cooperative.

In March 2016, GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued. Effective Date: The provisions of this Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions and is effective for reporting periods after June 15, 2016. The Cooperative is still evaluating how this standard will affect the Cooperative.

NOTE 19 **Prior Period Adjustment**

During the year ended June 30, 2016, there was a prior period adjustment in the Cooperative's funds financial statements of \$37,016. During the previous year, the Cooperative had charged indirect costs in Fund 27200, State Directed Activities, as was allowed but had left the funds in Fund 27200 instead of moving those funds into Fund 27101, General Fund. This adjustment was made so that those funds earned from indirect costs are maintained and used within the General Fund. This adjustment had no effect on net position or total fund balances as it was an adjustment between the two funds.

NOTE 20 **Subsequent Events**

A review of subsequent events through September 22, 2016, which is the date the financial statements were available to be issued, indicated nothing of audit significance.

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REQUIRED SUPPLEMENTARY INFORMATION

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, 2016

Schedule I

	2016	2015
Northwest Regional Education Cooperative #2's proportion of the net pension liability	0.01582%	0.01349%
Northwest Regional Education Cooperative #2's proportionate share of the net pension liability	\$ 1,024,704	\$ 769,695
Northwest Regional Education Cooperative #2's covered-employee payroll	\$ 431,937	\$ 371,919
Northwest Regional Education Cooperative #2's proportionate share of the net pension liability as a percentage of covered-employee payroll	237.23%	206.95%
Plan fiduciary net position as a percentage of total pension liability	63.97%	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, 2016

Schedule II

	2016	2015
Contractually required contribution	\$ 55,709	\$ 62,506
Contributions in relation to the contractually required contribution	55,709	62,506
Contribution deficiency (excess)	\$ -	\$ -
Northwest Regional Education Cooperative #2's covered- employee payroll	\$ 400,780	\$ 449,613
Contributions as a percentage of covered-employee payroll	13.90%	13.90%

* 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, 2016

Changes of benefit terms . The COLA and retirement eligibility benefits changes in recent years are described in the **Benefits Provided** subsection of the financial statement note disclosure **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 June 12, 2015, ERB implemented the following changes in assumptions for fiscal year 2015:

1. Fiscal year 2015 valuation assumptions that changed based on this study:
 - a. Lower wage inflation from 4.25% to 3.75%
 - b. Update mortality tables to incorporate generational improvements
 - c. Update demographic assumptions to use currently published tables which may result in minor calculation changes
 - e. Remove population growth assumption for projections
 - f. Lower population growth from 0.50% to zero. (No impact on valuation results.)

2. Assumptions that were not changed:
 - a. Investment return will remain at 7.75%
 - b. Inflation will remain at 3.00%
 - c. Real net return will remain at 4.75%
 - d. COLA will remain at 2.00% per year
 - e. Payroll growth will remain at 3.50%
 - f. Maintain experience-based rates for members who joined by June 30, 2010

See also the **Actuarial Assumptions** subsection of the financial statement note disclosure **General Information on the Pension Plan - Educational Retirement Board, General Information on the Pension Plan**

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Medicaid HSD (28144) – To account for amounts billed, received, and paid for member schools as reimbursements for services to Medicaid-eligible children. Funding is authorized by the State of New Mexico Human Services Department under the Medicaid Program (42 USC 1396a (a)5). No minimum balance required according to legislation.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2016

Statement B-1

	Medicaid HSD 28144	Total
	<hr/>	<hr/>
ASSETS		
<i>Current assets:</i>		
Cash and temporary investments	\$ 5,115	\$ 5,115
Accounts receivable	-	-
Due from other governments	-	-
Other receivables	-	-
	<hr/>	<hr/>
<i>Total assets</i>	<u>5,115</u>	<u>5,115</u>
LIABILITIES		
<i>Current liabilities:</i>		
Accounts payable	-	-
Accrued payroll liabilities	-	-
	<hr/>	<hr/>
<i>Total liabilities</i>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues - grants	-	-
	<hr/>	<hr/>
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>
FUND BALANCES		
Restricted for:		
Grant mandates	5,115	5,115
Assigned	-	-
Unassigned	-	-
	<hr/>	<hr/>
<i>Total fund balances</i>	<u>5,115</u>	<u>5,115</u>
 <i>Total liabilities, deferred inflows of resources, and fund balances</i>	 <u>\$ 5,115</u>	 <u>\$ 5,115</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Statement B-2

	Medicaid HSD 28144	Total
<i>Revenues:</i>		
State grants	\$ 3,568	\$ 3,568
Miscellaneous	-	-
Charges for services	-	-
Investment Income	-	-
<i>Total revenues</i>	<u>3,568</u>	<u>3,568</u>
<i>Expenditures:</i>		
Current:		
Instruction	-	-
Support services		
Students	393	393
General administration	-	-
School administration	-	-
Central services	-	-
Operation & maintenance of plant	-	-
<i>Total expenditures</i>	<u>393</u>	<u>393</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>3,175</u>	<u>3,175</u>
<i>Other financing sources (uses):</i>		
Operating transfers	1,940	1,940
<i>Total other financing sources (uses)</i>	<u>1,940</u>	<u>1,940</u>
<i>Net changes in fund balances</i>	5,115	5,115
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>-</u>
<i>Fund balances - end of year</i>	<u>\$ 5,115</u>	<u>\$ 5,115</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
 BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
 MEDICAID HSD SPECIAL REVENUE FUND (28144)
 FOR THE YEAR ENDING JUNE 30, 2016

Statement B-3

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
State flow-through grant	-	-	3,568	3,568
<i>Total revenues</i>	-	-	3,568	3,568
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	-	-	-	-
Support services				
Students	-	4,284	393	3,891
General administration	-	-	-	-
School administration	-	-	-	-
Central services	-	-	-	-
Operation & maintenance of plant	-	-	-	-
<i>Total expenditures</i>	-	4,284	393	3,891
<i>Excess (deficiency) of revenues over (under) expenditures</i>	-	(4,284)	3,175	7,459
<i>Other financing sources (uses):</i>				
Designated cash	-	4,284	-	(4,284)
Operating transfers	-	-	1,940	1,940
<i>Total other financing sources (uses)</i>	-	4,284	1,940	(2,344)
<i>Net changes in fund balances</i>	-	-	5,115	5,115
<i>Cash or fund balances - beginning of year</i>	-	-	-	-
Prior period adjustments	-	-	-	-
<i>Adjusted cash or fund balances - beginning of year</i>	-	-	-	-
<i>Cash or fund balances - end of year</i>	\$ -	\$ -	\$ 5,115	\$ 5,115
<i>Reconciliation to GAAP basis:</i>				
Net changes in fund balance (cash basis)			\$ 5,115	
Adjustments to revenues			-	
Adjustments to expenditures			-	
Net change in fund balance (GAAP basis)			\$ 5,115	

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

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OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF PLEDGED COLLATERAL
FOR THE YEAR ENDED JUNE 30, 2016

Schedule III

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity Date</u>	<u>CUSIP Number</u>	<u>Fair Market Value June 30, 2016</u>
New Mexico Bank & Trust	Taos NM Mun. School District Bond	9/1/2027	HRT71	\$ 539,785
Total New Mexico Bank & Trust				<u>\$ 539,785</u>

The securities are held, not in the Cooperative's name, at:

Sun Trust Bank of Atlanta
PO Box 4418
Atlanta, GA 30302

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

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #.
 SCHEDULE OF CASH AND TEMPORARY INVESTMENT ACCOUNTS
 JUNE 30, 2016

Schedule IV

Bank Name/Account Type	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Adjustments	Book Balance
New Mexico Bank & Trust						
Operating	Checking	\$ 482,881	\$ -	\$ (595,169)	\$ 491,293	\$ 379,005
Total New Mexico Bank & Trust		<u>\$ 482,881</u>	<u>\$ -</u>	<u>\$ (595,169)</u>	<u>\$ 491,293</u>	<u>\$ 379,005</u>
Cash per financial statements						379,005
Cash and cash equivalents - Government Activities Exhibit A-1						<u>\$ 379,005</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
CASH RECONCILIATION
JUNE 30, 2016

Schedule V

Primary Government

	General Fund 27101	State Flowthrough 27000	State Direct 28000	Total
Cash, June 30, 2015	\$ 348,639	\$ (315,744)	\$ -	\$ 32,895
Add:				
Current year revenues	943,474	2,769,294	3,568	3,716,336
Permanent cash transfers	-	-	1,940	1,940
Prior period adjustment	37,016	-	-	37,016
Loans from other funds	-	59,123	-	59,123
Total cash available	1,329,129	2,512,673	5,508	3,847,310
Less:				
Current year expenditures	(894,176)	(2,475,657)	(393)	(3,370,226)
Permanent cash transfers	(1,940)	-	-	(1,940)
Prior period adjustment	-	(37,016)	-	(37,016)
Loans to other funds	(59,123)	-	-	(59,123)
Cash, June 30, 2016	<u>\$ 373,890</u>	<u>\$ -</u>	<u>\$ 5,115</u>	<u>\$ 379,005</u>

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, 2016

Schedule VI

Bid/RFP #	Names of Respondents	Physical Address of Vendor	Winning Vendor	Vendor Location		Vendor Selected Preference	
				In-State	Out-of-State	In-State	Veteran
2016-01	The Agency	2101 Sudderth Dr., Ruidoso, NM 88343	X	X			
Value of Contract:	\$ 100,000.00						
Scope of Work:	Event Management for Organizational Events						
2016-02	Sheraton Uptown	2600 Louisiana Blvd., NE, Albq., NM 87110	X	X			
	Albuquerque Marriott	2101 Louisiana Blvd. NE, Albq., NM 87110	X	X			
	Crowne Plaza	1901 University Blvd, NE, Albq., NM 87102	X	X			
	Hyatt Downtown	330 Tijeras Ave., NW, Albq, NM 87102	X	X			
	Buffalo Thunder	20 Buffalo Trail, Santa Fe, NM 87506	X	X			
Value of Contract:	\$ 426,000.00						
Scope of Work:	Event Management for Organizational Events						
2016-03	ClearView Consulting	1037 Main Street, Holden, MA 01520	X		X		
Value of Contract:	\$ 125,000.00						
Scope of Work:	School Leadership Aptitude Assessment						

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF JOINT POWERS AGREEMENTS
JUNE 30, 2016

Schedule VII

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: \$3,748,346 in expenditures for year ended June 30, 2016

Audit Responsibility: Northwest Regional Education Cooperative #2

Fiscal Agent: Northwest Regional Education Cooperative #2

Reporting Agency: Northwest Regional Education Cooperative #2

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

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COMPLIANCE SECTION



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
The Office of Management and Budget
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 (the "Cooperative"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and the combining and individual funds and related budgetary comparisons of the Cooperative presented as supplementary information, and have issued our report thereon dated September 22, 2016.

Internal Control Over Financial Reporting

In Planning and performing our audit of the financial statements, we considered the Cooperative'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 the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 2014-007, FS 2015-002, FS 2016-001, and FS 2016-002.

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. The Cooperative'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

Manning Accounting and Consulting Services, LLC
Kirtland, New Mexico
September 22, 2016

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

Schedule VIII

Section I – Summary of Audit Results

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditor's report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| c. Control deficiencies identified not considered to be significant deficiencies? | No |

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

Schedule VIII

Section II – Financial Statement Findings

FS 2014-007 – Purchase Order Authorization (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 individually significant items we noted the following instances when proper procedures were not followed.

- In 1 of 92 items tested the purchase order was not in place prior to the receipt of an invoice. The invoice was received 6/3/16 and the purchase order in the amount of \$25,000 was created 6/6/16.

In the previous audit we identified 1 instance in which the purchase order was not on file prior to the receipt of an invoice.

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 order prior to any goods or services being purchased.

Responsible Official’s Plan:

- Specific corrective action plan for finding: **The REC will adhere to policies and be more diligent in ensuring that a valid purchase order is in place, prior to any purchases.**
- Timeline for completion of corrective action plan: **This policy is in place and REC employees will be more conscientious about adhering to this policy.**
- Employee position(s) responsible for meeting the timeline: **Business Manager, Business Manager Assistant, and Administrative Assistant (Accounts Payable)**

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

Section II – Financial Statement Findings (Continued)

FS 2015-002 – Budgetary Controls (Non-Compliance) Repeated and Revised

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:

Fund & Function	Amount
27200 State Directed Activities – Support Services - Students	\$356

In the previous audit, the Cooperative had one function in the 27200 Fund which was overspent by \$14,276. As such, the number of exceptions remained the same but the dollar amount decreased substantially.

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: **The REC will review expenditures on an on-going basis and request budget adjustments when necessary.**
- Timeline for completion of corrective action plan: **This plan is in place and the REC will be more conscientious about reviewing budget lines and requesting BARs on a continuous basis.**
- Employee position(s) responsible for meeting the timeline: **Business Manager and Business Manager Assistant.**

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

Schedule VIII

Section II – Financial Statement Findings (Continued)

FS 2016 –001 – Incomplete Bidding Procedures for Purchases Greater Than \$60,000 (Non-Compliance)

Criteria: According to 1.4.1.15 NMAC 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, 1.4.1.25 NMAC 1978 sets forth the guidelines for statutory preferences. Statutory preferences to be applied in determining low bidder or low offeror. **New Mexico law provides certain statutory preferences to resident businesses, resident veteran businesses, resident contractors and resident veteran contractors as well as for recycled content goods (13-1-21 and 13-1-22 NMSA 1978). These preferences must be applied in regard to invitations for bids and requests for proposals in accordance with statute in determining the lowest bidder or offeror.**

Condition: During our testing of bids and RFP's we identified the following instance in which proper procedures were not followed:

- In 2 of the 3 bids reviewed there was no statutory preference given to resident businesses.

Cause: The Cooperative has not followed proper state statutes nor Cooperative policy in requirement 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 bids and RFP's include the mandatory statutory preferences.

Responsible Official's View:

- Specific corrective action plan for finding: **The REC CPO will ensure that all bids and RFPs include the mandatory statutory preferences as per State Purchasing Guidelines and REC policy.**
- Timeline for completion of corrective action plan: **This policy is currently in place. The RFPs did include references to preferences and even included forms for submission and would have been included in the scoring, had they been submitted by any of the vendors; however, the points were not listed in the scoring matrix. This omission did not affect any vendors. Since learning of this issue, the REC CPO has ensured that preferences are explicitly included in the scoring matrix any time an RFP is issued.**
- Employee position(s) responsible for meeting the timeline: **Business Manager/CPO**

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

Schedule VIII

Section II – Financial Statement Findings (Continued)

FS 2016-002 – Improper Cash Controls for Outstanding Warrants (Non-Compliance)

Criteria: NMAC 6.20.2.14 1978 CASH CONTROL STANDARDS:

A. School districts shall establish and maintain a cash management program to safeguard cash and provide prompt and accurate reporting that adheres to cash management requirements of the office of management and budget (OMB) Circular A-102, and applicable state and federal laws and regulations.

I. Vouchers shall be numbered in such a manner as to provide a cross-reference between the voucher, the check, and the check register. All blank checks shall be properly safeguarded and an inventory of unused checks shall be taken periodically. Completed vouchers and supporting documentation is to be placed in numerical sequence, by the month in which they were paid, and filed for future reference and annual audit.

(1) **Each warrant or check issued shall have printed on its face the words, "void after one year from date". Whenever any warrant or check is unpaid for one year, the fiscal officer shall cancel it in accordance with Section 6-10-57(A), NMSA 1978.**

(2) **The fiscal officer shall keep a register of all canceled warrants/checks. The register shall show the number, date and amount, name of payee, fund out of which it was payable, and date of cancellation. The face amount shall revert and be credited to the fund against which the warrant/check was drawn.**

Condition: During our review of bank statements we noted the following instances where proper procedures were not followed:

- We noted 4 warrants which were outstanding for more than 1 year which had not been voided and the funds credited back to the fund which it was drawn from.

Cause: The staff of the Cooperative did not follow proper state guidelines for voiding outstanding warrants.

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

Auditors' Recommendations: We recommend that the Cooperative emphasize the importance of properly voiding outstanding warrants.

Responsible Official's View:

- Specific corrective action plan for finding: **The REC business office staff will immediately start a new practice of reviewing aging, outstanding warrants when bank reconciliations are done (within three months of the one-year deadline). The person doing the reconciling will contact vendor and determine if the warrant needs to be voided and re-issued.**
- Timeline for completion of corrective action plan: **This plan was in effect starting with the August 2016 bank reconciliation.**
- Employee position(s) responsible for meeting the timeline: **Business Manager, Business Manager Assistant, and Administrative Assistant (Accounts Payable)**

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

Schedule VIII

Section III – Prior Year Audit Finding

FS 2013-008 General Ledger System Controls – Resolved
FS 2014-005 Improper Approval of Budget Adjustment – Resolved
FS 2014-006 Improper Documentation of Travel Reimbursement – Resolved
FS 2014-007 Purchase Orders and Payment Authorization – Repeated and Revised
FS 2014-009 Internal Controls Over Journal Entries – Resolved
FS 2015-001 Incomplete Bidding Procedures and Purchases Requiring Written Quotes – Resolved
FS 2015-002 Budgetary Controls – Repeated and Revised

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2016

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 22, 2016. The following individuals were in attendance.

NWREC #2

Anthony Casados, Council Chairperson
Adan Delgado, Executive Director
Patty Eaton, Business Manager
Jeannene Sparks, Business Manager Assistant
Vanessa Martinez, Administrative Assistant

Manning Accounting and Consulting Services, LLC

Byron Manning, CPA, Managing Partner
Chris Manning, Staff