

STATE OF NEW MEXICO

**NORTHERN NEW MEXICO NETWORK
FOR RURAL EDUCATION**

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For the Year Ended June 30, 2012

With Independent Auditors' Reports Thereon

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**STATE OF NEW MEXICO
 NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
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FINANCIAL SECTION

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NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
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**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
OFFICIAL ROSTER
June 30, 2012**

Board of Directors

| <u>Superintendents</u> | | <u>School Affiliation</u> |
|-------------------------------|----------------|----------------------------------|
| Loren Cushman | President | Reserve Independent Schools |
| Roy Herrera | Vice President | Pecos Independent Schools |
| David Atencio | Secretary | Jemez Valley Public Schools |
| Anthony Casados | Board Member | Chama Schools |
| James Gallegos | Board Member | Cimarron Municipal Schools |
| Jack Wiley | Board Member | Clayton Public Schools |
| Tina Hoyle | Board Member | Des Moines Municipal Schools |
| Jim Leshner | Board Member | Dulce Independent Schools |
| Janette Archuleta | Board Member | Espanola Public Schools |
| Kilino Marquez | Board Member | Grants-Cibola County Schools |
| Rick Hazen | Board Member | Logan Municipal Schools |
| Gene Schmidt | Board Member | Los Alamos Public Schools |
| Randy Earwood | Board Member | Mesa Vista Consolidated Schools |
| Tomas Garcia | Board Member | Mora Independent Schools |
| J. Charles Harrison | Board Member | Maxwell Municipal Schools |
| Eric Martinez | Board Member | Questa Independent Schools |
| David Wilden | Board Member | Raton Public Schools |
| Billy Nerril | Board Member | Roy Municipal Schools |
| Ted Hern | Board Member | Santa Rosa Consolidated Schools |
| Zita Lopez | Board Member | Springer Municipal Schools |
| Rod Weston | Board Member | Taos Municipal Schools |
| Aaron McKinney | Board Member | Tucumcari Public Schools |
| Johnny Cane | Board Member | Vaughn Municipal Schools |
| Albert Martinez | Board Member | Wagon Mound Schools |
| Ruben Cordova | Board Member | West Las Vegas Schools |

Administration

| | |
|----------------|--------------------|
| Carlos Atencio | Executive Director |
| Isaac Martinez | Business Manager |

FINANCIAL SECTION

Kubiak & Melton, LLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor
Loren Cushman, President
Northern New Mexico Network for Rural Education
Rio Rancho, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the Northern New Mexico Network for Rural Education (Network) as of and for the year ended June 30, 2012, which collectively comprise the Network's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Network's nonmajor governmental funds and the budgetary comparisons for all non major funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Network's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Network as of June 30, 2012, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Network as of June 30, 2012, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparisons of all nonmajor funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2013, on our consideration of Northern New Mexico Network for Rural Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Northern New Mexico Network for Rural Education has omitted 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 the 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual fund financial statements and budgetary comparisons. The additional schedule listed as "other supplemental information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other addition procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kubiak & Melton, LLC

Kubiak & Melton, LLC

Albuquerque, New Mexico
August 19, 2013

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
GOVERNMENT-WIDE
STATEMENT OF NET ASSETS
JUNE 30, 2012

| | <u>Governmental Activities</u> |
|-----------------------------|------------------------------------|
| ASSETS | |
| Current Assets | |
| Cash and Cash Equivalents | \$ 98,787 |
| Accounts Receivable | - |
| Due from Grantor | - |
| Total Current Assets | <u>98,787</u> |
| Capital Assets, Net | - |
| Total Assets | <u><u>\$ 98,787</u></u> |
| LIABILITIES | |
| Accounts Payable | \$ - |
| Total Liabilities | <u>-</u> |
| NET ASSETS | |
| Invested in Capital Assets | - |
| Unrestricted | <u>98,787</u> |
| Total Net Assets | <u><u>98,787</u></u> |

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|---|-----------------|---------------------------------|---|---|--|
| Governmental Activities: | | | | | |
| Education | | | | | |
| Support Services - Instruction | \$ 517,889 | \$ - | \$ 497,188 | \$ - | \$ (20,701) |
| General Administration | 299,843 | - | 179,060 | - | (120,783) |
| Depreciation Expense | <u>1,730</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,730)</u> |
| Total Program Expenses | <u>819,462</u> | <u>-</u> | <u>676,248</u> | <u>-</u> | <u>(143,214)</u> |
| General Revenues: | | | | | |
| Investment Income | | | | | <u>185</u> |
| Change in Net Assets | | | | | <u>(143,029)</u> |
| Beginning Net Assets as Reported | | | | | 245,145 |
| Restatement | | | | | <u>(3,329)</u> |
| Beginning Net Assets as Restated | | | | | <u>241,816</u> |
| Ending Net Assets | | | | | <u>\$ 98,787</u> |

See Independent Auditors' Report and Notes to Financial Statements

STATE OF NEW MEXICO
 NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
 GOVERNMENTAL FUNDS
 BALANCE SHEETS
 JUNE 30, 2012

| | General Fund | Teacher Quality Enhancement | Supplemental Ed Service Program | Total Nonmajor Funds | Total Governmental Funds |
|--|------------------|-----------------------------------|---------------------------------------|----------------------------|--------------------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and Cash Equivalents | \$ 98,787 | \$ - | \$ - | \$ - | \$ 98,787 |
| Accounts Receivable | - | - | - | - | - |
| Due from Other Funds | - | - | - | - | - |
| Due from Grantor | - | - | - | - | - |
| Total Assets | <u>\$ 98,787</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 98,787</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - | \$ - |
| Due to Other Funds | - | - | - | - | - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | | | |
| Unassigned | <u>98,787</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>98,787</u> |
| Total Fund Balances | <u>98,787</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>98,787</u> |
| Total Liabilities and Fund Balances | <u>\$ 98,787</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 98,787</u> |

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances for Governmental Funds \$ 98,787

Amounts reported for governmental activities in the
Statement of Net Assets are different as follows:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. These
assets consist of:

Capital Assets, Net -

Net Assets of Governmental Activities \$ 98,787

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

| | General Fund 88102/88203 | Teacher Quality Enhancement 88202 | Supplemental Ed Service Program 88106 | Total Nonmajor Funds | Total Governmental Funds |
|---|--------------------------------|--|--|----------------------------|--------------------------------|
| Revenue: | | | | | |
| Federal Sources | | | | | |
| Federal Grant | \$ - | \$ 389,241 | \$ - | \$ 107,947 | \$ 497,188 |
| State Sources | | | | | |
| State Grant | - | - | - | - | - |
| Local Sources | | | | | |
| District Assessments | 29,800 | - | 108,290 | - | 138,090 |
| Indirect Cost Recovery | 34,915 | - | - | - | 34,915 |
| Other Local Revenue | 6,055 | - | - | - | 6,055 |
| Investment Income | 185 | - | - | - | 185 |
| Total Revenues | <u>70,955</u> | <u>389,241</u> | <u>108,290</u> | <u>107,947</u> | <u>676,433</u> |
| Expenditures: | | | | | |
| Education: | | | | | |
| Support Services - Instruction | 108,376 | 287,195 | 45,672 | 76,646 | 517,889 |
| General Administration | 137,094 | 102,046 | 24,000 | 31,301 | 294,441 |
| Capital Outlay | 5,402 | - | - | - | 5,402 |
| Total Expenditures | <u>250,872</u> | <u>389,241</u> | <u>69,672</u> | <u>107,947</u> | <u>817,732</u> |
| Revenues over (under) expenditures | <u>(179,917)</u> | <u>-</u> | <u>38,618</u> | <u>-</u> | <u>(141,299)</u> |
| Other Financing Sources (Uses): | | | | | |
| Operating Transfer In | 38,618 | - | - | - | 38,618 |
| Operating Transfers Out | - | - | (38,618) | - | (38,618) |
| | <u>38,618</u> | <u>-</u> | <u>(38,618)</u> | <u>-</u> | <u>-</u> |
| Net Change to Fund Balance | <u>(141,299)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(141,299)</u> |
| Beginning Fund Balance as Reported | 243,415 | - | - | - | 243,415 |
| Restatement | (3,329) | - | - | - | (3,329) |
| Beginning Fund Balance as Restated | <u>240,086</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>240,086</u> |
| Fund Balance, End of Year | <u>\$ 98,787</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 98,787</u> |

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
 NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BLANCES
 WITH THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Total Governmental Funds **\$ (141,299)**

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:

| | | |
|--|----------------|----------------|
| Capital Outlay | | |
| Depreciation Expense | <u>(1,730)</u> | |
| Excess of capital outlay over depreciation expense | | <u>(1,730)</u> |

Change in Net Assets of Governmental Activities **\$ (143,029)**

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
GENERAL FUND – FUND 88102 / 88203
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

| | <u>Budgeted Amounts</u> | | | Variance Favorable (Unfavorable) |
|--|----------------------------|---------------------|---------------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Local Sources: | | | | |
| Direct Assessments | \$ 243,387 | \$ 243,387 | \$ 58,382 | \$ (185,005) |
| Indirect Cost Recovery | 63,432 | 63,432 | 34,915 | (28,517) |
| Other Local Revenue | - | - | 6,055 | 6,055 |
| Investment Income | - | - | 185 | 185 |
| Total Revenues | <u>306,819</u> | <u>306,819</u> | <u>99,537</u> | <u>(207,282)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Education: | | | | |
| Support Services - Instruction | 91,000 | 90,000 | 108,376 | (18,376) |
| General Administration | 215,819 | 216,819 | 139,758 | 77,061 |
| Capital Outlay | - | - | 5,402 | (5,402) |
| Total Expenditures | <u>306,819</u> | <u>306,819</u> | <u>253,536</u> | <u>53,283</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | - | - | 38,618 | (38,618) |
| Operating Transfers Out | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>38,618</u> | <u>(38,618)</u> |
| Revenues and Other Financing Sources over (under) expenditures and other Financing Uses | <u>-</u> | <u>-</u> | <u>(115,381)</u> | |
| Appropriated Cash | <u>\$ -</u> | <u>\$ -</u> | | |
| Reconciliation to GAAP basis statements: | | | | |
| Prior Year Accounts Rec. & Due From | | | 28,582 | |
| Prior Year Accounts Pay & Due To | | | 2,664 | |
| Revenues over (under) expenditures | | | <u>\$ (141,299)</u> | |

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
TEACHER QUALITY ENHANCEMENT FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

| | <u>Budgeted Amounts</u> | | | Variance Favorable (Unfavorable) |
|--|----------------------------|---------------------|----------------|--|
| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | |
| Revenues | | | | |
| Federal Grant | \$ 492,231 | \$ 492,231 | \$ 389,241 | \$ (102,990) |
| State Grant | - | - | - | |
| Other Local Revenue | - | - | - | - |
| Total Revenues | <u>492,231</u> | <u>492,231</u> | <u>389,241</u> | <u>(102,990)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Education: | | | | |
| Support Services - Instruction | 355,060 | 353,060 | 287,195 | 65,865 |
| General Administration | <u>137,171</u> | <u>139,171</u> | <u>102,046</u> | <u>37,125</u> |
| Total Expenditures | <u>492,231</u> | <u>492,231</u> | <u>389,241</u> | <u>102,990</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers Out | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Revenues and Other Financing Sources over (under) expenditures and other Financing Uses | <u>-</u> | <u>-</u> | <u>-</u> | |
| Appropriated Cash | <u>\$ -</u> | <u>\$ -</u> | | |
| Reconciliation to GAAP basis statements: | | | | |
| Prior Year Accounts Rec. & Due From | | | (47,799) | |
| Prior Year Accounts Pay & Due To | | | <u>47,799</u> | |
| Revenues over (under) expenditures | | | <u>\$ -</u> | |

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
SUPPLEMENTAL ED SERVICES PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

| | Budgeted Amounts | | | Variance Favorable (Unfavorable) |
|--|--------------------|-----------------|----------|--|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Federal Grant | \$ - | \$ - | \$ - | \$ - |
| State Grant | - | - | - | - |
| Local Revenue | 200,000 | 200,000 | 108,290 | (91,710) |
| Total Revenues | 200,000 | 200,000 | 108,290 | (91,710) |
| Expenditures | | | | |
| Current: | | | | |
| Education: | | | | |
| Support Services - Instruction | 142,000 | 142,000 | 45,672 | 96,328 |
| General Administration | 58,000 | 58,000 | 24,000 | 34,000 |
| Total Expenditures | 200,000 | 200,000 | 69,672 | 130,328 |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers Out | - | - | (38,618) | 38,618 |
| Total Other Financing Sources (Uses) | - | - | (38,618) | 38,618 |
| Revenues and Other Financing Sources over (under) expenditures and other Financing Uses | - | - | - | |
| Appropriated Cash | \$ - | \$ - | | |
| Reconciliation to GAAP basis statements: | | | | |
| Prior Year Accounts Rec. & Due From | | | - | |
| Prior Year Accounts Pay & Due To | | | - | |
| Revenues over (under) expenditures | | | \$ - | |

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. INTRODUCTION

The accounting policies of the Northern New Mexico Network for Rural Education conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

B. FINANCIAL REPORTING ENTITY

The Northern New Mexico Network for Rural Education (Network) was created to provide supplementary educational services to its member School Districts in Northern New Mexico.

The Network continued with its efforts to improve education utilizing funding from the United States Department of Education (ED) for Teacher Incentive (TIF) and Teacher Quality Enhancement (TQE). The PED Math/Science Institute and Supplementary Educational Services also were continued during the year.

At June 30, 2012 the following 21 New Mexico School Districts were participating members of the educational cooperative.

Chama Valley Independent Schools
Cimarron Municipal Schools
Clayton Public Schools
Des Moines Municipal Schools
Dulce Independent Schools
Espanola Valley Public Schools
Grants-Cibola County Schools
Jemez Valley Public Schools
Logan Municipal Schools
Los Alamos Public Schools
Mesa Vista Consolidated Schools
Mora Independent Schools
Independent Schools
Questa Independent Schools
Raton Public Schools
Roy Municipal Schools
Santa Rosa Consolidated Schools
Springer Municipal Schools
Tucumcari Public Schools
Vaughn Municipal Schools
Wagon Mound Schools

See Independent Auditors' Report

STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The Network's basic financial statements include all activities and accounts of the Network's "financial reporting entity".

The financial reporting entity consists of (a) the primary government, (b) organization for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and Government Accounting Standards Board (GASB) Statement 14, as amended by GASB 39.

The basic - 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 criterion 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, or whether the activity is conducted within the geographic boundaries of the government and is generally available to 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.

The primary government of the Northern New Mexico Network for Rural Education includes all funds and functions that are under the Network's control and responsibility that are included in the Network's reports to the New Mexico Department of Education.

The Network did not have any component units that should have been included in its reports.

C. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-

See Independent Auditors' Report

STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. For the most part, the effect of inter fund activities have been removed from these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole. They reduce the net costs of the function to be financed from the government's general revenues. The charges for services reflected on the statement of activities include member annual fees payable by the respective member districts. The annual fee amounts are based upon student populations at the member districts.

Program-specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary non exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes-to purchase, construct, or renovate capital assets associated with a specific program.

These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the reporting government.

These categories of program revenue are specifically attributable to a program and reduce the net expense of that program to the reporting government.

During the year ended June 30, 2012 the Network received operating grants and contributions for its operations from the National Science Foundation (passed through the University of New Mexico), the U. S. Department of Education and the New Mexico Public Education Department as well as in-kind and cash assessments and contributions from its member participants, the University of New Mexico, New Mexico businesses and others. The Network did not receive any capital grants during the year ended June 30, 2012.

Reimbursements of incurred costs are recorded by reducing the applicable expense/expenditure.

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If applicable, separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

During the year ended June 30, 2012 Northern New Mexico Network for Rural Education did not have any proprietary funds or fiduciary funds.

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. The Network's funds are organized under one category of funds (governmental). An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the Network or meets the following criteria:

Total assets, liabilities, revenues or expenditures/expenses of that individual fund are at least 10 percent of the corresponding total for all funds of that category or type; and

Total assets, liabilities, revenues or expenditures/expenses of the individual fund are at least 5 percent of the corresponding total for all funds of the Network combined.

The Network reports the following major funds:

Major Governmental Funds:

General Fund (88102/88203) – This is the Network's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Teacher Quality Enhancement (88202) – To account for a grant from the U.S. Department of Education (ED) that is focused on identifying, recruiting and encouraging students interested in becoming teachers in high needs schools by providing comprehensive, highly-effective, community-bases recruitment programs with a wide-range of support for candidates that increases the number of highly qualified applicants entering teacher preparation programs. Core strategies include the development of Future Educator Association Chapters within the NNMN's participating schools as well as the development of a 24 credit Master Mentoring certificate. Authorized by Higher Education Act of 1965, as amended, Title III, Part A.

Supplemental Education Services Program – PED Summer Academy - To account for assessments and reimbursements received from member Districts for the purpose of providing additional academic instruction designed to increase the academic achievement of students in schools in need of improvement.

The Network has only two types of Governmental Funds (General and Special Revenue Funds) that are described below:

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General Fund – This is the Network’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

In addition to a General Fund and four Special Revenue Funds described above that are reported as major funds, the Network had three Special Revenue Funds that are reported as non major funds.

EPSCoR NSF Fund - To account for a grant from the National Science Foundation (NSF) which was passed through the Regents of the University of New Mexico, to pay costs of conducting research, product development, resources, tools and services, as salaries and wages, equipment and supplies, travel publication costs, other direct costs and indirect costs associated with public and private schools and state and local governmental agencies. Authorized by the National Science Foundation Act of 1950, as amended, Public Law 107-368, 42 U.S.C. 1861 et seq.

Teacher Incentive Fund – To account for a grant from the U.S. Department of Education (ED) that promotes the development and implementation of performance-based teacher and principal compensation systems in high-need schools. The compensation systems may also provide educators with incentives to take on additional responsibilities and leadership roles. Authorized by Elementary and Secondary Education Act, as amended, Executive Order Title V, Part D, Subpart 1, as amended by Department of Education Appropriations Act for fiscal years 2006-2010.

ARRA Teacher Incentive Fund Program – To account for a grant from the U.S. Department of Education (ED) that support s projects that develop and implement performance-based compensation systems for teachers, principals, and other personnel in high-need schools that must include growth in student academic achievement as well as classroom evaluations conducted multiple times during each school year, among other factors, and provide educators with incentives to take on additional responsibilities and leadership roles.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

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Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the *economic resources measurement focus* and the *accrual basis of accounting*.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery) and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Equity is classified as net assets.

All governmental funds utilize a “*current financial resources*” *measurement focus* and the *modified accrual basis of accounting*. Only current financial assets and liabilities are generally included on their balance sheets.

Their operating statements present sources and uses of available spendable financial resources during a given period. 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. For this purpose, the Network considers earned revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures, are generally recorded when a liability is incurred, as under accrual accounting.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed measurable and available (i.e., collectible within the current year or within two months of year-end and available to pay obligations of the current period). This includes reimbursements due from federal and / or state funded projects that are accrued as revenue at the time the allowable expenditures are made, or when received in advance, deferred until expenditures are made.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expense. Most expenditures are measurable and are recorded when the related fund liability is incurred.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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E. ASSETS, LIABILITIES, AND EQUITY

Cash and Cash Equivalents

The Network's cash and cash equivalents are considered to be cash on hand, demand deposits and short term deposits with maturities of three months or less from the date of acquisition.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The receivable balance in the governmental activities is an amount due as reimbursement from member and non-member Districts that participated in activities sponsored by NNMN. There was no outstanding receivables at June 30, 2012.

Short-Term Inter-fund Receivables/Payables

During the course of operations, some transactions may occur between individual governmental funds for goods provided or services rendered. These receivables and payables, as well as any short-term inter-fund loans, are classified as "due from other funds" or "due to other funds" on the balance sheets of the fund financial statements. On the statement of net assets these balances have been eliminated (off-set against each other).

Capital Assets and Depreciation

The accounting treatment over capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets with a value or cost greater than \$5,000 (the Network's capitalization policy and in accordance with Section 12-6-10 NMSA 1978) are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets that are recorded at their estimated fair value at the date of donation. Almost all of the capital assets have been recorded at cost.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. With the adoption of GASB 34, the Network must begin to capitalize infrastructure assets. The Network is not required to capitalize existing infrastructure assets existing on July 1, 2003 but may do so if they wish. The Network does not have any infrastructure asset at June 30, 2012.

Invested in capital assets, net of related debt consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition,

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construction, or improvement of those assets. The network did not have any outstanding borrowings at June 30, 2012.

The Network does not develop "internal use" software. Rather, any purchased software is depreciated over its expected useful life (generally 5 years) using the straight-line method of depreciation.

Depreciation of all exhaustible capital assets (primarily computer equipment) is charged as an expense in the Statement of Activities. Depreciation is being provided over the estimated life of the respective assets using the Straight-Line method. Asset lives range from 3 to 5 years.

Current year depreciation expense in the amount of \$1,730 was charged to the general administration functional cost center during the year.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Since capital assets and long-term debt do not provide or use available spendable resources they are not included on the balance sheets of governmental funds. In governmental funds the purchase of capital assets are shown as capital outlay expenditures.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt:
- b. Restricted net assets:
Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. The Network did not have any restricted net assets at June 30, 2012.
- c. Unrestricted net assets:
All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as:

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Nonspendable Fund Balance

Amounts that cannot be spent due to form: for example, inventories, prepaid amounts, long-term loan, notes receivables, and property held for resale unless the proceeds are restricted, committed or assigned.

Nonspendable fund balance also includes amounts that must be maintained intact legally or contractually. The Network had no nonspendable fund balances at June 30, 2012.

Restricted Fund Balance

Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

Amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It requires action by the same group to remove or change the constraints placed on the resources. Action to constrain resources must occur prior to year-end; however the amount can be determined in the subsequent period.

Assigned Fund Balance

For all governmental funds, other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the general fund, amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. Amount reported as assigned should not result in a deficit in unassigned fund balance.

Unassigned Fund Balance

For the general fund, amounts not classified as nonspendable, restricted, committed or assigned. The general fund is the only fund that would report a positive amount in unassigned fund balance. In determining a residual deficit, no amount should be reported as assigned.

F. REVENUES, EXPENDITURES, AND EXPENSES

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by governmental function.

In the fund financial statements, expenditures are classified as follows:

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Governmental Funds-By Character: Current (further classified by educational function)

In the fund financial statements, governmental funds report expenditures of current financial resources.

Expenditures of Restricted Sources

It is the Network's policy to expend restricted sources prior to unrestricted sources when both sources are available for expenditure.

Inter-Fund Transactions

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

Transfers Between Funds

Transfers represent routine transfers of resources to funds statutorily authorized to spend them. Transfers of cash that occur between different GAAP fund types, different funds or different agencies are reported as transfers in or out. During the year ended June 30, 2012 NNMN had the following transfers:

| | | |
|---|----------|----------|
| Transfer Out To General Fund (88106) | \$38,618 | |
| Transfer In From Supplemental Ed Services (88102) | | \$38,618 |

G. OTHER POLICIES

FASB Pronouncements

Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. GASB Statements No.'s 20 and 34 provided the Network the option of electing to apply FASB pronouncements issued after November 30, 1989. The Network elected not to apply FASB pronouncements issued after November 30, 1989.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the

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date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GASB Pronouncements

GASB Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions issued February 2009 effective for periods beginning after June 2010 (FY2011). This statement will apply to NNMN during 2012.

GASB Statement No. 55: The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments issued March 2009 effective immediately (March 2009) (Applicable to NNMN as it establishes the hierarchy of Generally Accepted Accounting Principles for State and Local Governments in a GASB document). This pronouncement did not result in a change from current practice.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGET REQUIREMENTS, ACCOUNTING, AND REPORTING

Formal budgetary integration is employed as a management control device during the year. The budget is classified as a non-appropriated budget under governmental accounting standards. A non-appropriated budget is a financial plan for an organization approved in a manner consistent with a constitution, charter, statute, or ordinance that is not subject to appropriation.

All budgets are adopted on the cash basis of accounting, which is inconsistent with Generally Accepted Accounting Principles (GAAP). Budgetary comparison statements present budget and actual amounts on the budgetary basis of accounting.

The Network follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 15 (unless a later date is fixed by the Superintendent of Public Instruction) the board submits to the School Budget Planning Unit (SBPU) of the New Mexico Public Education Department an estimated budget for the Cooperative for the ensuing fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

All budgets submitted to the State Department of Public Education (SDPE) by the cooperative shall contain headings and details as prescribed by law.

2. Prior to June 20 of each year, the proposed "tentative" budget will be reviewed and approved by the SBPU and certified and approved by the Network's Board at a public hearing of which notice has been published by the Network which fixes the estimated budget for the ensuing fiscal year.

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3. The “tentative” budget will be used by the Network until a “final” budget has been approved by SBPU and the Network’s Board. 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.
4. The SBPU shall make corrections, revisions and amendments to the estimated budgets fixed by the Board to recognize actual cash balances and carryover funds, if any.
5. Prior to the first Monday of September of each year, SBPU shall approve and certify to each local school board and cooperative a final budget for use by the applicable board.
6. No officer or employee of a cooperative shall make any expenditure or incur any obligation for the expenditure of public funds unless such expenditure or contractual obligation is made in accordance with an operating budget approved by the division, but this does not prohibit the transfer of funds between line items within a series of a budget.
7. 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 school district and approved by the SBPU.
8. Legal budget control for expenditures is by function.
9. Appropriations lapse at fiscal year-end. Funds unused during the fiscal year may be carried over into the next fiscal year by including those amounts in the subsequent fiscal year’s budget, if allowed by the underlying grantor/funding entity.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation – is utilized in the governmental funds. Encumbrances lapse at the fiscal year end.

B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

The Northern New Mexico Network for Rural Education is authorized under its investment policy to deposit its money in banks, savings and loan associations, and/or credit unions where accounts are insured by an agency of the United States.

All monies not immediately necessary for the public uses of the Network may be invested in:

1. Fully collateralized certificates of deposit that are also FDIC insured.

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2. Securities of the United States, its agencies or instrumentalities
3. Securities of the State of New Mexico, its agencies, instrumentalities, counties, municipalities, or other subdivisions
4. Securities, including student loans that are guaranteed by the United States or the State of New Mexico
5. Revenue bonds that are under written by a member of the National Association of Securities Dealers, (NASD) and rated BAA or better.

The maximum authorized maturity for these securities will be one year or less.

During the year ended June 30, 2012 Northern New Mexico Network for Rural Education (Network) had complied with its investment policy.

Deposits of the Network's monies are to be collateralized in an aggregate equal to 50% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage. Both accounts with Wells Fargo Bank are held in the Network's name and are fully insured by FDIC.

In accordance with state law, all uninsured deposits in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes any of the securities listed above.

3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS

A. CASH AND INVESTMENTS

The Network's policies regarding deposits of cash are discussed in notes 1E and 2B. The Network attempts to limit its exposure to various risks inherent to its cash and investments as follows:

Interest rate risk – The Network attempts to maximize its rate of return while insuring that the investment vehicle is either fully insured or fully collateralized by investments of the Federal Government. During the year ended June 30, 2012 the Network did not make any investments.

Credit risk – State law limits the types of investments allowed by the Network (See Note 2B). As stated above, the Network complied with the restrictions imposed by the State of New Mexico in an effort to limit its credit risk.

Concentration of credit risk – During the year ended June 30, 2012 the Network did not limit its concentration of credit risk by depositing its funds in various banks, savings and loan institutions and credit unions. All funds were deposited into a single bank. However, with rare exception, its deposits are fully insured by FDIC.

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Custodial credit risk – Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of June 30, 2012 the Network was not exposed to custodial credit risk because the deposits were insured.

Custodial credit-risk – Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the Network will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Network did not have any investments at June 30, 2012 and was not subject to custodial credit risk investments.

B. DUE FROM GRANTORS

All federal grants were closed at June 30, 2012. There is no outstanding balance for receivables from grantors.

C. INTERFUND ACCOUNTS AND TRANSACTIONS

The amounts shown as due to and due from on the balance sheets of the governmental funds represent amounts due to the general fund for indirect costs and short term borrowings between the funds to cover amounts that were expended in excess of collected resources. These due to/due from balances were eliminated in the Statement of Net Assets.

At June 30, 2012 there was no Due To/ Due From balances reported on the balance sheets of the Fund Financial Statements:

D. CAPITAL ASSETS

The following is a summary of changes in the Capital Assets during the year ended June 30, 2012:

| | Balance at 6/30/2011 | Additions | Deletions | Balance at 6/30/2012 |
|-----------------------------------|-------------------------|------------|-----------|-------------------------|
| Capital Assets Being Depreciated: | | | | |
| Equipment | \$ 21,017 | | | \$ 21,017 |
| Less: | | | | |
| Accumulated depreciation | (19,287) | (1,730) | - | (21,017) |
| Net capital assets | \$ 1,730 | \$ (1,730) | \$ - | \$ - |

Depreciation of governmental activity assets were charged to the general administration function.

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4. OTHER NOTES

A. COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. 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 government expects such amounts, if any, to be immaterial.

B. RISK MANAGEMENT

The Network is exposed to various risks of loss related to tort litigation, destruction of property, errors and omissions, injuries to employees, natural disasters and other risks. The Network manages these risks through commercial insurance carriers. The New Mexico Tort Claims Act limits the Network's risks for torts.

There have been no significant reductions in insurance coverage during the current year. Settlement amounts have not exceeded insurance coverage for the current year or for the three prior years.

C. LITIGATION

At June 30, 2012 the Network was not aware of any litigation or pending litigation that would adversely affect its financial position.

D. ECONOMIC DEPENDENCY

Substantially all revenues of the Network are received from the U.S. Department of Education and NM Public Education Department. Receipt of these funds is contingent upon the Network's continued compliance with grant provisions and the continuance of the grant programs by the funding agencies.

E. RESTATEMENT

The Network's beginning trial balance in the general fund had to be restated, as explained because several adjustments to the financial statements were made in the prior year by the predecessor auditor. These adjustments were not posted by the Network. The effect of these adjustments was \$3,329 on the statement of revenues, expenditures and changes in fund balances on page 8 and the same amount on the statement of activities on page 5.

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SUPPLEMENTARY INFORMATION

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 COMBINING BALANCE SHEETS
 NON-MAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2012

| | EPSCoR NSF Program 88104 | Teacher Incentive Fund 88201 | ARRA TIF Fund Program 88204 | Total Nonmajor Funds |
|--|-----------------------------------|---------------------------------------|-----------------------------------|----------------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | \$ - | \$ - | \$ - | \$ - |
| Accounts Receivable | - | - | - | - |
| Due from Other Funds | - | - | - | - |
| Due from Grantor | - | - | - | - |
| Total Assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - |
| Due to Other Funds | - | - | - | - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | | |
| Unassigned | - | - | - | - |
| Total Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities and Fund Balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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COMBINING STATEMENTS OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

| | EPSCoR NSF Program 88104 | Teacher Incentive 88201 | ARRA TIF Fund Program 88204 | Total Nonmajor Funds |
|---|--------------------------------|-------------------------------|--------------------------------------|----------------------------|
| Revenue: | | | | |
| Federal Sources | | | | |
| Federal Grant | \$ 31,321 | \$ 55,422 | \$ 21,204 | \$ 107,947 |
| State Sources | | | | |
| State Grant | - | - | - | - |
| Local Sources | | | | |
| District Assessments | - | - | - | - |
| Indirect Cost Recovery | - | - | - | - |
| Other Local Revenue | - | - | - | - |
| Investment Income | - | - | - | - |
| Total Revenue | <u>31,321</u> | <u>55,422</u> | <u>21,204</u> | <u>107,947</u> |
| Expenditures: | | | | |
| Education: | | | | |
| Support Services - Instruction | 31,321 | 45,325 | - | 76,646 |
| General Administration | - | 10,097 | 21,204 | 31,301 |
| | <u>31,321</u> | <u>55,422</u> | <u>21,204</u> | <u>107,947</u> |
| Revenues over (under) expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfer In | - | - | - | - |
| Operating Transfers Out | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change to Fund Balance | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Beginning Fund Balance as Reported | - | - | - | - |
| Restatement | - | - | - | - |
| Beginning Fund Balance as Restated | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance, End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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SPECIAL REVENUE FUND
EPScO NSF PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

| | <u>Budgeted Amounts</u> | | | Variance Favorable (Unfavorable) |
|--|----------------------------|-------------------------|---------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Federal Grant | \$ 128,669 | \$ 128,669 | \$ 31,321 | \$ (97,348) |
| State Grant | - | - | - | - |
| Other Local Revenue | - | - | - | - |
| Total Revenues | <u>128,669</u> | <u>128,669</u> | <u>31,321</u> | <u>(97,348)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Education: | | | | |
| Support Services - Instruction | 119,519 | 119,519 | 31,321 | 88,198 |
| General Administration | <u>9,150</u> | <u>9,150</u> | <u>-</u> | <u>9,150</u> |
| Total Expenditures | <u>128,669</u> | <u>128,669</u> | <u>31,321</u> | <u>97,348</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers Out | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Financial Source (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Revenues and Other Financing Sources over (under) expenditures and other Financing Uses | <u>-</u> | <u>-</u> | <u>-</u> | |
| Appropriated Cash | <u>\$ -</u> | <u>\$ -</u> | | |
| Reconciliation to GAAP basis statements: | | | | |
| Prior Year Accounts Rec. & Due From | | | (35,927) | |
| Prior Year Accounts Pay & Due To | | | <u>35,927</u> | |
| Revenues over (under) expenditures | | | <u>\$ -</u> | |

See Independent Auditors' Report

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
SPECIAL REVENUE FUND
TEACHER INCENTIVE PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

| | Budgeted Amounts | | | Variance Favorable (Unfavorable) |
|--|--------------------|-----------------|-----------|--|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Federal Grant | \$ 1,038,298 | \$ 1,038,298 | \$ 55,422 | \$ (982,876) |
| State Grant | - | - | - | |
| Other Local Revenue | - | - | - | - |
| Total Revenues | 1,038,298 | 1,038,298 | 55,422 | (982,876) |
| Expenditures | | | | |
| Current: | | | | |
| Education: | | | | |
| Support Services - Instruction | 671,932 | 671,932 | 45,325 | 626,607 |
| General Administration | 366,366 | 366,366 | 10,097 | 356,269 |
| Total Expenditures | 1,038,298 | 1,038,298 | 55,422 | 982,876 |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers Out | - | - | - | - |
| Total Other Financial Source (Uses) | - | - | - | - |
| Revenues and Other Financing Sources over (under) expenditures and other Financing Uses | - | - | - | |
| Appropriated Cash | \$ - | \$ - | | |
| Reconciliation to GAAP basis statements: | | | | |
| Prior Year Accounts Rec. & Due From | | | (33,198) | |
| Prior Year Accounts Pay & Due To | | | 33,198 | |
| Revenues over (under) expenditures | | | \$ - | |

See Independent Auditors' Report

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
SPECIAL REVENUE FUND
ARRA TIF FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|----------------------------|-------------------------|---------------|---|
| | <u>Original Budget</u> | <u>Final Budget</u> | | |
| Revenues | | | | |
| Federal Grant | \$ 467,648 | \$ 467,648 | \$ 21,204 | \$ (446,444) |
| State Grant | - | - | - | - |
| Other Local Revenue | - | - | - | - |
| Total Revenues | <u>467,648</u> | <u>467,648</u> | <u>21,204</u> | <u>(446,444)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Education: | | | | |
| Support Services - Instruction | 168,393 | 168,393 | - | 168,393 |
| General Administration | <u>299,255</u> | <u>299,255</u> | <u>21,204</u> | <u>278,051</u> |
| Total Expenditures | <u>467,648</u> | <u>467,648</u> | <u>21,204</u> | <u>446,444</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers Out | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | | | | |
| Revenues and Other Financing Sources over (under) expenditures and other Financing Uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Appropriated Cash | <u>\$ -</u> | <u>\$ -</u> | | |
| Reconciliation to GAAP basis statements: | | | | |
| Prior Year Accounts Rec. & Due From | | | - | |
| Prior Year Accounts Pay & Due To | | | <u>-</u> | |
| Revenues over (under) expenditures | | | <u>\$ -</u> | |

See Independent Auditors' Report

COMPLIANCE SECTION

Kubiak & Melton, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Hector H. Balderas, State Auditor
Loren Cushman, President and
Board of Directors
Northern New Mexico Network for Rural Education
Rio Rancho, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds, and the combining and individual funds and related budgetary comparison presented as supplement information of the Northern New Mexico Network for Rural Education (Network) as of and for the year ended June 30, 2012, and have issued our report thereon dated August 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States..

Internal Control Over Financial Reporting

Management of the Network is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Network's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Network's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiency that we consider to be significant deficiency in internal control over financial reporting and which is described in the accompanying schedule of findings and questioned costs as item 2012-01. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Network's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as items 2005-02 and 2012-02.

The Network's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Network's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Office of the New Mexico State Auditor, the Network's Board, management, federal awarding agencies and the Public Education Department of New Mexico and is not intended to be and should not be used by anyone other than these specified parties.

Kubiak & Melton, LLC

Kubiak & Melton, LLC

Albuquerque, New Mexico
August 19, 2013

FINDINGS

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
SCHEDULE OF FINDINGS
June 30, 2012**

Status of Prior Year Findings:

1. Late Audit Report (2005-02) – Other - Repeated

New Findings:

1. Safeguarding Capital Assets (2012-01) –Significant Deficiency
2. Missing Board Meeting Minutes (2012-02) – Other

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
SCHEDULE OF FINDINGS
June 30, 2012**

Late Audit Report - Repeated
(2005-02) – Other

| | |
|----------------|--|
| CONDITION | The June 30, 2012 audit report was not submitted to the State Auditor's Office by the required deadline of September 30, 2012. |
| CRITERIA | According to NMAC 2.2.2 Requirements for Contracting and Conducting Audits of Agencies; all Cooperative Educational Services audits are due to the State Auditor's Office by September 30, 2012. |
| CAUSE | <p>The Northern New Mexico Network for Rural Education (Network) went through a transition of leadership in the middle of the audit year. During this transition, the Executive Director and the Business Manager both left and their availability thereafter was limited. The June 30, 2011 audit was incomplete during this period and needed to be completed in order for work to progress on the 2012 audit.</p> <p>During the auditors' initial review of the trial balance, it was noted that over \$500,000 of expenditures related to federal programs were booked. At this point, a contract amendment was done to add the cost of a Single Audit. However, while the audit was underway it was determined that an adjustment was required. This corrective adjustment reduced the federal expenditures under the threshold of \$500,000. Therefore, there was no requirement for a Single Audit.</p> |
| EFFECT | The potential users of the financial statements (such as board members, legislators, state and federal grantors, etc.) did not have timely audit reports and financial statements to facilitate their decision making process. NMAC 2.2.2 Requirements for Contracting and Conducting Audits of Cooperative Educational Services regulation was not followed. |
| RECOMMENDATION | The Board and Management should ensure the audit is completed and submitted to the State Auditor's Office by its due date. |
| RESPONSE | Management concurs with this recommendation. Based on the fact that the Network expended less than \$10,000 in federal monies and generated less than \$1,000 in revenue in the 2013 fiscal year, it is expected that the Network will be able to expedite the 2013 audit and be caught up by the end of the calendar year. |

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
SCHEDULE OF FINDINGS
June 30, 2012**

Safeguarding Capital Assets
(2012-01) – Significant Deficiency

| | |
|----------------|---|
| CONDITION | During the fiscal year of 2012-2013, the Network purchased ten Apple iPads at a cost of \$5,402 out of the General Fund (88102). At June 30, 2012, none of these iPads were in possession of the Network. |
| CRITERIA | There are no physical safeguards over capital assets to mitigate misappropriation. |
| CAUSE | Turnover of management during the year contributed to the safeguarding of these capital assets. |
| EFFECT | Capital Outlay is subject to misappropriation when there is lack of internal controls over. |
| RECOMMENDATION | The Network needs to make persons using their capital assets accountable. The Network can use a sign-out sheet track the usage of their capital assets. |
| RESPONSE | <p>The current management of the Northern New Mexico Network for Rural Education was never informed about the iPads identified during the audit. The iPads were not included on the inventory list provided during transition.</p> <p>Efforts are in progress to identify the individuals to whom these devices were assigned, and attempts to recover the iPads have been started and will continue.</p> <p>Since January of 2012, when the current management team took over, all assets have been carefully inventoried, kept in locked locations, and a sign-out process has been in place.</p> |

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
SCHEDULE OF FINDINGS
June 30, 2012**

Missing Board Meeting Minutes
(2012-02) – Other

| | |
|----------------|--|
| CONDITION | The Network could not provide Board Meeting Minutes for meetings held during fiscal year 2012.. |
| CRITERIA | According to the Open Meetings Act, Article 15, Section 10-15-1G “The board commission or other policy making body shall keep written minutes of all its meetings”. |
| CAUSE | The Network was not ensuring the Open Meetings Act is being followed. |
| EFFECT | Written and approved minutes of the Board are not available as required by the Open Meeting Act. |
| RECOMMENDATION | The Board should ensure that all future Board Minutes be properly recorded, approved, signed and allowed for review. |
| RESPONSE | The Northern New Mexico Network for Rural Education office was moved from Rio Rancho, NM to Chama, NM in the spring of 2013. A moving company was contracted to perform the move. Despite efforts to maintain order of the files, during this move, many files were shuffled. We have been unable to find minutes from the time prior to the management change in January of 2012, but do have the agenda, sign-in sheet, and minutes from the March 12, 2012 quarterly meeting. |

**STATE OF NEW MEXICO
NORTHERN NEW MEXICO NETWORK FOR RURAL EDUCATION
EXIT CONFERENCE
June 30, 2012**

Preparation of Financial Statements

The audited financial statements were prepared by the Network's staff with the assistance of the independent certified public accountants performing the audit. Management is responsible for ensuring the books and records to adequately support the preparation of the financial statements in accordance with generally accepted accounting principles and that the information is current and in balance. Management has reviewed and approved the financial statements as presented.

Exit Conference

An exit conference was held on September 27, 2013, In attendance were the following:

Representing the Northern New Mexico Network for Rural Education:

| | |
|----------------|----------------------------|
| Fred Trujillo | Board Member |
| Adan Delgado | Interim Executive Director |
| Michelle Ortiz | Business Manager |

Representing Kubiak & Melton, LLC:

| | |
|-----------------|------------------------|
| Daniel Trujillo | Audit Manager, CPA CFE |
|-----------------|------------------------|