

**STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE # 7  
FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION  
WITH ACCOMPANYING AUDITORS' REPORTS  
YEAR ENDED JUNE 30, 2008**

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## **INTRODUCTORY SECTION**

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**State of New Mexico  
Regional Education Cooperative #7  
Official Roster  
June 30, 2008**

**Board of Directors**

Rick Ferguson, Jal Public Schools	President
Dwain Haynes, Eunice Public Schools	Vice President
Cliff Burch, Hobbs Municipal Schools	Secretary
Buddy Little, Tatum Municipal Schools	Member
Belinda Morris	Executive Director

**State of New Mexico  
Regional Education Cooperative #7  
Annual Financial Report  
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For the Year Ended June 30, 2008**

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**FINANCIAL SECTION**

See related audit step at [GP-01](#)

## INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas  
New Mexico State Auditor  
The Office of Management and Budget and  
Board of Directors  
Regional Education Cooperative #7  
Hobbs, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison statements of the general fund and major special revenue funds of the Regional Education Cooperative #7, Hobbs, New Mexico, (the Cooperative) as of and for the year ended June 30, 2008, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Cooperative's nonmajor governmental funds and respective budgetary comparisons presented as supplemental information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Cooperative'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 included 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 Regional Education Cooperative #7, Hobbs, New Mexico, as of June 30, 2008, and the respective changes in financial position, thereof and the budgetary comparison statements for the RCC/REC District Fiscal Agent, Idea B Entitlement, Early Reading First, and Medicaid 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 Regional Education Cooperative #7, as of June 30, 2008, and the respective changes in financial position and the budgetary comparison statements for each nonmajor fund 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 September 30, 2008 on our consideration of the Regional Education Cooperative #7, Hobbs, New Mexico'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.

The management's discussion and analysis on pages 15 through 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the Cooperative's basic financial statements, individual fund financial statements, and budgetary comparisons. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The accompanying financial information listed as Supporting Schedules I and II in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Regional Education Cooperative #7, Hobbs, New Mexico. Such information has been subjected to the auditing procedures applied in the audit of the basic and each of the nonmajor governmental fund financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Accounting & Consulting Group, L.L.P.*

Accounting & Consulting Group, LLP  
Certified Public Accountants

Albuquerque, New Mexico  
September 30, 2008

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**State of New Mexico  
Regional Education Cooperative #7  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008  
Unaudited**

The Regional Education Cooperative #7 (Cooperative) is a joint venture created by and between the Tatum, Hobbs, Eunice and Jal Municipal School Districts. The Cooperative's purpose is to provide a centralized administrative office for the member school districts which are eligible for federal and state grant funds. The centralized office prepares yearly budgets, writes grant proposals, and processes the expenditure requisitions of each school district. The Superintendent from each of the member school districts serves on the board of directors.

As management of the Regional Education Cooperative # 7 (Cooperative) we offer this narrative overview and analysis of the financial activities of the Cooperative for the fiscal year ended June 30, 2008. The discussion and analysis, as well as the financial statements, provide a review of the Cooperative's *overall* financial activities, using the accrual basis of accounting, for the year ended June 30, 2008. The government-wide financial statements are reported on the accrual basis of accounting. The governmental fund financial statements are reported on a modified accrual basis of accounting. Rather than look at specific areas of performance, this discussion and analysis focuses on the financial performance of the Cooperative as a whole. Whenever possible this discussion and analysis will provide the reader multi-year pictures of financial performance and other pertinent information through the use of tables and other graphic information.

This annual report consists of a series of detailed, audited financial statements and the notes to those statements. Also included is the Independent Auditor's Report, 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, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and a Schedule of Findings and Questioned Costs. These statements and information were included in past reporting by the Cooperative.

**Regional Education Cooperative #7 - Accounting and Finance**

The Cooperative took on more responsibility for its own financial reporting during the fiscal year ended June 30, 2008, due to the fact the memorandum of understanding with its fiscal agent Hobbs Municipal School District expired on June 30, 2007.

Another big change in the fiscal year ended June 30, 2008 was the determination by the Public Education Department (PED) that federal funds for payrolls in the member school districts would no longer flow through the Cooperative to the districts but would be budgeted instead at the district level. This change is the main reason for the significant decreases in program expenditures and related reimbursement revenues during the fiscal year.

As an integral part of the Cooperative's accountability process, the Cooperative's Board is active in the monitoring of expenditures and budgets through a formal, monthly reporting process to the Board. This reporting is provided at public meetings and becomes a part of the Board's permanent, public record. These reports are public documents and through this public process, the financial reporting information is provided for and open to public inspection.

**State of New Mexico  
Regional Education Cooperative #7  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008  
Unaudited**

**Significant Financial Highlights for the Year Ended June 30, 2008**

- Net assets increased from \$155,073 in the year ended June 30, 2007 to \$691,433 in the year ended June 30, 2008.
- Total revenues decreased from \$3,467,447 in the year ended June 30, 2007 to \$2,170,627 in the year ended June 30, 2008. This is a decrease of \$1,296,820 reflecting an overall revenue decrease of approximately 37%.
- Accumulated depreciation on capital assets as of June 30, 2008 is \$101,649 which includes current year depreciation expense of \$8,044.

**GOVERNMENT WIDE FINANCIAL STATEMENTS**

**Statement of Net Assets**

The Statement of Net Assets is prepared using the accrual basis of accounting. This statement shows that as of June 30, 2008, the Cooperative has total net assets of \$684,720.

	<u>June 30, 2008</u>	<u>June 29, 2007</u>
<b>Assets</b>		
Cash assets	\$ 588,493	\$ 336,545
Other current assets	113,305	105,124
Capital assets	154,942	164,358
Less accumulated depreciation	<u>(101,649)</u>	<u>(100,167)</u>
<b>Total assets</b>	<u>755,091</u>	<u>505,860</u>
<b>Liabilities</b>		
Other current liabilities	47,895	337,370
Deferred revenues	-	260
Long-term liabilities	<u>15,763</u>	<u>13,157</u>
<b>Total liabilities</b>	<u>63,658</u>	<u>350,787</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	53,293	64,191
Unrestricted	<u>638,140</u>	<u>90,882</u>
<b>Total Net Assets</b>	<u>\$ 691,433</u>	<u>\$ 155,073</u>

**State of New Mexico  
Regional Education Cooperative #7  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008  
Unaudited**

**GOVERNMENT WIDE FINANCIAL STATEMENTS (CONTINUED)**

**Statement of Activities**

The Statement of (Governmental) Activities is also prepared using the accrual basis of accounting. This report compliments the Statement of Net Assets by showing the overall change in the Cooperative's net assets for the fiscal year ended June 30, 2008.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Governmental Activities</b>		
Total expenses of government activities	\$ (1,631,412)	\$ (3,440,453)
Plus charges for services revenues	570,559	259,868
Plus operating grants and contributions revenues	<u>1,600,068</u>	<u>3,207,579</u>
<b>Total governmental activities</b>	539,215	26,994
<b>General revenues</b>		
Multi-purpose capital grant	-	-
Transfer of fixed assets to member school districts	<u>-</u>	<u>-</u>
<b>Total general revenues</b>	<u>-</u>	<u>-</u>
<b>Increase in Net Assets</b>	539,215	26,994
<b>Net Assets Beginning</b>	<u>155,073</u>	<u>128,079</u>
<b>Net Assets Restatement</b>	<u>(2,854)</u>	<u>-</u>
<b>Net Assets Ending</b>	<u>\$ 691,434</u>	<u>\$ 155,073</u>

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

**Statement of Revenues and Expenditures**

Governmental fund financial statements are presented on the modified accrual basis of accounting. The Statement of Revenues, Expenditures and Changes in Fund Balances guides the reader in understanding the Cooperative's revenues, expenditures and changes in fund balances. Total revenues from all sources were \$2,130,528 Total expenditures for the Cooperative were \$1,629,669. The total ending fund balance was \$604,899, an increase of \$500,859 from the prior year.

For detailed information on each federal program see the individual fund financial statements presented in the basic financial statements and the supplemental information section of the Cooperative's financial statements.

**State of New Mexico  
Regional Education Cooperative #7  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008  
Unaudited**

**GOVERNMENTAL FUND FINANCIAL STATEMENTS (CONTINUED)**

**Multi-Year Cooperative Revenues and Expenditures**

- A multi-year view of overall Cooperative revenues and expenditures appears below showing decreases in the years 2002/03, 2006/07, and 2007/08. The differences in the percentages between '02 and '03 school years were due to Medicaid monies withheld, increased monies from No Child Left Behind (Title Programs) and Entitlement (IDEA-B). The differences in the percentages between '06 and '07 school years were due to Medicaid monies withheld, decreased monies from Title IV and Title V Programs, and the Reading First Cadre Program. The differences in the percentages between '07 and '08 school years were mainly due to the fact that the Public Education Department (PED) stopped flowing federal program payroll reimbursements for the school districts through the Cooperative, and started budgeting those payroll amounts directly at the school district level.

Year	Total Revenues *	Increase %	Total Expenses*	Increase %
1998/99	\$1,619,060		\$1,619,060	
1999/00	\$2,379,218	47%	\$2,379,218	47%
2000/01	\$2,486,639	5%	\$2,486,639	5%
2001/02	\$3,254,524	31%	\$3,254,524	31%
2002/03	\$2,282,297	(30%)	\$2,282,297	(30%)
2003/04	\$2,465,879	8%	\$2,388,554	5%
2004/05	\$3,077,223	25%	\$3,060,900	28%
2005/06	\$4,001,155	30%	\$4,005,631	31%
2006/07	\$3,467,447	(13%)	\$3,452,583	(14%)
2007/08	\$2,170,627	(37%)	\$1,629,670	(53%)

**The Budget**

The Cooperative budgets reflect the same decrease as seen in the revenue and expenditures of the Cooperative. The State of New Mexico school budget process is defined under New Mexico State Statutes (Section 22) and the New Mexico Administrative Code (Section 6). To enhance the process of developing a budget at the cooperative level, the Regional Education Cooperative #7 utilizes goals and objectives defined by the local Board, community input meetings, long term plans and input from various staff groups to develop the budget. Cooperative priorities are well defined through this process.

The following tables show the budgetary comparison summaries by fund for the fiscal year ended June 30, 2008. Additional detailed budget information is provided in the Statements of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (Non-GAAP Budgetary Basis) for each fund in the financial statements. The budgetary comparisons for all the Cooperative's major funds are included as part of the basic financial statements. The budgetary comparisons for the Cooperative's non-major funds are presented in the supplementary information section of the financial statements



**State of New Mexico  
Regional Education Cooperative #7  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008  
Unaudited**

**GOVERNMENTAL FUND FINANCIAL STATEMENTS (CONTINUED)**

**Budgeted Expenditures for FY08 by Fund**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable Variance</u>
RCC/REC District Fiscal Agent Fund	\$ 330,942	\$ 563,468	\$ 525,779	(37,689)
IDEA B Entitlement	309,176	632,979	455,118	(177,861)
Early Reading First	-	192,638	191,870	(768)
Medicaid	89,000	89,000	32,395	(56,605)
Nonmajor Special Revenue Funds	150,338	409,045	226,659	(182,386)
Totals	<u>\$ 879,456</u>	<u>\$ 1,887,130</u>	<u>\$ 1,431,821</u>	<u>\$ (455,309)</u>

The Idea B Entitlement Special Revenue Fund is the Cooperative's largest program fund. This fund provides resources with the goal of ensuring that all children with disabilities have available to them a free appropriate public education which emphasizes special education and related services designed to meet their unique needs. Revenue from this fund is derived from a federal grant which is passed through the New Mexico Public Education Department down to the Cooperative. In the fiscal year ended June 30, 2008 the Cooperative did not have a limit on the percentage of carryover it could keep. The Cooperative has been authorized by PED to rebudget all unexpended Idea B funds in the next fiscal year.

**Budgeted Revenues for FY08 by Fund**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable Variance</u>
RCC/REC District Fiscal Agent Fund	\$ 330,942	\$ 563,468	\$ 547,054	(16,414)
IDEA B Entitlement	309,176	632,979	607,321	(25,658)
Early Reading First	-	192,638	191,681	(957)
Medicaid	89,000	89,000	293,495	204,495
Nonmajor Special Revenue Funds	150,338	409,045	227,478	(181,567)
Totals	<u>\$ 879,456</u>	<u>\$ 1,887,130</u>	<u>\$ 1,867,029</u>	<u>\$ (20,101)</u>

In general, the program funds operate on a reimbursement basis. When the Cooperative has expended program funds, it submits a request for reimbursement to the PED.

**The RCC/REC District Fiscal Agent Fund**

Although the State of New Mexico recognizes the RCC/REC District Fiscal Agent Fund as a Special Revenue Fund, it serves as the Cooperative's General Fund. The RCC/REC District Fiscal Agent Fund revenue represents \$547,054 of the total \$1,867,029 of Cooperative's actual revenues on the budgetary basis. The RCC/REC District Fiscal Agent Fund receives transfers from the various special revenue funds as a reimbursement of costs for providing administrative services for the various programs. The fund received a one-time special appropriation of \$200,000 from the New Mexico Legislature in the fiscal year ended June 30, 2008. The fund also received revenue for services rendered, from a \$105,000 contract with PED during the fiscal year.

**State of New Mexico  
Regional Education Cooperative #7  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008  
Unaudited**

**GOVERNMENTAL FUND FINANCIAL STATEMENTS (CONTINUED)**

**Revenues**

The Cooperative received revenues from the following programs:

RCC/REC District Fiscal Agent Fund: The purpose of this program is to provide federal funds for administrative activities designed to enhance the effective and coordinated use of federal funds, and to eliminate duplication in conducting administrative functions.

Idea B Entitlement, Discretionary & Preschool Funds: The purpose of these programs is to help maximize resources in meeting the educational needs of handicapped children from ages 3 through 21.

Early Reading First: The purpose of this program is to enhance the early language, literacy, and prereading development of preschool age children, particularly those from low-income families, through instructional strategies and professional development based on scientifically based reading research.

Medicaid Fund: The purpose of this program is to provide certain health care services to students.

Innovative Education Program Strategies: The purpose of this Title V program is to provide innovative education strategies to support local education reform programs.

Title III: The purpose of this program is to improve education of children and youth with limited English proficiency.

Teacher/Principal Training & Recruiting (Title IIA): The purpose of this Title II program is to provide an increase in highly qualified teachers, principals and support staff to ensure student academic achievement.

Leadership Training Program: These State flow-through funds are used for professional development of administrations and staff.

Safe & Drug Free Schools & Communities: The purpose of this Title IV program is to provide funds to promote a safe learning environment free of alcohol, tobacco, and drugs.

Advanced Placement: The purpose of this program is to provide funds from a private donor to support an Advanced Placement curriculum.

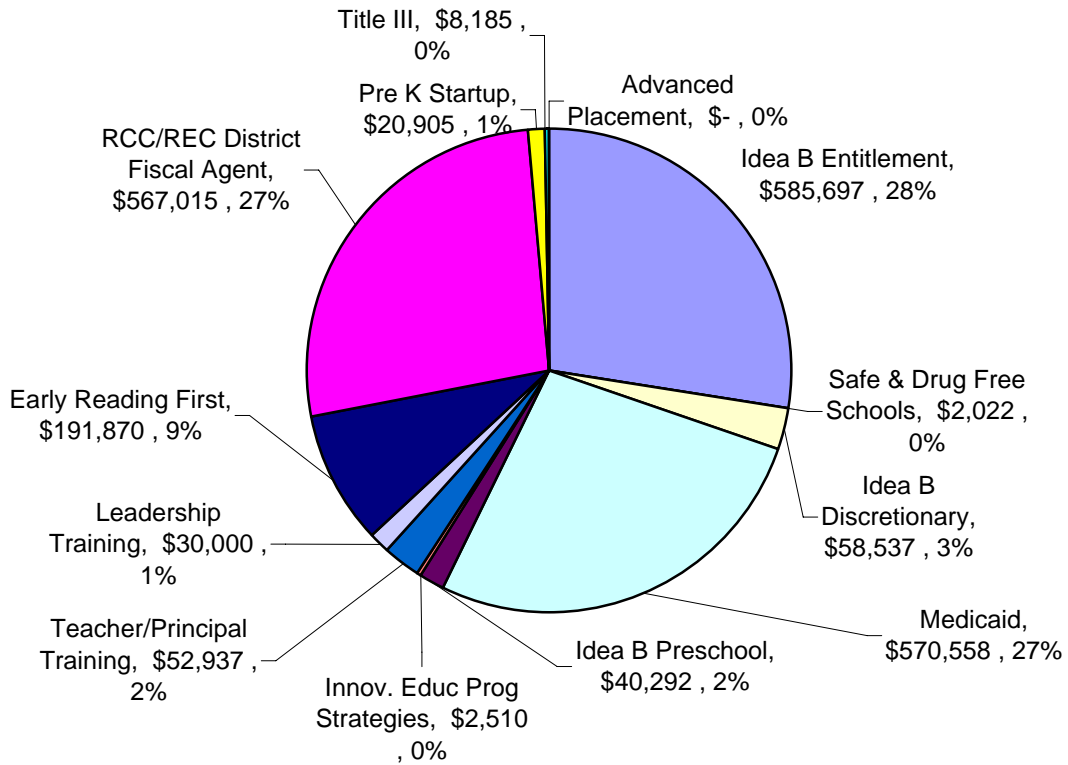
Pre-K Startup - The purpose is to provide funding for the pre-kindergarten services throughout the state.

**State of New Mexico  
Regional Education Cooperative #7  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008  
Unaudited**

**GOVERNMENTAL FUND FINANCIAL STATEMENTS (CONTINUED)**

**Revenues**

REVENUES BY FUND 2007/08



**State of New Mexico  
Regional Education Cooperative #7  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008  
Unaudited**

**CAPITAL ASSETS**

GASB 34 requires public entities to depreciate capital assets. This statement includes depreciation expense in the amount of \$8,044 for the year ended June 30, 2008. The Cooperative utilizes a "straight line" depreciation method in all cases and standardized lifetime tables in calculating this depreciation.

The following table recounts the balances for the Cooperative's investment in all capital assets.

	<u>Balance</u> <u>June 30, 2008</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets being depreciated:		
Buildings & building improvements	\$ 85,028	\$ 85,028
Furniture, equipment, & fixtures	69,914	79,330
Total capital assets being depreciated	154,942	164,358
Less accumulated depreciation for:		
Buildings & building improvements	54,166	50,684
Furniture, equipment, & fixtures	47,483	49,483
Total accumulated depreciation	101,649	100,167
Total capital assets being depreciated, net	53,293	64,191
Governmental activity capital assets, net	\$ 53,293	\$ 64,191

**FUTURE TRENDS**

The Early Reading First grant was completed and there will be no more funds from that grant.

The Reading First Regional consultant is no longer in existence.

The Cooperative may receive continued funding for the Advanced Placement, Leadership and director's Academy.

Title V no longer exists. Funds budgeted for carryover must be expended by September 30, 2008.

Title IV (Drug Free Program) funds continue to decrease.

Medicaid and Idea-B funds are expected to be about the same as funds received in the fiscal year ended June 30, 2008.

Idea-B funds are expected to remain about the same as funds re

The Cooperative received \$200,000 from the New Mexico Legislature during the 2007-2008 school year as cash flow assistance to aid in cash management of Federal and State programs because the Cooperative no longer receives advance funding on Federal and State programs. House Bill 2 in the Laws of 2008 states that "cash advances distributed to regional education cooperatives shall not be returned to the public education department but shall be retained by the regional education cooperative if the regional education cooperative justifies a need for not returning the cash advance."

**BASIC FINANCIAL SECTION**

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**State of New Mexico  
Regional Education Cooperative #7  
Statement of Net Assets  
June 30, 2008**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 588,493
Due from other governments	113,305
	701,798
Capital assets	
Buildings	85,028
Equipment and furniture	69,914
Less accumulated depreciation	(101,649)
	53,293
Total capital assets	755,091
<b>LIABILITIES</b>	
Accounts payable	36,744
Accrued payroll	11,151
Due within one year	
Compensated absences	6,362
Due in more than one year	
Compensated absences	9,401
	63,658
Total liabilities	63,658
<b>NET ASSETS</b>	
Invested in capital assets	53,293
Restricted for federal awards	309,086
Unrestricted	329,054
	691,433
Total net assets	\$ 691,433

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

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**State of New Mexico  
Regional Education Cooperative #7  
Statement of Activities  
For the Year Ended June 30, 2008**

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Primary government</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Governmental Activities</u>
Governmental activities				
Instruction	\$ 344,746	353,297	\$ (12,897)	\$ (4,346)
Support services - students	703,478	188,000	777,487	262,009
Support services - general administration	319,419	1,145	480,048	161,774
School administration	171,865	28,117	216,812	73,064
Central services	62,549	-	94,342	31,793
Operations and maintenance plant	28,900	-	43,589	14,689
Food services	455	-	686	231
	<u>\$ 1,631,412</u>	<u>\$ 570,559</u>	<u>\$ 1,600,068</u>	<u>539,215</u>
Total governmental activities	<u>\$ 1,631,412</u>	<u>\$ 570,559</u>	<u>\$ 1,600,068</u>	<u>539,215</u>
				539,215
				155,073
				(2,854)
				152,219
				\$ 691,434

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

**State of New Mexico  
Regional Education Cooperative #7  
Balance Sheet  
Governmental Funds  
June 30, 2008**

	<b>RCC/REC District Fiscal Agent</b>	<b>Idea B Entitlement</b>	<b>Early Reading First</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 236,092	\$ -	\$ -
Due from other funds	62,489	-	-
Due from other governments	19,961	32,071	-
	<u>318,542</u>	<u>32,071</u>	<u>-</u>
Total assets	<u>\$ 318,542</u>	<u>\$ 32,071</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 4,865	\$ 24,038	\$ -
Accrued payroll	11,151	-	-
Due to other funds	-	8,033	-
Due to other governments	-	-	-
Deferred revenue-federal, state & local grants	-	24,038	-
	<u>16,016</u>	<u>56,109</u>	<u>-</u>
Total liabilities	<u>16,016</u>	<u>56,109</u>	<u>-</u>
Fund balances:			
Unreserved - Special revenue funds	<u>302,526</u>	<u>(24,038)</u>	<u>-</u>
Total fund balances	<u>302,526</u>	<u>(24,038)</u>	<u>-</u>
	<u>\$ 318,542</u>	<u>\$ 32,071</u>	<u>\$ -</u>
Total liabilities and fund balances	<u>\$ 318,542</u>	<u>\$ 32,071</u>	<u>\$ -</u>

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

<b>Medicaid</b>	<b>Total Nonmajor Special Revenue Funds</b>	<b>Total Governmental Funds</b>
\$ 352,401	\$ -	\$ 588,493
-	-	62,489
122	61,151	113,305
<u>\$ 352,523</u>	<u>\$ 61,151</u>	<u>\$ 764,287</u>

\$ 1,145	\$ 6,695	\$ 36,743
-	-	11,151
-	54,456	62,489
-	-	-
-	24,967	49,005
<u>-</u>	<u>86,118</u>	<u>159,388</u>

351,378	(24,967)	604,899
<u>351,378</u>	<u>(24,967)</u>	<u>604,899</u>
<u>\$ 351,378</u>	<u>\$ 61,151</u>	<u>\$ 764,287</u>

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**State of New Mexico**  
**Regional Education Cooperative #7**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2008**

Total fund balance, governmental funds	\$	604,899
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		53,293
Grant revenue that is not received during the period of availability after the end of the fiscal year is deferred in the fund financial statements because it is not "available".		49,005
Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		(15,763)
Total net assets of governmental activities	\$	691,434

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	<b>RCC/REC</b>		
	<b>District Fiscal</b>	<b>Idea B</b>	<b>Early Reading</b>
	<b>Agent</b>	<b>Entitlement</b>	<b>First</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Federal operating grant	\$ -	\$ 585,697	\$ 191,870
State operating grant	-	-	-
Charges for services	567,015	-	-
Reimbursements	-	-	-
Total revenues	<u>567,015</u>	<u>585,697</u>	<u>191,870</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	4,031	145,721	88,074
Support services - students	160,721	228,367	18,592
Support services - general administration	192,937	80,138	7,380
School administration	83,076	4,805	77,824
Central services	56,567	-	-
Operation/maintenance plant	23,197	5,704	-
Food services	-	-	-
Athletics	-	-	-
Non-instructional support services	-	-	-
Community services	-	-	-
Transportation services	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>520,529</u>	<u>464,735</u>	<u>191,870</u>
Excess (deficiency) of revenues over expenditures	<u>46,486</u>	<u>120,962</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	46,486	120,962	-
Fund balances - beginning	256,040	(145,000)	-
Fund balances - ending	<u>\$ 302,526</u>	<u>\$ (24,038)</u>	<u>\$ -</u>

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

<b>Medicaid</b>	<b>Total Nonmajor Special Revenue Funds</b>	<b>Total Governmental Funds</b>
\$ 570,558	\$ 164,483	\$ 1,512,608
-	50,905	50,905
-	-	567,015
-	-	-
<u>570,558</u>	<u>215,388</u>	<u>2,130,528</u>
1,918	105,000	344,744
188,000	101,435	697,115
29,262	14,321	324,038
-	6,160	171,865
-	5,984	62,551
-	-	28,901
-	455	455
-	-	-
-	-	-
-	-	-
-	-	-
<u>219,180</u>	<u>233,355</u>	<u>1,629,669</u>
<u>351,378</u>	<u>(17,967)</u>	<u>500,859</u>
-	-	-
-	-	-
-	-	-
351,378	(17,967)	500,859
-	(7,000)	104,040
<u>\$ 351,378</u>	<u>\$ (24,967)</u>	<u>\$ 604,899</u>

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**State of New Mexico**  
**Regional Education Cooperative #7**  
**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, 2008**

Net change in fund balances - total governmental funds	\$	500,859
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.</p>		
This is the amount by which depreciation of \$8,044 exceeded capital outlays of \$0 in the current period.		(8,044)
Increase in fund financial statements-Deferred Revenue		49,005
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:</p>		
Net increase in compensated absences		<u>(2,605)</u>
Change in net assets of governmental activities	\$	<u><u>539,215</u></u>

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**RCC/REC District Fiscal Agent**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ 330,942	\$ 563,468	\$ 547,054	\$ (16,414)
State sources	-	-	-	-
Charges for services	-	-	-	-
Reimbursements	-	-	-	-
Total revenues	<u>330,942</u>	<u>563,468</u>	<u>547,054</u>	<u>(16,414)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	-	7,933	4,031	3,902
Support services - students	7,100	170,312	160,469	9,843
Support services - general administration	149,590	199,051	192,769	6,282
School administration	90,385	99,257	89,695	9,562
Central services	59,584	60,520	56,530	3,990
Operation/maintenance plant	24,283	26,395	22,285	4,110
Food services	-	-	-	-
Total expenditures	<u>330,942</u>	<u>563,468</u>	<u>525,779</u>	<u>37,689</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>21,275</u>	<u>21,275</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	-	-
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>APPROPRIATED CASH BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	21,275	<u>\$ 21,275</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Decrease in due from other governments			19,961	
Increase in compensated absences			(6,362)	
Decrease in accounts payable			<u>1,754</u>	
Net change in fund balance			<u>\$ 36,628</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Idea B Entitlement**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Federal operating grant	309,176	632,979	607,321	(25,658)
Total revenues	<u>309,176</u>	<u>632,979</u>	<u>607,321</u>	<u>(25,658)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	113,437	241,182	140,891	100,291
Support services - students	107,318	292,876	223,580	69,296
Support - general administration	80,421	82,921	80,138	2,783
School administration	3,000	8,000	4,805	3,195
Operations/maintenance plant	5,000	8,000	5,704	2,296
Food services	-	-	-	-
Total expenditures	<u>309,176</u>	<u>632,979</u>	<u>455,118</u>	<u>177,861</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>152,203</u>	<u>152,203</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	-	-
Designated cash balances	3,000	-	-	-
Total other financing sources and uses	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>APPROPRIATED CASH BALANCE</b>	<u>\$ 3,000</u>	<u>\$ -</u>	152,203	<u>\$ 152,203</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Decrease in due from other governments			(21,624)	
Increase in accounts payable			(24,039)	
Decrease in deferred revenues			-	
Net change in fund balance			<u>\$ 106,540</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Early Reading First**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Federal operating grant	-	192,638	191,681	(957)
Total revenues	<u>-</u>	<u>192,638</u>	<u>191,681</u>	<u>(957)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	-	88,076	88,074	2
Support services - students	-	18,592	18,592	-
Support - general administration	-	8,145	7,380	765
School administration	-	77,825	77,824	1
Operations/maintenance plant	-	-	-	-
Food services	-	-	-	-
Total expenditures	<u>-</u>	<u>192,638</u>	<u>191,870</u>	<u>768</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(189)</u>	<u>(189)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of bonds	-	-	-	-
Transfers between funds	-	-	-	-
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>APPROPRIATED CASH BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	(189)	<u>\$ (189)</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Decrease in accounts payable			-	
Decrease in deferred revenue			189	
Net change in fund balance			<u>\$ -</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Medicaid**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Federal operating grant	89,000	89,000	293,495	204,495
Total revenues	<u>89,000</u>	<u>89,000</u>	<u>293,495</u>	<u>204,495</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	17,000	17,000	1,918	15,082
Support services - students	-	-	-	-
Support - general administration	72,000	72,000	30,477	41,523
School administration	-	-	-	-
Operations/maintenance plant	-	-	-	-
Food services	-	-	-	-
Total expenditures	<u>89,000</u>	<u>89,000</u>	<u>32,395</u>	<u>56,605</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>261,100</u>	<u>261,100</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	(188,000)	(188,000)
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(188,000)</u>	<u>(188,000)</u>
<b>APPROPRIATED CASH BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	73,100	<u>\$ 73,100</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Increase in accounts payable			(1,145)	
Decrease in due from other governments			(26,999)	
Decrease in due to other governments			<u>(44,956)</u>	
Net change in fund balance			<u>\$ -</u>	

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

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**State of New Mexico**  
**Regional Education Cooperative #7**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Regional Education Cooperative #7 (Cooperative) is a joint venture created (Joint Powers Agreement dated July 1, 2002) by and between the Tatum, Hobbs, Eunice and Jal Municipal School Districts. The Cooperative's purpose is to provide a centralized administrative office for the member school districts which are eligible for federal and state grant funds. The centralized office prepares yearly budgets, writes grant proposals, and processes the expenditure requisitions of each school district. The member school districts determine eligibility, measure performance objectives, make programmatic decisions, adhere to federal compliance requirements, and provide the programs. The Superintendent from each of the member school districts serves on the board of directors.

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 Regional Education Cooperative #7's management who is responsible for their integrity and objectivity. The Cooperative's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Cooperative has elected not to follow subsequent private-sector guidance. The more significant accounting policies established in GAAP and used by the Cooperative are discussed below.

*A. Financial Reporting Entity*

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. A legally separate, tax-exempt organization should be reported as a component unit of the reporting entity if *all* of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents, (2) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) the economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. The Cooperative has assessed legally separate, tax-exempt organizations and determined, based on the above criteria, that the Cooperative does not have any component units.

*B. Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and change in net assets) report information on all of the non-fiduciary activities of the Cooperative. 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 Cooperative has no *business-type activities* that rely on fees and charges for support.

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*B. Government-Wide and Fund Financial Statements (continued)*

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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, like the administrative costs the program funds pay the Cooperative RCC/REC District Fiscal Agent fund; and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function, like the federal program grants. Other revenue items not properly included among program revenues are reported instead as *general revenues*.

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

*C. Measurement focus, basis of accounting, and financial statement presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

All the Cooperative's grants are on a reimbursement basis. The Cooperative must expend funds for the programs and then request reimbursement from the grantor. Therefore, grant revenues are recognized in the government-wide financial statements when the program expenditures are made. The same is true for grant revenues in the fund financial statements, except that grant revenues not received within the period of availability are reclassified as deferred revenue as required by GASB 33.

The Cooperative reports the following major governmental funds:

RCC/REC District Fiscal Agent Fund - to provide federal funds for administrative activities designed to enhance the effective and coordinated use of federal funds, and to eliminate duplication in conducting administrative functions. Funds are acquired from federal sources through the New Mexico Public Education Department. Authority for creation of these funds is P.L. 105-17.

IDEA B Entitlement - The purpose of this program is to help maximize the resources available to meet the objectives of educating handicapped children, including training of teachers in the secondary schools and providing free, appropriate public education to all handicapped children from ages 3 to 19. Funds are acquired from federal sources through the New Mexico Public Education Department. Authority for creation of these funds is P.L. 105-17.



**State of New Mexico**  
**Regional Education Cooperative #7**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*C. Measurement focus, basis of accounting, and financial statement presentation (continued)*

Early Reading First – The purpose of this program is to enhance the early language, literacy, and pre-reading development of preschool age children, particularly those from low-income families, through instructional strategies and professional development based on scientifically based reading research. Early Reading First programs will have a high-quality oral language, print-rich environment, and will monitor children’s progress toward language, literacy, and cognitive goals using screening reading assessments and other appropriate measures. Authority for creation of this fund is ESEA Act of 1965 as amended, Title I, Part B, Subpart 2; Public Law 107-110.

Medicaid - Funds for this program are provided through reimbursements from Medicaid for expenses incurred for health care for eligible students. Authority for creation of this fund is the Medicaid Title XIX of the Social Security Act, as amended, (42 USC 1396, et seq.)

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

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.

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

**Deposits:** The Cooperative’s cash is considered to be cash on hand and demand deposits, held by the Cooperative’s fiscal agent, Hobbs Municipal School District #33. Therefore, pledged collateral presented in Schedule I is the portion of the District’s pledged collateral that has been allocated to the Cooperative’s cash deposits.

**Receivables and Payables:** Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund balances” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “interfund balances.”

All receivables are reported at their gross value. All receivables are deemed collectible.

Certain Special Revenue funds are administered on a reimbursement method of funding. The funds incurred the cost and submitted the necessary request for reimbursement.

The Cooperative had no short-term or long-term borrowings during the fiscal year ended June 30, 2008.

**Capital Assets:** Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of

**State of New Mexico  
Regional Education Cooperative #7  
Notes to the Financial Statements  
June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*D. Assets, Liabilities and Net Assets or Equity (continued)*

GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are to be included as part of governmental capital assets reported in the government wide statements. However, the Cooperative does not construct or maintain infrastructure assets; accordingly, the Cooperative is not subject to this provision of GASB Statement No. 34. Donated capital assets are recorded at estimated fair market value at the date of donation. Information technology equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C(5). The Cooperative's capitalization threshold is \$5,000 pursuant to Section 12-6-10 NMSA 1978.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the Cooperative are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & Building Improvements	25
Vehicles	7
Furniture, Equipment and Fixtures	5-20
Telecommunications & Computer Equipment	5-10
Office Equipment	5-20

**Deferred Revenues:** In accordance with the terms of the various grant agreements within the Special Revenue Funds, revenues received in excess of expenditures carryover to subsequent years, unless such excess revenues are requested to be returned to the grantor.

**Compensated Absences:** The Cooperative permits administrative employees to accumulate a limited amount of earned but unused vacation, which will be paid if not used, upon termination from the Cooperative. In the governmental funds, the cost of compensated absences is recognized when payments are made to employees. Vacation pay that is expected to be liquidated within the next twelve months is reported in the governmental fund which will pay it. No liability is reported in the financial statements for unpaid accumulated sick leave as no payment is required upon employee termination. During the fiscal year ended June 30, 2008, compensated absences increased \$2,606 to \$22,125 from the prior year balance.

**Fund Equity:** In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

**Equity Classifications**

Government-wide Statements

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

**State of New Mexico  
Regional Education Cooperative #7  
Notes to the Financial Statements  
June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*D. Assets, Liabilities and Net Assets or Equity (continued)*

- a. Net assets invested in 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, construction, or improvement of those assets.
- b. Restricted Net Assets:  
Consist 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. Descriptions for the related restrictions for net assets restricted for "special revenue" are described on pages 58-59. \$309,086 of net assets have been restricted in the Statement of Net Assets, all due to enabling legislation.
- 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."

**Reclassifications:** Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year's presentation.

**Estimates:** In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period. Actual results could differ from those estimates.

*E. Revenues*

**Grants:** The Cooperative receives various federal grants which flow through the State of New Mexico Public Education Department. These funds shall only be used for purposes as defined in the grant agreements. The Cooperative received \$1,176,591 in revenues from federal operating grants during the year ended June 30, 2008. The Cooperative received \$64,559 from a state operating grant during the year ended June 30, 2007.

**Medicaid:** The Cooperative receives revenues for providing certain health care services to students who qualify for Medicaid. The Cooperative received \$570,559 for services rendered for the year ended June 30, 2008.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

*Budgets and Budgetary Accounting*

Budgets for the Special Revenue Funds are prepared by management and approved by the local school board and the School Budget and Planning Unit of the Department of Education.

These budgets are prepared on the Non-GAAP cash basis, budget basis expenditures exclude encumbrances. The budget secures appropriation of funds for only one year. Carryover funds must be reappropriated in the budget of the subsequent fiscal year.

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

*Budgets and Budgetary Accounting (continued)*

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 Board of Directors, approval. If a transfer between "series" or a budget increase is required, approval must also be obtained from 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 Cooperative submits to the school board a proposed operating budget of the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, and require approval by the Public Education Department.
2. In May or June, the budget is approved by the Cooperative's board.
3. The board meeting, while not intended for the general public, is open for the general public unless a closed meeting has been called for.
4. 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 Cooperative's board and the Public Education Department.
5. Formal budgetary integration is employed as a management control device during the year for the Special Revenue Funds.
6. Budgets for the Special Revenue Funds are adopted on a basis not consistent with generally accepted accounting principles (GAAP).

The Cooperative's Board may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance. New Mexico Administrative Code 6.20.2.9 prohibits the Cooperative from exceeding budgetary control at the function level.

The Board of Directors may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance. The appropriated budget for the year ended 2008 was properly amended by the Board through the year. These amendments resulted in the following changes:

**State of New Mexico  
Regional Education Cooperative #7  
Notes to the Financial Statements  
June 30, 2008**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

*Budgets and Budgetary Accounting (continued)*

	<u>Original Budget</u>	<u>Final Budget</u>
Major funds:		
RCC/REC District Fiscal Agent Fund	\$ (330,942)	\$ (563,468)
Idea B Entitlement Special Revenue Fund	(309,176)	(632,979)
Early Reading First Special Revenue Fund	-	192,638
Medicaid Special Revenue Fund	(89,000)	(89,000)
Nonmajor Special Revenue Funds	(150,338)	(409,045)

Reconciliations between the budgetary (cash) basis amounts and the financial statements on the GAAP basis are located on the individual Schedules and Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis).

**NOTE 3. DEPOSITS AND INVESTMENTS**

The Cooperative's deposits are held in the name of, Hobbs Municipal School District #33, because the District previously functioned as the Cooperative's fiscal agent.

The Cooperative utilizes pooled accounts for some of their programs and funds. The interest earnings on accounts are allocated on a monthly basis based on average balances.

State statutes authorize the investment of Cooperative funds in a wide variety of instruments including certificate of deposits and other similar obligations, state investment pool and money market accounts. The Cooperative is also allowed to invest in United States Government obligations. However; they have never taken this opportunity. The Cooperative's investment policy does not further limit its investment choices.

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 and collateralized as required by statute.

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.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit's demand deposits at that same institution.

**State of New Mexico  
Regional Education Cooperative #7  
Notes to the Financial Statements  
June 30, 2008**

**NOTE 3. DEPOSITS AND INVESTMENTS (continued)**

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have an internal deposit policy for custodial credit risk. 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 Cooperative for at least one half of the uninsured amount on deposit with the institution.

As of June 30, 2008, \$592,845 of the Cooperative's bank balance of \$592,845 was exposed to custodial credit risk because it was collateralized with securities held by the pledging institution or by its trust department or agent in other than the Cooperative's or District's name.

	Wells Fargo Bank
REC VII bank balance	\$ 592,845
FDIC Coverage <sup>(a)</sup>	-
Total uninsured public funds	592,845
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the Cooperative's or Fiscal Agent's name	592,845
Uninsured and uncollateralized	\$ -
Collateral requirement: (50% of uninsured public funds)	\$ 296,423
Pledged security	685,833
Over (under) collateralization	\$ 389,411

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

<sup>(a)</sup>The Cooperative does not report any FDIC coverage since the deposits are in the name of the Fiscal Agent, and FDIC coverage is aggregated with the Fiscal Agent's other accounts.

Reconciliation to the Statement of Net Assets

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

Deposits	\$ 592,845
Reconciling Items	(4,352)
Carrying Amount	\$ 588,493

**State of New Mexico  
Regional Education Cooperative #7  
Notes to the Financial Statements  
June 30, 2008**

**NOTE 4. RECEIVABLES AND PAYABLES**

Due to/due from other governments at June 30, 2008 consist of the following:

Due from other governments	\$ 113,305
Total	<u>113,305</u>

Accounts payables as of June 30, 2008, are as follows:

Accounts payable	\$ 36,744
Accrued payroll	<u>11,515</u>
Total accounts payable and accrued expenses	<u>48,259</u>

**NOTE 5. CAPITAL ASSETS**

A summary of capital assets and changes occurring during the year ended June 30, 2008 are as follows:

Depreciation expense for the year ended June 30, 2008 was charged to the following functions and funds:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets being depreciated:				
Buildings & building improvements	85,028	-	-	85,028
Furniture, equipment, & fixtures	<u>79,330</u>	<u>-</u>	<u>9,416</u>	<u>69,914</u>
Total capital assets being depreciated	<u>164,358</u>	<u>-</u>	<u>9,416</u>	<u>154,942</u>
Less accumulated depreciation:				
Buildings & building improvements	50,684	3,482		54,166
Furniture, equipment, & fixtures	<u>49,483</u>	<u>4,562</u>	<u>6,562</u>	<u>47,483</u>
Total accumulated depreciation	<u>100,167</u>	<u>8,044</u>	<u>6,562</u>	<u>101,649</u>
Total capital assets, net of depreciation	<u>\$ 64,191</u>	<u>\$ (8,044)</u>	<u>\$ 2,854</u>	<u>\$ 53,293</u>

**State of New Mexico  
Regional Education Cooperative #7  
Notes to the Financial Statements  
June 30, 2008**

**NOTE 5. CAPITAL ASSETS (continued)**

Governmental activities:

Administration	\$ 8,044
	<u>\$ 8,044</u>

The cooperative also purchases equipment for its school districts. Below are the schedules of capital assets that are carried on its member's financial statements.

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Lovington				
Capital assets being depreciated:				
Furniture, equipment, & fixtures	\$ 142,345	\$ -	\$ 27,337	\$ 115,008
Total capital assets being depreciated	142,345	-	27,337	115,008
Less accumulated depreciation:				
Furniture, equipment, & fixtures	107,834	8,922	27,337	89,419
Total accumulated depreciation	107,834	8,922	27,337	89,419
Total capital assets, net of depreciation	\$ 34,511	\$ (8,922)	\$ -	\$ 25,589
Eunice				
Capital assets being depreciated:				
Furniture, equipment, & fixtures	\$ 189,700	\$ -	\$ 5,913	\$ 183,787
Total capital assets being depreciated	189,700	-	5,913	183,787
Less accumulated depreciation:				
Furniture, equipment, & fixtures	124,951	21,916	5,913	140,954
Total accumulated depreciation	124,951	21,916	5,913	140,954
Total capital assets, net of depreciation	\$ 64,749	\$ (21,916)	\$ -	\$ 42,833



**State of New Mexico  
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Notes to the Financial Statements  
June 30, 2008**

**NOTE 5. CAPITAL ASSETS (continued)**

Jal	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Capital assets being depreciated:				
Furniture, equipment, & fixtures	\$ 138,962	\$ -	\$ 22,241	\$ 116,721
Total capital assets being depreciated	<u>138,962</u>	<u>-</u>	<u>22,241</u>	<u>116,721</u>
Less accumulated depreciation:				
Furniture, equipment, & fixtures	<u>92,817</u>	<u>3,888</u>	<u>21,436</u>	<u>75,269</u>
Total accumulated depreciation	<u>92,817</u>	<u>3,888</u>	<u>21,436</u>	<u>75,269</u>
Total capital assets, net of depreciation	<u>\$ 46,145</u>	<u>\$ (3,888)</u>	<u>\$ 805</u>	<u>\$ 41,452</u>
Hobbs	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Capital assets being depreciated:				
Furniture, equipment, & fixtures	\$ 967,010	\$ -	\$ 71,963	\$ 895,047
Total capital assets being depreciated	<u>967,010</u>	<u>-</u>	<u>71,963</u>	<u>895,047</u>
Less accumulated depreciation:				
Furniture, equipment, & fixtures	<u>625,134</u>	<u>76,082</u>	<u>50,571</u>	<u>650,645</u>
Total accumulated depreciation	<u>625,134</u>	<u>76,082</u>	<u>50,571</u>	<u>650,645</u>
Total capital assets, net of depreciation	<u>\$ 341,876</u>	<u>\$ (76,082)</u>	<u>\$ 21,392</u>	<u>\$ 244,402</u>

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 6. RISK MANAGEMENT**

The Cooperative is a member of the New Mexico Public School Insurance Authority (NMPSIA). The NMPSIA 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. Also included under the risk management program are Boiler, Machinery and Student Accident Insurance.

The NMPSIA provides coverage for up to a maximum of \$500,000 for each property damage claim with a \$1,000 deductible to each building. General liability coverage is afforded to all employees, volunteers and board members and the 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 Securities, which include a \$750 deductible.

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, 2008, there have been no claims that have exceeded insurance coverage.

**NOTE 7. ERA PENSION PLAN**

*Plan Description*

Substantially all of the Cooperative's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Association (ERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits and cost-of-living adjustments to plan members and beneficiaries. ERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERA, P.O. Box 26129, Santa Fe, New Mexico 87502.

*Funding Policy*

Plan members are required to contribute 7.825% of their gross salary. The Cooperative is required to contribute 10.90% of the gross covered salary. The contribution requirements of plan members and the Cooperative are established in Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Cooperative's contributions to ERA for the years ending June 30, 2008, 2007 and 2006 were \$20,292, \$17,930, and \$15,170 respectively, equal to the amount of the required contributions for each year. The employees' contribution to ERA for the years ending June 30, 2008, 2007 and 2006 were \$14,843, \$12,175, and \$12,386 respectively.

**State of New Mexico**  
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**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 8. POST-EMPLOYMENT BENEFITS**

The Cooperative 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 the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by

the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years. The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Cooperative's contributions to the Retiree Health Care Authority for the years ending June 30, 2008, 2007 and 2006 were \$2,309, \$2,298, and \$2,098 respectively, equal to the amount of the required contributions for each year.

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 9. JOINT POWERS AGREEMENTS AND OTHER AGREEMENTS**

*Eunice Public Schools, Hobbs Municipal Schools, Jal Public Schools, Tatum Municipal Schools (Member Districts) and Regional Educational Cooperative VII*

On December 20, 2007 the Cooperative entered into an Agreement with the Member Districts whereby the Member District may provide for the efficient delivery of education-related services provided from funding under Part B of the Individuals with Disabilities Education Act, 20 U.S.C. 1401 *et seq.* ("IDEA") and funded by the New Mexico Public Education Department ("NMPED") The Cooperative will serve as a fiscal agent, accounting and reporting services on behalf of the member districts named herein receiving funding under a grant or other award provided from funding under Part B of the IDEA and/or any other funding source. A Member District must notify REC VII of any intention to withdraw its agreement to have REC VII serve as its fiscal agent on or before February 1<sup>st</sup> preceding the end of the last fiscal year it intends to have REC VII serve as its fiscal agent.

*PED and REC #7 (coordinating with REC #7 and REC #2)*

On October 29, 2007 the Cooperative partnered with REC #6 and entered into a Joint Powers Agreement with Public Education Department (PED). The purpose of this agreement is to set forth the requirements for Regional Education Cooperative #6 to provide training and professional development to special education directors. The total amount of monies payable upon a reimbursement basis to the Contractor under this Agreement shall not exceed \$81,375. The Agreement is for four years from the effective Date. Upon termination all obligations incurred under Agreement shall terminate. REC VII must notify a Member District and NMPED of any intention to withdraw as Fiscal Agent for the Member District on or before February 1<sup>st</sup> preceding the end of the last fiscal year it intends to serve as its Fiscal Agent.

*New Mexico Human Services Department*

On March 10, 2003 the Cooperative entered into a Joint Powers Agreement with the New Mexico Human Services Department (HSD). The purpose of this agreement is to set forth the requirements for the Cooperative to participate in the Medicaid program as a provider of school based health services in conformance with the approved New Mexico Medicaid Plan and the HSD Medicaid regulations in order to improve health and developmental outcomes to children. The Agreement shall remain in effect until amended or terminated by either party upon written notice delivered to the other party no less than ninety (90) days prior to the intended date of termination. If the Centers for Medicare and Medicaid Services (CMS) changes the funding methodology for the New Mexico Medicaid program, or state or federal legislation is enacted, or Medicaid policy is promulgated changes that materially modifies either of the parties obligations under this Agreement, the Agreement will be terminated effective on the date of receipt by HSD of written notice of such changes.

**State of New Mexico  
Regional Education Cooperative #7  
Notes to the Financial Statements  
June 30, 2008**

**NOTE 10. INTERFUND RECEIVABLES AND PAYABLES**

The interfund receivable in the RCC/REC District Fiscal Agent Fund represents short term loans to the program funds to cover their negative cash balances while the Cooperative waits for grant reimbursements to arrive for the grant expenditures made by those program funds. Interfund receivables and payables as of June 30, 2008 were as follows:

Interfund receivables:	
RCC/REC District Fiscal Agent Fund	<u>\$ 62,489</u>
Interfund payables:	
Major Governmental Funds:	
IDEA B Entitlement	<u>\$ 8,033</u>
Nonmajor Governmental Funds:	
IDEA B Discretionary	10,233
IDEA B Preschool	4,895
Title III	4,098
Teacher/Principal Training and Recruiting	13,085
Safe & Drug Free Schools & Communities	986
Pre K Start Up	9,023
Advanced Placement	<u>12,136</u>
	<u>54,456</u>
Total payable to RCC/REC District Fiscal Agent Fund	<u>\$ 62,489</u>

**NOTE 11. LONG-TERM LIABILITIES**

The changes in long-term liability activity for the year ended June 30, 2008, was as follows:

Description	Balance			Balance	Due Within
	June 30, 2007	Additions	Deletions		
Compensated Absences	\$ 13,157	\$ 8,968	\$ 6,362	\$ 15,763	\$ 6,362
	<u>\$ 13,157</u>	<u>\$ 8,968</u>	<u>\$ 6,362</u>	<u>\$ 15,763</u>	<u>\$ 6,362</u>

The Cooperative's general operating fund has typically been used to liquidate compensated absences liabilities.

**NOTE 12. PRIOR PERIOD ADJUSTMENT**

The Cooperative has restated \$2,854 of prior year net assets. Adjustments were made for governmental accumulated depreciation that was understated in prior years. As a result, the beginning fund balance was decreased in the amount of \$2,854. No funds were affected by this adjustment.

**State of New Mexico  
Regional Education Cooperative #7  
Notes to the Financial Statements  
June 30, 2008**

**NOTE 13. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosures of certain information concerning individual funds. The following funds had a deficit fund balance because grant revenue was not received within the 60 day period of availability after the end of the fiscal year, so it was reclassified as “deferred revenue”.

IDEA B Entitlement – REC	\$ 24,038
Teacher/Principal Training and Recruiting	6,695
Safe Drug Free Schools	986
Advanced Placement	12,136
Pre K Start up	5,150

**NOTE 14. SPECIAL APPROPRIATIONS**

Section 2.2.10.P (2) of the Audit Rule 2008 requires the following disclosure regarding the \$200,000 appropriation the REC # 7 in House Bill 2 from the 2007 Legislation that REC #7 received during fiscal year 2008.

Original Appropriation	Appropriation Period	Expenditures to Date	Outstanding Encumbrances	Unencumbered Balances
	Fiscal year 2008			
\$ 200,000	forward (1)	\$ -	\$ -	\$ 200,000

(1) Per House Bill 2, Laws of 2008, “cash advances distributed to regional education cooperatives shall not be returned to the public education department but shall be retained by the regional education cooperative if the regional education cooperative justifies a need for not returning the cash advance.” The Cooperative submitted the required justification, and expects to be able to keep and expend the \$200,000 appropriation.

**SUPPLEMENTARY INFORMATION**

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**State of New Mexico**  
**Regional Education Cooperative #7**  
**Non-Major Governmental Funds**  
**June 30, 2008**

The Cooperative reports the following non-major governmental funds:

IDEA-B Special Revenue Fund – Discretionary, and Preschool - The purpose of this program is to help maximize the resources in meeting the objectives of educating handicapped children, including training of teachers in the secondary schools and providing free, appropriate public education to all handicapped children from ages 3 to 19. Funds are acquired from federal sources through the New Mexico Public Education Department. Authority for creation of these funds is P.L. 105-17.

Innovative Education Program Strategies Special Revenue Fund – The purpose of this program is to assist state and local educational agencies in the reform of elementary and secondary education by: acquiring and use of instructional materials; providing technology and training in technology related to the implementation of school-based reform; promising educational reform projects; improving educational services for disadvantaged students; reforming activities associated with Goals 2000; providing for the education needs of gifted and talented children; combating illiteracy among children and adults; and implementing school improvement and parental involvement activities under ESEA, Title I.

Authority for the creation of this fund is the Elementary and Secondary Education Act of 1965, Title VI, as amended, 20 U.S.C. 7301-7373.

Title III Special Revenue Fund – The purpose of this program is to improve the education of children and youth with limited English proficiency (LEP) and to meet challenging state academic content and student academic achievement standards. The program also provides enhanced instructional opportunities for immigrant children and youths. Authority for creation of this fund is Title 20, Chapter 70, Subchapter III, Part A, Subpart 1, Section 6821 USC.

Teacher/Principal Training and Recruiting Special Revenue Fund – The purpose of this program is to provide federal funds to increase student academic achievement through strategies such as: improving teacher and principal quality; increasing the number of highly qualified teachers in the classroom; highly qualified principals and assistant principals in schools; and hold local educational agencies and schools accountable for improvements in student academic achievement. Authority for the creation of this fund is the Elementary and Secondary Education Act of 1965, Title II, Part A, PL 107-110.

Safe and Drug Free Schools and Communities Special Revenue Fund – The purpose of this program is to offer a disciplined environment conducive to learning, by preventing violence in and around schools and strengthening programs that prevent the illegal use of alcohol, tobacco, and drugs; to involve parents, and coordinate federal, state, and community efforts and resources. Federal revenues accounted for in this fund are allocated to the Regional Education Cooperative #7 through the New Mexico Public Education Department. Authority for the creation of this fund is the Elementary and Secondary Education Act of 1965, Title IV, Part A, Subpart 1, as amended, 20 U.S.C. 7111-7118.

Advanced Placement Special Revenue Fund – The purpose of this program is to provide funds from a private donor to support an Advanced Placement curriculum, professional development of teachers, and to prepare students for Advanced Placement testing and college. Authority for creation of this fund is the New Mexico Public Education Department School District Policies and Procedures Manual.

Pre K Start Up – The purpose of PreK Start Up funds is to provide funding for the pre-kindergarten services throughout the state. The pre-kindergarten program shall address the total developmental needs of preschool children, including physical, cognitive, social, and emotional needs, and shall include health care, nutrition, safety, and multicultural sensitivity. The authority for creation of this fund is the Pre-Kindergarten Act [32A-23-1 NMSA 1978].

Leadership Training – The purpose of these state flow-through funds is for professional development of administrators and staff. PED was the state agency designated to receive these funds. PED contracted with the Cooperative to provide certain portions of the required programs. The total of the contract was for \$30,000. The Teacher Professional Development Fund is authorized by Section 22-8-45 NMSA 1978.

**State of New Mexico  
Regional Education Cooperative #7  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2008**

	<b>Special Revenue Funds</b>			
	<b>Idea B Discretionary</b>	<b>Idea B Preschool</b>	<b>Innovative Education Program Strategies</b>	<b>Title III</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Property taxes receivable	-	-	-	-
Due from other funds	-	-	-	-
Due from other governments	10,233	4,895	-	4,098
<b>Total assets</b>	<b>\$ 10,233</b>	<b>\$ 4,895</b>	<b>\$ -</b>	<b>\$ 4,098</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-
Due to other funds	10,233	4,895	-	4,098
Due to other governments	-	-	-	-
Deferred revenue	-	-	-	-
<b>Total liabilities</b>	<b>10,233</b>	<b>4,895</b>	<b>-</b>	<b>4,098</b>
Fund balances:				
Unreserved	-	-	-	-
<b>Total fund balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,233</b>	<b>\$ 4,895</b>	<b>\$ -</b>	<b>\$ 4,098</b>

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

**Special Revenue Funds**

<b>Teacher/ Principal Training and Recruiting</b>	<b>Safe &amp; Drug Free Schools &amp; Communities</b>	<b>Advanced Placement</b>	<b>Pre K Start Up</b>	<b>Leadership Training</b>	<b>Total Nonmajor Special Revenue Funds</b>
\$ -	\$ -	\$ -	\$ -	-	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
19,780	986	12,136	9,023	-	61,151
<u>\$ 19,780</u>	<u>\$ 986</u>	<u>\$ 12,136</u>	<u>\$ 9,023</u>	<u>\$ -</u>	<u>\$ 61,151</u>
\$ 6,695	\$ -	\$ -	\$ -	\$ -	\$ 6,695
-	-	-	-	-	-
13,085	986	12,136	9,023	-	54,456
-	-	-	-	-	-
6,695	986	12,136	5,150	-	24,967
<u>26,475</u>	<u>1,972</u>	<u>24,272</u>	<u>14,173</u>	<u>-</u>	<u>86,118</u>
(6,695)	(986)	(12,136)	(5,150)	-	(24,967)
<u>(6,695)</u>	<u>(986)</u>	<u>(12,136)</u>	<u>(5,150)</u>	<u>-</u>	<u>(24,967)</u>
<u>\$ 19,780</u>	<u>\$ 986</u>	<u>\$ 12,136</u>	<u>\$ 9,023</u>	<u>\$ -</u>	<u>\$ 61,151</u>

**State of New Mexico  
Regional Education Cooperative #7  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Nonmajor Governmental Funds  
June 30, 2008**

	<b>Special Revenue Funds</b>			
	<b>Idea B Discretionary</b>	<b>Idea B Preschool</b>	<b>Innovative Education Program Strategies</b>	<b>Title III</b>
<b>REVENUES</b>				
Intergovernmental revenues				
Federal operating grant	\$ 58,537	\$ 40,292	\$ 2,510	\$ 8,185
State operating grant	-	-	-	-
Total revenues	<u>58,537</u>	<u>40,292</u>	<u>2,510</u>	<u>8,185</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	3,612	16,884	2,510	8,185
Support services - students	47,492	15,953	-	-
Support services - general admin	7,433	-	-	-
School administration	-	-	-	-
Central Services	-	-	-	-
Operation/maintenance plant	-	-	-	-
Food services	-	455	-	-
Athletics	-	-	-	-
Non-instructional support services	-	-	-	-
Community services	-	-	-	-
Transportation services	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>58,537</u>	<u>33,292</u>	<u>2,510</u>	<u>8,185</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>7,000</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	7,000	-	-
Fund balances - beginning	-	(7,000)	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**Special Revenue Funds**

<b>Teacher/ Principal Training and Recruiting</b>	<b>Safe &amp; Drug Free Schools &amp; Communities</b>	<b>Advanced Placement</b>	<b>Pre K Start Up</b>	<b>Leadership Training</b>	<b>Total Nonmajor Special Revenue Funds</b>
\$ 52,937	\$ 2,022	\$ -	\$ -	\$ -	\$ 164,483
-	-	-	20,905	30,000	50,905
<u>52,937</u>	<u>2,022</u>	<u>-</u>	<u>20,905</u>	<u>30,000</u>	<u>215,388</u>
33,838	2,883	11,033	26,055	-	105,000
7,865	125	-	-	30,000	101,435
5,785	-	1,103	-	-	14,321
6,160	-	-	-	-	6,160
5,984	-	-	-	-	5,984
-	-	-	-	-	-
-	-	-	-	-	455
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>59,632</u>	<u>3,008</u>	<u>12,136</u>	<u>26,055</u>	<u>30,000</u>	<u>233,355</u>
<u>(6,695)</u>	<u>(986)</u>	<u>(12,136)</u>	<u>(5,150)</u>	<u>-</u>	<u>(17,967)</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>(6,695)</u>	<u>(986)</u>	<u>(12,136)</u>	<u>(5,150)</u>	<u>-</u>	<u>(17,967)</u>
-	-	-	-	-	(7,000)
<u>\$ (6,695)</u>	<u>\$ (986)</u>	<u>\$ (12,136)</u>	<u>\$ (5,150)</u>	<u>\$ -</u>	<u>\$ (24,967)</u>

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**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Idea B Discretionary**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Federal operating grant	34,823	73,888	48,297	(25,591)
Total revenues	<u>34,823</u>	<u>73,888</u>	<u>48,297</u>	<u>(25,591)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	14,200	11,535	3,612	7,923
Support services - students	12,690	54,420	47,491	6,929
Support services - instruction	-	-	-	-
Support services - general administration	7,933	7,933	7,433	500
School Administration	-	-	-	-
Central Services	-	-	-	-
Operations/maintenance plant	-	-	-	-
Food service operations	-	-	-	-
Total expenditures	<u>34,823</u>	<u>73,888</u>	<u>58,536</u>	<u>15,352</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(10,239)</u>	<u>(10,239)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	-	-
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures (Non-GAAP) budgetary basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(10,239)</u>	<u>\$ (10,239)</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Increase in due from other governments			10,233	
Decrease in deferred revenue			6	
Increase in accounts payable			<u>-</u>	
<b>Excess (deficiency) of revenues over expenditures (GAAP basis)</b>			<u>\$ -</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Idea B Preschool**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Federal operating grant	13,953	114,924	35,336	\$ (79,588)
Total revenues	<u>13,953</u>	<u>114,924</u>	<u>35,336</u>	<u>(79,588)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	6,239	56,074	16,885	39,189
Support services - students	5,814	55,400	15,953	39,447
Support services - instruction	-	-	-	-
Support services - general administration	900	1,950	-	1,950
School Administration	-	-	-	-
Central Services	-	-	-	-
Operations/maintenance plant	-	-	-	-
Food service operations	1,000	1,500	454	1,046
Total expenditures	<u>13,953</u>	<u>114,924</u>	<u>33,292</u>	<u>81,632</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>2,044</u>	<u>2,044</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	-	-
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures (Non-GAAP) budgetary basis</b>	<u>\$ -</u>	<u>\$ -</u>	2,044	<u>\$ 2,044</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Increase in due from other governments			4,895	
Decrease in deferred revenue			<u>61</u>	
Excess (deficiency) of revenues over expenditures (GAAP basis)			<u>\$ 7,000</u>	

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



**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Innovative Education Program Strategies**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Federal operating grant	4,298	10,938	2,510	\$ (8,428)
Total revenues	<u>4,298</u>	<u>10,938</u>	<u>2,510</u>	<u>(8,428)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	4,298	10,938	2,510	8,428
Support services - students	-	-	-	-
Support services - instruction	-	-	-	-
Support services - general administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operations/maintenance plant	-	-	-	-
Food service operations	-	-	-	-
Total expenditures	<u>4,298</u>	<u>10,938</u>	<u>2,510</u>	<u>8,428</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of bonds	-	-	-	-
Transfers between funds	-	-	-	-
Designated cash balances	(3,496)	-	-	-
Total other financing sources and uses	<u>(3,496)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures (Non-GAAP) budgetary basis</b>	<u>\$ (3,496)</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Decrease in deferred revenue			<u>-</u>	
Excess (deficiency) of revenues over expenditures (GAAP basis)			<u>\$ -</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Title III**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Federal operating grant	6,839	22,990	4,243	\$ (18,747)
Total revenues	<u>6,839</u>	<u>22,990</u>	<u>4,243</u>	<u>(18,747)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	6,839	22,990	8,185	14,805
Support services - students	-	-	-	-
Support services - instruction	-	-	-	-
Support services - general administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operations/maintenance plant	-	-	-	-
Food service operations	-	-	-	-
Total expenditures	<u>6,839</u>	<u>22,990</u>	<u>8,185</u>	<u>14,805</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(3,942)</u>	<u>(3,942)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	-	-
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures (Non-GAAP) budgetary basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,942)</u>	<u>\$ (3,942)</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Increase in accounts payable			-	
Increase in due from other governments			3,942	
Decrease in deferred revenue			-	
Excess (deficiency) of revenues over expenditures (GAAP basis)			<u>-</u>	
Net change in fund balance			<u>\$ -</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Teacher/Principal Training and Recruiting**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Federal operating grant	57,710	108,643	49,664	\$ (58,979)
Total revenues	<u>57,710</u>	<u>108,643</u>	<u>49,664</u>	<u>(58,979)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	35,264	62,427	30,207	32,220
Support services - students	6,227	6,897	6,846	51
Support services - instruction	-	-	-	-
Support services - general administration	7,900	14,900	5,161	9,739
School Administration	4,050	12,550	4,741	7,809
Central Services	4,269	11,869	5,982	5,887
Operations/maintenance plant	-	-	-	-
Food service operations	-	-	-	-
Total expenditures	<u>57,710</u>	<u>108,643</u>	<u>52,937</u>	<u>55,706</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(3,273)</u>	<u>(3,273)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	-	-
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures (Non-GAAP) budgetary basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,273)</u>	<u>\$ (3,273)</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Increase in due from other governments			9,968	
Increase in accounts payable			(6,695)	
Increase in deferred revenue			(6,695)	
Excess (deficiency) of revenues over expenditures (GAAP basis)			<u>\$ (6,695)</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Safe & Drug Free Schools & Communities**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
Federal operating grant	2,715	9,456	2,018	\$ (7,438)
Total revenues	<u>2,715</u>	<u>9,456</u>	<u>2,018</u>	<u>(7,438)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	-	6,741	2,883	3,858
Support services - students	2,715	2,715	125	2,590
Support services - instruction	-	-	-	-
Support services - general administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operations/maintenance plant	-	-	-	-
Food service operations	-	-	-	-
Total expenditures	<u>2,715</u>	<u>9,456</u>	<u>3,008</u>	<u>6,448</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(990)</u>	<u>(990)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	-	-
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures (Non-GAAP) budgetary basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(990)</u>	<u>\$ (990)</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Increase in due from other governments			968	
Increase in deferred revenue			<u>(964)</u>	
Excess (deficiency) of revenues over expenditures (GAAP basis)			<u>\$ (986)</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Advanced Placement**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	12,136	38,378	26,242
Federal operating grant	-	-	-	-
Total revenues	<u>-</u>	<u>12,136</u>	<u>38,378</u>	<u>26,242</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	-	11,033	11,033	-
Support services - students	-	-	-	-
Support services - instruction	-	-	-	-
Support services - general administration	-	1,103	1,103	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operations/maintenance plant	-	-	-	-
Food service operations	-	-	-	-
Total expenditures	<u>-</u>	<u>12,136</u>	<u>12,136</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>26,242</u>	<u>26,242</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of bonds	-	-	-	-
Transfers between funds	-	-	-	-
Designated cash balances	-	-	(38,378)	(38,378)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(38,378)</u>	<u>(38,378)</u>
<b>Excess (deficiency) of revenues over expenditures (Non-GAAP) budgetary basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(12,136)</u>	<u>\$ (12,136)</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Decrease in due from other governments			(12,136)	
Increase in deferred revenue			<u>12,136</u>	
Net change in fund balance			<u>\$ (12,136)</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Pre-K Start Up**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	26,070	17,032	(9,038)
Federal operating grant	-	-	-	\$ -
Total revenues	<u>-</u>	<u>26,070</u>	<u>17,032</u>	<u>(9,038)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	-	26,070	26,055	15
Support services - students	-	-	-	-
Support services - instruction	-	-	-	-
Support services - general administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operations/maintenance plant	-	-	-	-
Food service operations	-	-	-	-
Total expenditures	<u>-</u>	<u>26,070</u>	<u>26,055</u>	<u>15</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(9,023)</u>	<u>(9,023)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	-	-
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures (Non-GAAP) budgetary basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(9,023)</u>	<u>\$ (9,023)</u>
<b>RECONCILIATION TO GAAP BASIS:</b>				
Increase in accounts receivable			9,023	
Increase in deferred revenue			<u>(5,150)</u>	
Excess (deficiency) of revenues over expenditures (GAAP basis)			<u>\$ (5,150)</u>	

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

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Leadership Training/Admin**  
**For the year ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local sources	\$ -	\$ -	\$ -	\$ -
State sources	30,000	30,000	30,000	-
Federal operating grant	-	-	-	\$ -
Total revenues	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	-	-	-	-
Support services - students	30,000	30,000	30,000	-
Support services - instruction	-	-	-	-
Support services - general administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operations/maintenance plant	-	-	-	-
Food service operations	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers between funds	-	-	-	-
Designated cash balances	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>APPROPRIATED CASH BALANCE</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>\$ -</u></u>
Excess (deficiency) of revenues over expenditures (Non-GAAP) budgetary basis				
<b>RECONCILIATION TO GAAP BASIS:</b>				
Increase in due from other governments			-	
Decrease in deferred revenue			-	
Increase in accounts payable			<u>-</u>	
Excess (deficiency) of revenues over expenditures (GAAP basis)				
			<u><u>\$ -</u></u>	

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

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## **SUPPORTING SCHEDULES**

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**State of New Mexico**  
**Regional Education Cooperative #7**  
**Schedule of Collateral Pledged by Depository for Public Funds**  
**June 20, 2008**

Schedule I

<u>Name of Depository</u>	<u>Description</u>	<u>Fair Market Value</u>	<u>Name and Location of Safekeeper</u>
Wells Fargo Bank	FNCL #303524 Due 08/01/25	\$ 35,313	Wells Fargo Corporation Minneapolis, MN
Wells Fargo Bank	FNCL #867437 Due 05/01/36	603,811	Wells Fargo Corporation Minneapolis, MN
Wells Fargo Bank	G2SF #3120 Due 08/20/31	4,709	Wells Fargo Corporation Minneapolis, MN
Wells Fargo Bank	GNSF #486842 Due 01/15/29	4,241	Wells Fargo Corporation Minneapolis, MN
Wells Fargo Bank	GNSF #781048 Due 06/15/29	2,353	Wells Fargo Corporation Minneapolis, MN
Wells Fargo Bank	GNSF #781215 Due 09/15/29	3,368	Wells Fargo Corporation Minneapolis, MN
Wells Fargo Bank	GNSF #781259 Due 03/15/31	25,078	Wells Fargo Corporation Minneapolis, MN
Wells Fargo Bank	GNSF #781280 Due 04/15/31	6,960	Wells Fargo Corporation Minneapolis, MN
	Total collateral	<u>\$ 685,833</u>	

See accompanying independent auditor's report.

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**State of New Mexico**  
**Regional Education Cooperative #7**  
**Schedule of Deposit Accounts for Public Funds**  
**June 20, 2008**

Schedule II

<u>Name of Bank</u>	<u>Description</u>	<u>Deposit Amount</u>
Wells Fargo Bank - Checking	REC VII operating checking account	\$ 581,694
Wells Fargo Bank - Checking	REC VII payroll checking account	8,170
Wells Fargo Bank - Checking	REC VII payroll direct deposit	2,981
	Total Deposits	<u>\$ 592,845</u>

Reconciliation to the Statement of Net Assets:

Total Deposits	\$ 592,845
Reconciling Items	(4,352)
Carrying amount	<u>\$ 588,493</u>

See accompanying independent auditor's report.

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**COMPLIANCE SECTION**

**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  
New Mexico State Auditor  
The Office of Management and Budget and  
Board of Directors  
Regional Education Cooperative #7  
Hobbs, New Mexico

We have audited the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison statements of the general fund and major special revenue funds of the Regional Education Cooperative #7 (the Cooperative) as of and for the year ended June 30, 2008, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 30, 2008. We have also audited the financial statements of each of the Cooperative's nonmajor governmental funds and respective budgetary comparisons presented as supplemental information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2008 as listed in the table of contents. 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

In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2008-2 and 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative'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 an instance of noncompliance or other matter required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as 2008-3.

We noted certain matters that are required to be reported under *Government Auditing Standards* paragraph 5.14 and 5.16, and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 2007-2, 2008-1, and 2008-5.

The Cooperative's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Cooperative's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management, others within the organization, the New Mexico Public Education Department, the New Mexico State Legislature, the New Mexico State Auditor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Accounting & Consulting Group, L.L.P.*

Accounting & Consulting Group, LLP  
Certified Public Accountants

Albuquerque, New Mexico  
September 30, 2008

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**FEDERAL FINANCIAL ASSISTANCE**

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Hector H. Balderas  
New Mexico State Auditor  
The Office of Management and Budget and  
Board of Directors  
Regional Education Cooperative #7  
Hobbs, New Mexico

Compliance

We have audited the compliance of Regional Education Cooperative #7 (the Cooperative) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Cooperative's management. Our responsibility is to express an opinion on the Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cooperative's compliance with those requirements.

In our opinion, the Cooperative complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an

opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-6 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Cooperative'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 cooperative's response and, accordingly, we express no opinion of it.

This report is intended solely for the information and use of the board of directors, management, others within the organization, the New Mexico Public Education Department, the New Mexico State Legislature, the New Mexico State Auditor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Accounting & Consulting Group, L.L.P.*

Accounting & Consulting Group, LLP  
Certified Public Accountants

Albuquerque, New Mexico  
September 30, 2008

**State of New Mexico**  
**Regional Education Cooperative #7**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2008**

Federal Grantor/Pass Through Grantor Federal Program Title	Federal CFDA Number	Entity Identifying Number	Expenditures
U.S. Department of Education			
Passed through State Department of Education:			
IDEA B Entitlement (1) (2)	84.027	24106	\$ 464,735
IDEA B Discretionary (1) (2)	84.027	24107	58,537
IDEA B Preschool (1) (2)	84.173	24109	33,292
Title VA Innovative Education Program Strategies	84.298	24150	2,510
Title III	84.365A	24153	8,185
Title IIA Teacher/Principal Training and Recruiting	84.367A	24154	59,632
Title IVA Safe and Drug Free Schools and Communities	84.186A	24157	3,008
Total U.S. Department of Education Passthrough			<u>629,899</u>
Direct Programs:			
Early Reading First	84.359	25114	191,870
Total U.S. Department of Education Direct Programs			<u>191,870</u>
Total Federal Expenditures			<u>\$ 821,769</u>

- (1) Major program  
(2) Cluster program

See accompanying Notes to Schedule of Expenditures of Federal Awards.

See accompanying independent auditor's report.

**Notes to Schedule of Expenditures of Federal Awards****Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Regional Education Cooperative #7 and is presented on the modified accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**Subrecipients**

The District did not provide any federal awards to subrecipients during the year.

**Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:**

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 821,769
Total expenditures funded by other sources	<u>807,901</u>
Total expenditures (Governmental funds)	<u><u>\$ 1,629,670</u></u>

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**State of New Mexico  
Regional Education Cooperative #7  
Summary of Auditor's Results  
June 30, 2008**

<u>PROGRAM</u>	<u>DESCRIPTION</u>
Type of report on financial statements	Unqualified opinion
Significant Deficiencies in internal control over financial statements identified	Two
Noncompliance material to the financial statements identified	One
Significant Deficiencies in Internal Control over Major Programs	One
Noncompliance material to the financial statements	None
Type of Report on Compliance with major programs	Unqualified opinion
Findings and Questioned Costs for Federal Awards required per OMB A-133 .510(a)	One
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Low Risk Auditee Statements	The Cooperative was not classified as a low-risk auditee in context of OMB-Circular A-133
Major Federal Programs	IDEA-B Entitlement, Discretionary – CFDA 84.027, Competitive – CFDA 84.027, IDEA-B Preschool – CFDA 84.173
Pass Through Entity	New Mexico Public Education Department

**State of New Mexico  
Regional Education Cooperative #7  
Schedule of Findings and Questioned Costs  
June 30, 2008**

**A. FINDINGS—FINANCIAL STATEMENT AUDIT**

2007-2: Agency Not Preparing Financial Statements

**Criteria**

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosures. The fact that the auditor prepares the financial statements may mean they are correct, but it doesn't eliminate the control deficiency.

**Condition**

The financial statements and related disclosures are not being prepared by the Cooperative.

**Effect**

Material misstatements in the Financial Statements and related note disclosures could occur and go undetected by the Cooperative's management.

**Cause**

The Cooperative's personnel do not have the time and have not been trained in the preparation of financial statements and related disclosures.

**Recommendation**

We recommend the Cooperative's management and personnel receive training on preparation of financial statements and related disclosures under Generally Accepted Accounting Standards, or contract with a consultant to assist with the preparation of the financial statements.

**Agency Response**

***It is not feasible at this time, due to the fact that the Cooperative is too small. It is not practical to hire or contract personnel to prepare financial statements.***

**State of New Mexico  
Regional Education Cooperative #7  
Schedule of Findings and Questioned Costs  
June 30, 2008**

**A. FINDINGS—FINANCIAL STATEMENT AUDIT (continued)**

2008-1: One Bank Account Not Reconciled

**Criteria**

Section 6,20.2.11.B.(6) of NMAC requires that school districts conduct independent checks on performance and proper valuation of recorded amounts, such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarize the detail of account balances, and user review of computer generated reports.

**Condition**

REC # 7 has a direct deposit account at Wells Fargo that is used to pay payroll liabilities. That bank account is not being reconciled.

**Effect**

The REC does not have sufficient internal controls over this bank account to detect fraudulent activity and report it timely to the bank. The REC could be liable for such activity that it does not detect and report to the bank in a timely manner.

**Cause**

According to the client, each month this account should be at zero but at June 30, 2008, the balance was not zero, and no reconciliation was performed. The account held \$2,981.14 at June 30, 2008 related to July payroll liabilities on two paychecks that were run in late June.

**Recommendation**

We recommend that the REC reconcile every bank account it has on a monthly basis, regardless of the ending balance in the account.

**Agency Response**

***The REC will reconcile every bank account on a monthly basis, regardless of the ending balance in the account.***

**State of New Mexico  
Regional Education Cooperative #7  
Schedule of Findings and Questioned Costs  
June 30, 2008**

**A. FINDINGS—FINANCIAL STATEMENT AUDIT (continued)**

2008-2: Errors In Depreciation Calculation

**Criteria**

Section 6,20.2.11.B.(6) of NMAC requires that school districts conduct independent checks on performance and proper valuation of recorded amounts, such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarize the detail of account balances, and user review of computer generated reports.

**Condition**

During our examination of depreciation expense and accumulated depreciation, we noted that there were many errors in the depreciation expense amounts and that the accumulated depreciation per the depreciation system did not reconcile to the District's financial statements. The auditors manually recomputed and corrected the amounts per the depreciation system in order to reconcile the differences.

**Effect**

REC # 7's capital asset and related depreciation records contain misstatements in depreciation and accumulated depreciation because errors have occurred and were not detected within a timely manner. The Cooperative's beginning net assets had to be restated by (\$2,854) as a result of this problem.

**Cause**

REC # 7 uses Hobbs School District's depreciation software. The Hobbs School District's depreciation software may not be adequate to provide verifiable reconcilable depreciation and accumulated depreciation. Or the REC # 7's or the District's personnel may not have adequate training and experience with that software to provide verifiable reconcilable depreciation and accumulated depreciation for REC # 7.

**Recommendation**

The depreciation calculation should be tested for accuracy, especially with new assets are being placed into service and with assets in their final year of depreciation. A procedure that ties the calculations to financial statements categories (buildings, equipment, etc.) should be adopted in order to facilitate reconciliation to the financial statements. The District may need to determine if new software is necessary to allow it and REC # 7 to better manage their depreciation expense.

**Agency Response**

***The Cooperative will implement new procedures to ensure proper calculations are carried forward. The Cooperative will purchase new software and implement the software in order to verify and reconcile calculations at the end of the depreciation year.***

**State of New Mexico  
Regional Education Cooperative #7  
Schedule of Findings and Questioned Costs  
June 30, 2008**

**A. FINDINGS—FINANCIAL STATEMENT AUDIT (continued)**

2008-3: Annual Inventory of Capital Assets Not Done

***Criteria***

Section 12-6-10, NMSA requires that the governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. ...Upon completion, the inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files. At the time of the annual audit, the state auditor shall satisfy himself as to the correctness of the inventory by generally accepted auditing procedures.

***Condition***

The Cooperative did not take an annual inventory of the REC # 7 capital assets.

***Effect***

The possibility of misappropriation of REC # 7 capital assets is greater when REC # 7 is not taking an annual inventory of its capital assets and certifying list of capital assets as accurate.

***Cause***

The REC employee responsible for capital assets did not complete the inventory of REC # 7 capital assets, but instead relied on the member schools to inventory the capital assets belonging to the member schools that were purchased with REC # 7 funds. That process left the REC # 7 capital assets out of the annual inventory process.

***Recommendation***

We recommend that REC # 7 take an annual inventory of REC # 7 capital assets at the end of each fiscal year to be in compliance with the law and mitigate the chance of capital assets being lost or stolen.

***Agency Response***

***A REC employee will be assigned to verify and certify annual inventory to be in compliance with the law.***

**State of New Mexico  
Regional Education Cooperative #7  
Schedule of Findings and Questioned Costs  
June 30, 2008**

**A. FINDINGS—FINANCIAL STATEMENT AUDIT (continued)**

2008-4: Expenditures Without Signed PED Contract

***Criteria***

Good accounting and financial management require that contracts be signed before payments related to contracts are made.

***Condition***

We noted that 3 out of 3 disbursements tested in fund 27169 in July and August of 2007 amounting to \$1,839 was expended without a signed contract from Public Education Department (PED). We also noted that 2 out of 2 disbursements tested in fund 24107 in July and August of 2007 amounting to \$117 was also expended without a signed contract.

***Effect***

The REC expended funds related to contracts prior to the signing of the required contracts.

***Cause***

PED signed the contracts late but required REC # 7 to spend monies related to the contracts anyway.

***Recommendation***

We recommend that REC # 7 not expend monies until they receive a signed contract from PED. We recommend that PED sign necessary contracts more timely.

***Agency Response***

***The REC will continue to work with Public Education Department to resolve issues regarding the necessary contracts in a timely manner.***

**State of New Mexico  
Regional Education Cooperative #7  
Schedule of Findings and Questioned Costs  
June 30, 2008**

**A. FINDINGS—FINANCIAL STATEMENT AUDIT (continued)**

2008-5: Lack of Contingency IT Plan

**Criteria**

State of New Mexico Statewide Guideline S-GUIDE-002.003 (per NMSA 1978 Section 15-1C-1 et. Seq. and NMAC 1.12.6 and NMAC 1.12.2) establishes an Enterprise Security Policy for the protection of IT assets and resources including data and information. The policy establishes that protection must be provided for IT assets, resources, and data/information from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide integrity, confidentiality, availability, accountability, and assurance, and establishes that controls must be maintained over information systems, resources, and data/information sufficient to contain risk of loss or misuse of information.

**Condition**

During our audit, we noted that:

- Adequate controls are not in place to ensure recoverability from interruptions in service in a timely manner and to restore critical information services in the event of a disaster.

**Cause**

REC#7 is not properly safeguarding IT assets and resources. The following deficiencies were noted:

- Lack of contingency plan for disaster recovery

**Effect**

The lack of contingency planning leaves REC #7 at risk for loss or misuse of data and information. Adequate protection has not been established to safeguard IT assets and resources.

**Auditor's Recommendations**

REC #7 should consider implementing the following recommendations:

- Establish a Disaster Recovery Plan or another written plan detailing how to recover systems and data in the event of an interruption in service or a disaster.

**Agency's Response**

***The Cooperative will work with Hobbs Municipal Schools to develop and implement an IT Disaster Recovery Plan.***

**State of New Mexico  
Regional Education Cooperative #7  
Schedule of Findings and Questioned Costs  
June 30, 2008**

**B. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

2008-6: Lack of Internal Controls Regarding Debarment and Suspension

Applies to All Federal Programs

Questioned Costs - None

**Criteria**

*Circular No. A 102* (the Common Rule) establishes consistency and uniformity among Federal agencies in the management of grants and cooperative agreements with State, local, and federally-recognized Indian tribal governments. The *Attachment to Circular No. A 102*, Section 1, Pre-Award Policies (d) Debarment and Suspension states, "Federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the nonprocurement debarment and suspension common rule."

**Condition**

REC # 7 has no procedures to check whether its vendors have been debarred or suspended from providing services paid for with federal funding.

**Cause**

The REC # 7 business manager was not aware of the need to check the website at <https://www.epls.gov/eplsearch.do?report=true> to determine whether a vendor is suspended or debarred from providing services paid for with federal funding.

**Effect**

The REC # 7 could be contracting with vendors that have been debarred or suspended and are therefore not eligible to provide services paid for with federal funding. The result would be noncompliance with the Circular A 102 requirements, and possible jeopardy of related federal funding.

**Recommendation**

We recommend that REC # 7 immediately implement procedures to check the website listed above to determine that a vendor has not been suspended or debarred, before contracting with any vendor that will be paid with federal funds.

**Agency's Response**

***REC will implement procedure to check the above website annually for current vendors and check when we have a new vendor.***



**State of New Mexico  
Regional Education Cooperative #7  
Schedule of Findings and Questioned Costs  
June 30, 2008**

**C. STATUS OF PRIOR YEAR FINDINGS**

2007-1: Disposition of capital assets - Resolved and not repeated.

2007-2: Preparation of financial statements - Repeated

2007-3: Travel and Per diem - Resolved and not repeated.

2007-4: Request for reimbursement of Costs in Advance of Services Being Rendered - Resolved and not repeated.

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**State of New Mexico  
Regional Education Cooperative #7  
Other Disclosures  
June 30, 2008**

**A. AUDITOR PREPARED FINANCIAL STATEMENTS**

The Cooperative's financial statements for the year ended June 30, 2008 have been prepared from the books of original entry and records by The Accounting & Consulting Group, LLP, Carlsbad, New Mexico. The Regional Education Cooperative #7 management is responsible for the financial statements.

**B. EXIT CONFERENCE**

The contents of this report and its schedules were discussed on September 30, 2008. The following persons were in attendance.

School Officials

Cliff Burch, Superintendent for Hobbs Municipal Schools

Belinda Morris, Executive Director

Martina Rodriguez, Accounting Manager

Auditors

Jeff McWhorter, CPA