



STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7

ANNUAL FINANCIAL REPORT
June 30, 2013

De'Aun Willoughby CPA, PC
Certified Public Accountant
Clovis, New Mexico



	<u>Page</u>
Official Roster.....	4
Independent Auditor's Report.....	5-6
FINANCIAL SECTION	
Basic Financial Statements	
Government Wide Financial Statements	
Statement of Net Position.....	8
Statement of Activities.....	9
Fund Financial Statements	
Government Funds - Balance Sheet.....	10-12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	14-16
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	17
MAJOR FUNDS	
REC Operating Fund-27101	
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual.....	19-20
SPECIAL REVENUE FUNDS	
IDEA Entitlement-24106	
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual.....	21
Medicaid-25153	
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual.....	22
Pre K Initiative-27149	
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual.....	23
State Directed-27200	
Statement of Revenues, Expenditures, and Changes in Cash Balance- Budget (Budgetary Basis) and Actual.....	24
Notes to Financial Statements.....	25-35

	<u>Page</u>
SUPPLEMENTARY INFORMATION RELATED TO NON MAJOR FUNDS	
SPECIAL REVENUE FUNDS	
Combining Balance Sheet.....	38-39
Combining Statement of Revenues, Expenditures and Changes in Fund Balance.....	40-41
IDEA Preschool-24109	
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual.....	42
IDEA B Risk Pool-24120	
Statement of Revenues, Expenditures, and Changes in Cash Balance- Budget (Budgetary Basis) and Actual.....	43
Title III-English Language Acquisition-24153	
Statement of Revenues, Expenditures, and Changes in Cash Balance- Budget (Budgetary Basis) and Actual.....	44
Title III Teacher/Principal Training-24154	
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual.....	45
OTHER SUPPLEMENTAL INFORMATION	
Cash Reconciliation.....	47
FEDERAL COMPLIANCE	
Schedule of Expenditures of Federal Awards.....	49
Notes to the Schedule of Expenditures of Federal Awards.....	50
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	51-52
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	53-54
Schedule of Findings and Questioned Costs	55-57

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Official Roster
June 30, 2013

BOARD

Israel Carrera	President
Dwain Haynes	Vice-President
Buddy Little	Secretary
TJ Parks	Member
Vacant	Member

ADMINISTRATIVE

Belinda Morris	Executive Director
Kim Reighley	Business Manager

De'Aun Willoughby CPA, PC

Certified Public Accountant

225 Innsdale Terrace, Clovis, NM 88101

(855) 253-4313

Independent Auditor's Report

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the Regional Education Cooperative #7

Mr. Balderas and Members of the Board

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of Regional Education Cooperative #7 (REC), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the REC's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the REC's nonmajor governmental funds, and the budgetary comparisons for all nonmajor funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the REC as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the REC as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparisons for all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the Management's Discussion and Analysis which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the REC's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The Schedule of Expenditures of Federal Awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, introductory and statistical sections and the other schedules required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013, on our consideration of the REC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the REC's internal control over financial reporting & compliance.

De'Ann Willoughby CPA PC

Clovis, New Mexico
September 12, 2013

FINANCIAL SECTION

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
 Government-Wide Statement of Net Position
 June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 227,680
Due from Grantor	<u>507,736</u>
Total Current Assets	<u>735,416</u>
Noncurrent Assets	
Capital Assets	143,036
Less: Accumulated Depreciation	<u>(120,210)</u>
Total Noncurrent Assets	<u>22,826</u>
Total Assets	<u>758,242</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	<u>24,641</u>
Total Current Liabilities	<u>24,641</u>
Noncurrent Liabilities	
Compensated Absences	<u>17,219</u>
Total Noncurrent Liabilities	<u>17,219</u>
Total Liabilities	<u>41,860</u>
NET POSITION	
Net Investment in Capital Assets	22,826
Unrestricted	<u>693,556</u>
Total Net Position	<u>\$ 716,382</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
 Government-Wide Statement of Activities
 For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 606,626	\$ 0	\$ 605,718	\$ (908)
Support Services	0			
Students	764,841	300,162	492,431	27,752
General Administration	289,265	225,220	228,900	164,855
School Administration	113,782	0	19,476	(94,306)
Central Services	62,212	0	13,500	(48,712)
Operation of Plant	14,719	0	0	(14,719)
Food Service	140	0	140	0
Other	20,294	0	0	(20,294)
Total Governmental Activities	<u>\$ 1,871,879</u>	<u>\$ 525,382</u>	<u>\$ 1,360,165</u>	<u>\$ 13,668</u>
General Revenues				
Miscellaneous				0
Subtotal, General Revenues				<u>0</u>
Change in Net Position				13,668
Net Position - beginning				<u>702,714</u>
Net Position - ending				<u>\$ 716,382</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE #7
 GOVERNMENTAL FUNDS
 Balance Sheet
 June 30, 2013

	REC Operating <u>27101</u>	IDEA B Entitlement <u>24106</u>	Medicaid <u>25153</u>
ASSETS			
Cash	\$ 186,097	\$ 0	\$ 41,583
Receivables			
Due From Grantor	0	147,663	0
Interfund Balance	0	0	499,317
Total Assets	<u>\$ 186,097</u>	<u>\$ 147,663</u>	<u>\$ 540,900</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Interfund Balance	\$ 0	\$ 145,444	\$ 0
Accounts Payable	<u>15,175</u>	<u>2,219</u>	<u>1,047</u>
Total Liabilities	<u>15,175</u>	<u>147,663</u>	<u>1,047</u>
 Fund Balance			
Restricted for, reported in			
Special Revenue Funds	0	0	539,853
Unassigned, reported in:			
General Fund	<u>170,922</u>	<u>0</u>	<u>0</u>
Total Fund Balance	<u>170,922</u>	<u>0</u>	<u>539,853</u>
 Total Liabilities & Fund Balance	 <u>\$ 186,097</u>	 <u>\$ 147,663</u>	 <u>\$ 540,900</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE #7
 GOVERNMENTAL FUNDS
 Balance Sheet
 June 30, 2013

	Pre K Initiative <u>27149</u>	State Directed <u>27200</u>	Other Governmental Funds <u></u>
ASSETS			
Cash	\$ 0	\$ 0	\$ 0
Receivables			
Due From Grantor	110,625	205,645	43,803
Interfund Balance	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$ 110,625</u>	<u>\$ 205,645</u>	<u>\$ 43,803</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Interfund Balance	\$ 110,625	\$ 205,645	\$ 37,603
Accounts Payable	<u>0</u>	<u>0</u>	<u>6,200</u>
Total Liabilities	<u>110,625</u>	<u>205,645</u>	<u>43,803</u>
 Fund Balance			
Restricted for, reported in			
Special Revenue Funds	0	0	0
Unassigned, reported in:			
General Fund	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balance	<u>0</u>	<u>0</u>	<u>0</u>
 Total Liabilities & Fund Balance	 <u>\$ 110,625</u>	 <u>\$ 205,645</u>	 <u>\$ 43,803</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE #7
 GOVERNMENTAL FUNDS
 Balance Sheet
 June 30, 2013

	<u>Total</u>
ASSETS	
Cash	\$ 227,680
Receivables	
Due From Grantor	507,736
Interfund Balance	499,317
Total Assets	<u>\$ 1,234,733</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Interfund Balance	\$ 499,317
Accounts Payable	24,641
Total Liabilities	<u>523,958</u>
Fund Balance	
Restricted for, reported in	
Special Revenue Funds	539,853
Unassigned, reported in:	
General Fund	170,922
Total Fund Balance	<u>710,775</u>
 Total Liabilities & Fund Balance	 <u>\$ 1,234,733</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 June 30, 2013

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

Total Fund Balance - Governmental Funds		\$	710,775
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
	The cost of capital assets	\$	143,036
	Accumulated depreciation		<u>(120,210)</u>
			22,826
Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year end consist of :			
	Compensated Absences		<u>(17,219)</u>
Total Net Position - Governmental Activities		\$	<u><u>716,382</u></u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE #7
GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Year Ended June 30, 2013

	REC Operating 27101	IDEA B Entitlement 24106	Medicaid 25153
Revenues			
Charge for Services	\$ 225,220	\$ 0	\$ 300,162
State Grants	104,244	0	0
Federal Grants	0	668,877	0
Total Revenues	<u>329,464</u>	<u>668,877</u>	<u>300,162</u>
Expenditures			
Current Operations			
Instruction	908	200,850	0
Support Services-Students	0	383,902	272,410
Support Services-General Administration	144,422	83,972	11,895
Support Services- School Administration	94,306	153	0
Central Services	43,788	0	0
Operation of Plant	14,719	0	0
Food Service	0	0	0
Other Support Services	20,294	0	0
Capital Outlay	0	0	0
Total Expenditures	<u>318,437</u>	<u>668,877</u>	<u>284,305</u>
Net Change in Fund Balance	11,027	0	15,857
Fund Balance Beginning of Year	<u>159,895</u>	<u>0</u>	<u>523,996</u>
Fund Balance End of Year	<u>\$ 170,922</u>	<u>\$ 0</u>	<u>\$ 539,853</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE #7
GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Year Ended June 30, 2013

	Pre K Initiative 27149	State Directed 27200	Other Governmental Funds
Revenues			
Charge for Services	\$ 0	\$ 0	\$ 0
State Grants	319,523	0	0
Federal Grants	0	201,752	65,769
Total Revenues	<u>319,523</u>	<u>201,752</u>	<u>65,769</u>
Expenditures			
Current Operations			
Instruction	319,523	30,527	54,818
Support Services-Students	0	101,714	6,815
Support Services-General Administration	0	37,511	3,173
Support Services- School Administration	0	18,500	823
Central Services	0	13,500	0
Operation of Plant	0	0	0
Food Service	0	0	140
Other Support Services	0	0	0
Capital Outlay	0	0	0
Total Expenditures	<u>319,523</u>	<u>201,752</u>	<u>65,769</u>
Net Change in Fund Balance	0	0	0
Fund Balance Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE #7
 GOVERNMENTAL FUNDS
 Statement of Revenues, Expenditures, and
 Changes in Fund Balances
 For the Year Ended June 30, 2013

	<u>Total</u>
Revenues	
Charge for Services	\$ 525,382
State Grants	423,767
Federal Grants	<u>936,398</u>
Total Revenues	<u>1,885,547</u>
Expenditures	
Current Operations	
Instruction	606,626
Support Services-Students	764,841
Support Services-General Administration	280,973
Support Services- School Administration	113,782
Central Services	57,288
Operation of Plant	14,719
Food Service	140
Other Support Services	20,294
Capital Outlay	<u>0</u>
Total Expenditures	<u>1,858,663</u>
Net Change in Fund Balance	26,884
Fund Balance Beginning of Year	<u>683,891</u>
Fund Balance End of Year	<u>\$ 710,775</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balance
 To the Statement of Activities
 June 30, 2013

Excess (Deficiency) of Revenues Over Expenditures-Governmental Funds \$ 26,884

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

Depreciation expense	\$ (7,623)	
Capital Outlays	<u>0</u>	(7,623)

Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Long-term Compensated Absences, June 30, 2012	11,626	
Long-term Compensated Absences, June 30, 2013	<u>(17,219)</u>	<u>(5,593)</u>

Changes in Net Position of Governmental Activities	\$	<u><u>13,668</u></u>
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The notes to the financial statements are an integral part of this statement.

MAJOR FUNDS

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUND-REC OPERATING FUND-27101
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Charge for Services	\$ 25,000	\$ 220,000	\$ 225,220	\$ 5,220
State Grant	104,244	204,244	104,244	(100,000)
Total Revenues	<u>129,244</u>	<u>424,244</u>	<u>329,464</u>	<u>(94,780)</u>
Expenditures				
Instruction				
Professional & Tech Services	0	3,000	908	2,092
Other Purchased Services	0	200	0	200
Total Instruction	<u>0</u>	<u>3,200</u>	<u>908</u>	<u>2,292</u>
Support Services-Students				
Professional & Tech Services	3,200	0	0	0
Other Purchased Services	200	0	0	0
Total Support Services-Students	<u>3,400</u>	<u>0</u>	<u>0</u>	<u>0</u>
Support Services-General Administration				
Personnel Services	82,550	86,360	80,600	5,760
Employee Benefits	18,903	19,903	17,256	2,647
Professional & Tech Services	34,400	48,400	33,813	14,587
Other Purchased Services	5,000	7,000	3,880	3,120
Supplies	15,000	33,430	8,532	24,898
Supply Assets	2,000	7,477	0	7,477
Total Support Services-General Administration	<u>157,853</u>	<u>202,570</u>	<u>144,081</u>	<u>51,012</u>
Support Services-School Administration				
Personnel Services	0	67,170	67,000	170
Employee Benefits	1,000	25,025	23,541	1,484
Professional & Tech Services	13,078	4,068	1,999	2,069
Other Purchased Services	0	3,000	1,765	1,235
Total Support Services-School Administration	<u>14,078</u>	<u>99,263</u>	<u>94,305</u>	<u>4,958</u>
Central Services				
Personnel Services	30,000	41,875	30,386	11,489
Employee Benefits	15,443	16,953	12,935	4,018
Professional & Tech Services	2,800	2,800	885	1,915
Purchased Property Services	1,000	5,000	688	4,312
Other Purchased Services	100	2,100	0	2,100
Total Central Services	<u>\$ 49,343</u>	<u>\$ 68,728</u>	<u>\$ 44,894</u>	<u>\$ 23,834</u>

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUND-REC OPERATING FUND-27101
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Operation & Maintenance of Plant				
Personnel Services	\$ 5,000	\$ 4,500	\$ 1,029	\$ 3,471
Employee Benefits	1,654	1,654	850	804
Professional & Tech Services	0	4,500	4,064	436
Purchased Property Services	14,500	19,500	4,635	14,865
Other Purchased Services	6,000	6,000	4,436	1,564
Total Operation & Maintenance of Plant	<u>27,154</u>	<u>36,154</u>	<u>15,014</u>	<u>21,140</u>
Other Support Services				
Miscellaneous	<u>40,000</u>	<u>40,000</u>	<u>18,001</u>	<u>21,999</u>
Total Other Support Services	<u>40,000</u>	<u>40,000</u>	<u>18,001</u>	<u>21,999</u>
Total Expenditures	<u>291,828</u>	<u>449,915</u>	<u>317,203</u>	<u>125,235</u>
Excess (Deficiency) of Revenues Over Expenditures	(162,584)	(25,671)	12,261	37,932
Cash Balance Beginning of Year	<u>173,836</u>	<u>173,836</u>	<u>173,836</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 11,252</u>	<u>\$ 148,165</u>	<u>\$ 186,097</u>	<u>\$ 37,932</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 12,261	
Net Change in Accounts Payable			(2,340)	
Net Change in Compensated Absences			1,106	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 11,027</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUND-IDEA ENTITLEMENT-24106
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Federal Grant	\$ 1,932,147	\$ 1,932,147	\$ 860,626	\$ (1,071,521)
Total Revenues	<u>1,932,147</u>	<u>1,932,147</u>	<u>860,626</u>	<u>(1,071,521)</u>
Expenditures				
Instruction				
Professional & Tech Services	33,005	33,005	28,619	4,386
Purchased Property Services	115,000	115,000	0	115,000
Other Purchased Services	190,000	190,000	69,154	120,846
Supplies	279,522	279,522	84,283	195,239
Supply Assets	162,197	162,197	18,794	143,403
Total Instruction	<u>779,724</u>	<u>779,724</u>	<u>200,850</u>	<u>578,874</u>
Support Services-Students				
Professional & Tech Services	385,554	385,554	261,817	123,737
Purchased Property Services	66,769	66,769	0	66,769
Other Purchased Services	28,444	28,444	3,217	25,227
Supplies	182,315	182,315	101,155	81,160
Supply Assets	74,000	74,000	32,245	41,755
Total Support Services-Students	<u>737,082</u>	<u>737,082</u>	<u>398,434</u>	<u>215,733</u>
Support Services-General Administration				
Professional & Tech Services	0	0	84,125	(84,125)
Other Purchased Services	91,833	91,833	0	91,833
Total Support Services-General Administration	<u>91,833</u>	<u>91,833</u>	<u>84,125</u>	<u>7,708</u>
Support Services-School Administration				
Professional & Tech Services	1,000	1,000	153	847
Total Support Services-School Administration	<u>1,000</u>	<u>1,000</u>	<u>153</u>	<u>847</u>
Total Expenditures	<u>1,609,639</u>	<u>1,609,639</u>	<u>683,562</u>	<u>803,162</u>
Excess (Deficiency) of Revenues Over Expenditures	322,508	322,508	177,064	(145,444)
Cash Balance Beginning of Year	<u>(322,508)</u>	<u>(322,508)</u>	<u>(322,508)</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (145,444)</u>	<u>\$ (145,444)</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 177,064	
Net Change in Due from Grantor			(191,748)	
Net Change in Accounts Payable			14,684	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 0</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUND-MEDICAID-25153
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Charge for Services	\$ 69,275	\$ 69,275	\$ 300,162	\$ 230,887
Total Revenues	<u>69,275</u>	<u>69,275</u>	<u>300,162</u>	<u>230,887</u>
Expenditures				
Support Services-Students				
Professional & Tech Services	0	30,000	30,000	0
Other Purchased Services	33,119	333,119	232,671	100,448
Supplies	4,000	4,000	838	3,162
Supply Assets	20,000	12,500	8,900	3,600
Total Support Services-Students	<u>57,119</u>	<u>379,619</u>	<u>272,409</u>	<u>107,210</u>
Support Services-General Administration				
Other Purchased Services	18,500	18,000	14,249	3,751
Total Support Services-General Administration	<u>18,500</u>	<u>18,000</u>	<u>14,249</u>	<u>3,751</u>
Total Expenditures	<u>75,619</u>	<u>397,619</u>	<u>286,658</u>	<u>110,961</u>
Excess (Deficiency) of Revenues Over Expenditures	(6,344)	(328,344)	13,504	341,848
Cash Balance Beginning of Year	<u>527,396</u>	<u>527,396</u>	<u>527,396</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 521,052</u>	<u>\$ 199,052</u>	<u>\$ 540,900</u>	<u>\$ 341,848</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 13,504	
Net Change in Accounts Payable			<u>2,353</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 15,857</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUND-PRE K INITIATIVE-27149
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Federal Grant	\$ 485,628	\$ 485,628	\$ 346,566	\$ (139,062)
Total Revenues	<u>485,628</u>	<u>485,628</u>	<u>346,566</u>	<u>(139,062)</u>
Expenditures				
Instruction				
Other Purchased Services	336,000	336,000	307,945	28,055
Supplies	11,760	11,760	11,434	326
Supply Assets	200	200	144	56
Total Instruction	<u>347,960</u>	<u>347,960</u>	<u>319,523</u>	<u>28,437</u>
Total Expenditures	<u>347,960</u>	<u>347,960</u>	<u>319,523</u>	<u>28,437</u>
Excess (Deficiency) of Revenues Over Expenditures	137,668	137,668	27,043	(110,625)
Cash Balance Beginning of Year	<u>(137,668)</u>	<u>(137,668)</u>	<u>(137,668)</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (110,625)</u>	<u>\$ (110,625)</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 27,043	
Net Change in Due from Grantor			<u>(27,043)</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 0</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUND-STATE DIRECTED-27200
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Federal Grant	\$ 413,046	\$ 413,046	\$ 144,761	\$ (268,285)
Total Revenues	<u>413,046</u>	<u>413,046</u>	<u>144,761</u>	<u>(268,285)</u>
Expenditures				
Instruction				
Other Purchased Services	31,000	31,000	30,527	473
Total Instruction	<u>31,000</u>	<u>31,000</u>	<u>30,527</u>	<u>473</u>
Support Services-Students				
Professional & Tech Services	104,937	104,937	104,625	312
Other Purchased Services	1,006	1,006	981	25
Total Support Services-Students	<u>105,943</u>	<u>105,943</u>	<u>105,606</u>	<u>337</u>
Support Services-General Administration				
Professional & Tech Services	75,000	75,000	13,170	61,830
Other Purchased Services	24,342	24,342	24,342	0
Total Support Services-General Administration	<u>99,342</u>	<u>99,342</u>	<u>37,512</u>	<u>61,830</u>
Support Services-School Administration				
Other Purchased Services	18,500	18,500	18,500	0
Total Support Services-School Administration	<u>18,500</u>	<u>18,500</u>	<u>18,500</u>	<u>0</u>
Central Services				
Other Purchased Services	13,500	13,500	13,500	0
Total Central Services	<u>13,500</u>	<u>13,500</u>	<u>13,500</u>	<u>0</u>
Total Expenditures	<u>268,285</u>	<u>268,285</u>	<u>205,645</u>	<u>62,640</u>
Excess (Deficiency) of Revenues Over Expenditures	144,761	144,761	(60,884)	(205,645)
Cash Balance Beginning of Year	<u>(144,761)</u>	<u>(144,761)</u>	<u>(144,761)</u>	<u>0</u>
Cash Balance End of Year	\$ <u>0</u>	\$ <u>0</u>	\$ <u>(205,645)</u>	\$ <u>(205,645)</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ (60,884)	
Net Change in Due from Grantor			56,992	
Net Change in Accounts Payable			3,892	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			\$ <u>0</u>	

The notes to the financial statements are an integral part of this statement.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Regional Education Cooperative # 7 (Cooperative) , has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued prior to November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of the REC's accounting policies are described below.

Financial Reporting Entity

The ten Regional Cooperative Centers established throughout New Mexico in 1984 were originally organized to provide supplementary special education services to local education agencies utilizing federal PL 94-142 funds.

The role of the Cooperatives has expanded under the authorization of the regional coordinating councils to include a variety of other projects, both federally funded and funded from other sources.

The REC through the governing council, has established as its purpose the delivery to local RECs and communities those services deemed critical to the ongoing success of regular and special education programs provided by the local agencies.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the REC is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the REC may, without the approval or consent of another governmental entity, determine or modify its own budget with approval of the Public Education Department.

The REC has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected REC members are financially accountable. There are no other primary governments with which the Board Members are financially accountable.

The accounts of the REC are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The following funds are used by the REC:

Governmental Funds

Governmental funds are used to account for the REC's general government activities.

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

The REC reports the following major governmental funds:

GENERAL FUND

REC Operating Fund (27101)

To account for revenues and expenditures of the REC not encompassed within other funds.

SPECIAL REVENUE FUNDS

IDEA Entitlement (24106)

To account for a program funded by a Federal grant to assist the REC in providing free appropriate public education to all handicapped children. Funding authorized by the Individuals with Disabilities Education Act, Part B, Sections 611-620, as amended, Public Laws 91-230, 93-380, 94-142, 98-199, 99-457, 100-639, and 101-476, 20 U. S. C. 1411-1420. The fund was created by the authority of federal grant provisions.

Medicaid (25153)

To account for a program providing school-based screening, diagnostic services and other related health services and administrative activities in conformance with the approved Medicaid State Plan in order to improve health and developmental outcomes for children. The fund was created by the authority of federal grant provisions. (Title XIX Social Security Act).

Pre K Initiative (27149)

To account for revenues and expenditures from a state grant provided for the running of the Pre K program. The fund was created by state grant provisions.

State Directed Activities (27200)

To account for funds received from the New Mexico Public Education Department for the support and direct services, including technical assistance, preparation and professional development and training. To support capacity building activities and improve the delivery of services by local agencies to improve results for children with disabilities. The fund was created by state provisions.

Additionally, the REC reports the following as non-major fund types:

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

Measurement Focus and Basis of Accounting
Government-Wide Financial Statements (GWFS)

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflow of resources, liabilities and deferred inflow of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflow of resources, liabilities and deferred inflow of resources resulting from nonexchange transactions are recognized in accordance with the requirement of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions."

Program Revenues

Program revenues included in the Statement of Activities derive directly from the program itself; program revenues reduce the cost of the function to be financed from the REC's general revenues. Program revenues include program-specific operating grants funded by the Federal Department of Education and the State Public Education Department.

Fund Financial Statements (FFS)
Governmental Funds

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 30 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Any effect of interfund activity has been eliminated from the REC financial statements.

Revenues

Entitlement and shared revenues are recorded as unrestricted grants-in-aid at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

Revenue Recognition for Grants.

Eligibility requirements for government-mandated and voluntary nonexchange transaction comprise one or more of the following:

1. Required characteristics of recipients. The recipient has the characteristics specified by the provider (are required to be school RECs and RECs).
2. Time requirements. Time requirements specified by enabling legislation or the provider have been met (period when the resources are required to be used).
3. Reimbursements. The provider offers resources on a reimbursement ("expenditure-driven") basis and the recipient has incurred allowable costs under the applicable program.
4. Contingencies. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred (the recipient has raised the matching funds).

Other receipts become measurable and available when cash is received by the REC and are recognized as revenue at that time.

Expenditures

Salaries are recorded as paid. Salaries for nine-month employees are paid prior to the end of the fiscal year and therefore are not accrued. Salaries for the twelve month employees payroll are accrued.

Other Financing Sources (Uses)

Transfers between funds that are not expected to be repaid (or any other types, such as capital lease transactions, sale of fixed assets, debt extinguishments, long-term debt proceeds, etc.) are accounted for as other financing sources (uses). These other financing sources (uses) are recognized at the time the underlying events occur.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Notes to the Financial Statements
June 30, 2013

Basis of Budgeting

Formal budgetary integration is employed as a management control device during the year.

Budgets for the General and Special Revenue Funds are adopted on a basis inconsistent with generally accepted accounting principles (GAAP). These budgets are prepared using the cash basis of accounting. Budgetary comparisons for the various funds in this report are on the non-GAAP budgetary basis.

The REC follows the following procedures in establishing data reflected in the financial statements:

1. Prior to April 15, (unless a later date is fixed by the Secretary of Education) the local board submits to the School Budget and Finance Analysis Unit (SBFAU) of the New Mexico Public Education Department an estimated budget for the REC for the ensuing fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them. All budgets submitted to the New Mexico Public Education Department (PED) by the REC shall contain headings and details as prescribed by law.
2. Prior to June 20, of each year, the proposed "operating" budget will be reviewed and approved by the SBFAU and certified and approved by the local board at the public hearing of which notice has been published by the local board which fixed the estimated budget for the REC for the ensuing fiscal year.
3. The "operating" budget will be used by the REC until they have been notified that the budget has been approved by the SBFAU and the local board. The budget shall be integrated formally in to the accounting system. Encumbrances shall be used as an element for control and shall be integrated into the budget system.
4. The REC shall make corrections, revisions and amendments to the estimated budgets fixed by the local board to recognize actual cash balances and carryover funds, if any. These adjustments shall be reviewed and approved by the SBFAU.
5. No board member or officer or employee of the REC shall make any expenditures or incur any obligation for the expenditures of public funds unless such expenditure or contractual obligation is made in accordance with an operating budget approved by the division. But this does not prohibit the transfer of funds between line items within a series of a budget.
6. Budget change requests are processed in accordance with Supplement I (Budget Preparation and Maintenance) of the Manual of Procedures Public School Accounting and Budgeting. Such changes are initiated by the REC and approved by the SBFAU.
7. Legal budget control for expenditures is by function.
8. Appropriations lapse at fiscal year end. Funds unused during the fiscal year may be carried over into the next fiscal year by budgeting those in the subsequent fiscal year's budget. The budget of the REC has been amended during the current fiscal year in accordance with these procedures. The budget schedules included in the accompanying financial statements reflect the approved budget and amendments thereto.

Cash and Cash Equivalents

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Notes to the Financial Statements
June 30, 2013

The REC is authorized under the provisions of Chapter 6, Article 10, paragraph 10, NMSA 1978, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

Investments

All money not immediately necessary for the public uses of the REC may be invested in :

- (a) bonds or negotiable securities of the United States, the state or any county, municipality or school which has a taxable valuation of real property for the last preceding year of at least one million dollars (1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or
- (b) securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government.
- (c) in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with investment.

Receivables and Payables

Receivables include interfund loans that are expected to be paid back and amount due from state government agencies related to various grant agreements. Payables represent routine monthly bills for services rendered and products purchased and accrued salaries and benefits.

Elimination and Reclassifications of Certain Receivables and Payables

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Capital Assets

Capital assets are recorded at historical costs and depreciated over their estimated useful lives (with no salvage value). Capital assets are defined by the REC as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used based on the following estimated useful lives:

Buildings	25 Years
Building Improvements	7 Years
Vehicles	7-8 Years
Equipment	5 Years
Information Technology Equipment and Software	3-5 Years
Library Books (if material)	3-5 Years

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Notes to the Financial Statements
June 30, 2013

Restricted Net Position

For the government-wide statement of net position, net positions are reported as restricted when constraints placed on net positions use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;

Imposed by law through constitutional provisions or enabling legislation.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available it will first be applied to restricted resources.

Fund Balances of Fund Financial Statements

Committed fund balance is a classification for governmental fund balance reporting that includes amounts that can only be used for specific purposes pursuant to constraints imposed by law.

Assigned fund balance is a classification for governmental fund balance reporting that includes amounts that the governmental entity intends to use for specific purposes.

Restricted fund balance includes amounts that have constraints placed on their use that are (a) externally imposed by grantors, laws or regulation of other governments or (b) imposed by enabling legislation.

Unassigned fund balance is the residual classification used for reporting spendable fund balance in the General Fund that represents amounts that have not been committed or assigned or restricted.

Interfund Transfers

In governmental funds, transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

Compensated Absences

All 12-month or full time employees earn vacation and sick leave in amounts varying with tenure and classification. Employees earn 10 days if employed less than 3 years and 15 days if employed more than 3 years. There is no maximum accumulation.

The REC's recognition and measurement criteria for compensated absences follow:

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both the following conditions are met:

- (a) The employees' right to receive compensation is attributable to services already rendered.
- (b) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The entire compensated absence liability is reported on the government-wide financial statements.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
 Notes to the Financial Statements
 June 30, 2013

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B: DEPOSIT AND INVESTMENTS

Wells Fargo

<u>Name of Account</u>	<u>Balance Per Bank 6/30/13</u>	<u>Reconciled Balance</u>	<u>Type</u>
REC #7/FBO Hobbs Municipal Schools	\$ 308,231	\$ 228,279	Non-interest bearing checking
REC VII Payroll Account	2,659	(599)	
TOTAL Deposited	<u>310,890</u>	<u>\$ 227,680</u>	
Less: FDIC Coverage	<u>(250,000)</u>		
Uninsured Amount	60,890		
50% collateral requirement	30,445		
Pledged securities	80,854		
Over (Under) requirement	<u>\$ 50,409</u>		

The difference between the bank balance and the reconciled balance is outstanding deposits, outstanding checks and pending bank adjustments.

The following securities are pledged:

<u>Description</u>	<u>CUSIP #</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Location</u>
FNMA-PT	3138W7GH1	\$ 19,439	03/01/2043	NY Mellon, NY
FNMA-PT	3138AAYX3	2,602	03/01/2041	NY Mellon, NY
FNMA-PT	31419AGZ4	58,813	12/01/2039	NY Mellon, NY
		<u>\$ 80,854</u>		

Custodial Credit Risk-Deposits

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 250,000
Collateralized:	0
Collateral held by the pledging bank in REC's name	60,890
Uninsured and uncollateralized	0
Total Deposits	<u>\$ 310,890</u>

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2013 none of the REC's bank balance of \$310,890 was exposed to custodial credit risk.

NOTE C: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund Balances during the year ending June 30, 2013 were as follows:

<u>Payable Funds</u>	<u>Receivable Funds</u>
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STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Notes to the Financial Statements
June 30, 2013

	IDEA B Entitlement 24106	Pre K Initiative 27149	State Directed 27200	Other Governmental Funds
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Medicaid	145,444	110,625	205,645	37,603
Totals	<u>\$ 145,444</u>	<u>\$ 110,625</u>	<u>\$ 205,645</u>	<u>\$ 37,603</u>

	Total
General Fund	\$ 0
Medicaid	499,317
Totals	<u>\$ 499,317</u>

The above interfund balances resulted from reimbursement grants. The shortfalls were covered by the General Fund and the Medicaid Fund. All transactions will be repaid within one year.

NOTE D: CAPITAL ASSETS

Capital Assets Balances and Activity for the fiscal year end is as follows:

	Beginning Balance 6/30/12	Increases	Adjustment	Ending Balance 6/30/13
Governmental Activities				
Other Capital Assets				
Building	\$ 93,428	\$ 0	\$ (4,810)	\$ 98,238
Equipment	49,608	0	4,810	44,798
Total Capital Assets at Historical Cost	<u>143,036</u>	<u>0</u>	<u>0</u>	<u>143,036</u>
Less Accumulated Depreciation				
Building	70,756	6,907	0	77,663
Equipment	41,830	717		42,547
Total Accumulated Depreciation	<u>112,586</u>	<u>7,624</u>	<u>0</u>	<u>120,210</u>
Capital Assets, net	<u>\$ 30,450</u>	<u>\$ (7,624)</u>	<u>\$ 0</u>	<u>\$ 22,826</u>

Depreciation expense was charged to governmental activities as follows:

Central Services	\$ 2,700
Operations & Maintenance of Plant	4,924
Total depreciation expenses	<u>\$ 7,624</u>

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Notes to the Financial Statements
June 30, 2013

NOTE F: COMPENSATED ABSENCES

The following is a summary of compensated absences transactions:

Accrued compensated absences, July 1, 2012	\$	12,733
Current year additions		6,410
Current year used		(1,924)
Accrued compensated absences, June 30, 2013	\$	<u>17,219</u>

NOTE G: PENSION PLAN

Substantially all of the REC's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers, and other employees of State public school RECs, colleges and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at www.nmerb.org.

As of July 1, 2012 plan members are required by statute to continue 7.9% of their gross salary if they earned \$20,000 or less annually. Plan members earning more than \$20,000 annually are required to contribute 9.4% of their gross salary. The REC is required to contribute 12.4% of gross covered salaries for employees earning \$20,000 or less, and 10.9% of the gross covered salaries of employees earning more than \$20,000 annually. The contribution requirements of plan members and the REC are established in State Statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The REC's contributions to ERB for the fiscal years ending June 30, 2013, 2012, and 2011, were \$36,114, \$24,855, and \$38,857 respectively, which equal the amount of the required contributions for each fiscal year.

NOTE H: RETIREE HEALTH CARE ACT CONTRIBUTIONS

The REC 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.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Notes to the Financial Statements
June 30, 2013

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.

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

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the RHCA, Albuquerque State Government Center, 401 Roma, NW, Suite 200, Albuquerque, New Mexico 87102.

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. During the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2% of each participating employee's annual salary; each participating employee was required to contribute 1% of their annual salary.

Also, 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 REC's contributions to the RHCA for the years ended June 30, 2013, 2012 and 2011 were \$5,384, \$3,054, and \$4,783 respectively, which equal the required contributions for each year.

NOTE I: RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - all Governmental Fund Types is presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and GAAP (Generally Accepted Accounting Principles) basis are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from GAAP basis to the budget basis for the governmental funds are located at the bottom of each budget actual schedule.

NOTE J: INSURANCE COVERAGE

The REC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; error and omissions; and injuries to employees; and natural disasters. The REC, as a New Mexico Public School, is insured through the New Mexico Public Schools Insurance Authority (NMPSIA). Annual premiums are paid by the REC to NMPSIA for coverage provided in the following areas:

- Workers Compensation
- Property and Automobile Liability and Physical Damage
- Liability and Civil Rights and Personal Injury
- Crime

NOTE K: SURETY BOND

The officials and certain employees of the NEREC are covered by a surety bond as required by Section 12-6-7, NMSA, 1978 Compilation.

NOTE L: JOINT POWERS AGREEMENTS AND OTHER AGREEMENTS

Eunice Public Schools, Hobbs Municipal Schools, Jal Public Schools, Tatum Municipal Schools (Member RECs) and Regional Education Cooperative VII

On December 20, 2007 the Cooperative entered into an Agreement with the Member RECs whereby the Member REC 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. 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 RECs 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 REC must notify REC VII of any intention to withdraw its agreement to have REC VII serve as its fiscal agent on or before February 1st preceding the end of the last fiscal year it intends to have REC VII serve as the 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.

**SUPPLEMENTAL INFORMATION RELATED TO
NON MAJOR FUNDS**

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
June 30, 2013

SPECIAL REVENUE FUNDS

IDEA Preschool (24109)

To account for a program funded by a Federal grant to assist the REC in providing a free appropriate public education to preschool disabled children aged three through five years. Funding authorized by the Individuals with Disabilities Education Act, Part B, Section 619, as amended, Public Laws 94-142, 99-457, 100-630, 101-497, 101-476, and 102-119. The fund was created by the authority of federal grant provisions.

IDEA B Risk Pool (24120)

To account for an additional allocation from PED to fund children at risk. The program is funded by a Federal grant to assist the REC in providing free appropriate public education to all handicapped children. Funding authorized by the Individuals with Disabilities Education Act, Part B, Sections 611-620, as amended, Public Laws 91-230, 93-380, 94-142, 98-199, 99-457, 100-639, and 101-476, 20 U. S. C. 1411-1420. The fund was created by the authority of federal grant provisions.

Title III English Language Acquisition (24153)

To account for revenues and expenditures received from a federal grant provided to develop school-wide programs for limited English proficient students that reform, restructure, and upgrade all relevant programs. The fund was created by the Elementary and Secondary Education Act of 1965, as amended, Title VII, Part A.

Title II Teacher & Principal Training (24154)

To provide grants to State Education Agencies (SEAs) on a formula basis to increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools and hold local educational agencies and schools accountable for improvements in student academic achievement. Elementary and Secondary Education Act of 1965, as amended, Title II, Part A (PL 107-110).

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUNDS
Combining Balance Sheet
June 30, 2013

	IDEA Preschool 24109	IDEA B Risk Pool 24120	Title III English Language Acquisition 24153
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 0	\$ 0	\$ 0
Receivables			
Due From Grantor	10,632	10,000	4,547
Total Assets	<u>\$ 10,632</u>	<u>\$ 10,000</u>	<u>\$ 4,547</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Current Liabilities			
Interfund Balance	\$ 9,683	\$ 10,000	\$ 4,547
Accounts Payable	949	0	0
Total Liabilities	<u>10,632</u>	<u>10,000</u>	<u>4,547</u>
Fund Balance			
Restricted for, reported in			
Special Revenue Funds	0	0	0
Total Fund Balance	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities & Fund Balance	<u>\$ 10,632</u>	<u>\$ 10,000</u>	<u>\$ 4,547</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUNDS
Combining Balance Sheet
June 30, 2013

	Title II Teacher & Principal Training 24154	Total
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 0	\$ 0
Receivables		
Due From Grantor	18,624	43,803
Total Assets	<u>\$ 18,624</u>	<u>\$ 43,803</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Current Liabilities		
Interfund Balance	\$ 13,373	\$ 37,603
Accounts Payable	<u>5,251</u>	<u>6,200</u>
Total Liabilities	<u>18,624</u>	<u>37,603</u>
Fund Balance		
Restricted for, reported in		
Special Revenue Funds	<u>0</u>	<u>0</u>
Total Fund Balance	<u>0</u>	<u>0</u>
Total Liabilities & Fund Balance	<u>\$ 18,624</u>	<u>\$ 43,803</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUNDS
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013

	IDEA Preschool 24109	IDEA B Risk Pool 24120	Title III English Language Acquisition 24153
Revenues			
State Grants	\$ 0	\$ 0	\$ 0
Federal Grants	17,177	13,621	4,975
Total Revenues	<u>17,177</u>	<u>13,621</u>	<u>4,975</u>
Expenditures			
Current Operations			
Instruction	10,222	13,621	4,975
Support Services-Students	6,815	0	0
Support Services General Administration	0	0	0
Support Services- School Administration	0	0	0
Central Services	0	0	0
Operation of Plant	0	0	0
Food Service	140	0	0
Total Expenditures	<u>17,177</u>	<u>13,621</u>	<u>4,975</u>
Net Change in Fund Balance	0	0	0
Fund Balance Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUNDS
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013

	Title II Teacher & Principal Training 24154	Total
Revenues		
State Grants	\$ 0	\$ 0
Federal Grants	29,996	65,769
Total Revenues	<u>29,996</u>	<u>65,769</u>
Expenditures		
Current Operations		
Instruction	26,000	54,818
Support Services-Students	0	6,815
Support Services General Administration	3,173	3,173
Support Services- School Administration	823	823
Central Services	0	0
Operation of Plant	0	0
Food Service	0	140
Total Expenditures	<u>29,996</u>	<u>65,769</u>
Net Change in Fund Balance	0	0
Fund Balance Beginning of Year	<u>0</u>	<u>0</u>
Fund Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUND-IDEA PRESCHOOL-24109
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Federal Grant	\$ 88,907	\$ 88,907	\$ 30,481	\$ (58,426)
Total Revenues	<u>88,907</u>	<u>88,907</u>	<u>30,481</u>	<u>(58,426)</u>
Expenditures				
Instruction				
Supplies	36,072	36,072	9,864	26,208
Supply Assets	<u>8,500</u>	<u>8,500</u>	<u>359</u>	<u>8,141</u>
Total Instruction	<u>44,572</u>	<u>44,572</u>	<u>10,223</u>	<u>34,349</u>
Support Services-Students				
Professional & Tech Services	11,900	11,900	6,190	5,710
Other Purchased Services	1,000	1,000	0	1,000
Supplies	<u>6,500</u>	<u>6,500</u>	<u>625</u>	<u>5,875</u>
Total Support Services- Students	<u>19,400</u>	<u>19,400</u>	<u>6,815</u>	<u>12,585</u>
Food Service				
Supplies	<u>1,000</u>	<u>1,000</u>	<u>140</u>	<u>860</u>
Total Food Service	<u>1,000</u>	<u>1,000</u>	<u>140</u>	<u>860</u>
Total Expenditures	<u>64,972</u>	<u>64,972</u>	<u>17,178</u>	<u>47,794</u>
Excess (Deficiency) of Revenues Over Expenditures	23,935	23,935	13,303	(10,632)
Cash Balance Beginning of Year	<u>(23,935)</u>	<u>(23,935)</u>	<u>(23,935)</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (10,632)</u>	<u>\$ (10,632)</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 13,303	
Net Change in Due from Grantor			<u>(13,303)</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 0</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUND-IDEA B RISK POOL-24120
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Federal Grant	\$ 31,690	\$ 31,690	\$ 21,690	\$ (10,000)
Total Revenues	<u>31,690</u>	<u>31,690</u>	<u>21,690</u>	<u>(10,000)</u>
Expenditures				
Instruction				
Supplies	12,321	12,321	12,321	0
Supply Assets	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>0</u>
Total Instruction	<u>13,621</u>	<u>13,621</u>	<u>13,621</u>	<u>0</u>
Total Expenditures	<u>13,621</u>	<u>13,621</u>	<u>13,621</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	18,069	18,069	8,069	(10,000)
Cash Balance Beginning of Year	<u>(18,069)</u>	<u>(18,069)</u>	<u>(18,069)</u>	<u>0</u>
Cash Balance End of Year	\$ <u>0</u>	\$ <u>0</u>	\$ <u>(10,000)</u>	\$ <u>(10,000)</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 8,069	
Net Change in Due from Grantor			<u>(8,069)</u>	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>0</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO

REGIONAL EDUCATION COOPERATIVE # 7

SPECIAL REVENUE FUND-TITLE III-ENGLISH LANGUAGE ACQUISITION-24153

Statement of Revenues, Expenditures, and Changes in Cash Balance -

Budget and Actual (Budgetary Basis)

For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Federal Grant	\$ 11,941	\$ 11,941	\$ 4,778	\$ (7,163)
Total Revenues	<u>11,941</u>	<u>11,941</u>	<u>4,778</u>	<u>(7,163)</u>
Expenditures				
Instruction				
Professional & Tech Services	1,250	1,250	451	799
Other Purchased Services	3,212	3,212	3,212	0
Supplies	2,500	2,500	1,312	1,188
Supply Assets	629	629	0	629
Total Instruction	<u>7,591</u>	<u>7,591</u>	<u>4,975</u>	<u>2,616</u>
Total Expenditures	<u>7,591</u>	<u>7,591</u>	<u>4,975</u>	<u>2,616</u>
Excess (Deficiency) of Revenues Over Expenditures	4,350	4,350	(197)	(4,547)
Cash Balance Beginning of Year	<u>(4,350)</u>	<u>(4,350)</u>	<u>(4,350)</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (4,547)</u>	<u>\$ (4,547)</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ (197)	
Net Change in Due from Grantor			197	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			<u>\$ 0</u>	

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
SPECIAL REVENUE FUND-TITLE II-TEACHER/PRINCIPAL TRAINING-24154
Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Federal Grant	\$ 123,798	123,798	\$ 54,669	\$ (69,129)
Total Revenues	<u>123,798</u>	<u>123,798</u>	<u>54,669</u>	<u>(69,129)</u>
Expenditures				
Instruction				
Professional & Tech Services	51,104	51,104	29,400	21,704
Total Instruction	<u>51,104</u>	<u>51,104</u>	<u>29,400</u>	<u>21,704</u>
Support Services-Students				
Professional & Tech Services	9,600	9,600	0	9,600
Total Support Services-Students	<u>9,600</u>	<u>9,600</u>	<u>0</u>	<u>9,600</u>
Support Services-General Administration				
Professional & Tech Services	12,819	12,819	0	12,819
Other Purchased Services	3,173	3,173	3,173	0
Total Support Services-General Administration	<u>15,992</u>	<u>15,992</u>	<u>3,173</u>	<u>12,819</u>
Support Services-School Administration				
Professional & Tech Services	11,800	11,800	167	11,633
Total Support Services-School Administration	<u>11,800</u>	<u>11,800</u>	<u>167</u>	<u>11,633</u>
Total Expenditures	\$ <u>88,496</u>	\$ <u>88,496</u>	\$ <u>32,740</u>	\$ <u>55,756</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 35,302	\$ 35,302	\$ 21,929	\$ (13,373)
Cash Balance Beginning of Year	<u>(35,302)</u>	<u>(35,302)</u>	<u>(35,302)</u>	<u>0</u>
Cash Balance End of Year	\$ <u>0</u>	\$ <u>0</u>	\$ <u>(13,373)</u>	\$ <u>(13,373)</u>
Reconciliation of Budgetary Basis to GAAP Basis				
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis			\$ 21,929	
Net Change in Due from Grantor			(24,672)	
Net Change in Accounts Payable			2,743	
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis			\$ <u>0</u>	

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Cash Reconciliation
For the Year Ended June 30, 2013

		Beginning Cash Balance <u>6/30/12</u>	Revenue	Expenses	Ending Cash Balance <u>6/30/13</u>
Federal Flowthrough	24000	\$ (404,163)	\$ 972,243	\$ 751,127	\$ (183,047)
Federal Direct	25000	527,397	300,162	286,658	540,901
State Flowthrough	27000	(108,594)	820,791	842,371	(130,174)
Total		<u>\$ 14,640</u>	<u>\$ 2,093,196</u>	<u>\$ 1,880,156</u>	<u>\$ 227,680</u>

The notes to the financial statements are an integral part of this statement.

**SCHEDULE OF EXPENDITURES
OF
FEDERAL AWARDS**

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
 Schedule of Expenditures of Federal Awards
 June 30, 2013

Federal Agency/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Federal Awards Expended
US DEPARTMENT OF EDUCATION			
PASS-THROUGH PROGRAM FROM:			
New Mexico Department of Education			
Special Education Cluster			
IDEA B Entitlement	84.027	24106 \$	668,877
IDEA B Risk Pool	84.027	24120	13,621
IDEA B Discretionary-State Directed	84.027	27200	201,751
IDEA Preschool	84.173	24109	17,177
Total Special Education Cluster			<u>901,426</u>
TOTAL Special Education Cluster			
Title III-English Language Acquisition	84.365	24153	4,975
Title II-Teacher/Principal Training & Recruiting	84.367	24154	29,997
TOTAL US DEPARTMENT OF EDUCATION			<u>936,398</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 936,398</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Note 1: Significant Accounting Policies used in preparing the Schedule of Expenditure of Federal Awards

The modified accrual basis was used to prepare the Schedule of Expenditures of Federal Awards

Note 2: Insurance Requirements

There are no insurance requirement on the federal awards disclosed on the Schedule of Expenditures of Federal Awards

Note 3: Loans or Loan Guarantees

There were no loans or loan guarantees outstanding at year end.

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

Independent Auditor's Report

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the Regional Education Cooperative #7

Mr. Balderas and Members of the Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds, of the Regional Education Cooperative #7 (REC) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the REC's basic financial statements, and the combining and individual funds and related budgetary comparisons of the REC, presented as supplemental information, and have issued our report thereon dated September 12, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the REC's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that are less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the REC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 12-1, 13-1 and 13-2.

The REC's Response to Findings

The REC's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned cost. The REC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

De'Ann Willoughby CPA PC

Clovis, New Mexico
September 12, 2013

Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control
Over Compliance in Accordance With OMB Circular A-133

Independent Auditor's Report

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the Regional Education Cooperative #7

Mr. Balderas and Members of the Board

Compliance

We have audited Regional Education Cooperative #7 (REC) compliance with the types of compliance requirements described in the *OMB A-133 Compliance Supplement* that could have a direct and material effect on each of the REC's major federal programs for the year ended June 30, 2013. The REC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the REC's major federal programs based on our audit of the types of compliance requirements referred to above. 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 REC'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the REC's

Opinion on Each Major Federal Program

In our opinion, the REC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the REC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the REC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 REC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

De'Ann Willoughby CPA PC

Clovis, New Mexico
September 12, 2013

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
 Schedule of Findings and Questioned Costs
 June 30, 2013

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unqualified
 Internal control over financial reporting:

* Material weakness(es) identified? _____ yes X no

* Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? _____ yes X no

* Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	IDEA B Special Education
84.173	IDEA Preschool

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk Auditee X yes _____ no

Federal Compliance Findings

Prior Year Audit Findings None

Current Year Audit Findings None

Financial Statements Findings

Prior Year Audit Findings

	<u>Status</u>
12-1 941	Repeated & Modified
12-2 RHCA	Resolved
12-3 NMPSIA	Resolved
12-4 Expenses	Resolved
12-5 Late Audit Report	Resolved

Current Year Audit Findings

12-1 941-Compliance and Internal Control-Other Condition

The payroll deposits for July through September 2012 did not total the amount reported on the 941 for 3rd quarter of 2012. There was a difference of \$328.30 causing the REC to pay a penalty of \$3.28 and interest of \$1.65.

Criteria

IRS Publication 15 Circular E sets forth the requirements and instructions.

Cause

The REC implemented new software and the payroll was set up incorrectly.

Effect

The REC incurred penalties and fines and time spent amending and responding to the Internal Revenue Service.

Recommendation

We recommend payroll tax deposits be paid correctly.

Agency Response

This issue has been resolved.

13-1 ERB Reporting-Compliance and Internal Control-Other Condition

Field work revealed that the REC under reported wages to ERB totaling \$1,615.44. The total amount under paid to ERB because of this error totaled \$327.93; this includes the employees part of \$180.12 and employers part of \$147.81. All based wages are to be reported to ERB.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE # 7
Schedule of Findings and Questioned Costs
June 30, 2013

Criteria

82.9.8(C)(1), NMAC provides that all "reports and contributions shall be postmarked no later than the fifteenth (15th) of the month following the end of the month covered by the report. When the fifteenth (15th) of the month is on a Saturday, reports and contributions are due the previous day. If the fifteenth (15th) of the month falls on a Sunday or holiday, report and contributions are due on the next workday."

Cause

The computer software was not set up correctly for an employee to withhold and pay ERB.

Effect

ERB was under paid causing penalties and interest additional costs to the REC.

Recommendation

A comparison of the ERB report to a payroll report would have caught the error. The comparison procedure should be added to the review process.

Agency Response

We will add the additional procedure to the review process.

13-2 Late Audit Contract-Other

Condition

The audit contract was not received by the Office of the State Auditor by the required due date of April 15, 2013.

Criteria

Paragraph (6) or Subsection G of 2.2.2.8 NMAC requires the contract be received by the Office of the State Auditor by April 15, 2013.

Cause

The auditor was not on the approved audit list until after that date.

Effect

Paragraph (6) or Subsection G of 2.2.2.8 NMAC was violated.

Recommendation

The auditors will make every effort to be on the approved auditors' list timely in the future.

Agency Response

We will contract with an approved auditor timely.

Financial Statement Preparation

The financial statements were prepared by De'Aun Willoughby CPA. However, they are the responsibility of management.

Exit Conference

An exit conference was held on September 9, 2013 with Israel Carrera-President, Belinda Morris-Executive Director, Kim Reighley-Business Manager, and De'Aun Willoughby, CPA.