



FINANCIAL STATEMENTS

JUNE 30, 2017

INTRODUCTORY SECTION

**REDI NET
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JUNE 30, 2017**

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**REDI NET
OFFICIAL ROSTER
JUNE 30, 2017**

Members to the REDI Net Board

JPA Jurisdiction:	Member Name:	Alternate:
City of Espanola	Michael Martinez	none officially specified
Los Alamos County	Matthew Casados	none officially specified
Ohkay Owingeh	Eric Phillips	none officially specified
NCNMEDD	Tim Armer	none officially specified
Pueblo of Pojoaque	Gabriel Montoya	none officially specified
Rio Arriba County	David Trujillo	Raymond Ortiz
Pueblo of Santa Clara	Mark Thompson	Chris Salazar
Santa Fe County	Chris Hyer	none officially specified
Pueblo of Tesuque	Jeremy Yepa	Justin Greene

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
REDI Net
Española, New Mexico and
Brian S. Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of REDI Net, and the budgetary comparison as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise REDI Net's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matters described in the "Basis for Disclaimer of Opinion" paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for our audit opinion on the financial statements as identified above under "Report on Financial Statements."

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.

To the Board of Directors
REDI Net and
Brian S. Colón, Esq.
New Mexico State Auditor

We were not able to obtain sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Basis for Disclaimer of Opinion

Management was unable to provide sufficient evidential matter in support of certain transactions and account balances, as presented in the REDI Net's financial statements as of and for the year ended June 30, 2017, particularly with respect to inventory, easements, revenues, and the Statement of Revenues, Expenses, and Changes in Net Position – Budget to Actual.

It was impracticable to extend our audit procedures sufficiently to determine the extent to which REDI Net's financial statements as of and for the year ended June 30, 2017 may have been affected by the matters discussed in the preceding paragraph; accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements as of and for the year ended June 30, 2017.

Disclaimer of Opinion

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles, generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the REDI Net's basic financial statements. The schedule required by NMAC 2.2.2 (Schedule of Joint Powers Agreement) and other information, such as the Introductory Section, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

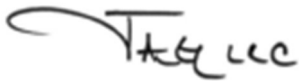
The schedule required by NMAC 2.2.2 (Schedule of Joint Powers Agreement) is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter disclosed

To the Board of Directors
REDI Net and
Brian S. Colón, Esq.
New Mexico State Auditor

in the auditor's report, it is inappropriate to and the auditor does not express an opinion on the supplementary information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2020 on our consideration of REDI Net'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 REDI Net's internal control over financial reporting and compliance.



Jaramillo Accounting Group LLC
Albuquerque, New Mexico
September 8, 2020

BASIC FINANCIAL STATEMENTS

REDI NET
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 169,998
Accounts receivable	63,002
Materials inventory	<u>2,560</u>

Total current assets 235,560

Non-current Assets

Capital assets	
Right-to-use easements	2,236,363
Equipment	24,141
Less accumulated amortization and depreciation	<u>(616,289)</u>
Capital assets (net)	<u>1,644,215</u>

Total assets \$ 1,879,775

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$ 2,189
Accrued payroll liabilities	1,784
New Mexico gross receipts taxes payable	<u>8,860</u>

Total liabilities 12,833

Net Position

Net investment in capital assets	1,644,215
Unrestricted	<u>222,727</u>

Total net position 1,866,942

Total liabilities and net position \$ 1,879,775

REDI NET
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

REVENUES

Operating Revenues

Charges for services	\$ 626,178
Installation revenue - JPA Members	134,910
Installation revenue - Non-JPA Members	16,000
	<u>777,088</u>

EXPENSES

Direct Expenses

Cost of Internet access	<u>265,861</u>
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Operating Expenses

Equipment maintenance	27,778
Depreciation and amortization	113,107
Capital expenditures - JPA Members	134,910
Capital expenditures - Non-JPA Members	16,000
Professional services	198,558
Payroll	3,462
Payroll taxes and benefits	579
Occupancy	3,902
Other administrative costs	17,665
Travel	2,526
Insurance	<u>12,211</u>

Total operating expenses	<u>530,698</u>
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Total expenses	<u>796,559</u>
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Operating loss	(19,471)
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Net position, beginning of year	<u>1,886,413</u>
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Net position, end of year	<u><u>\$ 1,866,942</u></u>
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REDI NET
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

Cash Flows From Operating Activities	
Cash received from customers	\$ 796,109
Cash paid to employees	(2,257)
Cash paid to suppliers for internet access	(204,281)
Cash paid for operating expenses	<u>(431,676)</u>
Net cash provided by operating activities	<u>157,895</u>
Cash Flows From Capital and Related Financing Activities	
Capital asset purchases	<u>(24,141)</u>
Net cash used in capital and related financing activities	<u>(24,141)</u>
Net change in cash and cash equivalents	133,754
Cash and cash equivalents, beginning of year	<u>36,244</u>
Cash and cash equivalents, end of year	<u><u>\$ 169,998</u></u>
Reconciliation of operating revenue (loss) to net cash provided by (used in) operating activities	
Operating loss	\$ (19,471)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation and amortization	113,107
Changes in assets and liabilities	
Accounts receivable	33,334
Materials inventory	80,224
Accounts payable	(52,770)
Accrued liabilities	<u>3,471</u>
Net cash provided by operating activities	<u><u>\$ 157,895</u></u>

REDI NET
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
OPERATING REVENUE				
Charges for services	\$ 664,971	\$ 731,971	\$ 634,448	\$ 97,523
Total operating revenues	<u>664,971</u>	<u>731,971</u>	<u>634,448</u>	<u>97,523</u>
OPERATING EXPENSES				
Equipment maintenance	95,517	95,517	74,502	21,015
Cost of internet access	235,160	258,679	265,861	(7,182)
Professional services	273,320	224,245	198,558	25,687
Payroll	-	37,500	3,462	34,038
Payroll taxes and benefits	-	23,119	579	22,540
Occupancy	7,391	19,391	3,902	15,489
Other administrative costs	34,809	37,509	17,622	19,887
Travel	13,495	13,495	2,526	10,969
Insurance	857	11,714	12,211	(497)
Bank fees	-	-	43	(43)
Total operating expenses	<u>660,549</u>	<u>721,169</u>	<u>579,266</u>	<u>\$ 141,903</u>
Operating income	<u>\$ 4,422</u>	<u>\$ 10,802</u>	55,182	
ADJUSTMENTS TO GAAP				
Capital outlay			(5,926)	
Depreciation and amortization			(113,107)	
Inventory			52,650	
Accounts receivable			(8,270)	
GAAP basis change in net position			<u>(19,471)</u>	
Net position, beginning of year			<u>1,886,413</u>	
Net position, end of year			<u>\$ 1,866,942</u>	

See Accompanying Notes.

REDI NET
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. ORGANIZATION AND OPERATIONS

REDI Net was created to bring a high-speed, open access broadband network (fiber optic network) to areas of Northern New Mexico, to improve rural healthcare services, make public and higher education more accessible, and improve local government services such as: public safety, high-speed bandwidth to community anchor institutions (anchor institutions include State owned buildings, public safety towers and all public and private K-12 schools, public libraries and colleges that elect to participate in the project). REDI Net was also created for last-mile providers that were not currently available in the market, multiple options for transport, and last-mile providers to access new markets, thus increasing customer choice and affordability.

In July 2010, the North Central New Mexico Economic Development District (NCNMEDD) was awarded a \$10.5 million National Telecommunications and Information Administration, Broadband Technology Opportunities Program (BTOP) Grant under the American Recovery and Reinvestment Act (ARRA), for the construction of a high-speed, open access, community broadband network in Northern New Mexico, (hereinafter "REDI Net"), to be owned and operated by a consortium of local and tribal governments.

On December 26, 2011, a Joint Powers Agreement, (JPA) was executed among the local parties: NCNMEDD, the Incorporated County of Los Alamos, Santa Fe County, the City of Espanola, Rio Arriba County, Ohkay Owingeh Pueblo, the Pueblo of Santa Clara, the Pueblo of Pojoaque, and the Pueblo of Tesuque for the collective management, design, construction, implementation, and operation of REDI Net. Governance of REDI Net is accomplished by the Parties through the REDI Net Board which was composed of one representative from each Local Party appointed by the governing body of each Party, and one representative of NCNMEDD appointed by its governing body. The JPA agreement term is for 20 years (thus expiring on December 26, 2031). If REDI Net remains suitable for operations beyond the initial 20-year term, the Parties, by mutual consent, may renegotiate an extension of the JPA at the end of the 20-year term with such negotiations to begin no later than the 18th year of the JPA term.

As required under the JPA, all revenues generated by REDI Net shall be reinvested in expansion, operation and maintenance of the network and shall not be distributed to the Parties or any individual Party. Upon dissolution, any remaining residual interest goes back to the local parties on a pro-rata basis based upon contributions made.

As more fully described in the JPA, Broadband Grant Agreement with the Federal Government, and subsequent Uniform Commercial Code (UCC) filings, each of the local parties own the portion of the fiber optic network that travels through their jurisdictional boundaries. As such, the expenses and non-monetary contributions used for materials, installation, and certain other professional fees incurred to the build and place the fiber optic network into service are not capitalized and depreciated in these financial statements.

The fiber optic network became operational in February 2013. The main portion of the fiber optic network travels throughout New Mexico from the north end of Santa Fe through Espanola to Dixon, with another line from Espanola to Hernandez. A second portion of the network travels from White Rock through Los Alamos. The total fiber optic network is approximately 140 miles in length.

The NCNMEDD, through a Memorandum of Agreement (MOA) served as the fiscal agent for REDI Net from inception through March 31, 2016. Rio Arriba County, through a MOA, served REDI Net as a fiscal agent from April 1, 2016 through September 30, 2017. REDI Net became its own fiscal agent on October 1, 2017.

REDI NET
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REDI Net’s financial statements are presented as a business-type activity (proprietary fund). The financial statements are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. With this measurement focus, all assets and all liabilities associated with the operation of REDI Net are included.

Reporting Entity. REDI Net is a stand-alone government operating as a joint venture.

In evaluating how to define a governmental entity for financial reporting purposes, management must consider all potential component units for which financial accountability may exist. The determination of financial accountability pursuant to Governmental Accounting Standards Board (GASB 14, *The Financial Reporting Entity* as amended by GASB No. 39, *Determining Whether Certain Organizations are Component Units* and subsequently amended by GASB 61 and 80) includes consideration of a number of criteria, including: (1) the ability to appoint a voting majority of another entity’s governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on others, and (3) the entity’s fiscal dependency on others. REDI Net has determined that it has no reportable component units.

Basis of Accounting. With the exception of inventory, easements, and revenues, as described in the Independent Auditor’s Report, the financial statements of REDI Net conform with accounting principles generally accepted in the United States of America (GAAP) applicable to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute GAAP for governments.

Budgets. The budget is adopted on a cash basis of accounting. The legal compliance for the budget is total expenditures.

Capital Assets and Depreciation. Capital assets are recorded at cost. Typically, personal property and equipment costing \$5,000 or more are capitalized in accordance with Section 12-6-10, NMSA 1978, in addition to outlays for items that significantly extend the useful life of a capital asset. Costs incurred for repair and maintenance are expensed as incurred as previously described in “Reporting Entity”. Each of the local parties own the portion of the fiber optic network that crosses their jurisdictional boundaries. Accordingly, REDI Net does not include in its financial statements the capitalized costs of the fiber optic network. Depreciation and amortization is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The estimated useful lives used to depreciate assets, by asset class, are as follows:

Easements (right-to-use)	The lesser of 20 years or the life of the JPA agreement
Equipment	5-10 years

Cash and Cash Equivalents. Cash and cash equivalents include investments in highly-liquid debt instruments, with an original maturity of three months or less. REDI Net’s cash and cash equivalents consist of cash deposits held in a bank checking account as of June 30, 2017.

Easements. Easements granted to REDI Net are a “right-to-use” asset and are accounted for at cost or fair market value at the date of contribution and amortized over the life of the JPA.

REDI NET
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes. REDI Net operates as a governmental entity in the State of New Mexico and is exempt from federal and state income taxes.

Inventory. Inventory is stated at the lower of cost (using the first-in, first-out method) or market value.

Net position classification policies. Equity is classified as net position and displayed in three components:

Net investment in capital assets: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position: Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Non-expendable restricted net position consists of endowment and similar type assets for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income. The income generated from the principal may be expended or added to principal. REDI Net does not have any restricted net position.

Unrestricted net position: All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

REDI Net’s policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Proprietary Fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of REDI Net. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grants and investment earnings, result from non-exchange transactions or ancillary activities. REDI Net first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available. REDI Net had no restricted net position at June 30, 2017.

Receivables. Receivables are stated at the amount billed to customers and interest receivable. Receivables billed to customers are due within 10 days after issuance of the invoice, or by the 20th of the month or the business day immediately preceding such day if the 20th is not a business day. Management does not believe an allowance for doubtful accounts is necessary at June 30, 2017. There was no allowance as of June 30, 2017.

Restricted Assets. Restricted assets within net position have externally imposed constraints by creditors (such as debt covenants), contributors, laws or regulations of other governments. There were no restricted assets as of the year ended June 30, 2017.

Revenue Recognition. Revenue is generally recorded when the service has been provided, and profit is recognized at that time. Revenues are reported net of bad debt expense. Total bad debt expense related to revenues of the current period is \$0.

REDI NET
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management. REDI Net maintains commercial and liability insurance through a private insurance carrier. This insurance includes \$13,500,000 property insurance on the 140 mile fiber optic network.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and changes in net position during the reporting period. Actual results could differ from those estimates.

NOTE 3. CONTRIBUTIONS TO REDI NET

The following contributions have been made to REDI Net to support the Fiber Optic Network from inception through June 30, 2017 as follows:

	Non-monetary contributions						Initial Cash*	Additional Cash**	Total
	Fiber Optic Infrastructure	License, pole replace, and easement fees	Easements	Training					
Federal Government									
US Government - BTOP Grant	\$ -	\$ -	\$ -	\$ -	\$ 10,565,972	\$ -	\$ -	\$ 10,565,972	
JPA Partners									
City of Espanola	20,000	-	-	-	-	-	-	20,000	
Incorporated County of Los Alamos	625,000	-	-	-	400,000	104,524	-	1,129,524	
Ohkay Owingeh	-	-	727,273	-	-	-	-	727,273	
Pueblo of Pojoaque	-	-	575,757	-	-	-	-	575,757	
Pueblo of Santa Clara	-	-	509,091	-	-	15,954	-	525,045	
Pueblo of Tesuque	-	-	424,242	-	-	-	-	424,242	
Rio Arriba County	-	-	-	-	700,000	-	-	700,000	
Others									
Jemez Mountain Electric Cooperative	-	1,046,280	-	-	-	-	-	1,046,280	
Los Alamos National Security LLC	-	-	-	-	170,000	-	-	170,000	
Northern New Mexico College	-	-	-	5,000	-	-	-	5,000	
Total Contributions	<u>\$ 645,000</u>	<u>\$ 1,046,280</u>	<u>\$ 2,236,363</u>	<u>\$ 5,000</u>	<u>\$ 11,835,972</u>	<u>\$ 120,478</u>	<u>\$ -</u>	<u>\$ 15,889,093</u>	

*This initial cash contribution was required under the BTOP agreement

**Additional cash has been provided directly by the JPA partners to the fiber optic network in their jurisdiction

NOTE 4. CUSTODIAL CREDIT RISK—DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, REDI Net's deposits may not be returned to it. In accordance with Section 6-10-17, NMSA 1978, REDI Net is required to obtain collateral in an amount equal to one-half of the deposited public money in excess of \$250,000. REDI Net's policy is to require collateral on all deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. As of June 30, 2017, REDI Net had deposits with a book balance of \$169,998 and a bank balance of \$178,946. As of June 30, 2017, there were no amounts subject to custodial credit risk, as all amounts were either insured. REDI Net maintains one non-interest bearing checking account with Century Bank of Santa Fe.

REDI NET
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. CAPITAL ASSETS

Capital assets activity of REDI Net for the year ended June 30, 2017 was as follows:

	Beginning Balances	Additions	Deletions	Ending Balances
Capital assets being depreciated/amortized				
Easements (right-to-use)	\$ 2,236,363	\$ -	\$ -	\$ 2,236,363
Equipment	-	24,141	-	24,141
	2,236,363	24,141	-	2,260,504
Accumulated depreciation and amortization	(503,182)	(113,107)	-	(616,289)
Total capital assets	\$ 1,733,181	\$ (88,966)	\$ -	\$ 1,644,215

Equipment owned by REDI Net includes certain equipment located in Point-of-Presence (POP) Shelters.

NOTE 6. EXCHANGE OF FIBER OPTIC LINE

REDI Net has entered into certain agreements to exchange fiber optic line as follows:

US Department of Energy / National Nuclear Security Administration. On February 12, 2013, REDI Net entered into a 20-year agreement to exchange 36 strands of fiber optic line for the right to attach to electric distribution poles that cross the property of Los Alamos National Laboratory.

Incorporated County of Los Alamos. On February 12, 2013, REDI Net entered into an agreement to exchange 38 strands (White Rock), 36 strands (Town site) and 23 strands (Bayo/Guaje Canyon) of fiber optic line for the right to attach to electric distribution poles that cross the Incorporated County of Los Alamos.

Jemez Mountain Electric Cooperative (JMEC). On February 27, 2015, REDI Net entered into an agreement to formally resolve any and all disputes and allegations or claims of breach related to the REDI Net project. The agreement replaces all original agreements. The terms of the agreement expire December 31, 2031. Included in the terms of the agreement are two strands of fiber optic line to JMEC (and an additional non-monetary contribution of certain joint use license fees, pole replacement fees, and easement fees in the amount of \$359,880 (which is in addition to \$686,400 in non-monetary contributions previously provided) and the reduction in the number of strands of fiber optic cable from the original and amended licensing agreements with REDI Net from 6 strands to 2 strands).

REDI NET
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7. JPA PARTNERS' OWNERSHIP IN FIBER OPTIC NETWORK

As previously discussed, the JPA partners own the fiber optic network that is in their jurisdictional boundaries. As more fully described in audit finding 2017-002, certain costs have not been allocated to the JPA partners.

Local Party	For the Year Ended June 30,						Total
	2012	2013	2014	2015	2016	2017	
Material only costs*							
Los Alamos County	\$ 652,687	\$ 65,821	\$ 12,000	\$ -	\$ -	\$ 104,524	\$ 835,032
Ohkay Owingeh	313,571	12,688	-	-	-	-	326,259
Pueblo of Pojoaque	189,158	24,674	-	-	8,403	-	222,235
Pueblo of Santa Clara	130,797	5,380	-	-	-	15,954	152,131
Pueblo of Tesuque	148,102	6,424	-	-	28,217	5,926	188,669
Rio Arriba County	962,849	39,690	-	-	-	-	1,002,539
Santa Fe County	214,768	9,476	46,147	-	-	-	270,391
City of Espanola	-	-	-	-	-	8,506	8,506
Subtotal	2,611,932	164,153	58,147	-	36,620	134,910	3,005,762
Additional unallocated costs	<u>6,484,262</u>	<u>1,847,815</u>	<u>243,644</u>	<u>173,871</u>	<u>-</u>	<u>-</u>	<u>8,749,592</u>
	<u>9,096,194</u>	<u>2,011,968</u>	<u>301,791</u>	<u>173,871</u>	<u>36,620</u>	<u>134,910</u>	<u>11,755,354</u>
Donated fiber optic infrastructure							
Los Alamos County	625,000	-	-	-	-	-	625,000
City of Espanola	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Subtotal	<u>645,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>645,000</u>
Total network costs	<u>\$9,741,194</u>	<u>\$2,011,968</u>	<u>\$ 301,791</u>	<u>\$ 173,871</u>	<u>\$ 36,620</u>	<u>\$ 134,910</u>	<u>\$ 12,400,354</u>

*Material only costs are from prior UCC filings.

SUPPLEMENTARY INFORMATION

**REDI NET
SCHEDULE OF JOINT POWERS AGREEMENT
FOR THE YEAR ENDED JUNE 30, 2017**

Participants	Responsible Party	Description	Begin Date	End Date
Incorporated County of Los Alamos, Santa Fe County, City of Espanola, Rio Arriba County, Ohkay Owingeh, Pueblo of Santa Clara, Pueblo of Pojoaque, Pueblo of Tesuque and the North Central Economic Development District	REDI Net	REDI Net was created to bring a high-speed, open access broadband network (fiber optic network) to areas of Northern New Mexico, to improve rural healthcare services, make public and higher education more accessible, and improve local government services, like public safety and to provide high-speed bandwidth to community anchor institutions (anchor institutions include State owned buildings, public safety towers and all public and private K-12 schools, public libraries and colleges that elect to participate in the project) and last-mile providers that were not currently available in the market; offer multiple options for transport, and allow last-mile providers to access new markets, increasing customer choice and affordability.	12/26/2011	12/26/2031

Total Estimated Amount of the Project and Portion Applicable to REDI Net	Amount Contributed in Fiscal Year	Audit Responsibility	Name of Govt. Agency Report Rev. & Exp.	Fiscal Agent
Total amount contributed to project (including in-kind contributions of \$3,932,643 and cash of \$11,956,450) was \$15,889,093 (as more fully described in Note 3 to the financial statements). The project became operational in February 2013. Each JPA Local Party has an ownership interest in the Fiber Optic Network that is located in their jurisdiction. The total cost of the Fiber Optic Network is \$12,400,354.	\$ 134,910	REDI Net	REDI Net - see financial statements	Rio Arriba County (7.1.2016 to 9.30.2017). REDI Net became its own fiscal agent on 10.1.2017

COMPLIANCE SECTION



**INDEPENDENT AUDITOR'S 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***

To the Board of Directors
REDI Net
Española, New Mexico and
Mr. Brian Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

We were engaged to audit, 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 REDI Net, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise REDI Net's basic financial statements, and the related Budgetary Comparison and have issued our report thereon dated September 8, 2020. Our report disclaims an opinion on such financial statements because REDI Net was unable to provide sufficient evidential matter in support of certain transactions and account balances, as presented in REDI Net's financial statements as of and for the year ended June 30, 2017, particularly with respect to the inventory, easements, and current year revenues.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements

To the Board of Directors
REDI Net and
Mr. Brian Colón, Esq.
New Mexico State Auditor

will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-004, 2017-005, and 2017-006 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-007 and 2017-009 to be significant deficiencies.

Compliance and Other Matters

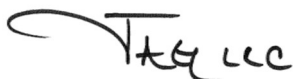
In connection with our engagement to audit the financial statements of REDI Net, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement 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 non-compliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-003, 2017-005, 2017-006, 2017-008, 2017-009, and 2017-010. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the basic financial statements, other instances of non-compliance or other matters may have been identified and reported herein.

REDI Net's Responses to Findings

REDI Net's responses to the findings identified in our engagement are described in the accompanying Schedule of Findings and Responses. REDI Net's responses were not subjected to the auditing procedures applied in the engagement to audit 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.



Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
September 8, 2020

REDI NET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

2016-001	Document Retention – Accounting Records	Revised and Repeated
2016-002	Lack of Internal Controls and Compliance over Capital Asset Tracking and Ownership	Repeated
2016-003	Open Meetings Act / Board Minutes	Revised and Repeated
2016-004	Easements used in the Fiber Optic Network – Not Reflected in the Accounting Records	Repeated
2016-005	Revenues recorded on Service Level Agreements (SLA)	Revised and Repeated
2016-006	Materials Inventory	Revised and Repeated
2016-007	Policies and Procedures	Revised and Repeated
2016-008	Late Audit Report	Repeated

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | |
|---|--|
| 1. Type of auditor's report issued | Disclaimer |
| 2. Internal Control over Financial Reporting | |
| a. Material Weakness Identified? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| b. Significant Deficiencies not considered to be material weakness? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> None Reported |
| c. Non-compliance Material to the financial statements noted? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-001 (PREVIOUSLY REPORTED AS 2016-001) DOCUMENT RETENTION – ACCOUNTING RECORDS

TYPE OF FINDING: Material Weakness, Material Non-Compliance

CONDITION

REDI Net did not sufficiently retain accounting records for all transaction types. Accounting records from the previous fiscal agent, North Central New Mexico Economic Development District, are not in REDI Net's possession.

Invoices supporting the fiber optic network. Invoices supporting the fiber optic network prior to April 1, 2016 are not in the possession of REDI Net.

Purchase orders. Management did not provide purchase orders for certain transactions. We were unable to determine if the purchase orders were not consistently used or not just kept with the invoice and check copy.

Easements. Management did not provide final copies of the easements with adjusted fair values.

Journal entries. Management did not provide supporting documentation for five of five journal entries selected for testing.

Budget records. Management did not provide a copy of the May 27, 2017 budget adjustment, and the final approved budget.

Redi Net did not make improvements over document retention from fiscal year 2016.

CRITERIA

The New Mexico Administrative Code (NMAC) Title 1, Chapter 21 Part 2 describes the functional records retention and disposition schedules for retention and disposition of public records.

It is necessary to save copies of all financial records including purchase receipts, bank statements, check registers, withdrawal and deposit receipts, reconciliation reports, approved budgets, budget adjustment requests and financial statements. It is important to keep on file copies of the meeting agendas, approved meeting minutes and resolutions passed throughout the fiscal year (see Finding 2017-003).

Once records have been properly filed it is important that they are stored in a safe place so that they may be utilized in the future by members of the board, an auditor or in order to comply with an Inspection of Public Records Act request from a member of the public. The New Mexico Administrative Code (NMAC) sets forth the requirements for how long certain types of records must be maintained by a government entity before they can dispose of them. The NMAC outlines these retention requirements in Title 1, Chapter 21 in various parts. They are known as General Records Retention and Disposition Schedules (GRRDS). For a complete listing of the GRRDS please refer to the NMAC. Specifically applicable to REDI Net are both NMAC 1.21.2.301 B. Records relating to accounts payable including, but not limited to purchasing and reimbursements and NMAC 1.21.2.301 C. Destroy six years from date audit report is released.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-001 (PREVIOUSLY REPORTED AS 2016-001) DOCUMENT RETENTION – ACCOUNTING RECORDS (CONTINUED)

Records for real property and equipment acquired with Federal funds shall be retained for 3 years after disposal of the federally-funded asset (2 CFR 200.333 (c)).

EFFECT

Without adequate documentation, it is unknown if certain balance sheet accounts and revenues and expenses are appropriately prepared, reviewed, approved and captured in the accounting records. Additionally, capital asset records prior to fiscal year 2017 cannot be fully supported by all invoices for the purchase of materials and subcontractor labor used in the fiber optic network. Therefore, REDI Net may not be in compliance with laws, regulations, policies, procedures, and internal controls. The audit opinion is a disclaimer.

CAUSE

The Management did not provide/retain all documents necessary to fully support all transactional activity in fiscal year 2017.

RECOMMENDATION

REDI Net should develop and formally adopt a document retention policy that is in compliance with the statutes. The must ensure accounting records are complete and accurate and maintained as support for every transaction, to ensure compliance and transparency.

MANAGEMENT RESPONSE

Corrective Action(s): During the August 13, 2020 Board of Directors meeting, the State of New Mexico Retention and Disposition of Public Records was adopted as the defining document for records disposition. Additionally, an internal filing system has been setup and will be organized according to these requirements.

Responsible Person(s): Board of Directors of REDI Net

Timeline of Corrective Action: Internal document retention was initiated on April 30, 2020 and the Document Retention and Disposition of Public Records was adopted as the policy for the handling of REDI Net documents.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-002 (PREVIOUSLY REPORTED AS 2016-002) LACK OF INTERNAL CONTROLS AND COMPLIANCE OVER CAPITAL ASSET TRACKING AND OWNERSHIP

TYPE OF FINDING: Material Weakness, Material Non-Compliance

CONDITION

REDI Net is required to account for all the expenditures of REDI Net, including capital expenditures used in the fiber optic network. The capital expenditures are to be accounted for and identified as to placement in each jurisdictional area. As per the JPA and BTOP Grant agreements, each of the local parties own the portion of the fiber optic network in their jurisdictional boundaries. Subsequent to the fiber optic network becoming operational during fiscal year 2014, the former fiscal agent, North Central New Mexico Economic Development District, provided a detail of materials used in the fiber optic network and assisted in the preparation and filing of Uniform Commercial Code Filings (UCC) for each Local Party.

We obtained the "UCC filings" of purchased material used in the fiber optic network, by local party. The UCC filings provide the detail of each part used in the fiber optic network including, model number, serial/other ID#, source of property, who holds title, acquisition date, cost, % of federal participation in the project costs and location. The UCC filings only provide the detail of the materials (total \$2,834,232) and not the cost to place the fiber optic network into service (primarily subcontractor labor). The UCC filings do not provide name of the vendor who provided the material, nor an invoice number. Management did not provide the detail of the subcontractor installation costs; therefore, we were unable to determine the completeness of the material used in the fiber optic network, and unable to determine the total ownership of capital assets by Local Party. Redi Net did not make improvements over capital assets tracking and ownership from fiscal year 2016. Below is a summary of costs incurred to build, expand, and enhance the fiber optic network, by fiscal year:

Local Party	For the Year Ended June 30,						Total
	2012	2013	2014	2015	2016	2017	
Material only costs*							
Los Alamos County	\$ 652,687	\$ 65,821	\$ 12,000	\$ -	\$ -	\$ 104,524	\$ 835,032
Ohkay Owingeh	313,571	12,688	-	-	-	-	326,259
Pueblo of Pojoaque	189,158	24,674	-	-	8,403	-	222,235
Pueblo of Santa Clara	130,797	5,380	-	-	-	15,954	152,131
Pueblo of Tesuque	148,102	6,424	-	-	28,217	5,926	188,669
Rio Arriba County	962,849	39,690	-	-	-	-	1,002,539
Santa Fe County	214,768	9,476	46,147	-	-	-	270,391
City of Espanola	-	-	-	-	-	8,506	8,506
Subtotal	2,611,932	164,153	58,147	-	36,620	134,910	3,005,762
Additional unallocated costs	<u>6,484,262</u>	<u>1,847,815</u>	<u>243,644</u>	<u>173,871</u>	<u>-</u>	<u>-</u>	<u>8,749,592</u>
	<u>9,096,194</u>	<u>2,011,968</u>	<u>301,791</u>	<u>173,871</u>	<u>36,620</u>	<u>134,910</u>	<u>11,755,354</u>
Donated fiber optic infrastructure							
Los Alamos County	625,000	-	-	-	-	-	625,000
City of Espanola	20,000	-	-	-	-	-	20,000
Subtotal	<u>645,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>645,000</u>
Total network costs	<u>\$9,741,194</u>	<u>\$2,011,968</u>	<u>\$ 301,791</u>	<u>\$ 173,871</u>	<u>\$ 36,620</u>	<u>\$ 134,910</u>	<u>\$ 12,400,354</u>

*Material only costs are from the UCC filings.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-002 (PREVIOUSLY REPORTED AS 2016-002) LACK OF INTERNAL CONTROLS AND COMPLIANCE OVER CAPITAL ASSETS TRACKING AND OWNERSHIP (CONTINUED)

CRITERIA

Accountability for capital expenditures. JPA, Section 7. Appointment of Fiscal Agent; Strict Accountability of all Receipts and Disbursements. NCNMEDD shall act as Fiscal Agent in connection with the administration, disbursement, reporting and monitoring of the BTOP Grant and shall be strictly accountable for all receipts and disbursements thereunder and under this Agreement until construction of REDI Net, transfer of REDI Net assets to the Local Parties have been completed and NCNMEDD has verified that its responsibilities as BTOP Grant recipient have been satisfied. Following expiration of the BTOP Grant Period (as defined in the BTOP Grant requirements), REDI Net Board shall either extend the term of NCNMEDD as fiscal agent, or appoint a new fiscal agent, which in either case shall be strictly accountable for all receipts and disbursements hereunder.

Tracking of capital expenditure detail. 200 CFR FAR Part 2: Section 200.313 and 200.439 Property records must include for each asset the description, serial/other ID#, source of property, who holds title, acquisition date, cost, % of federal participation in the project costs, location, use and condition, disposition data (date, sale price). Physical inventories must be taken, and the results reconciled with the property records at least once every two years. Controls must be developed to ensure adequate safeguards to prevent loss, damage, or theft of property. Any damage, loss, or theft must be investigated, adequate maintenance procedures must keep assets in good condition, and if the agency is authorized to sell any assets, they must obtain the highest possible return.

Generally Accepted Accounting Principles require that the capitalization of capital expenditures include both the cost of the capital expenditure (material) and the cost to place the asset into service (GASB 34, Paragraph 18: "The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees.")

Tracking of capital expenditure ownership. JPA, Section 4 D. Infrastructure Ownership and Federal Security Interest: Each Local Party that is a county government shall own that portion of REDI Net infrastructure situated within its jurisdictional boundaries with the following exceptions: 1) Local Parties that are tribal governments shall own REDI Net infrastructure within their tribal lands, and 2) the City of Espanola shall own existing fiber optic infrastructure which it has committed as an in-kind match to REDI Net in Section 3E of this Agreement.

The Audit Act (Section 12-6-10 NMSA 1978) requires agencies to conduct an annual inventory of chattels and equipment costing more than \$5,000 and under the control of the governing authority. The inventory shall list the chattels and equipment and the date and cost of acquisition. The inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files.

EFFECT

Equipment used in the fiber optic network may need to be replaced as it is damaged, ages, or newer technology becomes available. Without precise detail (location, date of purchase, type of technology, vendor, etc.) asset replacements and upgrades become more difficult to find and track. Local parties have ownership of the fiber optic network and do not know the dollar value of the capital assets they have ownership of.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-002 (PREVIOUSLY REPORTED AS 2016-002) LACK OF INTERNAL CONTROLS AND COMPLIANCE OVER CAPITAL ASSETS TRACKING AND OWNERSHIP (CONTINUED)

CAUSE

The prior fiscal agent, North Central New Mexico Economic Development District, did not track all capital asset components in the fiber optic network at the appropriate level of detail.

RECOMMENDATION

We recommend REDI Net compile a complete and accurate listing of capital assets and to develop and implement policies and procedures to safeguard assets to ensure compliance with both state and federal laws and the JPA requirements surrounding capital assets. REDI Net must ensure that capital assets were procured, capitalized, inventoried, and reported properly.

MANAGEMENT RESPONSE

Corrective Action(s): REDI Net is in the process of upgrading all end of life equipment and has adopted a color coding system for each JPA member that has ownership stake. In addition to the color coding system a unique ID number will be attached to each asset. This will allow for cradle to grave tracking and better asset ownership designation. The physical fiber infrastructure and valuation of that asset is slated for the same type of tagging and valuation. This last process will take longer and will require funding to do the tagging as the infrastructure was tagged improperly from the initial installation.

Responsible Person(s): Board of Directors of REDI Net

Timeline of Corrective Action: The expected timeline for completion for equipment capitalization is the end of FY21.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-003 (PREVIOUSLY REPORTED AS 2016-003) OPEN MEETINGS ACT / BOARD MINUTES

TYPE OF FINDING: Material Non-Compliance

CONDITION

We requested Board minutes for the year ended June 30, 2017. For the 21 meetings held during the year, we noted the following:

- 19 out of 21 agendas were provided. (2 exceptions)
- 3 of the 21 meetings did not have minutes available. (3 exceptions)
- None of the Board minutes we received were signed by the Board Secretary or Board Chair.

We were unable to determine if the final approved minutes were available within 10 days of board approval.

Redi Net did not make improvements over open meetings act / board minutes from fiscal year 2016.

CRITERIA

The Open Meetings Act (OMA), specifically Section 10-15-1 NMSA 1978 requires that “the board, commission or other policymaking body shall keep written minutes of all its meetings. The minutes shall include at a minimum the date, time and place of the meeting, the names of members in attendance and those absent, the substance of the proposals considered and a record of any decisions and votes taken that show how each member voted.... Draft minutes shall be prepared within ten working days after the meeting and shall be approved, amended or disapproved at the next meeting where a quorum is present. Minutes shall not become official until approved by the policy making body.”

Additionally, per the JPA agreement Section 2 paragraph G. “REDI Net Board meetings shall be held in compliance with the New Mexico Open Meetings Act, Sections 10-15-1 through 10-15-4 NMSA 1978.”

EFFECT

REDI Net is not in compliance with the OMA provisions relating to the preparation of agendas and minutes. Therefore, the actions of REDI Net are not fully transparent to the public. Minutes are not readily available for public inspection since they may not be prepared and approved timely.

CAUSE

During the fiscal year 2017, both former fiscal agents did not provide / retain agendas or fully executed minutes.

RECOMMENDATION

REDI Net should prepare agendas and minutes that comply with the requirements of the OMA, maintain minutes (draft and board approved) on-file, and provide them to the accountants or any party when requested.

MANAGEMENT RESPONSE

Corrective Action(s): Currently the meeting minutes are signed as they are approved by the Board of Directors and the signed copies submitted to the Comptroller for retention as of July 2019.

Responsible Person(s): Board Chairman, Board Secretary, and Comptroller

Timeline of Corrective Action: REDI Net has come into compliance as of July 2019.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-004 (PREVIOUSLY REPORTED AS 2016-004) EASEMENTS USED IN THE FIBER OPTIC NETWORK - NOT REFLECTED IN THE ACCOUNTING RECORDS

TYPE OF FINDING: Material Weakness

CONDITION

REDI Net did not record the accounting consequence of the right-to-use easements owned by REDI Net. An audit adjustment was made to record the easements at contributed value as disclosed in the JPA. However, the JPA notes that these valuations shall apply for the purposes the JPA and are not intended to reflect fair market value of any easements or rights-of-way. The JPA also notes that these valuations will be recalculated as recorded in Exhibit A based on precise boundaries and acreage for tribal ownership determined by final engineering for REDI Net. We were unable to obtain Exhibit A and any related fair value adjustment to the easements. Redi Net did not make improvements over easements included in the accounting records from fiscal year 2016.

CRITERIA

Generally Accepted Accounting Principles. GASB Statement Number 51, *Accounting and Financial Reporting for Intangible Assets*, prescribes the accounting for easements. Easements are considered capital assets for financial reporting purposes (paragraph 1), have a useful life not to extend past the contractual period (paragraph 16) (20 years is the life of the JPA), the fair value of donated right-of-way easements are the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale (paragraph 74).

JPA Agreement: Section 3 G of the JPA agreement states that: Contributions of tribal land for this project are hereby recognized as substantial financial contributions to REDI Net, although their value was not calculated for the BTOP grant. Recognizing tribal infrastructure ownership in REDI Net and REDI Net's status as a publicly-owned network that relies on reinvestment, the Local Parties that are tribal governments have established valuations of their lands to record their initial contributions to REDI Net; provided, that these valuations shall apply for the purposes of this agreement only and are not intended to reflect fair market value of any easements or rights-of-way. The valuations below represent estimates based on a per-acre cost negotiated with each tribal government and multiplied by the estimated number of miles of fiber optic cable running through tribal lands and the width of the corresponding electric utility easement. These valuations will be recalculated and recorded in Exhibit A, based on precise boundaries and acreage for tribal ownership determined by final engineering for REDI Net (Emphasis added).

EFFECT

REDI Net's internal financial statements do not carry the net value of the easements (fair market value at the date of contribution) net of accumulated amortization. Even with the audit adjustment to bring on the net fair value of the easements noted in the JPA, the actual fair value amount at the date of contribution may be materially different. The audit opinion is a disclaimer.

CAUSE

REDI Net's fiscal agent accounting staff in place at the time that REDI Net received the easements were not aware of the accounting requirements. Each of the four pueblos that contributed the easements to REDI Net are sovereign nations. As such, fair market value of easements are generally not made publicly available.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-004 (PREVIOUSLY REPORTED AS 2016-004) EASEMENTS USED IN THE FIBER OPTIC NETWORK - NOT REFLECTED IN THE ACCOUNTING RECORDS (CONTINUED)

RECOMMENDATION

We recommend that REDI Net obtain the final engineering reports and work with the above local parties to determine the fair market value (fair market value adjusted as necessary to match the approximate fair market at the date of the donation).

MANAGEMENT RESPONSE

Corrective Action(s): The valuation of the easements will be booked according to the valuation stipulated in the JPA and amortized over the life of the JPA which is 20 years. These will be booked in accordance with GASB – 51 and REDI Net is working with the auditors to establish the correct accounting structure to book the asset.

Responsible Person(s): REDI Net Officers of the Board of Directors and Comptroller

Timeline of Corrective Action: REDI Net is expecting to come into compliance in FY21.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-005 (PREVIOUSLY REPORTED AS 2016-005) REVENUE RECORDED ON SERVICE LEVEL AGREEMENTS (SLA)

TYPE OF FINDING: Material Weakness and Other Non-Compliance

CONDITION

REDI Net has entered into Service Level Agreements (SLA) to provide a specified level of service to Community Anchor Institutions (CAI) and Last Mile (LM) service providers. Revenue generated from the SLAs are the primary source of REDI Net's revenue. The SLAs are primarily executed for one year with a one to five-year renewal period.

REDI Net could only provide us 10 out of 33 SLAs that were in effect during the year ended June 30, 2017. For these 9, the sum of the annual SLA revenue per the general ledger was \$213,443 and the sum of the annual SLA revenue per the SLA agreements was \$178,939. Therefore, it appears that of the 9 SLAs that REDI Net provided, there may be additional related SLA amendments (not provided) that could explain the difference. Redi Net did not make improvements over revenue recorded on service level agreements from fiscal year 2016.

CRITERIA

As per NMAC 1.21.2.601, all contracts for goods and services shall be kept on file for 6 years from the date the file is closed. Therefore, the SLAs in effect through June 30, 2017 should have been kept on file until at least June 30, 2023.

EFFECT

The auditors were unable to test a complete population of the expected revenue amounts per the SLA to the recorded revenue amounts per the general ledger. Thus, the auditors were unable to determine the completeness of revenue received under all SLAs. The audit opinion is a disclaimer.

CAUSE

Management has not designed and implemented proper internal controls over record retention.

RECOMMENDATION

We recommend that REDI Net create contracts for each CAI and LM SLAs and follow the record retention guidance under NMAC 1.21.2.

MANAGEMENT RESPONSE

Corrective Action(s): REDI Net has instituted a strict process by which SLA's are developed and signed. They are as follows:

- Each SLA starts with a request for service
- A written quote sent to the requestor by REDI Net
- Upon written approval of the quote by the requestor and engineering request is developed
- Upon receipt of the SLA signed by the original requestor it is counter signed a REDI Net representative
- Upon counter signature, the engineering request is executed and sent to the NOC
- Billing is serviced from the date of completion of the engineering request by the NOC

The SLA and accompanying documents are retained by the comptroller so that the SLA and Billing amounts are the same ensuring that revenues match.

Responsible Person(s): Officers of the Board of Directors of REDI Net and the Comptroller

Timeline of Corrective Action: This was instituted May 1, 2020.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-006 (PREVIOUSLY REPORTED AS 2016-006) MATERIALS INVENTORY

TYPE OF FINDING: Material Weakness and Other Non-Compliance

CONDITION

REDI Net maintains a supply of critical materials for use in the repair of the fiber optic network.

It is our understanding that REDI Net did not perform a materials inventory count at or near year-end.

The ending balance for the materials inventory at June 23, 2017 only contains inventory purchased for specific projects that had not been used on June 30, 2017. The materials inventory balance does not contain general materials used in the repair and maintenance of the fiber optic network. The fiscal year 2020 materials inventory includes approximately \$100,000 of fiber optic cable which appears to be left over from the build out of the fiber optic network in 2011 to 2013. This fiber optic cable should have been, but was not, included in the June 30, 2017 inventory. Additionally, for one project there was only the \$16,000 out of (credit to) inventory. The initial purchase was to an expense account (debit). Thus, the ending inventory balance was understated by \$16,000. This was corrected with an audit journal entry. There is no policy or controls over the treatment of inventory costing (i.e., first in first out, average cost).

Redi Net did not make improvements over materials inventory from fiscal year 2016.

CRITERIA

Best practices require the materials inventory general ledger account be reconciled on a timely basis to supporting detail. A materials inventory count should be completed at least annually.

EFFECT

The materials inventory was most likely materially misstated at June 30, 2017. We were unable to quantify the amount of the misstatement.

CAUSE

Management has not designed and implemented proper internal controls over materials inventory.

RECOMMENDATION

We recommend that REDI Net perform a periodic count of its parts on hand, appropriately cost the materials (based on a board approved policy for the inventory costing method) and enhance the internal control structure over materials inventory.

MANAGEMENT RESPONSE

Corrective Action(s): A complete inventory was conducted with extended prices extended on a per unit of use/purchase basis. A procedure was put in place for materials used during repairs or installation and is kept and tied back to invoicing and removal from the books as projects are completed.

Responsible Person(s): Officers of the Board of Directors of REDI Net and the Comptroller

Timeline of Corrective Action: This was instituted June 30, 2020.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-007 (PREVIOUSLY REPORTED AS 2016-007) POLICIES AND PROCEDURES

TYPE OF FINDING: Significant Deficiency

CONDITION

For the year ended June 30, 2017, REDI Net did not have an accounting procedures manual nor a procurement policy and could only provide policies and procedures for:

- Disbursements (in draft stage – not board approved)
- The Use of Credit Cards (in draft stage – not board approved)

Redi Net did not make improvements over policies and procedures from fiscal year 2016.

CRITERIA

As a best practice to ensure improved government management, governments typically adopt policies and procedures over all major finance and operational areas. Pursuant to the AICPA Audit and Accounting Guide for State and Local Governments, AAG-SLV 13.08, “[m]anagement is responsible for the design and implementation of programs and controls to prevent and detect fraud; management's knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements; and management's knowledge of any allegations of fraud or suspected fraud affecting the entity.”

EFFECT

Due to the lack of policies and procedures, REDI Net may not be applying best practices and, therefore, may not have the accountable and efficient processes in place. Without a risk assessment approach to identify potential risks applicable to REDI Net, REDI Net is vulnerable to errors and/or fraud. Without a proactive risk assessment, errors or fraud could occur and go undetected.

CAUSE

Turnover in the fiscal agent (North Central New Mexico Economic Development District) and Board of Directors and management of REDI Net prevented consistent work on designing and implementing controls with policies and procedures, including risk assessment and monitoring.

RECOMMENDATION

We recommend that REDI Net begin the process of adopting policies and procedures over all major finance and operational areas. We also recommend reviewing the OMB Green Book and designing and implementing controls and policies to address risks and necessary monitoring.

MANAGEMENT RESPONSE

Corrective Action(s): These policies were approved at the August 13, 2020 BOD meeting. REDI Net adheres to accepted accounting procedures and is developing an accounting manual which is specific to our chart of accounts.

Responsible Person(s): Board of Directors of REDI Net and the Comptroller

Timeline of Corrective Action: The policy deficiency has been addressed the Accounting Manual will be completed end of calendar year 2020.

**REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-008 (PREVIOUSLY REPORTED AS 2016-008) LATE AUDIT REPORT

TYPE OF FINDING: Other Non-Compliance

CONDITION

The audit report for the year ended June 30, 2017 was submitted to the New Mexico State Auditor after the required deadline of December 15, 2017. REDI Net did not enter into a contract for the June 30, 2017 audit until March 27, 2020. REDI Net did not make improvements over the late audit from fiscal year 2016.

CRITERIA

Audits of Local Public Bodies must be submitted by December 15 in accordance with the New Mexico State Audit Rule 2.2.2.9A(1)(g).

EFFECT

Delays in submission of the audit report affects REDI Net's ability to report timely financial information to the Local Parties, Board, general public, and potential grantors.

Additionally, without timely audit reports, capital outlay funding could be affected in future years, as the State of New Mexico, through Governor's Executive Order 2016-006, prohibits funding of State capital outlay projects directly to the governmental entity without timely audit reports. Untimely audit reports could also hinder REDI Net's ability to receive federal funding for future projects.

CAUSE

Recent legal determinations were completed concerning the Joint Powers Agreement with the Local Parties which created a stand-alone government operating as a joint venture. Based on this determination, REDI Net is subject to the audit requirements under the New Mexico State Audit Rule.

RECOMMENDATION

REDI Net should establish procedures to ensure that future audits are submitted timely.

MANAGEMENT RESPONSE

Corrective Action(s): The audits will be completed in a timely manner moving forward. The initial problem arose as a result of the previous fiscal agency not doing a standalone audit as required and instead tried to substitute a program umbrella audit for the entire agency. It is our understanding that a stand-alone audit is the only acceptable audit type for REDI Net.

Responsible Person(s): Officers of the Board of Directors of REDI Net and the Comptroller

Timeline of Corrective Action: The June 30, 2020 audit will be completed on time.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-009 PURCHASES OF EQUIPMENT AND MATERIALS (USE OF PURCHASE ORDERS AND APPROVALS ON SUPPORTING DOCUMENTATION)

TYPE OF FINDING: Significant Deficiency and Other Non-Compliance

CONDITION

We tested 5 purchases of equipment and material (13 total invoices for a total of \$92,521). Of these, only 1 invoice had a purchase order. 1 of the 13 invoices were approved for payment by the REDI Net accountant. 2 of 13 were approved for payment by an individual other than the REDI net accountant. 10 of the 13 invoices paid had no approval for payment.

CRITERIA

As an internal control best practice, REDI Net uses purchase orders. Additionally, as an internal control best practice, the entity should have an individual separate from the accounting function approve the invoices

EFFECT

Equipment and materials use purchase orders to ensure that the purchase is a planned and approved purchase and there is adequate cash flow to ensure purchased can be made. Without the use of purchase orders, an unplanned or unnecessary purchase could be made. Without the appropriate approvals for payment, an improper payment could be made.

CAUSE

Turnover and lack of continuity in practices.

RECOMMENDATION

REDI Net should implement controls to ensure that purchase orders are consistently used, and invoices are appropriately approved with adherence to appropriate segregation of duties.

MANAGEMENT RESPONSE

Corrective Action(s): New fiscal controls were put in place to remediate this problem in November 2018. These fiscal controls have been strictly enforced since then.

Responsible Person(s): Officers of the Board of Directors of REDI Net and the Comptroller

Timeline of Corrective Action: Already implemented. New fiscal controls were put in place in November 2018.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-010 PROCUREMENT DOCUMENTATION – CHIEF PROCUREMENT OFFICER

TYPE OF FINDING: Non-Compliance

CONDITION

During fiscal year 2017, REDI Net, through its fiscal agent relationship with Rio Arriba County, had the County's Chief Procurement Officer (CPO) available to assist with procurement. REDI Net did not enter into a Memorandum of Agreement (MOA) for the use of another government's CPO nor did REDI Net inform the New Mexico General Services Department of the relationship to ensure compliance with State Statutes. The requirement to use a CPO is to ensure compliance with procurement statutes and to ensure that REDI Net receives the best obtainable price.

CRITERIA

All local public bodies are required to name a Chief Procurement Officer (CPO) and register that individual with the General Services Department/State Purchasing Division. The CPO is responsible for oversight, review and approval of purchases, per 13-1-95.2 NMSA 1978 (as further clarified at NMAC 1.4.1.94). The statute states that "only certified chief procurement officers may do the following, except that persons using procurement cards may continue to issue purchase orders and authorize small purchases: (1) make determinations, including determinations regarding exemptions, pursuant to the Procurement Code; (2) issue purchase orders and authorize small purchases pursuant to the Procurement Code; and (3) approve procurement pursuant to the Procurement Code."

EFFECT

The New Mexico State Procurement Code applies to all contracts solicited or entered by state agencies and local public bodies. The purposes of the Code "are to provide for the fair and equitable treatment of all persons involved in public procurement, to maximize the purchasing value of public funds and to provide safeguards for maintaining a procurement system of quality and integrity."

CAUSE

REDI Net was unaware of the requirement to enter into a formal CPO agreement with its fiscal agent and to then notify the New Mexico General Services Department of the relationship.

RECOMMENDATION

The Board should ensure an individual be certified as a CPO (either through an internal employee or a separate MOA as more fully described above), and ensure that the CPO is listed on the General Services Department/State Purchasing Division website, and put procedures into place to ensure that all procured services are following applicable state law.

MANAGEMENT'S RESPONSE

Corrective Action: NCNMEDD and Rio Arriba County were previously our fiscal agents. During that time we were under the understanding that they were providing the appropriate CPO oversight. Since that time, however, REDI Net became its own fiscal agent. As our own fiscal agent we have been working with Rio Arriba County and its CPO to ensure we are in full compliance with purchasing regulations. We were not aware of the State statute requiring our own CPO. Language in the NMAC does not allow us to use an independent contractor but does allow us to enter into a Memorandum of Agreement (MOA) with another Local Public Body. With the agreement of Rio Arriba County or another JPA member we can execute an MOA.

REDI NET
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-010 PROCUREMENT DOCUMENTATION – CHIEF PROCUREMENT OFFICER (CONTINUED)

We have reached out to the Rio Arriba County Assistant County Manager to see if this is a possibility as REDI Net has no employees and independent contractors are disallowed.

Responsible Person(s): Officers of the Board of Directors of REDI Net

Timeline of Corrective Action: By the end of year 2021.

**REDI NET
EXIT CONFERENCE
JUNE 30, 2017**

An exit conference without a quorum was held on September 11, 2020. The following individuals were in attendance:

Representing REDI Net:

Raymond V. Ortiz, Board Chair (Rio Arriba County)
Chris Hyer, Board Member (Santa Fe County)

Kathleen Stockton, Finance Manager for REDI Net

Representing Jaramillo Accounting Group LLC (JAG):

Audrey Jaramillo, CPA, CFE, Managing Partner
Scott Eliason, CPA, Partner

These financial statements were prepared by Jaramillo Accounting Group LLC (JAG) from the books and records of REDI Net. However, the contents of these financial statements remain the responsibility of REDI Net's management.