



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**COBRE CONSOLIDATED
SCHOOL DISTRICT NO. 2**

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

For the Year Ended June 30, 2017

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
Table of Contents
For the Year Ended June 30, 2017**

	Page
INTRODUCTORY SECTION	
Table of contents	i-ii
Official roster	1
 FINANCIAL SECTION	
Independent auditor's report	2-4
Basic financial statements	
Government-wide financial statements:	
Statement of net position	5
Statement of activities	6
Fund financial statements:	
Balance sheet – governmental funds	7
Reconciliation of the balance sheet to the statement of net position	8
Statement of revenues, expenditures, and changes in fund balances – governmental funds	9
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	10
Statement of revenues and expenditures – budget and actual non-GAAP budgetary basis– General fund	11
Statement of revenues and expenditures – budget and actual non-GAAP budgetary basis– special revenue fund – Entitlement	12
Statement of revenues and expenditures – budget and actual non-GAAP budgetary basis– special revenue fund – SB-9	13
Statement of fiduciary assets and liabilities – agency funds	14
Notes to the financial statements	15-36
 SUPPLEMENTARY INFORMATION	
Combining and individual fund statements and schedules:	
Nonmajor governmental fund descriptions	37-39
Combining balance sheet – non-major governmental funds	40
Combining statement of revenues, expenditures, and changes in fund balances – non-major governmental funds	41
Combining balance sheet – nonmajor funds	42-43
Combining statement of revenues, expenditures and changes in fund balances – nonmajor funds	44-45
Combining balance sheet -- general fund	46
Combining statement of revenues, expenditures, and changes in fund balances – general fund	47
 REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of the District's proportionate share of the net pension liability of ERB fund division	48
Schedule of the District's contributions ERB plan ERB fund	49
Notes to required supplementary information	50
Schedule of changes in assets and liabilities- agency fund	51

**STATE OF NEW MEXICO
 COBRE CONSOLIDATED SCHOOL DISTRICT
 Table of Contents
 For the Year Ended June 30, 2017**

	Page
OTHER SUPPLEMENTARY INFORMATION	
Schedule of collateral	52
Schedule of individual deposit accounts and investments	53
Schedule of cash receipts and disbursements	54
Schedule of expenditures of federal awards	55
Notes to schedule of expenditures of federal awards	56
 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 <i>Government Auditing Standards</i>	57-58
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	59-60
Schedule of Findings and Questioned Costs	61-66
 EXIT CONFERENCE	 67

STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
Official Roster
As of June 30, 2017

Board of Educators

Name	Title
Ralph Sepulveda	President
Frank Cordova	Vice-President
Frank Gomez	Secretary
Gabriel Holguin	Member
Gilbert Guardiana	Member

Administrative Officials

Name	Title
Robert Mendoza	Superintendent
Frank Ryan	Director of Finance
Teresa Holguin	Comptroller

INDEPENDENT AUDITOR'S REPORT

Mr. Wayne A. Johnson, State Auditor and
The Board of Education
Cobre Consolidated School District
Bayard, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of Cobre Consolidated School District No. 2 (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the District'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 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 from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, 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.

Emphasis of Matter

As discussed in Note 11, to the financial statements, the 2017 financial statements have been restated due to a restatement of capital assets, receivables and an adjustment of debt owed to PSFA due the closeout of project. Our opinion is not modified with respect to this matter.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the Schedules related to ERB and Net Pension Liabilities, listed as "*Required Supplementary Information*" in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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. We have applied certain limited procedures to the other required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the District's financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements, the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, and the other schedules listed as "other supplementary information" in the table of contents, 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 combining and individual fund financial statements, the Schedule of Expenditures of Federal Awards and other schedules listed as “other supplementary information in the table of contents, 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 combining and individual fund financial statements, the Schedule of Expenditures of Federal Awards and other schedules listed as “other supplementary information in the table of contents 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 February 6, 2018 on our consideration of *the District'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 District's internal control over financial reporting and compliance.



Hinkle + Landers, P.C.
Albuquerque, NM
February 6, 2018

COBRE CONSOLIDATED SCHOOL DISTRICT NO.2
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

		Governmental Activities
ASSETS		
Current assets:		
Cash and cash equivalents	\$	2,935,652
Property taxes receivable		612,446
Due from other governments		52,681
E-rate receivables		113,747
Inventory		9,210
Total current assets		3,723,736
Non-current assets:		
Land and construction in progress		747,139
Other capital assets, net of accumulated depreciation		37,970,284
Total non-current assets		38,717,423
Total assets		42,441,159
Deferred outflows of resources		
Pension deferral		3,105,109
Total deferred outflows of resources		3,105,109
Total assets and deferred outflows of resources	\$	45,546,268
LIABILITIES		
Current liabilities:		
Bonds and notes payable (current portion)	\$	1,100,000
Accrued interest payable		79,051
Total current liabilities		1,179,051
Long-term liabilities:		
Net pension liability		20,687,588
Bonds Payable (net current)		5,100,000
Notes payable (net current)		1,100,000
Compensated absences		142,299
Total liabilities		28,208,938
Deferred inflows of resources		
Unavailable revenue		216,990
Pension deferral		1,151,898
Total deferred inflows of resources		1,368,888
NET POSITION		
Net investment in capital assets		31,417,423
Restricted for:		
Capital projects		2,290
Debt service		1,266,366
Other purposes		1,369,142
Unrestricted		(18,086,779)
Total net position		15,968,442
Total liabilities, deferred inflows of resources, and net position	\$	45,546,268

COBRE CONSOLIDATED SCHOOL DISTRICT No.2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Program	Expenses	Program Revenues			Net (Expenses),
		Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues, Total Governmental Activities
Primary government					
Governmental Activities:					
Instruction	\$ 9,253,997	72,482	3,124,794	-	(6,056,721)
Support services - Students	2,097,884	87,718	486,620	-	(1,523,546)
Support services - Instruction	622,001	-	10,869	-	(611,132)
General administration	1,117,790	-	-	-	(1,117,790)
School administration	910,398	-	-	-	(910,398)
Central services	378,438	-	-	-	(378,438)
Operation of plant	2,972,785	-	38,642	73,514	(2,860,629)
Food services	1,090,687	23,908	30,291	-	(1,036,488)
Transportation	1,146,525	-	606,758	-	(539,767)
Interest on long-term debt	200,508	-	-	-	(200,508)
Total governmental activities	\$ 19,791,013	184,108	4,297,974	73,514	(15,235,417)

General Revenues:

Taxes:

Property taxes

Levied for general purposes

\$ 104,279

Levied for debt service

1,058,447

Levied for capital improvements

657,064

State aid- formula grants

11,033,820

Recoveries and refunds

4,000

Investment earnings

2,201

Access Board (e-Rate)

113,747

Total general revenues

12,973,558

Change in net position

(2,261,859)

Net position, beginning

21,004,643

Restatements

(2,774,342)

Net position, beginning restated

18,230,301

Net position, ending

\$ 15,968,442

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
GOVERNMENTAL FUNDS
BALANCE SHEET
AS OF JUNE 30, 2017

	(11000/13000/ 14000) General Fund	Special Revenue Funds		Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
		(24106) Entitlement	(31700/ 32100/ 21701) SB-9	(41000) Debt Service		
ASSETS						
Cash and cash equivalents	\$ 181,231	185,314	700,772	1,227,244	641,091	2,935,652
Receivables						
Property taxes receivable	22,243	-	140,682	421,125	28,396	612,446
Due from other governments	-	-	-	-	52,681	52,681
E-rate receivable	113,747	-	-	-	-	113,747
Total accounts receivable	135,990	-	140,682	421,125	81,077	778,874
Inventory	-	-	-	-	9,211	9,211
Total assets	\$ 317,221	185,314	841,454	1,648,369	731,379	3,723,737
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Unearned revenue	\$ -	185,314	-	-	31,676	216,990
Total liabilities	-	185,314	-	-	31,676	216,990
Deferred inflows of resources						
Property tax-unavailable revenue	20,056	-	127,406	386,753	28,358	562,573
Receivable-unavailable revenue	113,747	-	-	-	-	113,747
	133,803	-	127,406	386,753	28,358	676,320
FUND BALANCES						
Nonspendable						
Inventories	-	-	-	-	9,211	9,211
Restricted:						
Education	-	-	714,048	-	549,994	1,264,042
Food service	-	-	-	-	105,100	105,100
Capital projects	-	-	-	-	2,290	2,290
Debt service	-	-	-	1,261,616	4,750	1,266,366
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	183,418	-	-	-	-	183,418
Total fund balance	183,418	-	714,048	1,261,616	671,345	2,830,427
Total liabilities, deferred inflows of resources, and fund balances	\$ 317,221	185,314	841,454	1,648,369	731,379	3,723,737

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

Amount reported for governmental activities in the statement of net position are different because:

Total fund balance - total governmental funds	\$	2,830,427
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		38,717,423
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet:		
Bonds and notes payable		(6,200,000)
Net pension related deferrals and liability		(18,735,527)
Other current liabilities (bonds payable) are not available to pay for current period expenditures and therefore are deferred in the funds:		
Bonds payable		(1,100,000)
Compensated absences		(142,299)
Accrued interest payable		(79,051)
In order to convert to the full accrual basis of accounting, it is necessary to recognize deferred inflows of unavailable receivables as revenue.		113,747
In order to convert to the full accrual basis of accounting, it is necessary to recognize deferred inflows of property tax revenue as revenue.		562,573
Rounding		(1)
Net position of governmental activities	\$	15,967,292

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	(11000/13000/14 000) General Fund	Special Revenue Funds		Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
		(24106) Entitlement	(31700/ 32100) SB-9	(41000) Debt Service		
REVENUES						
Intergovernmental revenue - local	\$ 93,893	-	529,659	1,310,208	794	1,934,554
Intergovernmental revenue - state	11,800,550	-	56,422	-	1,409,165	13,266,137
Intergovernmental revenue - federal	36,773	393,675	-	-	1,837,689	2,268,137
Charges for services	87,718	-	-	-	97,414	185,132
Investment earnings	873	-	408	-	676	1,957
Total revenues	<u>12,019,807</u>	<u>393,675</u>	<u>586,489</u>	<u>1,310,208</u>	<u>3,345,738</u>	<u>17,655,917</u>
EXPENDITURES						
Current:						
Instruction	5,854,293	262,713	-	-	1,489,344	7,606,350
Support services - Students	1,612,194	75,541	-	-	323,069	2,010,804
Support services - Instruction	556,402	-	-	-	10,258	566,660
General administration	642,048	54,371	2,109	5,291	117,851	821,670
School administration	759,667	-	-	-	91,179	850,846
Central services	359,270	-	-	-	-	359,270
Operation of plant	2,115,127	-	257,396	-	428	2,372,951
Transportation	641,441	1,050	-	-	141,278	783,769
Food Services	-	-	-	-	967,059	967,059
Other support services	6,702	-	-	-	-	6,702
Debt Service:						
Principal payments	-	-	-	1,075,000	1,298,871	2,373,871
Interest payments	-	-	-	200,508	-	200,508
Capital outlay	-	-	62,222	-	36,287	98,509
Total expenditures	<u>\$ 12,547,144</u>	<u>393,675</u>	<u>321,727</u>	<u>1,280,799</u>	<u>4,475,624</u>	<u>19,018,969</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (527,337)</u>	<u>-</u>	<u>264,762</u>	<u>29,409</u>	<u>(1,129,886)</u>	<u>(1,363,052)</u>
Net change in fund balance	(527,337)	-	264,762	29,409	(1,129,886)	(1,363,052)
Fund balances-beginning of year	710,755	-	449,286	1,232,207	1,801,231	4,193,479
Restatements	-	-	-	-	-	-
Fund balances-beginning of year, as restated	<u>710,755</u>	<u>-</u>	<u>449,286</u>	<u>1,232,207</u>	<u>1,801,231</u>	<u>4,193,479</u>
Fund balances-end of the year	<u>\$ 183,418</u>	<u>-</u>	<u>714,048</u>	<u>1,261,616</u>	<u>671,345</u>	<u>2,830,427</u>

**COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Amount reported for governmental activities in the statement of activities
are different because:

Net change in fund balance - total governmental funds	\$	(1,363,052)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital expenditures recorded in capital outlay		52,276
Capital expenditures recorded in other expense lines		
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditure in governmental funds.</p>		
		(2,807,487)
<p>Property tax not received within 60 days at year end is recorded as a deferred inflow on the fund financial statements, but is recognized as revenue on the government-wide statements. It is necessary to reconcile the change in property tax receivable.</p>		
		(104,454)
<p>Receivable revenue not received within 60 days at year end is recorded as a deferred inflow on the fund financial statements, but is recognized as revenue on the government-wide statements. It is necessary to reconcile the change in receivable.</p>		
		(22,308)
<p>The issuance of long-term debt (e.g. bonds, notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.</p>		
Capital lease payment		18,915
Principal payments on long-term debt payable		2,373,871
<p>In the Statement of Activities, interest is accrued on outstanding bonds whereas in governmental funds, interest expenditures are reported when due. This is the net change during the year.</p>		
		-
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		(1,553)
Pension expense		(409,230)
Rounding and immaterial difference		13
Change in net position of governmental activities	\$	<u>(2,263,009)</u>

COBRE CONSOLIDATED SCHOOL DISTRICT No.2
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Approved Budget	Final Approved Budget	Actual	Favorable (Unfavorable)
REVENUES				
Federal sources	\$ 45,000	45,000	36,773	(8,227)
State sources	12,017,422	11,989,798	11,664,495	(325,303)
Local sources	231,977	231,977	237,968	5,991
Interest income	1,000	1,000	874	(126)
Total revenues	<u>12,295,399</u>	<u>12,267,775</u>	<u>11,940,110</u>	<u>(327,665)</u>
EXPENDITURES				
Current:				
Instruction	6,100,558	5,966,323	5,839,561	126,762
Support services - Student	1,363,648	1,525,202	1,515,258	9,944
Support services - Instruction	543,763	595,867	556,402	39,465
General administration	649,374	657,580	642,314	15,266
School administration	783,315	783,116	764,359	18,757
Central services	406,882	384,786	369,277	15,509
Operation of Plant	2,275,049	2,189,594	2,115,577	74,017
Pupil transportation	693,780	686,277	641,441	44,836
Total expenditures	<u>12,816,369</u>	<u>12,788,745</u>	<u>12,444,189</u>	<u>344,556</u>
Excess (deficiency) of revenues over (under) expenditures	(520,970)	(520,970)	(504,079)	16,891
Beginning fund balance	<u>549,530</u>	<u>549,530</u>	<u>549,530</u>	<u>-</u>
Ending fund balance	\$ <u>28,560</u>	<u>28,560</u>	<u>45,451</u>	<u>16,891</u>
RECONCILIATION FROM BUDGET/ACTUAL TO GAAP				
Change in fund balance (Budget Basis)			\$ (504,079)	
To adjust applicable revenue accruals and deferrals			79,698	
To adjust applicable expenditure accruals			<u>(102,956)</u>	
Change in fund balance (GAAP basis)			\$ <u>(527,337)</u>	

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

COBRE CONSOLIDATED SCHOOL DISTRICT No.2
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ENTITLEMENT - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Approved Budget	Final Approved Budget	Actual	Favorable (Unfavorable)
REVENUES				
Federal sources	\$ -	424,796	393,675	(31,121)
Total revenues	<u>-</u>	<u>424,796</u>	<u>393,675</u>	<u>(31,121)</u>
EXPENDITURES				
Current:				
Instruction	-	272,488	262,713	9,775
Support services - Students	-	92,997	75,541	17,456
General administration	-	58,261	54,371	3,890
Transportation	-	1,050	1,050	-
Total expenditures	<u>-</u>	<u>424,796</u>	<u>393,675</u>	<u>31,121</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Budgeted cash carryover	<u>-</u>	<u>-</u>		
Ending fund balance	\$ <u>-</u>	<u>-</u>		
RECONCILIATION FROM BUDGET/ACTUAL TO GAAP				
Change in fund balance (Budget Basis)			\$ -	
To adjust applicable revenue accruals and deferrals			-	
To adjust applicable expenditure accruals			<u>-</u>	
Change in fund balance (GAAP basis)			<u>\$ -</u>	

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

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
SB-9 - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Approved Budget	Final Approved Budget	Actual	Favorable (Unfavorable)
REVENUES				
Taxes	\$ 481,341	481,341	524,438	43,097
Investment earnings	-	37,407	56,422	19,015
Total revenues	<u>481,884</u>	<u>519,291</u>	<u>581,268</u>	<u>61,977</u>
EXPENDITURES				
General administration	2,108	2,108	2,108	-
Operation of Plant	594,405	609,713	259,486	350,227
Capital outlay	<u>274,754</u>	<u>314,443</u>	<u>62,222</u>	<u>252,221</u>
Total expenditures	<u>871,267</u>	<u>926,264</u>	<u>323,816</u>	<u>602,448</u>
Excess (deficiency) of revenues over (under) expenditures	(389,383)	(406,973)	257,452	664,425
Budgeted cash carryover	<u>389,383</u>	<u>406,973</u>		
Ending fund balance	\$ <u>-</u>	<u>-</u>		
RECONCILIATION FROM BUDGET/ACTUAL TO GAAP				
Change in fund balance (Budget Basis)			\$ 257,452	
To adjust applicable revenue accruals and deferrals			5,221	
To adjust applicable expenditure accruals			<u>2,089</u>	
Change in fund balance (GAAP basis)			<u>\$ 264,762</u>	

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

**COBRE CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS
AND LIABILITIES - AGENCY FUNDS
FIDUCIARY FUNDS
AS OF JUNE 30, 2017**

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 187,322
Total assets	\$ 187,322
 LIABILITIES	
Due to others	\$ 187,322
Total liabilities	\$ 187,322

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Description and Reporting Entity

Cobre Consolidated School District No. 2, organized under the laws of the State of New Mexico, operates under the school board-superintendent form of government. The System provides public education opportunities for children from first through twelfth grade, including but not limited to classroom and vocational studies; as well as school oriented social and athletic activities.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

A. Reporting Entity

These financial statements present the District (the primary government). As defined by GAAP, component units are legally separate entities that are included in the District's reporting entity because of the significance of their operating or financial relations with the District. Based on the criterion in GAAP, the District has no component units.

B. Basis of Presentation

Government-Wide Statements – The Statement of Net Position and the Statement of Activities display information about the government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. The statements also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The District has no business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the *general fund* as a major governmental fund. This is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

In addition, the District reports the following other major funds:

Governmental funds

- General Fund—The General Fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. Included in the General Fund are sub-funds; Operational, the Unrestricted District Fund; Transportation, which accounts for State source revenue used to transport students; Instructional Materials, which accounts for State Source Funds used to purchase textbooks; and Non-Instructional Support, which accounts for various student extracurricular 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 certain purposes.
- Capital Project Fund—The Capital project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.
- Debt Service Fund—The *Debt Service Fund* accounts for the District's accumulation of resources for, and the payment of governmental fund debt principal and interest.

The District also reports the following fund types:

- Fiduciary Funds—account for monies held by the District in a custodial capacity. As a result, they do not report operations.
 - Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support District programs. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds.
 - Agency Funds account for assets held in a purely custodial capacity. Since agency funds are custodial in nature (i.e.) assets equal liabilities, they do not involve the measurements of results of operations. Typically, these funds are owned by clubs, athletic teams, and/or student organizations.

The emphasis in fund financial statements is on the major funds in the governmental category. Non-major funds are summarized into a single column.

The District's fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated in to the government-wide statements.

Major Fund Descriptions

- General—See above description.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

- Entitlement Fund (Special Revenue Fund)—Entitlement funds are used to account for federal resources administered by the New Mexico State Department of Education to provide for the special education needs of handicapped children three to five years old. Required by the New Mexico Department of Education Manual of Procedures for New Mexico School Districts to be accounted for as a separate fund within the Special Revenue Funds (P.L. 94-142 and P.L. 99-457).

SB-9 (Special Revenue Fund)—Created by State Law to account for the Districts tax levy restricted solely for improvements to the physical plant NMSA 1978 22-25-1.

- Debt Service— To account for the resources restricted for the payment of interest obligations on general long-term debt and for the retirement of general obligation bonds as they mature.

C. Measurement Focus and Basis of Accounting.

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

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined in item “b” below.

In the fund financial statements, the “current financial resources” measurement focus is used.

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflows of resources, liabilities and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The government-wide financial statements utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and financial position. All assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with their activities are reported. Revenues, expenses, gains, losses, assets, deferred outflow of resources, liabilities and deferred inflows of resources resulting from non-exchange transactions are recognized when the earnings process is complete.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

- a. Accrual: The government-wide financial statements and the fiduciary fund financial

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

- b. Modified Accrual: The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Substantially all governmental fund revenues are accrued. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as deferred outflows of resources by the provider and deferred inflows of resources by the recipient. Grant revenues not collected within 60 days of year end are recorded as receivables and deferred inflows of resources. Such amounts are recorded net of estimated uncollectible accounts.

Property tax receivables are recognized net of estimated refunds and uncollectible amounts in the period for which the taxes are levied, even if they are not available. Property taxes not collected within 60 days of year end are reported as deferred inflows of resources in the fund statements. Property taxes are considered fully collectible.

In the government –wide Statement of Net Position, the governmental activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a fully accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets, net of related debt; restricted net position; and unrestricted net position. The District first utilizes restricted resources when an expense is incurred and for purposes for which both restricted and unrestricted net positions are available.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by generally government revenues (property taxes, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Charges for services include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase use or directly benefit from the goods, services or privileges provided. Revenues in this category include fees charged for specific services, such as attendance at athletic events, food service, copies and auxiliary services. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.).

The District does not allocate indirect costs.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance

Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity of six months from the date acquired by the government. State statutes authorize the government to invest in obligations of the U.S. Treasury, interest-bearing accounts with local financial institutions and the State Treasurer Pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owners of such monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the District. The pledged securities remain in the name of the financial institution. Repurchase agreements are required to be collateralized 102%.

Receivables and Payables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded as revenue when levied, net of estimated refunds and uncollectable amounts.

Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption, and, except for U.S.D.A. commodities, which are shown at estimated value, are valued at cost using a first-in, first-out (FIFO) method. Expendable supplies are accounted for using the consumption method. Inventory in the Cafeteria Fund consists mainly of food items. Inventories, in other governmental fund types, consist primarily of supply-type assets.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information technology equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation.

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

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

Asset Type	Years
Land	Perpetual
Buildings and improvements	20-50
Furniture and equipment	3-10
Vehicles and buses	8

Unearned Revenue

Grants received in advance that have not met the requirement of having an eligible cost are classified as unearned revenue. The District has the following unearned grant funds:

	24101 Title I - IASA	24106 Entitlement	24109 Preschool IDEA-B	25149 GRADS Child Care CYFD	Total
Advances received					
Under expenditure					
driven grants	\$ 2,000	185,314	21,676	8,000	216,990
Total	\$ 2,000	185,314	21,676	8,000	216,990

Deferred Inflow of Resources

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The District has one type of item, which arises under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue-property taxes, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District has recorded property taxes considered “unavailable.” In addition, the District has three types of items present on the Statement of Net Position which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, change in proportion actuarial experience and net difference between projected and actual investment earnings on pension plan investments are reported on the Statement of Net Position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Deferred Outflows of Resources

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The District has the following types of items that qualify for reporting in this category that arise due to the implementation of GASB 68. Accordingly, the items, change in assumption and employer contributions subsequent to measurement date are considered deferred outflows of resources. These amounts are reported in the Statement of Net Position.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

The Government has deferred inflows and outflows of resources related to pension funding, as discussed in Note 7.

The fund financial statements report unavailable revenue from the following sources:

Governmental Funds Balance Sheet					
	11000	41000	43000	32100	
	General	Debt	Ed	SB-9	
	Fund	Service	Tech	Capital	
	Fund	Fund	Debt	Improve-	Total
	Fund	Fund	Service	ments	
E-Rate receivable	\$ 113,747	-	-	-	113,747
Property taxes	20,056	386,753	28,358	127,406	562,573
Total	\$ 133,803	386,753	28,358	127,406	676,320

In addition, the District has deferred inflows of resources related to pension funding, as discussed in Note 7.

Compensated Absences

The District's policies, regarding vacation time, permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources. These liabilities have typically been liquidated from general fund resources.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. For fund financial reporting, bond proceeds are reported as another financing source. Payment of principle and interest are reported as debt service expenditures.

Net Position

Equity is classified as net position and displayed in three components on the government-wide financial statements as well as the proprietary fund financial statements:

- *Net investment in capital assets* – Net position invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted Net Position* – Consist 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.
- *Unrestricted Net Position* – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

GASB Statement 54

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable* – Amounts not in a spendable form, such as prepaid expenses, inventories, or long-term portion of receivables or property held for resale, if the use of the proceeds from the collection/sale of property held for resale is not otherwise constrained. Nonspendable amounts also include amounts legally or contractually required to remain intact, such as the principal of a permanent fund.
- *Restricted* – Amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation (such as taxpayers, grantors, bondholders, and higher levels of government).
- *Committed* – Amounts constrained to specific purposes by the governmental entity's highest level of decision-making authority (the District Commission). To be reported as committed, amounts cannot be used for any other purpose unless the District Commission takes the same highest-level action to remove or change the constraint.
- *Assigned* – Amounts constrained by the District intends to be used for a specific purpose. Intent can be expressed by the governing body (District Commission) or an official or body to which the governing body delegates authority.
- *Unassigned* – Balances available for any purpose. Positive amounts are reported only in the general fund.

The Board of Education establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). The District assigns 2017 fund balance for projected budgetary deficit per GASB 54, Par 16. FY2017 budget (estimated revenues and expenditures) have no effect on GASB 54 net fund balance.

See Note 10 for additional information about fund balances.

When an expense is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expense is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless District Commission or the finance department has provided otherwise in its commitment or assignment actions.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Plan (ERP) and additions to/deductions from ERP's fiduciary net position have been determined on the same basis as they are reported by ERP. For

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

E. Budgets and Budgetary Accounting

Budgets for the General, Special Revenue, Debt Service and Capital Projects funds are prepared by management and approved by the local school board and the Public Finance School Division of the Department of Education. Included in the General Fund are activity funds which, although not budgeted by the District are considered District funds. Therefore, these non-budgeted activity accounts are excluded from the budgetary comparison statement.

Budgetary Compliance – Actual expenditures may not exceed the budget on a functional category basis, i.e., each budgeted expenditure must be within budgeted amounts.

Budget Amendments – Budgets may be amended in two ways. If a budget transfer is necessary within a major category called a “series”, this may be accomplished with only local Board of Education approval. If a transfer between “series” or a budget increase is required, approval must also be obtained from Public Education Department.

Budgetary Basis – State law prescribes that the District's budget be prepared on the basis of cash receipts and cash expenditures. Therefore, budgetary comparisons shown in exhibits are prepared on a cash basis to compare actual revenues and expenditures with a cash basis budget as amended.

The accompanying Statements of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2017 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

F. Income Taxes

As a local government entity, the District is not subject to federal or state income taxes.

G. Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements, or transfers.

Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

**STATE OF NEW MEXICO
 COBRE CONSOLIDATED SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2017**

H. Use of Estimates

The preparation of financial statements in conformity with U.S. 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 2 – RISKS PERTAINING TO CASH AND INVESTMENTS

Custodial Credit Risk Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District funds may not be returned. The District is required to obtain from each bank that is a deposit only for public funds pledged collateral in an aggregate amount equal to 50% of the public money in each account. The pledged securities must be in the name of the governmental entity and held by the entity or its agent.

As of June 30, 2017, \$1,494,313 of the government bank balance of \$4,789,836 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	1,494,313	
Total uninsured deposits	\$	<u>1,494,313</u>	
Total uninsured deposits			
		<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits by custodial risk category:	\$	4,789,836	3,122,974
Insured		(250,000)	(250,000)
Collateral held by the pledging bank's agent in the District's name		<u>(3,045,523)</u>	<u>(3,531,166)</u>
Uninsured and collateralized	\$	<u>1,494,313</u>	<u>(658,192)</u>

The District does not have a risk policy beyond that required by State Statute.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer, of more than 5%. At June 30, 2017, all deposits were held at the First American Bank.

Credit Risk - The District's investments shall be in accordance with State Law 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips, and US Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any District, municipality, or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10 NMSA 1978, 6-10-10 NMSA 1978.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District investments. The District's investment policy follows New Mexico State Statute Section 6-10-36E (NMSA, 1978 Comp) requiring the interest rate on time deposits shall not be less than the rated fixed by the State Board of Finance, but in no case, shall the rate of interest be less than one hundred percent of the asked price on United States Treasury bills of the same maturity on the day of deposit.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Foreign Currency Risk - Deposits and Investments - The District is not exposed to the risk that exchange rates will adversely affect the fair value of an investment as none of the investments pools or certificates of deposit are dominated in a foreign currency.

NOTE 3 – PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Property tax rates for the year are set no later than September 1 each year by the Secretary of Finance and Administration. The rates of tax are then used by County Assessors to develop the property tax schedule by October 1. Taxes are payable in equal semiannual installments by November 10 and April 10 of the subsequent year and become delinquent 30 days later. Taxes are collected on behalf of the District by the County Treasurer, and are remitted to the District in the month following collection. Because the Treasurer of the County in which the District is located is statutorily required to collect taxes as an intermediary agency for all forms of government, distribution of taxes are made through the applicable County to the District.

The District is permitted to levy taxes for general operating purposes up to \$.50 per \$1,000 of taxable value for both residential and nonresidential property, taxable value being defined as one third of the fully assessed value. In addition, the district is allowed to levy taxes for payments of bond principal and interest in amounts approved by voters of the District, as well as a Two Mill Levy for District improvements. The District's total tax rate to finance general government services for the year ended June 30, 2017 was .345 per \$1,000 for non-residential property and .31 for residential property. The District's tax rate for debt service was \$6.095 per \$1,000 for both residential and nonresidential property. The District's tax rate for District improvements was \$1.972 per \$1,000 for residential and \$2.00 for nonresidential property.

NOTE 4 – CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2017 follows. Land and construction in progress are not subject to depreciation.

GOVERNMENTAL ACTIVITIES	Balance June 30, 2016	Additions	Deletions	Restatement/ Transfers	Balance June 30, 2017
Non-depreciable capital assets:					
Land	\$ 747,139	-	-	-	747,139
Construction in progress	-	-	-	-	-
Total non-depreciable capital assets	<u>747,139</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>747,139</u>
Other capital assets:					
Building & improvements	71,691,252	36,334	-	(1,132,662)	70,594,924
Furniture & equipment	5,133,360	5,942	-	(2,862,361)	2,276,941
Vehicles and buses	-	10,000	-	1,311,340	1,321,340
Total other capital assets at historical cost	<u>76,824,612</u>	<u>52,276</u>	<u>-</u>	<u>(2,683,683)</u>	<u>74,193,205</u>
Less accumulated depreciation for:					
Buildings and improvements	(28,050,063)	(2,722,586)	-	(2,027,938)	(32,800,587)
Furniture and equipment	(5,037,528)	(57,592)	-	2,818,179	(2,276,941)
Vehicles	-	(27,309)	-	(1,118,084)	(1,145,393)
Total accumulated depreciation	<u>(33,087,591)</u>	<u>(2,807,487)</u>	<u>-</u>	<u>(327,843)</u>	<u>(36,222,921)</u>
Total capital assets, net of depreciation	<u>\$ 44,484,160</u>	<u>(2,755,211)</u>	<u>-</u>	<u>(3,011,526)</u>	<u>38,717,423</u>

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Depreciation expense for the year ended June 30, 2017 was charged to the following functions and funds:

Depreciation charged to Governmental Activities

Instruction	\$ 1,473,815
Student Support	27,785
Instructional Support	41,677
General Administration	222,278
School Administration	13,892
Central Services	6,946
Operations	527,912
Food Services	111,140
Transportation	382,042
	<u>\$ 2,807,487</u>

The District has construction commitments totaling approximately \$0 at June 30, 2017.

NOTE 5 – LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Increases	Decreases	Adjustments	Balance June 30, 2017	Amount due within one year
Governmental funds debt						
PSFA Loan	\$ 2,500,000	-	(1,298,871)	(101,129)	1,100,000	-
G.O. Bonds, 6/10/2011	7,275,000	-	(1,075,000)	-	6,200,000	1,100,000
Total	<u>\$ 9,775,000</u>	<u>-</u>	<u>(2,373,871)</u>	<u>(101,129)</u>	<u>7,300,000</u>	<u>1,100,000</u>
Pension Liability	<u>\$ 19,760,856</u>	<u>926,732</u>	<u>-</u>	<u>-</u>	<u>20,687,588</u>	<u>-</u>
Compensated Absences	<u>\$ 140,746</u>	<u>94,835</u>	<u>(93,282)</u>	<u>-</u>	<u>142,299</u>	<u>94,835</u>

Net pension liability is discussed further in Note 7.

Bonds are liquidated from the debt service funds and other long-term liabilities are liquidated from the general fund and special revenue funds. No short-term debt was incurred during fiscal year 2017.

Compensated absences considered due and payable in the next fiscal year are estimated as noted above.

Annual debt service for bonds payable and PSFA loan requirements are due in the fiscal year ending June 30 as follows:

	Principal	Interest
2018	\$ 1,100,000	176,738
2019	1,100,000	148,842
2020	1,000,000	118,826
2021-2024	3,000,000	158,571
	<u>\$ 6,200,000</u>	<u>602,977</u>

The District entered into a lease purchase agreement with New Mexico Bank & Trust (NMB&T) on December 2, 2006. The cost of the equipment was \$530,656. The terms of the agreement are quarterly

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

payments of \$17,747 beginning April 28, 1998. The interest rate is 5.902%. The maturity date was January 28, 2017. The payments are made from the Energy Efficiency Capital Projects Fund.

A summary of activity in the lease purchase is as follows:

	Balance June 30, 2016	Increases	Decreases	Restatement	Balance June 30, 2017	Amount due within one year
NMB&T	\$ 18,915	-	(18,915)	-	-	-

General Obligation Bonds

The bonds and bond interest are paid from property tax levies enacted specifically for the debt retirement. The revenues pledged totaled approximately \$6,802,977 at June 30, 2017, and equal 100% of the tax levies enacted to repay the bonded indebtedness. The bonds were sold to erect and furnish facilities for the District. Interest rates range from .671% to 3.57% for individually scheduled retirements, and maturity dates range from 2017 through 2023. The property tax levies expire when the related bond indebtedness is repaid.

During the year ended June 30, 2017, the District recognized approximately \$1,819,791 in property taxes pledged to retire the bonded indebtedness, and retired \$1,075,000 in bond principal and interest.

PSFA Loan – During construction of the Bayard Elementary, the Public Schools Facilities Authority provided advance funding to the District, which is to be repaid within four years from completion of the project, so the loan matures in 2019. The advance does not have an interest component, and is to be repaid with available funds.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

The District receives significant financial assistance from federal and state grants and entitlements. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The District believes that any liabilities resulting from disallowed amounts will not have a material effect on the District's financial statements.

NOTE 7 – PENSION PLAN

General Information about the Pension Plan

Plan description. The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB's comprehensive annual financial report. The report can be found on NMERB's Web site at www.nmerb.org/Annualreports.html.

The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

The Plan is considered a component unit of the State's financial reporting entity. The ERA assigns the

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined Section 22-11- 2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Benefits benefit—A member’s retirement benefit is determined by a formula which includes three component parts: 1) the member’s final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member’s salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

Summary of Plan Provisions for Retirement Eligibility – For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member’s age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

- The member’s age and earned service credit add up to the sum of 80 or more,
- The member is at least sixty-seven years of age and has five or more years of earned service credit, or
- The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements.

- The member’s minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.
- The member’s minimum age and earned service credit add up to the sum of 80 or more. Those

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits

- The member's age is 67, and has earned 5 or more years of service credit.

Forms of Payment—The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

Benefit Options—The Plan has three benefit options available.

- **Option A—Straight Life Benefit** – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.
- **Option B—Joint 100% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.
- **Option C—Joint 50% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

Disability Benefit—An NMERB member is eligible for disability benefits if they have acquired at least ten years of earned service credit and is found totally disabled. The disability benefit is equal to 2% of the member's Final Average Salary (FAS) multiplied by the number of years of total service credits. However, the disability benefit shall not be less than the smaller of (a) one-third of the member's FAS or (b) 2% of the member's FAS multiplied by total years of service credit projected to age 60.

Cost of Living Adjustment (COLA)—All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010
- Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

Refund of Contributions—Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

Contributions. For the fiscal year ended June 30, 2017 and 2016 educational employers contributed to the Plan based on the following rate schedule.

Fiscal Year	Date Range	Wage Category	Member Rate	Employer Rate	Combined Rate	Increase Over Prior Year
2017	7-1-16 to 6-30-17	Over \$20K	10.70%	13.90%	24.60%	0.00%
2017	7-1-16 to 6-30-17	\$20K or less	7.90%	13.90%	21.80%	0.00%
2016	7-1-15 to 6-30-16	Over \$20K	10.70%	13.90%	24.60%	0.00%
2016	7-1-15 to 6-30-16	\$20K or less	7.90%	13.90%	21.80%	0.00%

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2017 and 2016, the District's paid employee and employer contributions of \$1,130,986 and 1,140,033, which equal the amount of the required contributions for each fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2017, the District reported a liability of \$20,687,588 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2016, the District's proportion was 0.28747%, which was a decrease of 0.01761% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,141,183.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

At the June 30, 2017, the Cobre Consolidated School District No. 2 reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 89,750	196,765
Changes of assumptions	421,116	-
Net difference between projected and actual earnings on pension plan investments	1,234,877	-
Change in proportion and differences between the District's contributions and proportionate share of contributions	228,380	955,133
The District's contributions subsequent to the measurement date	<u>1,130,986</u>	<u>-</u>
Total	<u>\$ 3,105,109</u>	<u>1,151,898</u>

The amount reported in the table above under deferred outflows of resources identified as *contributions subsequent to the measurement date* is resulting from Cobre Consolidated School District #2 contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

Year Ended June 30:	Amount
2018	\$ (6,267)
2019	172,979
2020	354,377
2020	301,136
2021	-
2022	-
Thereafter	-

Actuarial assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	Composed of 3% inflation, plus 0.75% productivity increase rate, plus a step rate promotional increase for members with less than 10 years of service.
Investment rate of return	7.75% compounded annually, net of expenses. This is made up of a 3% inflation rate and a 4.75 real rate of return. The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following" 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.) 2) application of key economic projections (inflation, real growth, dividends, etc.) and 3) structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Average of expected remaining service lives	3.77 years
Mortality	<p>Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB.</p> <p>Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012.</p> <p>Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.</p> <p>Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.</p> <p>Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.</p>
Retirement Age	Experience-based table on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.
Cost-of-living increases	2% per year, compounded annually.
Payroll growth	3.5% per year (with no allowance for membership growth).
Contribution accumulation	5.5% increase per year for all years prior to the valuation date. (Contributions are credited with 4.0% interest, compounded annually, applicable to the account balance in the past as well as the future).
Disability incidence	Approved rates applied to eligible members with at least 10 years of service.

The actuarial assumptions and methods are set by the Plan's Board of Trustees, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on June 12, 2015 in conjunction with the six-year actuarial experience study period ending June 30, 2014. At that time, the Board adopted several assumption changes, which included a decrease in the annual wage inflation rate from 4.25% to 3.75%, and changes to the mortality rates, disability rates, and retirement rates for members who joined the plan after June 30, 2010. In addition, the board lowered the population growth rate assumption to zero.

The long-term expected rate of return on pension plan investments is determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Equities	35%	
Fixed income	28%	
Alternatives	36%	
Cash	1%	
Total	<u>100%</u>	<u>7.75%</u>

Discount rate. A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2016. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.75%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the Cobre Consolidated School District No. 2 Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
The District's proportionate share of the net pension liability	\$ 27,400,229	20,687,588	15,117,991

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in separately issued NMERB'S financial reports. The reports can be found on NMERB's Web site at www.nmerb.org/Annual_reports.html.

NOTE 8 –POST EMPLOYMENT BENEFITS

Plan Description – Cobre Consolidated School District No. 2 contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report, and further information can be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd. N.E. Suite 104, Albuquerque, New Mexico 87107.

Funding Policy – The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHA 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 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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the Board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage Plan 1; municipal police member coverage plans, 3,4, or 5; municipal fire member coverage Plan 3,4, or 5; municipal detention officer member coverage Plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2014, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the Authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Cobre Consolidated School District No. 2's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$162,224, \$163,925 and \$173,772, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Because the District was unable to obtain general liability insurance at a cost it considered to be economically justifiable, it joined together with other school districts in the State and obtained insurance coverage with New Mexico Public Schools Insurance Authority, a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The District pays an annual premium to New Mexico Public Schools Insurance Authority for its general insurance coverage, and all risk of loss is transferred. No losses exceeded insurance in the past three years.

The New Mexico Public Schools Insurance Authority is self-insured for property and liability losses below \$250,000 and purchases excess insurance above the self-insured retention. The self-insured retention aggregate for property is set at \$2,000,000 with a \$1,000,000 stop loss. The self-insured retention aggregate for liability is \$3,000,000 with a \$1,000,000 stop loss.

NOTE 10 – RESTRICTED NET POSITION

At June 30, 2017, net positions restricted for by enabling legislation as follows:

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Medicaid Title XIX	\$ 348,439	-	-	348,439
Cafeteria	105,100	-	-	105,100
Athletics	19,865	-	-	19,865
PED:				
Child and Adult Food	3,232	-	-	3,232
SB-9	714,048	-	-	714,048
School Based Health	62,559	-	-	62,559
Cobre High School Daycare	97,271	-	-	97,271
Energy Efficiency	18,628	-	-	18,628
ED Tech	-	4,750	-	4,750
Debt Service	-	1,261,616	-	1,261,616
Bond Building	-	-	2,290	2,290
	<u>\$ 1,369,142</u>	<u>1,266,366</u>	<u>2,290</u>	<u>2,637,798</u>

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 11 – RESTATEMENT

A restatement was made as follows.

<u>Description/Reason</u>	<u>Amount</u>
<u>Government-wide statements</u>	
Net position, beginning	\$ 21,004,643
Capital assets detail list was adjusted after physical inventory	(3,011,526)
Adjustment related to revenue recognition of receivable from prior year	136,055
NM Public Schools Facility Authority closed a project and an adjustment was required to debt owed to PSFA	101,129
Total restatements	<u>(2,774,342)</u>
Net position, beginning restated	<u>\$ 18,230,301</u>

The amounts shown in the restatement only affect the Government-Wide Financial Statements.

NOTE 12 – JOINTLY GOVERNED ORGANIZATIONS

The District participates in the Southwest Regional Education Cooperative No. 10. This regional cooperative center was formed to consolidate the application for and the processing of supplementary federal and state funds. Representatives of the independent school districts, which are members, govern the Cooperative.

The Center obtains grants and allocates them to the member districts. The District has no ongoing financial interest or responsibility in the Cooperative.

Separately issued financial statements of the Cooperative are available from the Cooperative at P.O. Box 952, Truth or Consequences, New Mexico 87901.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued. The organization has evaluated subsequent events through February 6, 2018, which is the date the financial statements were available to be issued.

A \$7,000,000 bond issue was approved by the voters on August 15, 2017. The majority of these funds will be used to improve district athletics facilities, while a tiny fraction will be used for educational technology. The first draw was December 1, 2017 in the amount of \$3,500,000. The second draw will be in 2020.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

NON-MAJOR SPECIAL REVENUE FUNDS

The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Non-major special revenue funds consist of the following:

Cafeteria – Fund used to account for revenues generated by the District as well as the federal assistance received and the related expenditures necessary to provide food services for the district. Required by the New Mexico Department of Education Manual of procedures for New Mexico School Districts to be accounted for as a separate fund within the Special Revenue funds (PSAB, Supplement 17).

Athletics – To account for the revenues received, and the related expenditures incurred, by the District related to athletic functions (PSAB, Supplement 3).

Title I – Fund used to account for federal resources administered by the New Mexico State Department of Education to provide assistance to educationally deprived students in low-income areas of the District. Required by the New Mexico Department of Education Manual of Procedures for New Mexico School districts to be accounted for as a separate fund within the Special Revenue funds (P.L. 103-382).

Pre-School – Fund used to account for federal resources administered by the New Mexico State Department of Education to provide for the special education needs of handicapped children three to five years old. Required by the New Mexico Department of Education Manual of Procedures for New Mexico School Districts to be accounted for as a separate fund within the Special Revenue Funds (P.L. 94-142 and P.L. 99-457).

English Language – Created to improve the education of limited English proficient children and youths by helping them learn English. (ESEA as amended by the No Child Left Behind Act P.L. No. 107-110).

Teacher Training – Created by P.L. 107-110 to improve teacher and principal quality and ensure that all teachers are highly qualified.

Child and Adult Food – To account for the federal resources to provide food services for the District.

GRADS - To provide grants to States or Territories to assist needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of two-parent families. Social Security Act, Title IV, Part A, as amended; Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193. The fund was created by state grant provision.

Medicaid Title XIX– To account for the federal assistance to improve primary health care and increase health education (P.L. 105-33).

Truancy Prevention Initiative –To hire a truancy and dropout prevention coach.

Reads to Lead – To provide reading coaches to provide technical assistance and professional development to staff in the District.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

NON-MAJOR SPECIAL REVENUE FUNDS (CONT.)

Dual Credit – To account for the state resources to purchase dual credit instructional materials

2012 GO Bond – To account for the bond- provided resources for library materials.

Elementary Breakfast – To account for the federal resources to provide breakfast to elementary school students.

Kindergarden 3+ -- To account for state-sponsored extension of the school year for grades K-3.

Pre-K Initiative – To account for state resources used to provide voluntary preschool.

School Based Health Center – To account for funds to provide health services to students. The fund is provided by PED and the State Grants.

Day Care – To account for the federal resources to provide daycare services for the District.

Energy Efficiency - To account for revenue pursuant to Public Building Energy Efficiency Act, NMSA 1978 6-23-10. Funds will be utilized to retrofit the District's buildings to provide energy cost savings, and to repay debt associated with the retrofit

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
OTHER NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

DEBT SERVICE FUNDS

Ed Tech Debt Service – To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The resources of this fund are generated by a tax levy based upon property values.

CAPITAL PROJECTS FUNDS

Special Capital Outlay – State – To account for the State resources to be used for specific construction projects.

Bond Building – To account for bond proceeds plus any income earned thereon. The proceeds are restricted for the purposes of making additions to and furnishing of school buildings, or purchasing or improving school grounds or any combination thereof, as approved by the voters of the District. These funds are used to account for federal resources administered by the New Mexico State Department of Education to provide for the special education needs of handicapped children three to five years old. Required by the New Mexico Department of Education Manual of Procedures for New Mexico School Districts to be accounted for as a separate fund within the Special Revenue Funds (P.L. 94-142 and P.L. 99-457).

AGENCY FUNDS

Agency Fund – To account for monies held in a custodial account (assets equal liabilities) for the benefit of others. Individual accounts are identified by name in the supporting schedule section of this report.

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 2017

	Special Revenue Funds	Capital Project Funds		Debt Service Fund	Total Non-major Funds
	Total	(31400) Special Capital Outlay State	(31100) Bond Building	(43000) Ed Tech Debt Service	
ASSETS					
Cash and cash equivalents	\$ 634,089	-	2,290	4,712	641,091
Property taxes receivable	-	-	-	28,396	28,396
Due from other governments	52,681	-	-	-	52,681
Inventory	9,211	-	-	-	9,211
Total assets	<u>\$ 695,981</u>	<u>-</u>	<u>2,290</u>	<u>33,108</u>	<u>731,379</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Unearned revenue	\$ 31,676	-	-	-	31,676
Total liabilities	<u>31,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,676</u>
Deferred inflows of resources					
Property taxes (unavailable revenue)	-	-	-	28,358	28,358
FUND BALANCES					
Nonspendable					
Inventories	9,211	-	-	-	9,211
Restricted					
Education	549,994	-	-	-	549,994
Food service	105,100	-	-	-	105,100
Capital projects	-	-	2,290	-	2,290
Debt service	-	-	-	4,750	4,750
Total fund balance	<u>664,305</u>	<u>-</u>	<u>2,290</u>	<u>4,750</u>	<u>671,345</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 695,981</u>	<u>-</u>	<u>2,290</u>	<u>33,108</u>	<u>731,379</u>

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue	Capital Project		Debt Service	Non-Major
	Funds	Funds		Funds	Funds
	Total	(31400) Special Capital Outlay State	(31100) Bond Building Commission	(43000) Ed Tech Debt Service	Total
REVENUES					
Taxes	\$ -	-	-	400	400
Intergovernmental revenue - state	1,392,073	17,092	-	-	1,409,165
Intergovernmental revenue - federal	1,837,689	-	-	-	1,837,689
Charges for services	97,414	-	-	-	97,414
Investment earnings	67	-	609	-	676
Other revenue	394	-	-	-	394
Total revenues	<u>3,327,637</u>	<u>17,092</u>	<u>609</u>	<u>400</u>	<u>3,345,738</u>
EXPENDITURES					
Current:					
Instruction	1,489,344	-	-	-	1,489,344
Support services - Student	323,069	-	-	-	323,069
Support services - Instruction	10,258	-	-	-	10,258
General administration	117,846	-	-	5	117,851
School administration	91,179	-	-	-	91,179
Operation of Plant	428	-	-	-	428
Food services	967,059	-	-	-	967,059
Transportation	141,278	-	-	-	141,278
Debt Service:					
Principal payments	-	-	1,298,871	-	1,298,871
Interest payments	-	-	-	-	-
Capital Outlay	19,195	17,092	-	-	36,287
Total Expenditures	<u>3,159,656</u>	<u>17,092</u>	<u>1,298,871</u>	<u>5</u>	<u>4,475,624</u>
Excess (deficiency) of revenues over expenditures	167,981	-	(1,298,262)	395	(1,129,886)
OTHER FINANCING SOURCES (USES)					
Proceeds from issuance of long-term capital-related debt	-	-	-	-	-
Bond premium	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	167,981	-	(1,298,262)	395	(1,129,886)
Fund balances-beginning of year	496,324	-	1,300,552	4,355	1,801,231
Restatements	-	-	-	-	-
Fund balances-beginning of year, as restated	<u>496,324</u>	<u>-</u>	<u>1,300,552</u>	<u>4,355</u>	<u>1,801,231</u>
Fund balances-end of the year	<u>\$ 664,305</u>	<u>-</u>	<u>2,290</u>	<u>4,750</u>	<u>671,345</u>

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS
AS OF JUNE 30, 2017

	(21000) Cafeteria	(22000) Athletics	(24101) Title I	(24109) Preschool	(24153) English Language	(24154) Teacher Training	(25171) Child and Adult Food	(25149/28203) GRADS Plus	(25153) Medicaid Title XIX	(27141) Truancy Prevention
ASSETS										
Cash and cash equivalents	\$ 105,100	19,865	2,000	21,676	-	-	3,232	8,000	295,758	-
Property taxes receivable	-	-	-	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-	-	52,681	-
Inventory	9,211	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Total assets	\$ <u>114,311</u>	<u>19,865</u>	<u>2,000</u>	<u>21,676</u>	<u>-</u>	<u>-</u>	<u>3,232</u>	<u>8,000</u>	<u>348,439</u>	<u>-</u>
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Unearned revenues	\$ -	-	2,000	21,676	-	-	-	8,000	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>21,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>-</u>	<u>-</u>
FUND BALANCES										
Nonspendable										
Inventories	9,211	-	-	-	-	-	-	-	-	-
Restricted										
Education	-	19,865	-	-	-	-	3,232	-	348,439	-
Food service	105,100	-	-	-	-	-	-	-	-	-
Social services	-	-	-	-	-	-	-	-	-	-
Total fund balance	<u>114,311</u>	<u>19,865</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,232</u>	<u>-</u>	<u>348,439</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ <u>114,311</u>	<u>19,865</u>	<u>2,000</u>	<u>21,676</u>	<u>-</u>	<u>-</u>	<u>3,232</u>	<u>8,000</u>	<u>348,439</u>	<u>-</u>

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements.

COBRE CONSOLIDATED SCHOOL DISTRICT No.2
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS (continued)
AS OF JUNE 30, 2017

	(27114)	(27103)	(27107)	(27155)	(27166)	(27149)	(29130)	(25141/ 24118)	(31800)
	Reads to Lead	Dual Credit	2012 GO Bond Student Library	Elementary Breakfast	Kinder- garten 3+	Pre-K Initiative	School Based Health	Day Care	Energy Efficiency
ASSETS									
Cash and cash equivalents	\$ -	-	-	-	-	-	62,559	97,271	18,628
Property taxes receivable	-	-	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total assets	\$ -	-	-	-	-	-	62,559	97,271	18,628
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Unearned revenues	\$ -	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	-
FUND BALANCES									
Nonspendable									
Inventories	-	-	-	-	-	-	-	-	-
Restricted									
Education	-	-	-	-	-	-	62,559	97,271	18,628
Food service	-	-	-	-	-	-	-	-	-
Social services	-	-	-	-	-	-	-	-	-
Total fund balance	-	-	-	-	-	-	62,559	97,271	18,628
Total liabilities, deferred inflows of resources, and fund balances	\$ -	-	-	-	-	-	62,559	97,271	18,628

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements.

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Funds									
	(21000) Cafeteria	(22000) Athletics	(24101) Title 1	(24104) Preschool	(24153) English Language	(24154) Teacher Training	(25171) Child and Adult Food	(25149 /28203) GRADS Plus	(25153) Medicaid Title XIX	(27141) Truancy Prevention
REVENUES										
Intergovernmental revenue - state	-	-	-	-	-	-	-	-	-	41,481
Intergovernmental revenue - federal	875,743	-	417,764	10,144	410	45,400	7,168	9,250	445,139	-
Charges for services	23,908	53,361	-	-	-	-	-	-	-	-
Investment earnings	56	11	-	-	-	-	-	-	-	-
Other revenue	-	394	-	-	-	-	-	-	-	-
Total revenues	<u>899,707</u>	<u>53,766</u>	<u>417,764</u>	<u>10,144</u>	<u>410</u>	<u>45,400</u>	<u>7,168</u>	<u>9,250</u>	<u>445,139</u>	<u>41,481</u>
EXPENDITURES										
Current:										
Instruction	-	41,113	271,031	9,106	-	32,640	-	9,250	-	-
Support services - Student	-	-	230	652	-	-	11,844	-	187,355	41,481
Support services - Instruction	-	-	-	-	-	-	-	-	-	-
General administration	-	-	94,015	386	410	3,052	-	-	-	-
School administration	-	-	8,510	-	-	9,708	-	-	-	-
Operation of Plant	-	-	-	-	-	-	-	-	-	-
Food services	943,936	-	-	-	-	-	-	-	-	-
Transportation	-	-	43,978	-	-	-	-	-	-	-
Capital Outlay:	-	-	-	-	-	-	-	-	-	-
Total Expenditures	<u>943,936</u>	<u>41,113</u>	<u>417,764</u>	<u>10,144</u>	<u>410</u>	<u>45,400</u>	<u>11,844</u>	<u>9,250</u>	<u>187,355</u>	<u>41,481</u>
Excess (deficiency) of revenues over expenditures	(44,229)	12,653	-	-	-	-	(4,676)	-	257,784	-
Other financing sources (uses)	-	-	-	-	-	-	-	-	-	-
Net change in fund balance	(44,229)	12,653	-	-	-	-	(4,676)	-	257,784	-
Fund balances-beginning of year	158,540	7,212	-	-	-	-	7,908	-	90,655	-
Restatements	-	-	-	-	-	-	-	-	-	-
Fund balances-beginning of year, as restated	-	-	-	-	-	-	-	-	-	-
Fund balances-end of the year	<u>\$ 114,311</u>	<u>19,865</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,232</u>	<u>-</u>	<u>348,439</u>	<u>-</u>

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements.

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (continued)
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Funds								
	(27114) Reads to Lead	(27103) Dual Credit	(27107) 2012 GO Bond Student Library	(27155) Elementary Breakfast	(27166) Kinder- garten 3+	(27149) Pre-K Initiative	(29130) School Based Health	(25141/ 24,118) Day Care	(31800) Energy Efficiency
REVENUES									
Intergovernmental revenue - state	\$ 458,247	6,200	10,258	23,123	293,246	559,518	-	-	-
Intergovernmental revenue - federal	-	-	-	-	-	-	-	26,671	-
Charges for services	-	-	-	-	-	-	-	20,145	-
Investment earnings	-	-	-	-	-	-	-	-	-
Rents and royalties	-	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-	-
Total revenues	<u>458,247</u>	<u>6,200</u>	<u>10,258</u>	<u>23,123</u>	<u>293,246</u>	<u>559,518</u>	<u>-</u>	<u>46,816</u>	<u>-</u>
EXPENDITURES									
Current:									
Instruction	458,247	6,200	-	-	243,301	414,528	-	3,928	-
Support services - Student	-	-	-	-	4,263	-	-	77,244	-
Support services - Instruction	-	-	10,258	-	-	-	-	-	-
General administration	-	-	-	-	1,099	18,884	-	-	-
School administration	-	-	-	-	31,855	41,106	-	-	-
Operation of plant	-	-	-	-	428	-	-	-	-
Food services	-	-	-	23,123	-	-	-	-	-
Transportation	-	-	-	-	12,300	85,000	-	-	-
Other supportive services	-	-	-	-	-	-	-	-	-
Debt Service:	-	-	-	-	-	-	-	-	-
Principal payments	-	-	-	-	-	-	-	-	-
Interest payments	-	-	-	-	-	-	-	-	-
Capital Outlay:	-	-	-	-	-	-	-	-	19,195
Total Expenditures	<u>458,247</u>	<u>6,200</u>	<u>10,258</u>	<u>23,123</u>	<u>293,246</u>	<u>559,518</u>	<u>-</u>	<u>81,172</u>	<u>19,195</u>
Excess (deficiency) of revenues over expenditures	-	-	-	-	-	-	-	(34,356)	(19,195)
Other financing sources (uses)	-	-	-	-	-	-	-	-	-
Net change in fund balance	-	-	-	-	-	-	-	(34,356)	(19,195)
Fund balances-beginning of year	-	-	-	-	-	-	62,559	131,627	37,823
Restatements	-	-	-	-	-	-	-	-	-
Fund balances-beginning of year, as restated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances-end of the year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,559</u>	<u>97,271</u>	<u>18,628</u>

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements.

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
COMBINING BALANCE SHEET
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	(11000)	(13000)	(14000)	Non-Instructional Support	Total
	Operational	Transportation	Instructional Materials		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 38,331	-	7,123	135,777	181,231
Investments	-	-	-	-	-
Receivables, net	113,747	-	-	-	113,747
Property tax receivables	22,243	-	-	-	22,243
Intergovernmental receivables	-	-	-	-	-
Total current assets	<u>174,321</u>	<u>-</u>	<u>7,123</u>	<u>135,777</u>	<u>317,221</u>
Non-current assets:					
Restricted cash and cash equivalents	-	-	-	-	-
Restricted cash held in investments	-	-	-	-	-
Land and construction in progress	-	-	-	-	-
Other capital assets, net of accumulated depreciation	-	-	-	-	-
Total non-current assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>174,321</u>	<u>-</u>	<u>7,123</u>	<u>135,777</u>	<u>317,221</u>
Deferred outflows of resources					
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 174,321</u>	<u>-</u>	<u>7,123</u>	<u>135,777</u>	<u>317,221</u>
LIABILITIES					
Deferred inflows of resources					
Property taxes (unavailable revenue)	\$ 20,056	-	-	-	20,056
Receivable (unavailable revenue)	113,747	-	-	-	113,747
Deferred inflows of resources	<u>133,803</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,803</u>
NET POSITION					
Net investment in capital assets	-	-	-	-	-
Restricted for:					
Other purposes	-	-	-	-	-
Unrestricted	40,518	-	7,123	135,777	183,418
Total net position	<u>40,518</u>	<u>-</u>	<u>7,123</u>	<u>135,777</u>	<u>183,418</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 174,321</u>	<u>-</u>	<u>7,123</u>	<u>135,777</u>	<u>317,221</u>

COBRE CONSOLIDATED SCHOOL DISTRICT NO. 2
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	11000	13000	14000		
	Operational	Transportation	Instructional Materials	Non-Instructional Support	Total
REVENUES					
Intergovernmental revenue - local	\$ 93,893	-	-	-	93,893
Intergovernmental revenue - state	11,175,470	606,758	18,322	-	11,800,550
Intergovernmental revenue - federal	36,773	-	-	-	36,773
Charges for services	-	-	-	87,718	87,718
Investment earnings	873	-	-	-	873
Total revenues	<u>11,307,009</u>	<u>606,758</u>	<u>18,322</u>	<u>87,718</u>	<u>12,019,807</u>
EXPENDITURES					
Current:					
Instruction	5,777,333	-	76,960	-	5,854,293
Support services - Students	1,508,555	-	-	103,639	1,612,194
Support services - Instruction	556,402	-	-	-	556,402
General administration	642,048	-	-	-	642,048
School administration	759,667	-	-	-	759,667
Central services	359,270	-	-	-	359,270
Operation of Plant	2,115,127	-	-	-	2,115,127
Food Services	-	-	-	-	-
Transportation	34,683	606,758	-	-	641,441
Other support services	6,702	-	-	-	6,702
Debt Service:					
Principal payments	-	-	-	-	-
Interest payments	-	-	-	-	-
Capital Outlay:					
Capital outlay	-	-	-	-	-
Total expenditures	<u>\$ 11,759,787</u>	<u>606,758</u>	<u>76,960</u>	<u>103,639</u>	<u>12,547,144</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (452,778)</u>	<u>-</u>	<u>(58,638)</u>	<u>(15,921)</u>	<u>(527,337)</u>
Net change in fund balance	(452,778)	-	(58,638)	(15,921)	(527,337)
Fund balances-beginning of year	493,296	-	65,761	151,698	710,755
Restatements	-	-	-	-	-
Fund balances-beginning of year, as restated	<u>493,296</u>	<u>-</u>	<u>65,761</u>	<u>151,698</u>	<u>710,755</u>
Fund balances-end of the year	<u>\$ 40,518</u>	<u>-</u>	<u>7,123</u>	<u>135,777</u>	<u>183,418</u>

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY OF ERB FUND DIVISION;
EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
LAST 10 FISCAL YEARS***

Fiscal Year	2017	2016	2015
Measurement Date	2016	2015	2014
The District's proportion of the net pension liability (asset) (%)	0.28747%	0.30508%	0.29769%
The District's proportionate share of the net pension liability (asset) (\$)	\$ 20,687,588	19,760,856	16,985,381
The District's covered payroll	\$ 8,229,722	8,329,661	8,205,328
The District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	251%	237%	207%
Plan fiduciary net position as a percentage of the total pension liability	61.58%	63.97%	66.54%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

See Note 11 for Notes to Required Supplementary Information

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
ERB FUND DIVISION; MUNICIPAL GENERAL DIVISION
LAST 10 FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,130,986	1,140,033	1173109
Contributions in relation to the contractually required contribution	<u>1,130,986</u>	<u>1,140,033</u>	<u>1173109</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>
The District's covered payroll	\$ 8,205,328	8,329,661	8439369
Contributions as a percentage of covered payroll	13.78%	13.69%	13.90%

* Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the District is not available prior to fiscal year 2015, the year the statement's requirements became effective.

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

Changes of benefit terms and assumptions. For the overall NMERB Plan, there were no benefit or assumption changes adopted since the last actuarial valuation. However, the actual cost of living adjustment (COLA) was less than the expected 2.0%, which resulted in a net \$138 million decrease in the unfunded actuarial accrued liability.

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Balance			Balance
	June 30, 2016	Receipts	Disbursements	June 30, 2017
ASSETS				
Cash and cash equivalents				
Cobre High School	\$ 93,272	240,835	(235,175)	98,932
Snell Middle School	41,763	37,582	(55,488)	23,857
Bayard Elementary	2,284	28,792	(12,548)	18,528
Central Elementary	4,476	15,043	(13,212)	6,307
Hurley Elementary	53	4,434	(3,005)	1,482
All Students	34,184	21,213	(17,181)	38,216
Total assets	\$ 176,032	347,899	(336,609)	187,322
LIABILITIES				
Deposits held for others:				
Cobre High School	\$ 93,272	240,835	(235,175)	98,932
Snell Middle School	41,763	37,582	(55,488)	23,857
Bayard Elementary	2,284	28,792	(12,548)	18,528
Central Elementary	4,476	15,043	(13,212)	6,307
Hurley Elementary	53	4,434	(3,005)	1,482
All Students	34,184	21,213	(17,181)	38,216
Total liabilities	\$ 176,032	347,899	(336,609)	187,322

COBRE CONSOLIDATED SCHOOL DISTRICT No.2
SCHEDULE OF COLLATERAL
AS OF JUNE 30, 2017

			First American Bank	Total
Checking and CD's			\$ 4,789,836	4,789,836
Total on deposit			4,789,836	4,789,836
(Less) FDIC insurance			(250,000)	(250,000)
Total uninsured public funds			\$ 4,539,836	4,539,836
50% collateralization requirement (Section 6-10-17 NMSA)			<u>2,269,918</u>	<u>2,269,918</u>
Pledged Securities:				
San Juan	798359KQ7	8/1/2028	\$ 366,738	366,738
Gallup, NM	364010RR1	7/1/2027	524,440	524,440
Ruidoso, NM	781338HQ4	8/1/2020	415,552	415,552
Gadsden, NM	362550MF9	8/15/2022	1,039,643	1,039,643
MBS FHLMC	3128MC6M2	5/1/2026	227,657	227,657
MBS FNMA	3138E0SD2	12/1/2026	420,287	420,287
Bernalillo, NM	085279PK7	8/1/2019	<u>51,207</u>	<u>51,207</u>
Total pledged securities			<u>3,045,523</u>	<u>3,045,523</u>
Pledged securities over (under) requirement			\$ <u>775,605</u>	<u>775,605</u>

Securities pledged by First American Bank are held by the Federal Home Loan Bank in Dallas, TX. Safekeeping receipts are held by the District.

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND INVESTMENTS
AS OF JUNE 30, 2017

<u>First American Bank</u>	<u>Type of Account</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
Operational	Checking	\$ 207,553	38,332
Cafeteria	Checking	140,681	105,100
Payroll	Checking	1,788,129	-
Debt Service	Checking	1,231,956	1,231,956
SB-9	Checking	666,849	645,580
Bond Building	Checking	2,290	2,290
Special Projects	Checking	313,858	679,082
Athletics	Checking	20,397	19,865
Activity	Checking	418,122	400,769
Total First American Bank		<u>4,789,835</u>	<u>3,122,974</u>
Total cash and investments		<u>\$ 4,789,835</u>	<u>3,122,974</u>

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

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
ALL FUNDS BY SCHOOL DISTRICT CLASSIFICATION
AS OF JUNE 30, 2017

	Operational	Transportation	Instructional Materials	Non-Instructional Support	(21000) Cafeteria
Total cash and investments as of July 01, 2016	\$ 483,770	-	65,761	151,698	150,948
Add: Current year receipts	11,315,030	606,758	18,322	87,718	837,395
Less: Current year expenditures	(11,760,469)	(606,758)	(76,960)	(103,639)	(883,243)
Total cash and investments as of June 30, 2017	<u>\$ 38,331</u>	<u>-</u>	<u>7,123</u>	<u>135,777</u>	<u>105,100</u>
	(22000) Athletics	(24101) Title I	(24109) Preschool	(24153) English Language	(24154) Teacher Training
Total cash and investments as of July 01, 2016	\$ 7,212	2,000	21,676	-	-
Add: Current year receipts	53,766	417,764	10,144	410	45,400
Less: Current year expenditures	(41,113)	(417,764)	(10,144)	(410)	(45,400)
Total cash and investments as of June 30, 2017	<u>\$ 19,865</u>	<u>2,000</u>	<u>21,676</u>	<u>-</u>	<u>-</u>
	(25171) Child and Adult Food	(25149/28203) GRADS Plus	(25153) Medicaid	(27141) Truancy Prevention	(27114) Reads to Lead
Total cash and investments as of July 01, 2016	\$ 7,908	8,000	90,655	-	-
Add: Current year receipts	7,168	9,250	392,458	41,481	458,247
Less: Current year expenditures	(11,844)	(9,250)	(187,355)	(41,481)	(458,247)
Total cash and investments as of June 30, 2017	<u>\$ 3,232</u>	<u>8,000</u>	<u>295,758</u>	<u>-</u>	<u>-</u>
	(27103) Dual Credit	(27107) 2012 GO Bond Student Library	(27155) Elementary Breakfast	(27166) Kinder- garten 3+	(27149) Pre-K Initiative
Total cash and investments as of July 01, 2016	\$ -	-	-	-	-
Add: Current year receipts	6,200	10,258	23,123	293,246	559,518
Less: Current year expenditures	(6,200)	(10,258)	(23,123)	(293,246)	(559,518)
Total cash and investments as of June 30, 2017	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	(29130) School Based Health	(25141/ 24118) Day Care	(31700/ 32100/ 21701) SB-9	(31800) Energy Efficiency	(24106) Entitlement
Total cash and investments as of July 01, 2016	\$ 62,559	131,627	443,321	37,823	185,314
Add: Current year receipts	-	46,816	581,268	-	393,675
Less: Current year expenditures	-	(81,172)	(323,817)	(19,195)	(393,675)
Total cash and investments as of June 30, 2017	<u>\$ 62,559</u>	<u>97,271</u>	<u>700,772</u>	<u>18,628</u>	<u>185,314</u>
	(31100) Bond Building	(41000) Debt Service			
Total cash and investments as of July 01, 2016	\$ 1,300,552	1,206,485			
Add: Current year receipts	609	1,301,558			
Less: Current year expenditures	(1,298,871)	(1,280,799)			
Total cash and investments as of June 30, 2017	<u>\$ 2,290</u>	<u>1,227,244</u>			

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

COBRE CONSOLIDATED SCHOOL DISTRICT No. 2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
<u>U.S. Dept of Education</u>		
Passed through N.M. Public Education Department:		
Title I Grants to Lea's	84.010	\$ 417,764 *
Special Education-Grants to States	84.027	393,675 *
Special Education-Grants to Preschool Grants	84.173	10,144 *
English Language Acquisition Grants	84.365	410 *
Teacher Quality State Grants	84.367	45,400 *
Total U.S. Dept of Education		867,393
 <u>U.S. Dept of Agriculture</u>		
Direct Programs:		
Schools and Roads-Forest Reserve	10.665	3,726
 Passed through Public Education Department of New Mexico		
National School Lunch Program	10.555	533,582
Summer Lunch Program for Children	10.559	6,993
Child and Adult Food	10.558	11,844
School Breakfast Program	10.553	272,856
 Passed through N.M. Department of Human Services:		
Emergency Food Assistance Program	10.569	62,312
Total U.S. Dept of Agriculture		891,313
 <u>U.S. Department of Health and Human Services</u>		
Passed Through N.M. Dept. of Human Services:		
Child Care and Development	93.596	77,244
Medical Assistance Program	93.778	187,355
Total U.S. Department of Human Services		264,599
Total Federal Expenditures		\$ 2,023,305

* denotes major program

Reconciliation of Schedule of Expenditures of Federal Awards to Governmental Fund Fi

Total federal awards expended per the Schedule of Expenditures of Federal Awards	\$ 2,023,305
Total expenditures funded by other sources	16,995,664
Total expenditures funded by other sources	\$ 19,018,969

COBRE CONSOLIDATED SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grants activity of Cobre Consolidated School District No. 2, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *US Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 Emergency Food Assistance

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. The District received \$62,312 in commodities during the 2016-2017 fiscal year.

Note 3 Insurance

The District had the following insurance coverage during the year ended June 30, 2017:

Worker's compensation	\$	1,050,000
Property damage		500,000,000
Liability		10,000,000
Vehicle		1,000,000

Note 4 Subrecipients

The organization provided no federal awards presented above to sub-recipients during the year.

Note 5 Indirect Cost Rate

The organization did not use the 10 percent de minimis indirect cost rate.

**INDEPENDENT AUDITOR'S REPORT INDEPENDENT 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**

Mr. Wayne A. Johnson, State Auditor and
The Board of Education
Cobre Consolidated School District
Bayard, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds of Cobre Consolidated School District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements have issued our report thereon dated February 6, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 certain instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 2016-003, 2017-001, 2017-002, and 2017-003.

The District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Hinkle + Landers, P.C.
Albuquerque, NM
February 6, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY UNIFORM GUIDANCE**

Mr. Wayne A. Johnson, State Auditor and
The Board of Education
Cobre Consolidated School District
Bayard, New Mexico

Report on Compliance for Each Major Federal Program

We have audited Cobre Consolidated School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District'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 District'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 the audit requirements of Title 2 U.S. Code of *Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 District'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 District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, 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, 2017.

Report on Internal Control Over Compliance

Management of the District 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 District'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 Uniform Guidance, 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 District'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Hinkle + Landers, P.C.
Albuquerque, NM
February 6, 2018

**STATE OF NEW MEXICO
 COBRE CONSOLIDATED SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2017**

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

- 1. Type of auditor's report issued **Unmodified**
- 1. Internal control over financial reporting:
 - a. Material weakness identified? No
 - b. Significant deficiencies identified not considered to be material weaknesses? No
 - c. Noncompliance material to the financial statements noted? No

Federal Awards:

- 1. Internal control over major programs:
 - a. Material weaknesses identified? No
 - b. Significant deficiencies identified not considered to be material weaknesses? No
- 2. Type of auditor's report issued on compliance for major programs **Unmodified**
- 3. Any audit findings disclosed that are required to be reported in accordance with section 2 CFR section 200.516(a) No
- 4. Identification of major programs:

CFDA Number	Name of Federal Programs	Funding Source
84.010	Title I Grants to Local Educational agencies	US Department of Education
5.	Dollar threshold used to distinguish between type A and type B programs:	\$750,000
6.	Auditee qualified as low-risk auditee?	Yes

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

<u>Reference #</u>	<u>Finding</u>	<u>Status of Prior Year Findings</u>	<u>Type of Finding</u>
Prior Year Findings			
2016-003	STAFF QUALIFICATIONS AND PAYROLL DOCUMENTATION	RESOLVED	G
2017-002	CERTIFICATION OF CAPITAL ASSETS ANNUAL INVENTORY	RESOLVED	B, G
2016-003	LATE AUDIT REPORT	REPEATED	G
Current Year Findings			
2017-001	UNTIMELY BANK DEPOSITS	CURRENT	G
2017-002	IMPROPER PURCHASE OF HIGH GRADE FUEL	CURRENT	G
2017-003	MISSING PERSONNEL INFORMATION	CURRENT	G

* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Material Weakness in Internal Control Over Compliance of Federal Awards
- E. Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F. Instance of Noncompliance Related to Federal Awards
- G. Non-compliance with State Audit Rule, NM State Statutes, NMAC, or other entity compliance

PRIOR YEAR FINDINGS

2016-003-LATE AUDIT REPORT

Type of Finding: G

Statement of Condition

The audit report for the District fiscal year ended June 30, 2017 was not submitted by the November 15, 2017 due date. The audit report was submitted February 15, 2018.

Managements Progress Toward Prior Year Corrective Action Plan:

Progress was not significant.

Criteria

OSA Rule 2.2.2.10.I.(4) establishes a due date of November 15, 2017 for submission of this audit report to the Office of the State Auditor.

Effect

The report was not submitted as required. Without the audit report being delivered on time, fund and regulatory agencies as well as legislative committees do not have the financial data available to make funding decisions.

Cause

A significant number of key deliverables needed to conduct the audit were not received in accurate form, by the mutually agreed upon deliverable due dates.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Recommendation

We recommend the District submit the required deliverable in time for the auditors to complete their procedures to ensure a timely completion of the annual audit.

View of Responsible Officials

Management will take action to ensure that deliverables required for completion of the audit are accurate and timely.

Corrective Action Plan Timeline: February 12, 2017

Designation of Employee Position Responsible for Meeting Deadline: Director of Finance

CURRENT YEAR FINDINGS

2017-001—UNTIMELY BANK DEPOSITS

Type of Finding: G

Statement of Condition

During our test of cash receipts, the following was noted:

The District's cash receipts were not deposited into banking institution by the close of the next business day as follows.

Out of 25 randomly selected samples selected, 9 deposits of the 25-five were deposited untimely as follows:

- 1 cash receipt received April 18 was deposited May 5
- 1 cash receipt received April 13 was deposited April 18
- 1 cash receipt received April 11 was deposited April 18
- 2 cash deposits dated April 25 and 2 dated May 2 were deposited May 5
- 2 cash receipts received February 9 and 10 were deposited February 13

Criteria

Per Section 6.20.2.14, School districts shall establish and maintain a cash management program to safeguard cash. Money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day. If the distance to the bank is considerable, or the cash collection is limited to small amounts and/or low volume and it is impractical to meet the twenty-four hour/one banking day requirement, the local board may request approval from the department for an alternative plan.

Internal controls have to be implemented and be adequate to mitigate the risks associated with the collection and deposit of cash.

Effect

Untimely deposits may cause the District to be at risk that a loss or misappropriations of public funds may occur and not be detected in a timely manner.

Cause

Various departments are not turning in the funds to the Central office in timely manner.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Recommendation

We recommended that the District implement controls and developed accounting policies requiring TRAIN AND MONITOR adequate controls to ensure monies are deposited by the close of the next business day.

View of Responsible Officials

The District will continue to provide workshops, during new and returning orientations, for all staff involved with the handling of cash; to communicate the importance of adhering to the policies and procedures set forth and approved by the Cobre Board of Education.

Corrective Action Plan Timeline:

June 30, 2018.

Designation of Employee Position Responsible for Meeting Deadline:

Superintendent and School Principals/Department Heads will set up time for Comptroller to deliver workshops.

2017-002—IMPROPER PURCHASE OF HIGH GRADE FUEL

Type of Finding: G

Statement of Condition

During our review of credit card purchases we noted the following:

- In August 2016, we noted 3 instances of super gasoline used instead of unleaded.
- In March 2017, we noted 7 instances of super gasoline used instead of unleaded.
- In May 2017, we noted 6 instances of super gasoline used instead of unleaded.

Criteria

In accordance with 1.5.4.12 NMAC, State of New Mexico credit cards shall be used only for official business and only to furnish state-owned vehicles with:

- a. regular gasoline;
- b. unleaded gasoline;
- c. diesel fuel;
- d. lubrication;
- e. motor oil;
- f. car wash; and
- g. emergency purchases not exceeding \$100.00 in total.

Effect

The District is in violation of state statute and is spending funds on products which are considered excessive.

Cause

1. A fuel card was used multiple times to purchase an un-allowed grade of fuel and was not identified by the review of the credit card.
2. The District has not formally adopted in their polices this requirement to not purchase high grade fuel.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Recommendation

We recommend that the District adhere to state law regarding the purchase of fuel with gas cards. All individuals who drive District vehicles and use the gas cards should be instructed in the law as to what is and is not proper with regards to gas cards. Relevant sections may be found at 1.5.3.19, 1.5.3.20, and 1.5.4.12 NMAC.

View of Responsible Officials

All instances of this type of fuel purchase were done by a single employee. This employee has been corrected and informed of consequences of violating this policy. Comptroller will be more diligent in identifying discrepancies on monthly billing.

Corrective Action Plan Timeline:

Immediately.

Designation of Employee Position Responsible for Meeting Deadline:

Superintendent and Comptroller

2017-003 MISSING PERSONNEL INFORMATION

Type of Finding: G

Statement Condition

During our review of personnel files, we noted the following instances where required documentation was not found:

1. a) In 6 of the 25 files reviewed, the I-9s did not include the date of hire.
- b) In 1 of the 25 files reviewed, the I-9 did not include the employee and employer's signature.
- c) In the 25 files reviewed, 6 of the personnel held additional jobs as coaching, bus driver, etc., but none of these personnel files had an approved payrate for the additional job.
- d) In 1 out of the 25 files reviewed, the payrate was not found.

Criteria

Personnel files should contain proper documentation to support payroll transactions per state statutes.

Improving internal controls reduces the opportunity for mistakes or errors to take place or to be identified and corrected in a timely manner or for reducing the opportunity for fraud to take place.

Effect

The School's lack of maintaining proper I9s and payrates in all employee files is a violation of state statute and may put the District at risk of liability for any actions that may arise regarding employees.

Cause

The District has not taken measures to ensure that it is compliance with state and federal guidelines in regards to documentation of payroll related documentation.

Recommendation

We recommend the District develop and implement internal control procedures to ensure all required documents are obtained for personnel which includes but not limited to I-9s and payrate approvals. We also, recommend to keep all the records at one centralized location

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

View of Responsible Officials

Review of files will begin immediately.

Corrective Action Plan Timeline: Review will be completed by June 30, 2018.

Designation of Employee Position Responsible for Meeting Deadline: Superintendent and Human Resources Department.

**STATE OF NEW MEXICO
COBRE CONSOLIDATED SCHOOL DISTRICT
Other Disclosures
Year Ended June 30, 2017**

A. PREPARATION OF FINANCIAL STATEMENTS

Presentation: The accompanying financial statements are the responsibility of the District and are based on information from the District's financial records. Assistance was provided by Hinkle + Landers, PC to the District in preparing the financial statements.

B. EXIT CONFERENCE

The contents of the report for Cobre Consolidated School District were discussed in a closed session on February 6, 2018. The following individuals were in attendance.

<u>Name</u>	<u>Title</u>	<u>Affiliation</u>
Ralph Sepulveda	Board President	Cobre Consolidated Schools
Robert Mendoza	Superintendent	Cobre Consolidated Schools
Frank Ryan	Director of Finance	Cobre Consolidated Schools
Farley Vener, CPA, CFE, CGMA	President	Hinkle + Landers