

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE**

FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2018

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 REGION IX EDUCATION COOPERATIVE  
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**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE**

Directory of Officials  
June 30, 2018

***COORDINATING COUNCIL***

<u>Member</u>	<u>Position</u>	<u>School Represented</u>
Travis Lightfoot	Chairman	Corona
Brenda Vigil	Vice-Chairman	Tularosa
Sean Wootton	Member	Capitan
Dr. Porter Cutrell	Member	Cloudcroft
Todd Lindsay	Member	Carrizozo
Marvin Martin	Member	Hondo Valley
George Bickert, Ed.D	Member	Ruidoso

***ADMINISTRATIVE STAFF***

Bryan Dooley	Executive Director
Carmen Spann	Business Manager

**Ed Fierro, CPA • Rose Fierro, CPA**527 Brown Road • Las Cruces, NM 88005  
Bus: (575) 525-0313 • Fax: (575) 525-9708  
www.fierrocpa.comIndependent Auditors' ReportWayne A. Johnson, State Auditor  
and  
Coordinating Council  
Region IX Education Cooperative  
Ruidoso, New Mexico**Report on the 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 Region IX Education Cooperative (Cooperative), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Cooperative's nonmajor governmental funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2018, 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 Cooperative, as of June 30, 2018, and the respective changes in financial position, thereof and the respective budgetary comparisons for the general fund and the major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Cooperative as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the 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.

Accounting principles generally accepted in the United States of America require the schedule of the Cooperative's proportionate share of the net pension and other post-employment benefit liabilities and the schedule of the Cooperative's contributions on pages thirty-nine through forty-three be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 inquires 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 Cooperative's basic financial statements and 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the other schedules required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018 on our consideration of the Cooperative'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 solely 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 effectiveness of the Cooperative's 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 Cooperative's internal control over financial reporting and compliance.

*Fierro + Fierro, P.A.*

Fierro & Fierro, P.A.  
Las Cruces, New Mexico

September 25, 2018

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**



**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
STATEMENT OF NET POSITION  
JUNE 30, 2018

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 3,534,821
Receivables, net	4,950,367
Prepaid expenses	24,305
Capital assets:	
Land	20,494
Other capital assets, net of depreciation	<u>67,489</u>
Total capital assets	<u>87,983</u>
Total assets	8,597,476
<b>Deferred Outflows of Resources</b>	
Pension related	3,536,612
OPEB related	<u>61,310</u>
Total deferred outflows of resources	3,597,922
<b>Liabilities</b>	
Accounts payable	34,653
Unearned revenues	686,128
Net pension liability	10,385,536
Net OPEB liability	<u>2,796,949</u>
Total liabilities	13,903,266
<b>Deferred Inflows of Resources</b>	
Pension related	477,878
OPEB related	<u>636,579</u>
Total deferred inflows of resources	1,114,457
<b>Net Position</b>	
Invested in capital assets	87,983
Unrestricted	<u>(2,910,308)</u>
Total net position	<u><u>\$ (2,822,325)</u></u>

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

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental activities:					
Instruction	\$ 432,607	\$ -	\$ 1,810,007	\$ -	\$ 1,377,400
Support services:					
Students	3,814,083	-	7,746,633	-	3,932,550
Instruction	2,841,594	7,580	4,353,379	-	1,519,365
General administration	8,301,001	-	3,247,857	-	(5,053,144)
Central services	816,801	-	-	-	(816,801)
Operation of plant	210,146	-	-	-	(210,146)
Student transportation	44,013	-	-	-	(44,013)
Operation services:					
Food	14,552	-	-	-	(14,552)
Community	4,401,332	-	3,410,355	-	(990,977)
Total governmental activities	<u>\$ 20,876,129</u>	<u>\$ 7,580</u>	<u>\$ 20,568,231</u>	<u>\$ -</u>	<u>(300,318)</u>
<b>General Revenues:</b>					
					3,083
					1,450
					<u>4,533</u>
					(295,785)
					795,786
					<u>(3,322,326)</u>
					<u>(2,526,540)</u>
					<u>\$ (2,822,325)</u>

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

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

	General Fund	State Directed Activities Fund	Title XIX Medicaid (3 to 21) Fund	Other Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>					
Cash	\$ 2,848,693	\$ -	\$ 465,652	\$ 220,476	\$ 3,534,821
Receivables, net	1,208,847	3,504,041	-	237,479	4,950,367
Due from other funds	3,756,410	-	-	-	3,756,410
Prepaid expenses	247	24,058	-	-	24,305
	<u>7,814,197</u>	<u>3,528,099</u>	<u>465,652</u>	<u>457,955</u>	<u>12,265,903</u>
Total assets	<u>\$ 7,814,197</u>	<u>\$ 3,528,099</u>	<u>\$ 465,652</u>	<u>\$ 457,955</u>	<u>\$ 12,265,903</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
Liabilities:					
Accounts payable	\$ 25,485	\$ 807	\$ -	\$ 8,361	\$ 34,653
Unearned revenues	-	-	465,652	220,476	686,128
Due to other funds	-	3,527,292	-	229,118	3,756,410
	<u>25,485</u>	<u>3,528,099</u>	<u>465,652</u>	<u>457,955</u>	<u>4,477,191</u>
Total liabilities	25,485	3,528,099	465,652	457,955	4,477,191
Fund Balances:					
Unassigned	<u>7,788,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,788,712</u>
Total liabilities and fund balances	<u>\$ 7,814,197</u>	<u>\$ 3,528,099</u>	<u>\$ 465,652</u>	<u>\$ 457,955</u>	<u>\$ 12,265,903</u>

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

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
RECONCILIATION OF THE BALANCE SHEET  
GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018

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

Total fund balance governmental funds (page seven)	\$ 7,788,712
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	87,983
Pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(10,385,536)
Other post-employment benefits (OPEB) obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(2,796,949)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources related to pension of \$3,536,612 is equal to 2018 employer contributions related to pensions.	3,536,612
Deferred inflows of resources related to pensions.	(477,878)
Deferred outflows and inflows of resources related to other post-employment benefits (OPEB) are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources related to other post-employment of \$61,310 is equal to 2018 employer contributions related to other post-employment benefits (OPEB).	61,310
Deferred inflows of resources related to other post-employment benefits (OPEB).	<u>(636,579)</u>
Net position of governmental activities (page five)	<u>\$ (2,822,325)</u>

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

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	State Directed Activities Fund	Title XIX Medicaid (3 to 21) Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Intergovernmental:					
Federal	\$ 2,712,384	\$ 864,058	\$ 354,666	\$ 2,689,628	\$ 6,620,736
State	5,939,320	7,839,738	-	168,437	13,947,495
Charges for services	7,580	-	-	-	7,580
Interest	3,083	-	-	-	3,083
Miscellaneous	1,450	-	-	-	1,450
Total revenues	8,663,817	8,703,796	354,666	2,858,065	20,580,344
<b>Expenditures:</b>					
Current:					
Instruction	-	-	-	417,556	417,556
Support services:					
Students	1,604,477	515,292	264,168	1,380,254	3,764,191
Instruction	15,455	2,760,654	-	46,064	2,822,173
General administration	1,109,937	5,427,850	43,235	417,593	6,998,615
Central services	734,589	-	47,263	30,760	812,612
Operation of plant	164,242	-	-	46,331	210,573
Student transportation	-	-	-	44,013	44,013
Operation services:					
Food	-	-	-	14,552	14,552
Community	3,940,390	-	-	460,942	4,401,332
Total expenditures	7,569,090	8,703,796	354,666	2,858,065	19,485,617
Net change in fund balances	1,094,727	-	-	-	1,094,727
Fund balance, beginning of year	6,693,985	-	-	-	6,693,985
Fund balance, end of year	\$ 7,788,712	\$ -	\$ -	\$ -	\$ 7,788,712

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

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
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, 2018

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

Net change in fund balances total governmental funds (page nine)	\$	1,094,727
<p>In the statement of activities, there was no capital outlay is reported as expenditures; however, the cost of the capital assets is allocated over their estimated useful lives and reported as depreciation expense in the amount of \$26,010; therefore the net adjustment is \$26,010.</p>		
		(26,010)
<p>Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employees' contributions is reported as pension expense.</p>		
Pension contributions	\$ 369,911	
Cost of benefits earned net of employee contributions (pension expense)	<u>(1,690,104)</u>	(1,320,193)
<p>Governmental funds report other post-employment benefits (OPEB) contributions as expenditures. However, in the statement of activities, the cost of other post-employment (OPEB) benefits earned net of employees' contributions is reported as other post-employment benefits (OPEB) expense.</p>		
Other Post-Employment Benefits (OPEB) contributions	\$ 66,889	
Cost of benefits earned net of employee contributions (other post-employment benefits expense)	<u>(111,198)</u>	<u>(44,309)</u>
Net change in net position - government-wide financial statements (page six)	\$	<u><u>(295,785)</u></u>

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

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE  
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS  
WITH RECONCILIATION TO GAAP  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
<b>Revenues:</b>						
Intergovernmental:						
Federal	\$ 176,871	\$ 3,089,871	\$ 1,887,631	\$ 824,753	\$ 2,712,384	\$ (1,202,240)
State	2,034,093	4,973,733	10,069,672	(4,130,352)	5,939,320	5,095,939
Charges for services	10,000	10,000	7,919	(339)	7,580	(2,081)
Interest	-	-	3,083	-	3,083	3,083
Miscellaneous	-	-	1,450	-	1,450	1,450
Total revenues	<u>2,220,964</u>	<u>8,073,604</u>	<u>11,969,755</u>	<u>(3,305,938)</u>	<u>8,663,817</u>	<u>3,896,151</u>
<b>Expenditures:</b>						
Current:						
Support services:						
Students	1,085,636	1,875,207	1,603,891	586	1,604,477	271,316
Instruction	544,478	32,648	15,455	-	15,455	17,193
General administration	164,778	1,428,865	1,114,048	(4,111)	1,109,937	314,817
Central services	769,850	911,150	734,140	449	734,589	177,010
Operations of plant	365,225	286,306	161,401	2,841	164,242	124,905
Operation services:						
Community	-	4,778,678	3,923,798	16,592	3,940,390	854,880
Total expenditures	<u>2,929,967</u>	<u>9,312,854</u>	<u>7,552,733</u>	<u>16,357</u>	<u>7,569,090</u>	<u>1,760,121</u>
Net change	(709,003)	(1,239,250)	4,417,022	<u>\$ (3,322,295)</u>	<u>\$ 1,094,727</u>	5,656,272
Cash balance, beginning of year	2,188,081	2,188,081	2,188,081			-
Cash repaid from other funds	-	-	753,755			753,755
Cash advanced to other funds	-	-	(4,510,165)			(4,510,165)
Cash balance, end of year	<u>\$ 1,479,078</u>	<u>\$ 948,831</u>	<u>\$ 2,848,693</u>			<u>\$ 1,899,862</u>
<b>Explanation of Differences:</b>						
Change in receivables				\$ 1,170,519		
Change in due to/due from				(4,476,457)		
Change in prepaid expenses				247		
Change in accounts payable				(16,604)		
				<u>\$ (3,322,295)</u>		

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



**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
STATE DIRECTED ACTIVITIES FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE  
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS  
WITH RECONCILIATION TO GAAP  
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental:						
Federal	\$ 405,374	\$ 999,310	\$ 433,321	\$ 430,737	\$ 864,058	\$ (565,989)
State	2,085,000	9,442,186	4,772,458	3,067,280	7,839,738	(4,669,728)
Total revenues	2,490,374	10,441,496	5,205,779	3,498,017	8,703,796	(5,235,717)
Expenditures:						
Current:						
Support services:						
Students	368,035	660,563	524,543	(9,251)	515,292	136,020
Instruction	-	3,158,985	2,760,654	-	2,760,654	398,331
General administration	1,742,339	6,621,948	5,447,874	(20,024)	5,427,850	1,174,074
Operation services:						
Community	380,000	-	-	-	-	-
Total expenditures	2,490,374	10,441,496	8,733,071	(29,275)	8,703,796	1,708,425
Net change	-	-	(3,527,292)	\$ 3,527,292	\$ -	(3,527,292)
Cash balance, beginning of year	-	-	-			-
Cash advanced from the general fund	-	-	3,527,292			3,527,292
Cash balance, end of year	\$ -	\$ -	\$ -			\$ -
<b>Explanation of Differences:</b>						
Change in receivables				\$ (847,659)		
Change in due to/due from				4,345,676		
Change in prepaid expenses				24,058		
Change in accounts payable				5,217		
				\$ 3,527,292		

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

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
**TITLE XIX MEDICAID (3 TO 21) FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE**  
**BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS**  
**WITH RECONCILIATION TO GAAP**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental:						
Federal	\$ 250,061	\$ 250,061	\$ 424,581	\$ (69,915)	\$ 354,666	\$ 174,520
Expenditures:						
Current:						
Support services:						
Students	173,644	348,222	265,190	(1,022)	264,168	83,032
General administration	28,671	52,588	43,235	-	43,235	9,353
Central services	47,746	49,251	47,263	-	47,263	1,988
Total expenditures	<u>250,061</u>	<u>450,061</u>	<u>355,688</u>	<u>(1,022)</u>	<u>354,666</u>	<u>94,373</u>
Net change	-	(200,000)	68,893	<u>\$ (68,893)</u>	<u>\$ -</u>	268,893
Cash balance, beginning of year	<u>396,759</u>	<u>396,759</u>	<u>396,759</u>			-
Cash balance, end of year	<u>\$ 396,759</u>	<u>\$ 196,759</u>	<u>\$ 465,652</u>			<u>\$ 268,893</u>
<b>Explanation of Differences:</b>						
Change in receivables				\$ (27,287)		
Change in accounts payable				1,022		
Change in unearned revenues				<u>(42,628)</u>		
				<u>\$ (68,893)</u>		

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

## **NOTES TO THE FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Region IX Education Cooperative (Cooperative) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

**A. Reporting Entity**

Regional Educational Cooperatives (RECs) are established by Regional Cooperative Education Act, 22-2B-1 to 22-2B-6, NMSA 1978.

In 1984, the New Mexico State Board of Education (SBE) established ten Regional Center Cooperatives (RCCs) under SBE Regulation No. 84-6. The purpose of the RCCs is to provide services for local education agencies and eligible state supported schools under Public Law 94-142, the Individuals with Disabilities Education Act (IDEA-B). SBE Regulation No. 84.6 permits districts to submit consolidated applications to the SBE for certain entitlement and discretionary funds under IDEA-B. Since 1984, RCCs have also established cooperative programs of education services with funds other than IDEA-B entitlement or discretionary funds, including Drug Free School and Communities Act of 1986, Title II-Critical Skills Improvement, Medicaid in the Schools, and the Carl D. Perkins Vocational and Applied Technology Education Act of 1990, as well as other direct federal and state/local funding sources. The Cooperative's basic financial statements include all activities and accounts of the Cooperative's *financial reporting entity*.

The financial reporting entity consists of the primary government, and any other organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

A. Reporting Entity (continued)

A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Based on the application of these criteria, there are no component units of the Cooperative.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Cooperative as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues. The statement of net position and the statement of activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*. The Cooperative has no business-type activities.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function category (instruction, support services, operation services, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function of governmental-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). The Cooperative does not allocate indirect costs. Depreciation expense is specifically identified by function and is included in the direct expense of each function.

Separate fund based financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the government) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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

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

The Cooperative's fiduciary funds (which have been refined and narrowed in scope) are presented in the fund financial statements by type. Since, by definition, these assets are being held for the benefit of a third party (other governmental entities and individuals) and cannot be used to address or obligations of the government, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the Cooperative as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Cooperative gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund level financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The focus of the governmental funds' measurement (in the fund statements) is on financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Cooperative considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Generally, intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as, expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

Revenues are recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. Resources received in advance should be reported as deferred revenues (liabilities) until the period of the exchange. Contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial.

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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

Measurement Focus, Basis of Accounting,  
C. and Financial Statement Presentation (continued)

Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of intergovernmental revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the Cooperative; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The Cooperative reports the following major governmental funds:

The *general fund* is the Cooperative's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *State Directed Activities fund* accounts for federal and state revenues and expenditures to assist the Cooperative in providing free appropriate public education to all handicapped children (Individuals with Disabilities Act). The creation of this fund was authorized by the New Mexico Public Education Department.

The *Title XIX Medicaid (3 to 21) fund* accounts for the federal revenues and expenditures to provide services to developmentally disabled children between three years old and young adults twenty-one years old. The creation of this fund was authorized by Title XIX of the Social Security Act.

The Region maintains six individual governmental funds that are considered nonmajor funds; all of which are classified as special revenue funds. A description of each fund is as follows:

The *Head Start fund* accounts for the federal revenues and expenditures to provide comprehensive preschool education for educationally deprived students in low-income areas. The creation of this fund was authorized by the federal government under P.L. 105285.

The *Carl Perkins Secondary Redistribution fund* accounts for the federal revenues and expenditures to develop more fully the academic, career, and technical skills of secondary and post-secondary students who elect to enroll in career and technical educational programs. The creation of this fund was authorized by the Carl D. Perkins Career Technical Education Act of 2006, Title I.

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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

Measurement Focus, Basis of Accounting,

C. and Financial Statement Presentation (continued)

The *Title XIX Medicaid (Birth to Two) fund* accounts for the federal revenues and expenditures to provide services to developmentally disabled children between birth and two years old. The creation of this fund was authorized by Title XIX of the Social Security Act.

The *Workforce Investment Act fund* accounts for the federal revenues and expenditures for training to increase the attainment of basic skills, work readiness or occupational skills, including secondary diplomas or other credentials. The creation of this fund was authorized by Workforce Investment Act of 1998, Title I.

The *Birth to Two Year fund* accounts for the state grant revenues and expenditures for the operation and maintenance of delivering services to developmentally disabled children between birth and two years old. The creation of this fund was authorized by the grant provisions.

The *DOH Healthier Schools fund* accounts for state revenues and expenditures for School Based Health Clinics in the Ruidoso and Hondo Valley school districts. Authority for the creation of the fund is the New Mexico Public Education Department's *Manual of Procedures for School Districts*.

D. Budgets

Budgets for all funds are prepared by management and approved by the coordinating council. The proposed budget is then submitted by May 31<sup>st</sup> to the planning unit of the New Mexico Public Education Department (PED). PED certifies the budget by July 1<sup>st</sup>. The expenditure section of the budget, once adopted, is legally binding. These budgets are prepared on the non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such appropriated balance is legally restricted and is, therefore presented as a reserved portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local board approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the PED. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.



**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
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JUNE 30, 2018

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

E. 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 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.

F. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Assets, Liabilities, and Net Assets or Equity

**1. Deposits and Investments**

Investments in the Cooperative's cash and certificates of deposit are stated at cost, which approximates fair value. All other investments are carried at fair market value using quoted market prices. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

**2. Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund balance. Long-term advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**3. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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

G. Assets, Liabilities, and Net Assets or Equity (continued)

**4. Interfund Activity**

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund balance 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 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.

**5. Capital Assets**

Property, plant, and equipment purchased or acquired is carried at historical cost or estimated cost. Contributed capital assets are recorded at estimated fair market value at the time received. Purchased computer software is recorded at historical cost. The Cooperative defines capital assets as assets with an initial, individual cost or donated value of more than \$5,000 and an estimated useful life in excess of one year.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	50
Vehicles	12
Computers and electronics	5-10
Equipment	5-10

**6. Deferred Outflows and Inflows of Resources**

Deferred outflows of resources represent consumption of resources of net position that is applicable to future reporting periods that are reported in a separate section after assets in the statement of financial position.

Deferred inflows of resources represent acquisition of net position by the Cooperative that is applicable to a future reporting period. The deferred inflows are reported in a separate section after liabilities in the statement of financial position.

**7. Net Position**

The government-wide financial statements utilize a net position presentation. Net position is categorized as follows:

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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

G. Assets, Liabilities, and Net Assets or Equity (continued)

**7. Net Position (continued)**

*Investment in capital assets* – This category reflects the portion of net position that are associated with capital assets less outstanding capital asset related debt.

*Restricted net position* – This category reflects the portion of net position that has third party limitations on their use.

*Unrestricted net position* – This category reflects net position of the Cooperative, not restricted for any project or other purpose.

**8. Fund Equity Reservation and Designations**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provision or enabling legislation.

*Committed fund balance* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the coordinating council – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the coordinating council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance* – This classification reflects the amounts constrained by the Cooperative’s “intent” to be used for specific purposes, but are neither restricted nor committed. The coordinating council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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

G. Assets, Liabilities, and Net Assets or Equity (continued)

**8. Fund Equity Reservation and Designations (continued)**

*Unassigned fund balance* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Cooperative's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

H. Other Matters

**1. Use of Estimates**

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

**2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS**

Cash

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the Cooperative. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by the state Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities which are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the state or the United States, or are backed by the full faith and credit of those governments.

Cash Deposited With Financial Institutions

The Cooperative maintains cash in one financial institution in Ruidoso, New Mexico. The Cooperative's deposits are carried at cost.

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)**

*Cash Deposited With Financial Institutions (continued)*

As of June 30, 2018, the amount of cash reported on the financial statements differs from the amount on deposit with the financial institution because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

	Per Institution	Reconciling Items	Per Financial Statements
First Savings Bank	\$ 6,277,408	\$ (2,742,587)	\$ 3,534,821

The amounts reported as cash for the primary government within the financial statement is displayed as:

Statement of Net Position:	
Cash	\$ 3,534,821

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the Cooperative. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the Cooperative carrying value of the deposits (demand and certificates of deposit). Such collateral, as permitted by the state statutes is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

	First Savings Bank
Total deposits in bank	\$ 6,277,408
Less FDIC coverage	(250,000)
Uninsured public funds	6,027,408
Less pledged collateral held by pledging bank's trust, but not in the cooperative's name	5,206,375
Uninsured and uncollateralized	\$ 821,033
Total pledged collateral	\$ 5,206,375
Less 50% pledged collateral requirement per state statute	(3,013,704)
Pledged collateral (under) over the requirement	\$ 2,192,671

A detailed listing of the pledged collateral is contained in the supplemental financial information section of this report.

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)**

*Cash Deposited With Financial Institutions (continued)*

According to the Federal Deposit Insurance Corporation, public unit deposits, time deposits, savings deposits and interest bearing money market accounts at a public unit in an institution in the same state will be insured up to \$250,000.

*Custodial Credit Risk – Deposits* – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of June 30, 2018, \$6,027,408 of the Cooperative's bank balance of \$6,277,408 was exposed to custodial credit risk as follows:

	First Savings Bank
Uninsured and collateral held by pledging bank's trust dept. or agent, not in the Cooperative's name.	\$ 6,027,408

**3. RECEIVABLES, NET**

Receivables, net of allowance for doubtful accounts, at June 30, 2018, consisted of the following:

Intergovernmental receivables:	
Operating grants	\$ 4,950,367

No allowance for doubtful accounts has been recorded as the Cooperative anticipates all receivables will be collected.

**4. CAPITAL ASSETS**

Capital assets for the fiscal year ended June 30, 2018:

	Balance 06/30/17	Increases	Decreases	Balance 06/30/18
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 20,494	\$ -	\$ -	\$ 20,494
Other capital assets, being depreciated:				
Buildings	217,199	-	-	217,199
Equipment	850,777	-	-	850,777
Total other capital assets, being depreciated	1,067,976	-	-	1,067,976
Less accumulated depreciation for:				
Buildings	(187,637)	(3,604)	-	(191,241)
Equipment	(786,840)	(22,406)	-	(809,246)
Total accumulated depreciation	(974,477)	(26,010)	-	(1,000,487)
Other capital assets, net	93,499	(26,010)	-	67,489
Total capital assets, net	\$ 113,993	\$ (26,010)	\$ -	\$ 87,983

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**4. CAPITAL ASSETS (continued)**

Depreciation expense was charged to functions (programs) as follows:

Instruction	\$	15,051
Support services:		
Instruction		6,770
Central services		4,189
		\$ 26,010

**5. INTERFUND BALANCES**

*Interfund Balances*

Receivable Fund	Payable Fund	Amount
General Fund	State Directed Activities Fund	\$ 3,527,292
General Fund	Workforce Investment Act Fund	180,894
General Fund	Carl D. Perkins Secondary Redistribution Fund	48,224
		\$ 3,756,410

**6. RESTATEMENT OF NET POSITION**

The Cooperative has implemented GASB 75, which has required a restatement of net position. As a result, the following restatement has been made to the beginning equity:

	Government - Wide
	Governmental Activities
<b>Government-Wide Financial Statements:</b>	
Implementation of GASB 75	\$ (3,322,326)

**7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD**

*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 website at [https://www.nmerb.org/Annual\\_reports.html](https://www.nmerb.org/Annual_reports.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.

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**REGION IX EDUCATION COOPERATIVE**  
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**7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)**

*General Information about the Pension Plan (continued)*

**Plan Description (continued)** - Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

The Plan is a pension trust fund of the state of New Mexico. The ERA assigns the 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. 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.

**Pension 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 occur:

- the member's age and earned service credit add up to the sum of 75 or more,
- the member is a 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 reemployed 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 a 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.



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**REGION IX EDUCATION COOPERATIVE**  
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**7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)**

*General Information about the Pension Plan (continued)*

**Summary of Plan Provisions for Retirement Eligibility (continued)** – 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 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.

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)**

*General Information about the Pension Plan (continued)*

**Disability Benefit (continued)** – 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 each July 1, following the latter of 1) the year a member retires, or; 2) the year a member reaches 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 was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees 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 1.5%. 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 1.7%.

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, 2018 and 2017, educational employers contributed to the Plan based on the following rate schedule:

<u>Fiscal Year</u>	<u>Date Range</u>	<u>Wage Category</u>	<u>Member Rate</u>	<u>Employer Rate</u>	<u>Combined Rate</u>	<u>Increase Over Prior Year</u>
2018	7-1-17 to 6-30-18	Over \$20K	10.70%	13.90%	24.60%	0.00%
2018	7-1-17 to 6-30-18	\$20K or less	7.90%	13.90%	21.80%	0.00%
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%

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)**

*General Information about the Pension Plan (continued)*

**Contributions (continued)** – The contribution requirements are established in state 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, 2018 and 2017, the Cooperative paid employee and employer contributions of \$409,670 and \$293,627, 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, 2018, the Cooperative reported a liability of \$10,385,536 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017, using generally accepted actuarial principles. The roll-forward incorporates the impact of the new assumptions adopted by the Board on April 21, 2017. There were no other significant events of changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2017. Therefore, the employer's portion was established as of the measurement date of June 30, 2017. The Cooperative's proportion of the net pension liability was based on a projection of the Cooperative'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, 2017, the Cooperative's proportion was 0.09345%, which was a decrease of 0.00549% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Cooperative recognized pension expense of \$1,320,193. At June 30, 2018, the Cooperative 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	\$ 18,643	\$ 159,999
Change of assumptions	3,031,742	-
Net difference between projected and actual earnings on pension plan investments	-	1,425
Changes in proportion and differences between contributions and proportionate share of contributions	446,468	316,454
Employer contributions subsequent to the measurement date	39,759	-
Total	\$ 3,536,612	\$ 477,878

\$3,536,612 reported as deferred outflows of resources related to pensions resulting from the Cooperative's 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:

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)**

*General Information about the Pension Plan (continued)*

Year ended June 30:

2018	\$ 1,199,498
2019	1,264,743
2020	640,251
2021	(85,517)
2022	-
Thereafter	-

**Actuarial Assumptions** – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%										
Salary increases	3.25% composed of 2.50% inflation, plus a 0.755 productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service.										
Investment rate of return	7.25% compounded annually, net of expenses. This is made up of a 2.50% inflation rate and a 4.75 real rate of return.										
Average of Expected Remaining Service Lives	<table border="0" style="margin-left: 20px;"> <tr> <td style="text-align: right;">Fiscal Year</td> <td style="text-align: center;"><u>2017</u></td> <td style="text-align: center;"><u>2016</u></td> <td style="text-align: center;"><u>2015</u></td> <td style="text-align: center;"><u>2014</u></td> </tr> <tr> <td style="text-align: right;">Service life in years</td> <td style="text-align: center;">3.35</td> <td style="text-align: center;">3.77</td> <td style="text-align: center;">3.92</td> <td style="text-align: center;">3.88</td> </tr> </table>	Fiscal Year	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	Service life in years	3.35	3.77	3.92	3.88
Fiscal Year	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>							
Service life in years	3.35	3.77	3.92	3.88							
Mortality	<p><b>Healthy males</b> : Based on RP-2000 Combined Mortality Table with White Collar adjustments, not set back. Generational mortality improvements with Scale BB from the table's base year of 2000.</p> <p><b>Healthy females</b> : 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><b>Disabled males</b> : RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.</p> <p><b>Disabled females</b> : RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.</p> <p><b>Active members</b> : 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 pre-retirement mortality.</p>										
Retirement Age	Experience-based table rates based on age and service, adopted by the Board on June 12, 2015, in conjunction with the six-year experience study for the period ended June 30, 2014.										
Cost-of-living increases	1.90% per year, compounded annually.										
Payroll growth	3.00% per year (with no allowance for membership growth).										
Contribution accumulation	The accumulated member account balance with interest is estimated at the valuation date by assuming that member contributions increased 5.50% per year for all years prior to the valuation date. Contributions are credited with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future.										
Disability incidence	Approved rates applied to eligible members with at least 10 years of service.										

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)**

*General Information about the Pension Plan (continued)*

**Actuarial Assumptions (continued)** - 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 April 21, 2017, in conjunction with the six-year actuarial experience study period ended June 30, 2016. At that time, the Board adopted several economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the normal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.

The long-term expected rate of return on pension plan investments is determined using a building-block method that includes the following:

- Rate of return projections that are the sum of current yield plus projected changes in price (valuations, defaults, etc.).
- Application of key economic projections (inflation, real growth, dividends, etc.).
- Structural themes (supply and demand imbalances, capital flows, etc.), developed for each major asset class.

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Equities	33%	
Fixed income	26%	
Alternatives	40%	
Cash	1%	
Total	100%	7.25%

**Discount Rate** - A single discount rate of 5.90% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, and a municipal bond rate of 3.56%, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2053. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2053 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

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

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)**

*General Information about the Pension Plan (continued)*

**Sensitivity of the Cooperative's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following presents the Cooperative's proportionate share of the net pension liability calculated using the discount rate of 5.90 percent, as well as what the Cooperative's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.90 percent) or 1-percentage-point higher (6.90 percent) than the current rate:

	1% Decrease 4.90%	Current Discount Rate 5.90%	1% Increase 6.90%
Cooperative's proportionate share of the net pension liability	\$ 13,519,385	\$ 10,385,536	\$ 7,823,869

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued NMERB's financial reports. The reports can be found on NMERB's website at [https://www.nmerb.org/Annual\\_reports.html](https://www.nmerb.org/Annual_reports.html).

**8. OPEB**

***General Information about the OPEB***

**Plan Description.** Employees of the Cooperative are provided with OPEB through the Retiree Health Care Fund (the Fund) – a cost-sharing multiple-employer defined OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed on February 13, 1990, under the new Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the state of New Mexico. The funds administered by NMRHCA are considered part of the state of New Mexico financial reporting entity and are OPEB trust funds of the state of New Mexico. NMRHCA's financial information is included with the financial presentation of the state of New Mexico.

**Benefits provided.** The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**8. OPEB (continued)**

***General Information about the OPEB (continued)***

***Employees covered by benefit terms*** – At June 30, 2017, the Fund’s measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	97,349
	160,035
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	97,349

***Contributions*** – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on the actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the Cooperative were \$61,310 for the year ended June 30, 2018.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

At June 30, 2018, the Cooperative reported a liability of \$2,796,949 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation of that date. The Cooperative’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ended June 30, 2017. At June 30, 2017, the Cooperative’s proportion was 0.06172 percent.

For the year ended June 30, 2018, the Cooperative recognized OPEB expense of \$111,198. At June 30, 2018, the Cooperative reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**8. OPEB (continued)**

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)***

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 107,332
Change of assumptions	-	489,011
Net difference between projected and actual earnings on OPEB plan investments	-	40,236
Employer contributions subsequent to the measurement date	<u>61,310</u>	<u>-</u>
Total	<u>\$ 61,310</u>	<u>\$ 636,579</u>

Deferred outflows of resources totaling \$61,310 represent the Cooperative's contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (135,341)
2020	(135,341)
2021	(135,341)
2022	(135,341)
2023	<u>(95,215)</u>
Total	<u>\$ (636,579)</u>

***Actuarial assumptions.*** The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age, normal, level percent of pay, calculated on individual employee basis.
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50 for ERB; 2.25% for PERA
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation.
Health care cost trend rate	8% graded down to 4.5% over 14 years for non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 years for Medicare medical plan costs



**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**8. OPEB (continued)**

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)***

**Rate of Return.** The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns 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, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimated for the long-term expected rate of return is summarized as follows:

Asset Class	Long-Term Rate of Return
U.S. Core Fixed Income	4.10%
U.S. Equity - Large Cap	9.10%
Non U.S. - Emerging Markets	12.20%
Non U.S. - Development Equities	9.80%
Private Equity	13.80%
Credit and Structured Finance	7.30%
Real Estate	6.90%
Absolute Return	6.10%
U.S. Equity - Small/Mid Cap	9.10%

**Discount Rate.** The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ended June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for a 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

**Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates.** The following presents the net OPEB liability of the Cooperative, as well as the what the Cooperative's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**8. OPEB (continued)**

***Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. (continued)***

1% Decrease 2.81%	Current Discount Rate 3.81%	1% Increase 4.81%
\$ 3,392,655	\$ 2,796,949	\$ 2,329,563

The following present the net OPEB liability of the Cooperative, as well as what the Cooperative's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare costs trend rates:

1% Decrease	Current Discount Rate	1% Increase
\$ 2,378,997	\$ 2,796,949	\$ 3,122,847

***OPEB plan fiduciary net position.*** Detailed information about the OPEB plan's fiduciary net position is available in the NMRHCA's audited financial statements for the year ended June 30, 2017.

**Payable Changes in the Net OPEB Liability.** At June 30, 2018, the Cooperative reported a payable of \$2,083 for outstanding contributions due to NMRCHA for the year ended June 30, 2018.

**9. RISK MANAGEMENT**

The Cooperative 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. It is the policy of the Cooperative to purchase insurance for the risks of losses to which it is exposed through the General Services Administration risk management insurance. The risk management insurance includes coverage for general liability, property, casualty, employee health and accident.

**10. CONTINGENT LIABILITES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Cooperative expects such amounts, if any, to be immaterial.

**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	Special Revenue Funds						Total Other Governmental Funds
	Head Start Fund	Carl Perkins Secondary Redistribution Fund	Title XIX Medicaid (Birth to Two) Fund	Workforce Investment Act Fund	Birth to Two Year Fund	DOH Healthier Schools Fund	
<b><u>ASSETS</u></b>							
Cash	\$ -	\$ -	\$ 60,610	\$ -	\$ 138,229	\$ 21,637	\$ 220,476
Receivables, net	5,721	48,224	-	183,534	-	-	237,479
Total assets	<u>\$ 5,721</u>	<u>\$ 48,224</u>	<u>\$ 60,610</u>	<u>\$ 183,534</u>	<u>\$ 138,229</u>	<u>\$ 21,637</u>	<u>\$ 457,955</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>							
Liabilities:							
Accounts payable	\$ 5,721	\$ -	\$ -	\$ 2,640	\$ -	\$ -	\$ 8,361
Unearned revenues	-	-	60,610	-	138,229	21,637	220,476
Due to other funds	-	48,224	-	180,894	-	-	229,118
Total liabilities	5,721	48,224	60,610	183,534	138,229	21,637	457,955
Fund Balances:							
Unassigned	-	-	-	-	-	-	-
Total liabilities and fund balances	<u>\$ 5,721</u>	<u>\$ 48,224</u>	<u>\$ 60,610</u>	<u>\$ 183,534</u>	<u>\$ 138,229</u>	<u>\$ 21,637</u>	<u>\$ 457,955</u>

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

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

	Special Revenue Funds						Total Other Governmental Funds
	Head Start Fund	Carl Perkins Secondary Redistribution Fund	Title XIX Medicaid (Birth to Two) Fund	Workforce Investment Act Fund	Birth to Two Year Fund	DOH Healthier Schools Fund	
<b>Revenues:</b>							
Federal	\$ 1,761,783	\$ 48,224	\$ 344,998	\$ 534,623	\$ -	\$ -	\$ 2,689,628
State	-	-	-	-	70,806	97,631	168,437
Total revenues	1,761,783	48,224	344,998	534,623	70,806	97,631	2,858,065
<b>Expenditures:</b>							
Current:							
Instruction	417,556	-	-	-	-	-	417,556
Support services:							
Students	935,129	-	319,834	-	27,660	97,631	1,380,254
Instruction	-	46,064	-	-	-	-	46,064
General administration	322,748	2,160	16,495	33,044	43,146	-	417,593
Central services	-	-	8,669	22,091	-	-	30,760
Operation of plant	19,758	-	-	26,573	-	-	46,331
Student transportation	44,013	-	-	-	-	-	44,013
Operation services:							
Food	14,552	-	-	-	-	-	14,552
Community	8,027	-	-	452,915	-	-	460,942
Total expenditures	1,761,783	48,224	344,998	534,623	70,806	97,631	2,858,065
Net change in fund balances	-	-	-	-	-	-	-
Fund balance, beginning of year	-	-	-	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
SCHEDULE OF REGION IX EDUCATION COOPERATIVE'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
EDUCATIONAL RETIREMENT BOARD (ERB) PLAN  
LAST TEN FISCAL YEARS \*

Fiscal Year	2018	2017	2016	2015
Measurement Date	2017	2016	2015	2014
Cooperative's proportionate of the net pension liability (asset)	0.09345%	.09894%	0.08409%	0.87540%
Cooperative's porportionate share of the net pension liability (asset)	\$ 10,385,536	\$ 7,120,151	\$ 5,446,733	\$ 4,994,790
Cooperative's covered-employee payroll	\$ 2,946,340	\$ 2,779,577	\$ 2,827,566	\$ 2,393,158
Cooperative's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	352.49%	256.16%	192.63%	208.71%
Plan fiduciary net position as a percentage of the total pension liability	52.95%	61.58%	63.97%	66.54%

\**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 Cooperative's is not available prior to fiscal year 2015, the year the statement's requirements became effective.

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

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
 SCHEDULE OF REGION IX EDUCATION COOPERATIVE'S CONTRIBUTIONS  
 EDUCATIONAL RETIREMENT BOARD (ERB) PLAN  
 LAST TEN FISCAL YEARS \*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 409,670	\$ 386,349	\$ 391,932	\$ 317,193
Contributions in relation to the contractually required contribution	<u>409,670</u>	<u>386,349</u>	<u>391,932</u>	<u>317,193</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

\**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 Cooperative's is not available prior to fiscal year 2015, the year the statement's requirements became effective.

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



**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018

**Changes in benefit provisions.** There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2017.

**Changes of benefit terms and methods.** Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on April 21, 2017, in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted a number of economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.

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

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
 SCHEDULE OF REGION IX EDUCATION COOPERATIVE'S  
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 RETIREE HEALTH CARE ACT (RHCA) PLAN  
 LAST TEN FISCAL YEARS \*

	<u>2018</u>
Cooperative's proportionate of the net OPEB liability	0.06172%
Cooperative's proportionate share of the net OPEB liability	\$ 2,796,949
Cooperative's covered-employee payroll	\$ 2,571,038
Cooperative's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	108.79%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Cooperative will present information for available years.

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

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
 SCHEDULE OF REGION IX EDUCATION COOPERATIVE'S CONTRIBUTIONS  
 RETIREE HEALTH CARE ACT (RHCA) PLAN  
 LAST TEN FISCAL YEARS \*

	2018
Contractually required contribution	\$ 195,990
Contributions in relation to the contractually required contribution	98,365
Contribution deficiency (excess)	\$ 97,625
Employer's covered-employee payroll	\$ 2,571,038
Contributions as a percentage of covered-employee payroll	3.83%

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the School will present information for available years.

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

**OTHER SCHEDULES REQUIRED BY SECTION 2.2.2 NMAC**

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
**SCHEDULE OF CASH ACCOUNTS**  
**JUNE 30, 2018**

<u>Financial Institution/Account Description</u>	<u>Type of Account</u>	<u>Financial Institution Balance</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
First Savings Bank 2713 Sudderth Drive Ruidoso, New Mexico 88345				
General Fund	Checking	<u>\$ 6,277,408</u>	<u>\$ (2,742,587)</u>	<u>\$ 3,534,821</u>

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
SCHEDULE OF PLEDGED COLLATERAL  
JUNE 30, 2018**

First Savings Bank  
2713 Sudderth Drive  
Ruidoso, New Mexico 88345

Security	CUSIP	Maturity	Market Value
FNMA Agency	3135G0S38	01/05/22	\$ 875,516
FNMA 10 YR	31418ADU9	03/01/22	144,040
FHLMC 10 YR	31294MN72	04/01/22	50,601
FHLMC 10 YR	3128MDNT6	03/01/23	107,695
FNMA 10 YR	31418AVM7	07/01/23	180,180
FNMA 10 YR	31418AVM7	07/01/23	93,426
FHLMC 15 YR	3128MDEC3	05/01/27	176,541
FHR 4136 NG	3137AWKN4	11/15/27	95,386
FNMA 15 YR	31417D5C3	12/01/27	233,882
FNMA 15 YR	3138EKJA4	01/01/28	65,178
FNR 2012-145 DC	3136AA2L8	01/25/28	52,488
FHLMC 15 YR	3138ERHG8	12/01/29	845,570
FHLMC 15 YR	3128MECV1	02/01/30	229,709
FNMA 15 YR	3138ETU53	02/01/30	647,638
FHLMC 15 YR	3132KFNN8	08/01/31	539,014
FHLMC 15 YR	3138ER2Q2	01/01/32	196,420
GNR 2011-4 MD	38377TBL4	11/20/38	28,887
GNR 2011-4 MD	38377TBL4	11/20/38	7,222
GNR 2011-4 MD	38377TBL4	11/20/38	28,887
FHR 4579 BA	3137BPP29	01/15/43	608,095
			<u>\$ 5,206,375</u>

The holder of the security pledged by First Savings Bank is the First National Bank Pierre, 125 W. Sioux Avenue, Pierre, SD 57501.

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
**SCHEDULE OF CASH RECONCILIATIONS**  
**ALL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

Fund	Cash 06/30/17	Revenues	Expenditures	Net Transfers In/Out	Interfund Advance/ Repayment	Cash 06/30/18
General	\$ 2,188,081	\$ 11,969,755	\$ (7,552,733)	\$ -	\$ (3,756,410)	\$ 2,848,693
State Directed Activities	-	5,205,779	(8,733,071)	-	3,527,292	-
Title XIX Medicaid (3 to 21)	396,759	424,581	(355,688)	-	-	465,652
Head Start	(9)	1,789,805	(1,789,796)	-	-	-
Carl Perkins Secondary Redistribution	-	-	(48,224)	-	48,224	-
Title XIX Medicaid (Birth to 2)	42,879	362,729	(344,998)	-	-	60,610
Workforce Investment Act	-	353,593	(534,487)	-	180,894	-
Birth to Two Year	91,095	117,940	(70,806)	-	-	138,229
DOH Healthier Schools	9,268	110,000	(97,631)	-	-	21,637
	<u>\$ 2,728,073</u>	<u>\$ 20,334,182</u>	<u>\$ (19,527,434)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,534,821</u>

**SUPPLEMENTAL FEDERAL FINANCIAL INFORMATION**



**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Program or Grant Number	Award Amount	Expenditures
U.S. Department of Agriculture/Passed through Children, Youth and Families Department				
Summer Food Service Program for Children	10.559	12353511-2018	\$ 60,000	\$ 60,000
U.S. Department of Labor				
Workforce Investment Act	17.259	CYP17/18-Region IX	619,419	534,623
U.S. Department of Education/Passed through NM Higher Education Department				
Gaining Early Awareness & Readiness for Undergraduate Programs	84.334	18-950-1160-00001	350,000	323,971
U.S. Department of Education/Passed through NM Public Education Department				
Coordinated School Health & Wellness	84.xxx	PEDA5101GY16	52,871	43,702
Special Education Grants to State	84.207A	18-924-00055	698,628	584,462
Career & Technical Education	84.048	V048A150031-15B	264,298	235,889
Comprehensive Literacy Development	84.371	S371C170021	33,696	33,696
Race to the Top - Early Learning Challenge	84.412	16-924-00155-A2	20,257	16,513
U.S. Department of Education/Passed through NM Public Education Department/ Passed through University of New Mexico				
Race to the Top - Early Learning Challenge	84.412	16-924-00155	22,000	<u>21,008</u>
Total U.S. Department of Education				1,259,241
U.S. Department of Health and Human Services				
Head Start	93.600	06CH7149/04	919,139	465,477
Head Start	93.600	06CH7149/05	919,139	452,471
Head Start	93.600	06HP0011/02	949,662	115,222
Head Start	93.600	06HP0011/03	770,138	756,598
U.S. Department of Health and Human Services/ Passed through Children, Youth and Families Department				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	D89MC23143	1,661,000	1,661,000
Child Care & Development Block Grant	93.575	G1801NMCCDF	65,000	59,419
Child Care & Development Block Grant	93.575	G1801NMCCDF	210,000	13,532
Head Start	93.600	06CDE00404201	28,400	19,800
Maternal, Infant & Early Childhood Home Visiting Grant Program	93.870	X10MC29492	320,000	65,569
U.S. Department of Health and Human Services/ Passed through NM Human Services Department				
Medicaid	93.778	1750418281	344,998	344,998
Medicaid	93.778	1922195544	354,666	<u>354,666</u>
Total U.S. Department of Health and Human Services				<u>4,308,752</u>
Total Expenditures of Federal Awards				<u>\$ 6,162,616</u>

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018

**1. BASIS OF PRESENTATION**

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Region IX Education Cooperative (Cooperative) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of the Cooperative, it is not intended to and does not present the financial position, changes in net financial position, or cash flows of the Cooperative. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements of the federal program.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Cooperative has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**3. SUBRECIPIENTS OF GRANT AWARDS**

Of the federal expenditures presented in the Schedule, the Cooperative provided federal awards to sub-recipients as follows:

<u>Grantor Agency</u>	<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grant Amount</u>
U.S. Department of Health and Human Services	Head Start	93.600	<u>\$ 1,809,568</u>

**4. RECONCILIATION OF FINANCIAL STATEMENTS TO FEDERAL AWARDS**

Federal expenditures on the schedule of expenditures of federal awards amount to \$6,162,616. The amount of expenditures within the funds is reflected within the financial statements as follows:

General Fund	\$ 2,554,264
<b><u>Special Revenue Funds</u></b>	
State Directed Activities Fund	864,058
Head Start Fund	1,761,783
Carl Perkins Secondary Redistribution Fund	48,224
Title XIX Medicaid (3 to 21) Fund	354,666
Title XIX Medicaid (Birth to Two) Fund	44,998
Workforce Investment Act Fund	<u>534,623</u>
	<u>\$ 6,162,616</u>

## **ADDITIONAL INDEPENDENT AUDITORS' REPORTS**

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

Independent Auditors' Report

Wayne A. Johnson, State Auditor  
and  
Coordinating Council  
Region IX Education Cooperative  
Ruidoso, 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 Region IX Education Cooperative (Cooperative), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and the combining and individual funds of the Cooperative, presented as supplemental information, and have issued our report thereon dated September 25, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Cooperative'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 Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as item 2017-002.

### **The Cooperative's Response to Finding**

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

### **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 result 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.

A handwritten signature in black ink that reads "Fierro + Fierro, P.A." in a cursive script.

Fierro & Fierro, P.A.  
Las Cruces, New Mexico

September 25, 2018

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Report on Compliance for Each Major Federal Program; Report  
on Internal Control Over Compliance; and Report on the Schedule of  
Expenditures of Federal Awards Required by The Uniform Guidance

Independent Auditors' Report

Wayne A. Johnson, State Auditor  
and  
Coordinating Council  
Region IX Education Cooperative  
Ruidoso, New Mexico

**Report on Compliance for Each Major Federal Program**

We have audited Region IX Education Cooperative's (Cooperative) 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 Cooperative's major federal programs for the year ended June 30, 2018. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Cooperative'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 Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Cooperative's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Cooperative 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, 2018.

## Report on Internal Control over Compliance

Management of the Cooperative 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 Cooperative'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 the 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 Cooperative'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 a 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.

*Fierro + Fierro, P.A.*

Fierro & Fierro, P.A.  
Las Cruces, New Mexico

September 25, 2018

**STATE OF NEW MEXICO  
 REGION IX EDUCATION COOPERATIVE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION I – SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified?  Yes  No
- Significant deficiency (ies) identified?  Yes  None reported
- Noncompliance material to financial statements noted  Yes  No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified?  Yes  No
- Significant deficiency (ies) identified?  Yes  None reported

Type of auditors' report issued on  
 Compliance with major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?  Yes  No

Program tested as major programs include:

Program	CFDA No.
Workforce Investment Act	17.259
Affordable Care Act (ACA) Maternal, Infant, & Early Childhood Home Visiting Program	93.505

- The threshold for distinguishing Types A and B programs was \$750,000.
- Auditee qualified as low-risk auditee?  Yes  No



**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018

**SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)**

*Item 2017-002 – Other Noncompliance – Procurement Code*

**Statement of Condition** – During our testing of the Cooperative’s procurement process, we selected eighteen items for testing. We discovered the following deviations of the New Mexico Procurement Code:

- One instance where the Cooperative failed to follow the procurement code when hiring contractors, for professional services, with fees greater than \$60,000. The REC failed to estimate the total amount of the contract. During the fiscal year, the contractor was paid in excess of \$60,000.
- One instance where the Cooperative failed to request a contractor to submit their proposed fees for professional services. The Cooperative used the contractor’s previous years bid information for the current year contract. During the fiscal year, the contractor was paid in excess of \$58,000.
- One instance where the Cooperative entered into a contract with an individual, for professional services, at the explicit request of the New Mexico Public Education Department. The Cooperative failed to bid the contract and incorrectly determined it met the sole source requirements. The contractor was paid in excess of \$99,000. Further, on three occasions, the contractor failed to provide the supporting documentation in order to be paid. The contractor was paid \$27,225 from those three occasions.
- One instance where the Cooperative entered into a contract with a private company, for professional services, via a Request for Proposal, which required the contractor to inform the Cooperative if any subcontractors were hired. The contractor failed to inform the Cooperative that five subcontractors were hired. During the fiscal year, those five subcontractors were paid \$283,850.

**Criteria** – The purpose of the New Mexico Procurement Code, Chapter 13 NMSA 1978, is to provide for the fair and equitable treatment of all persons involved in public procurement, to maximize the purchasing value of public funds and to provide safeguards for maintaining a procurement system of quality and integrity. The New Mexico Administrative Code (NMAC) provides further guidance to assist the state and local governments meet the requirements of the procurement code embodied within state statutes.

New Mexico State Statutes Section 13-1-112A(1) states, *“Competitive sealed proposals, including competitive qualifications-based proposals, shall be solicited through a request for proposals that shall be issued and shall include: the specifications for the services or items of tangible personal property to be procured.”*

Furthermore, New Mexico State Statutes Section 13-1-89 states, *“‘Specification’ means a description of the physical or functional characteristics or of the nature of items of tangible personal property, services or construction. ‘Specification’ may include a description of any requirement for inspecting or testing, or for preparing items of tangible personal property, services or construction for delivery.”*

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018

**SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)**

*Item 2017-002 – Other Noncompliance – Procurement Code (continued)*

**Criteria (continued)** – Finally, Item 8 (subcontracting) from the contract between the Cooperative and a private company states, *“The Contractor shall not contract any portion of the services to be performed under this Agreement, without the prior written approval of the Agency. No such subcontract shall relieve the primary Contractor from its obligations and liabilities under this Agreement, nor shall any subcontract obligate direct payment from the Agency. A copy of an approved subcontract shall be sent to the Agency within 15 days of final execution.”*

**Effect** – The Cooperative failed to maintain written documentation as required by the NMAC regarding the purchase of professional services from a sole source, in particular, the applicable sole source exemption. Further, the Cooperative failed to follow the requirements stated within contracts with private entities. Additionally, by not following the New Mexico Procurement Code, the Cooperative procured professional services without competitive bids thus not providing potential contractors, in-state and out-of-state, an opportunity, if they meet all requirements, to potentially bid for professional services.

Section 13-1-196 NMSA 1978 states, *“Any person, firm or corporation that knowingly violates any provision of the Procurement Code [Sections 13-1-28 through 13-1-199 NMSA 1978] is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement in violation of any provision of the Procurement Code.”*

Additionally, Section 13-1-199 NMSA 1978 states, *“Any business or person that willfully violates the Procurement Code is guilty of: (A) a misdemeanor if the transaction involves fifty thousand dollars (\$50,000) or less; or (B) a fourth degree felony if the transaction involves more than fifty thousand dollars (\$50,000).”*

**Cause** – The Cooperative failed to maintain written documentation as required by the NMAC regarding the purchase of professional services from a sole source, in particular, the applicable sole source exemption. Further, due to the highly specialized professional services being requested, the Cooperative’s staff relied on explicit guidelines, from their funding sources, in respect on who to contract with. Finally, the Cooperative failed to ensure all aspects of a contract were being followed by the contractor.

**Recommendation** – We recommend some of the Cooperative staff receive additional training in respect to the New Mexico Procurement Code, including their Chief Procurement Officer. We recommend the Cooperative modify their policies and procedures in respect to ensuring contract requirements are being followed by the contractors. Further, we recommend that one Cooperative employee, preferably the IGA Specialist, or a department, be in charge of all the procurement of services. Finally, even though a majority of the services requested by the funding sources, are very specific and have a small niche of individuals or companies that can provide the requested services, we recommend the Cooperative follow all the applicable portions of the New Mexico Procurement Code, regardless of their funding sources explicit guidelines and requirements.

**STATE OF NEW MEXICO**  
**REGION IX EDUCATION COOPERATIVE**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018

**SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)**

*Item 2017-002 – Other Noncompliance – Procurement Code (continued)*

**Views of Responsible Officials and Planned Corrective Actions** – Region IX sent additional personnel to CPO training in February and July 2018. Onsite training and review in the New Mexico Procurement Code will be pursued. In July 2018, reorganization of certain duties occurred and Region IX now has a Contracts/Procurement Coordinator who is responsible for the generation and compliance of RFPs, Bids, MOUs and Contracts.

**SECTION III – FEDERAL AWARDS AND QUESTIONED COSTS – WORKFORCE INVESTMENT ACT – CFDA NO. 17.259 AND AFFORDABLE CARE ACT (ACA) MATERNAL, INFANT & EARLY CHILDHOOD HOME VISITING PROGRAM – CFDA NO. 93.505**

None.

**SECTION IV – PRIOR YEAR'S AUDIT FINDINGS**

*Item 2012-002 – Cash Receipts* – In the prior year's audit, it was noted that all monies received were not deposited timely and the receipts were not created and posted into the accounting software on a timely basis. During the current year, the Cooperative deposited all monies and receipts were posted into the accounting software within twenty-four hours. The finding has been resolved.

*Item 2013-001 – Per Diem and Mileage Act* – In the prior year's audit, it was noted that the Cooperative was not in compliance with the New Mexico Per Diem and Mileage Act. During the current year, the Cooperative continued to overhaul their policies and procedures in respect to the Per Diem and Mileage Act. All previous issues were resolved by the Cooperative. This finding has been resolved.

*Item 2014-004 – Legal Compliance with Adopted Budget* – In the prior year's audit, it was noted that the Cooperative exceeded their respective approved budgets within two funds. During the current year, the Cooperative budgeted zero or positive cash balances in all funds. The finding has been resolved.

*Item 2017-001 – Credit Card Transactions* – In the prior year's audit, it was noted that the Cooperative failed to properly maintain documentation to support the credit card transactions. Further, the Cooperative purchased food and drinks for employees and others. During the current year, the Cooperative updated their policies and procedures over credit card transactions. The finding has been resolved.

*Item 2017-002 – Procurement Code* – In the prior year's audit, it was noted that the Cooperative failed to comply with the New Mexico Procurement Code during the procurement process. During the current year, the Cooperative improved their compliance with the New Mexico Procurement Code; however, there were still deviations noted. The finding has not been resolved and is updated and repeated.

**STATE OF NEW MEXICO  
REGION IX EDUCATION COOPERATIVE  
EXIT CONFERENCE AND  
PREPARATION OF FINANCIAL STATEMENTS  
JUNE 30, 2018**

**EXIT CONFERENCE**

The audit report for the fiscal year ended June 30, 2018, was discussed during the exit conference held on September 27, 2018. Present for the Cooperative was Brenda Vigil, vice chairman; Bryan Dooley, executive director; Carmen Spann, business manager; and Jeanette Lindsay, Assistant Business Manager. Present for the auditing firm was Dominic Fierro.

**FINANCIAL STATEMENT PREPARATION**

The business manager and the accounting staff prepared the financial statements of Region IX Education Cooperative for the fiscal year ended June 30, 2018. The auditing firm assisted in the preparation of the footnotes to the statements, along with preparing the document that contains all the financial statements, notes to the financial statements and other supplemental financial information.