



STATE OF NEW MEXICO

NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

ANNUAL FINANCIAL REPORT

JUNE 30, 2017



INTRODUCTORY SECTION

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents		i
Official Roster		ii
FINANCIAL SECTION		
Independent Auditor’s Report		iii
Basic Financial Statements		
Government-wide Financial Statements:		
Statement of Net Position	A-1	1
Statement of Activities	A-2	2
Fund Financial Statements:		
Balance Sheet – Governmental Funds	B-1	3
Reconciliation of the Balance Sheet to the Statement of Net Position	B-2	4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	B-3	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	B-4	6
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)		
General Fund (27101)	C-1	7
State Directed Activities Special Revenue Fund (27200)	C-2	8
Notes to the Financial Statements		9
	<u>Statement/ Schedule</u>	<u>Page</u>
REQUIRED SUPPLEMENTARY INFORMATION		
Schedule of Proportionate Share of the Net Pension Liability	I	32
Schedule of Pension Contributions	II	33
Notes to Required Supplementary Information		34
SUPPLEMENTARY INFORMATION		
Special Revenue Fund Description		35
Combining Balance Sheet – Nonmajor Governmental Funds	B-1	36
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Special Revenue Funds	B-2	37
OTHER SUPPLEMENTAL INFORMATION		
Schedule of Pledged Collateral	III	38
Schedule of Cash and Temporary Investment Accounts	IV	39
Schedule of Cash Reconciliations	V	40
Schedule of Joint Powers Agreements	VI	41
COMPLIANCE SECTION		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		42
Schedule of Findings and Responses	VII	44
Other Disclosures		50

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
OFFICIAL ROSTER
FOR THE YEAR ENDED JUNE 30, 2017

<u>Name</u>		<u>Title</u>
	<u>Cooperative Council</u>	
Anthony Casados		Chairperson
Tony Archuleta		Vice-Chairperson
Dennis Bissmeyer		Member
Norma Cavazos		Member
Ernesto Valdez		Member
Valerie Trujillo		Member
Marvin MacAuley		Member
	<u>Cooperative Officials</u>	
Adan Delgado		Executive Director
Frank Mestas		Coordinator
Tom Savage		Interim Business Manager

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Timothy Keller, New Mexico State Auditor
The Office of Management and Budget
And the Governing Council of
Northwest Regional Education Cooperative #2
Chama, 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 Northwest Regional Education Cooperative #2, (the "Cooperative") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, 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, and accordingly, no such opinion is expressed.

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, 2017, and the respective changes in financial position and where applicable, cash flows 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.

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 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. 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 Schedules I and II and notes to the required supplementary information on pages 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Cooperative's financial statements that collectively comprise the Cooperative's basic financial statements. The combining and individual fund financial statements and other supplemental information required by 2.2.2 NMAC, Schedules III through VI are presented for the purposes of additional analysis and are not a required part of the financial statements.

The combining and individual fund financial statements and Schedules III through VI on pages 38 through 41 required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and Schedules III through VI required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section on pages i and ii have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Manning Accounting and Consulting Services, LLC

Manning Accounting and Consulting Services, LLC
Kirtland, New Mexico
September 27, 2017

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BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 STATEMENT OF NET POSITION
 JUNE 30, 2017

Exhibit A-1

	Governmental Activities
	<u> </u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 342,387
Receivables (net of allowance for uncollectibles)	688,117
<i>Total current assets</i>	<u>1,030,504</u>
Noncurrent assets	
Capital assets (net of accumulated depreciation):	
Vehicles	48,236
Less: accumulated depreciation	(48,236)
<i>Total noncurrent assets</i>	<u>-</u>
<i>Total assets</i>	<u>1,030,504</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension - change in proportion	72,008
Pension - change in assumptions	20,553
Pension - investment experience	60,269
Pension - actuarial experience	4,380
Pension - employer contributions after measurement date	48,292
<i>Total deferred outflows</i>	<u>205,502</u>
<i>Total assets and deferred outflows of resources</i>	<u>\$ 1,236,006</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 624,410
Accrued payroll liabilities	24,206
Accrued compensated absences	1,256
<i>Total current liabilities</i>	<u>649,872</u>
Noncurrent liabilities	
Net pension liability	1,009,660
<i>Total noncurrent liabilities</i>	<u>1,009,660</u>
<i>Total liabilities</i>	<u>1,659,532</u>
DEFERRED INFLOWS OF RESOURCES	
Pension - actuarial experience	9,603
Pension - change in proportion	109,450
<i>Total deferred inflows</i>	<u>119,053</u>
NET POSITION	
Net investment in capital assets	-
Restricted for:	
Special revenue funds	(49,728)
Unrestricted	(492,851)
<i>Total net position</i>	<u>(542,579)</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u>\$ 1,236,006</u>

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

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2017

Exhibit A-2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government					
Governmental activities:					
Instruction	\$ 190,556	-	180,836	\$ -	\$ (9,720)
Support services:					
Students	269,697	72,239	255,940	-	58,482
General Administration	270,409	-	256,615	-	(13,794)
School Administration	3,503,738	-	3,325,009	-	(178,729)
Central Services	191,827	-	182,042	-	(9,785)
Operation & Maintenance of Plant	22,361	-	21,220	-	(1,141)
Total Primary Government	<u>\$ 4,448,588</u>	<u>\$ 72,239</u>	<u>\$ 4,221,662</u>	<u>\$ -</u>	<u>(154,687)</u>
General Revenues:					
		Miscellaneous			<u>104</u>
		Total general revenues			<u>104</u>
		Change in net position			(154,583)
		Beginning net position			<u>(387,996)</u>
		Ending net position			<u>\$ (542,579)</u>

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

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2017

Exhibit B-1

	General 27101	State Directed Activities 27200	Other Governmental Funds	Total Governmental Funds
ASSETS				
<i>Current Assets:</i>				
Cash and temporary investments	\$ 340,305	\$ -	\$ 2,082	\$ 342,387
Accounts receivable				
Due from other governments	37,504	638,542	11,656	687,702
Other receivables	415	-	-	415
Due from other funds	149,144	-	-	149,144
<i>Total assets</i>	<u>527,368</u>	<u>638,542</u>	<u>13,738</u>	<u>1,179,648</u>
LIABILITIES				
<i>Current Liabilities:</i>				
Accounts payable	73,632	546,437	4,341	624,410
Accrued payroll liabilities	22,120	-	2,086	24,206
Due to other funds	-	143,351	5,793	149,144
<i>Total liabilities</i>	<u>95,752</u>	<u>689,788</u>	<u>12,220</u>	<u>797,760</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - grants	-	-	-	-
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted for:				
Grant mandates	-	-	4,375	4,375
Assigned	424,888	-	-	424,888
Unassigned	6,728	(51,246)	(2,857)	(47,375)
<i>Total fund balances</i>	<u>431,616</u>	<u>(51,246)</u>	<u>1,518</u>	<u>381,888</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 527,368</u>	<u>\$ 638,542</u>	<u>\$ 13,738</u>	<u>\$ 1,179,648</u>

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

STATE OF NEW MEXICO

Exhibit B-2

NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2017

	<u>Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total fund balances - governmental funds	\$ 381,888
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	
The cost of capital assets is	48,236
Accumulated depreciation is	(48,236)
Contributions to the pension plan are expensed in the governmental funds but are deferred outflows for government-wide statements.	48,292
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in governmental funds.	
Deferred outflows of resources related to changes in proportion	72,008
Deferred outflows of resources related to changes in assumptions	20,553
Deferred outflows of resources related to investment experience	60,269
Deferred outflows of resources related to actuarial experience	4,380
Deferred inflows of resources related to changes in actuarial experience	(9,603)
Deferred inflows of resources related to changes in proportion	(109,450)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term and other liabilities at year-end consist of:	
Accrued compensated absences	(1,256)
Net pension liability	<u>(1,009,660)</u>
Total net position - governmental activities	<u>\$ (542,579)</u>

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

STATE OF NEW MEXICO

Exhibit B-3

NORTHWEST REGIONAL EDUCATION COOPERATIVE #2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	General 27101	State Directed Activities 27200	Other Governmental Funds	Total Governmental Funds
<i>Revenues:</i>				
State grants	\$ 303,479	\$ 3,325,269	70,459	\$ 3,699,207
Federal grants	-	401,730	-	401,730
Charges for services	340,984	-	-	340,984
Miscellaneous	104	-	-	104
<i>Total revenues</i>	<u>644,567</u>	<u>3,726,999</u>	<u>70,459</u>	<u>4,442,025</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	-	187,342	2,857	190,199
Support services				
Students	-	193,981	70,499	264,480
General administration	259,108	-	-	259,108
School administration	193,646	3,309,467	-	3,503,113
Central services	192,293	-	-	192,293
Operation & maintenance of plant	21,580	-	700	22,280
<i>Total expenditures</i>	<u>666,627</u>	<u>3,690,790</u>	<u>74,056</u>	<u>4,431,473</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(22,060)</u>	<u>36,209</u>	<u>(3,597)</u>	<u>10,552</u>
<i>Other financing sources (uses):</i>				
Operating transfers	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net changes in fund balances</i>	(22,060)	36,209	(3,597)	10,552
<i>Fund balances - beginning of year</i>	<u>453,676</u>	<u>(87,455)</u>	<u>5,115</u>	<u>371,336</u>
<i>Fund balances - end of year</i>	<u>\$ 431,616</u>	<u>\$ (51,246)</u>	<u>\$ 1,518</u>	<u>\$ 381,888</u>

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

STATE OF NEW MEXICO

Exhibit B-4

NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2017

Governmental
 Funds

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

Net change in fund balances - total governmental funds	\$	10,552
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Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeds capital outlays for the period.

Depreciation expense		(4,464)
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Revenues not collected within 60 days after the fiscal year-end are not considered available revenues in the governmental funds. They are considered revenues in the Statement of Activities. The increase (decrease) in revenues receivable for the year end were:

Unavailable revenue related to grant receivables		(148,020)
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In the Statement of Activities, certain operating expenses - compensated absences and interest expense - are measured by the amounts incurred during the year. In the fund financial statements, however, expenditures are measured by the amount of financial resources used (essentially the amounts actually paid). The (increases) decreases in the liabilities for the year were:

Change in accrued compensated absences		8,460
--	--	-------

Governmental funds report Cooperative pension contributions as expenditures. However, in the Statement of Activities, the pension benefits earned net of employee contributions is reported as pension expense.

Pension contributions - current year		48,292
Pension expense		(69,403)

Change in net position - total governmental activities	\$	<u><u>(154,583)</u></u>
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The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
GENERAL FUND (27101)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON - GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
State grants	\$ 103,955	\$ 191,928	\$ 633,368	\$ 441,440
Federal grants	-	-	-	-
Charges for services	850	414,494	-	(414,494)
Miscellaneous	-	-	104	104
<i>Total revenues</i>	<u>104,805</u>	<u>606,422</u>	<u>633,472</u>	<u>27,050</u>
<i>Expenditures:</i>				
Current:				
Instruction	-	-	-	-
Support Services				
Students	-	-	-	-
General Administration	29,000	29,000	248,838	(219,838)
School Administration	327,466	762,601	113,910	648,691
Central Services	168,471	232,453	192,708	39,745
Operation & Maintenance of Plant	26,160	28,660	21,580	7,080
<i>Total expenditures</i>	<u>551,097</u>	<u>1,052,714</u>	<u>577,036</u>	<u>475,678</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(446,292)</u>	<u>(446,292)</u>	<u>56,436</u>	<u>502,728</u>
<i>Other financing sources (uses):</i>				
Designated cash	446,292	446,292	-	(446,292)
Operating transfers	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>446,292</u>	<u>446,292</u>	<u>-</u>	<u>(446,292)</u>
<i>Net change in fund balance</i>	-	-	56,436	56,436
<i>Cash or fund balance - beginning of year</i>	-	-	433,013	433,013
<i>Cash or fund balance - end of year</i>	<u>\$ (446,292)</u>	<u>\$ (446,292)</u>	<u>\$ 489,449</u>	<u>\$ 935,741</u>
<i>Reconciliation to GAAP Basis:</i>				
Net change in fund balance (cash basis)			\$ 56,436	
Adjustments to revenues			11,095	
Adjustments to expenditures			(89,591)	
Net change in fund balance (GAAP Basis)			<u>\$ (22,060)</u>	

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

STATE OF NEW MEXICO

Exhibit C-2

NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 STATE DIRECTED ACTIVITIES SPECIAL REVENUE FUND (27200)
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON - GAAP BUDGETARY BASIS)
 FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
State grants	\$ -	\$ 3,887,705	\$ 3,141,305	\$ (746,400)
Federal grants	-	-	401,730	401,730
Charges for services	-	-	-	-
Miscellaneous	-	-	-	-
Investment income	-	-	-	-
Sale of personal property	-	-	-	-
<i>Total revenues</i>	<u>-</u>	<u>3,887,705</u>	<u>3,543,035</u>	<u>(344,670)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	-	190,599	187,327	3,272
Support Services				
Students	-	201,609	193,981	7,628
General Administration	-	4,566.00	-	4,566.00
School Administration	-	3,490,931	3,245,955	244,976
Central Services	-	-	-	-
Operation & Maintenance of Plant	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>3,887,705</u>	<u>3,627,263</u>	<u>260,442</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>-</u>	<u>(84,228)</u>	<u>(84,228)</u>
<i>Other financing sources (uses):</i>				
Designated cash	-	-	-	-
Operating transfers	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	-	-	(84,228)	(84,228)
<i>Cash or fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>(59,123)</u>	<u>(59,123)</u>
<i>Cash or fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (143,351)</u>	<u>\$ (143,351)</u>
<i>Reconciliation to GAAP Basis:</i>				
Net change in fund balance (cash basis)			\$ (84,228)	
Adjustments to revenues			183,964	
Adjustments to expenditures			(63,527)	
Net change in fund balance (GAAP Basis)			<u>\$ 36,209</u>	

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

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STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 **Summary of Significant Accounting Policies**

The Regional Cooperative Education Act, Sections 22-2B-6 NMSA 1978, provides for the formation of a Regional Education Cooperative (REC) among local school boards or other state-supported educational institutions to provide education related services. Cooperatives shall be deemed individual state agencies administratively attached to the Public Education Department. REC services may include technical assistance, staff development, cooperative purchasing, fiscal management, administration of federal programs, and additional services as may be determined to be appropriate by the regional education coordinating council.

The Northwest Regional Education Cooperative #2 (the “Cooperative”) was organized in 1984 for the purpose of promoting the education opportunities of handicapped children. The members of the Cooperative are the Chama, Cuba, Dulce, Jemez Mountain, Mesa Vista, Penasco, and Questa school districts. The Cooperative operates under a central administrative office whereby revenues and expenditures are allocated to each member district. The Cooperative also operates under the direction of a Cooperative Governing Council.

The Cooperative’s financial statements are required to be prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Cooperative does not contain any component units that are required to be presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14, and GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34.

The summary of significant accounting policies of the Cooperative is presented to assist in the understanding of the Cooperative’s financial statements. The financial statements and notes are the representation of Northwest Regional Education Cooperative #2’s management who is responsible for their integrity and objectivity. The financial statements of the Cooperative conform to Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements.

During the year ended June 30, 2017, the Cooperative adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The provisions of GASB No. 73 established requirements for defined benefit pensions that are not within the scope of Statement No. 68. The provisions of GASB No. 74 improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of GASB No. 77 are intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time. The provisions of GASB No. 78 address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of GASB No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

These pronouncements are not expected to have a material effect on the Cooperative. The more significant policies of the government’s accounting policies are described below.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 **Summary of Significant Accounting Policies (Continued)**

A. *Financial Reporting Entity*

In evaluating how to define the Cooperative, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14 and No. 39. GASB Statement No. 14 established criteria for determining the government reporting entity and component units that should be included within the reporting entity. GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basis, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criteria used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Under provisions of these Statements, the Cooperative is considered a *primary government*, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Based upon the application of these criteria, the Cooperative does not have a component unit and is not a component unit of another government agency.

B. *Government-wide and fund financial statements*

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities and Changes in Net Position) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 segment of the Cooperative and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment of the Cooperative. Other items not properly included among program revenues are reported instead as *general revenues*.

The Cooperative reports all direct expenses by function in the statement of activities. Direct expenses are those that are clearly identifiable with a function. The Cooperative does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function, except for that portion of depreciation that is identified as unallocated on the statement of activities.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 **Summary of Significant Accounting Policies (Continued)**

B. Government-wide and fund financial statements (Continued)

When both restricted and unrestricted resources are available for use, it is the Cooperative's policy to use restricted resources first, then unrestricted resources as they are needed.

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

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

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

GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB No. 65, *Items Previously Reported as Assets and Liabilities*, amend GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, to incorporate deferred outflows of resources and deferred inflows of resources in the financial reporting model.

Deferred outflows of resources – a consumption of net position by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets; therefore, it is not recognized as an outflow of resources (expense) until then.

Deferred inflows of resources – an acquisition of net position by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities; therefore, it is not recognized as an inflow of resources (revenue) until that time.

Net position – the residual of the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

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

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental funds are used to account for the Cooperative's general government activities, including the collection and disbursement of specific or legally restricted monies. Governmental funds include:

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 **Summary of Significant Accounting Policies (Continued)**

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

The *General Fund* (Fund 27101) is the primary operating fund of the Cooperative and accounts for all financial resources, except those required to be accounted for in other funds. Fund 27101 is authorized by Laws 2005, Chapter 33.

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

Under the requirements of GASB #34, the Cooperative is required to present some of its governmental funds as major funds based upon certain criteria. The major funds presented in the fund financial statements include the following (in addition to the General Fund):

State Directed Activities (Fund 27200) – To support the improvement of educational results and functional outcomes for all children with disabilities. Funding authorized by the Individuals with Disabilities Education Act, Part B, Sections 611-620, as amended, Public Laws 91-230, 936-380 ,94-142 ,98-199 ,99-457, 100-639, and 101-476, 20 U.S.C. 1411-1420. The fund was created by the authority of federal grant provisions. Funding included in the fund also is authorized by New Mexico Intervention for D and F Schools; Laws of 2014, Chapter 63, Section I, Subsection X.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When committed, assigned and unassigned resources are available for use, it is the Cooperative's policy to use committed first followed by assigned and unassigned resources as they are needed.

The Cooperative reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The Cooperative does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function, except for that portion of depreciation that is identified as unallocated on the Statement of Activities.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

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

State statutes authorize the investment of Cooperative funds in a wide variety of instruments including certificates of deposit and other similar obligations, the State Treasurer's Investment Pool, money market accounts, and United States Government obligations.

Investments for the Cooperative are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Cooperative. Deposits may be

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 **Summary of Significant Accounting Policies (Continued)**

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

made to the extent that they are insured by an agency of the United States 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.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

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

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.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Certain Special Revenue funds are administered on a reimbursement method of funding; other funds are operated on a cash advance method of funding. The funds incurred the cost and submitted the necessary request for reimbursement or advance, respectively.

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

Inventory: Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. The Cooperative did not have any inventories as of June 30, 2017.

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Beginning July 1, 2005, the threshold for defining capital assets by the government was raised from \$1,000 to assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The costs of library books are not depreciated unless the individual cost is in excess of \$5,000. Software costs have been included with the cost of computer equipment and are capitalized with that equipment. The Cooperative does not develop software for internal use or any other use.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

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

Furniture, fixtures, and equipment	5 years
Computer equipment	3 years
Vehicles	5 years

Deferred Outflows of Resources– Pensions: The government-wide financial statements report pension related expenses and liabilities for the cost-sharing plan one year in arrears, i.e. expenses and liabilities as of June 30, 2016. Contributions of \$48,292 made by the Cooperative in the current fiscal year are thus applicable to a future reporting period where they will then be expensed. As such, they are presented in the Statement of Net Position as a deferred outflow of resources in the current period. The Cooperative also recorded four other deferred outflows which arise due to the implementation of GASB 68; change in proportion \$72,008; change in assumptions \$20,553; investment experience \$60,269; and actuarial experience \$4,380.

Unearned Revenues: The Cooperative recognizes grant revenue at the time the related expense is made if the expenditure of funds is the prime factor for determining eligibility for reimbursement; therefore, amounts received and not expended in the Special Revenue Funds are shown as unearned revenues.

Compensated Absences: The Cooperative permits certain employees to accumulate a limited amount of earned, but unused, annual leave, which will be paid to employees upon separation from the Cooperative’s service. For governmental funds, expenditures are recognized during the period in which vacation costs become payable from available, expendable resources. A liability for amounts earned but not payable from available, expendable resources is reported in the government-wide financial statements.

Vacation leave is earned up to a maximum of twelve (12) days, one day per month, for twelve (12) month employees. Unused vacation leave of forty (40) days may be carried over in the following year. Upon cancellation of an employee’s contract, the employee will be paid any accumulated unused vacation leave.

Qualified employees are entitled to accumulate sick leave according to a graduated leave schedule of one (1) day per month, depending on the employee’s annual contract length. Employees may accumulate up to ninety (90) days of sick leave. No payment is made for accumulated sick leave upon cancellation of an employee’s contract.

Net Pension Liability: The Cooperative records its proportionate share of the difference between the value of total pension liabilities and plan assets for the State of New Mexico’s Employee Retirement Board pension plan.

Deferred Inflows of Resources – Unavailable Revenues: Governmental funds report unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Revenues not received within sixty (60) days of year-end are not considered available; therefore, a receivable is recorded for the amount due and the corresponding unavailable revenue is recorded as well.

Deferred Inflows of Resources – Pensions: Changes in actuarial experience \$9,603 and change in proportion \$109,450 for the Cooperative are applicable to a future reporting period and will be expensed over a five-year period beginning in the next fiscal year. As such, these amounts are presented in the Statement of Net Position as deferred inflows of resources in the current period.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 **Summary of Significant Accounting Policies (Continued)**

D. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)*

Net Position or Fund Equity: Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

In the government-wide financial statements, fund equity is classified as net position and is displayed in three components:

Investment in Capital Assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Restricted: Consists of net position with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (b) law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. The restricted component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

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

Fund Balance: In the fund financial statements, governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications and therefore would not report amounts in all possible fund balance classifications.

In the governmental financial statements, fund balance is classified and is displayed in five components:

Nonspendable: Consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Restricted: Consists of amounts that are restricted to specific purposes as a result of (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: Consist of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Cooperative’s Council. Those committed amounts cannot be used for any other purpose unless the Cooperative’s Council removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 **Summary of Significant Accounting Policies (Continued)**

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

Assigned: Consist of amounts that are constrained by the Cooperative's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned: Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In governmental funds other than the general fund, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, a negative fund balance will be reported as unassigned fund balance.

Interfund Transactions: Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates affecting the Cooperative's financial statements include management's estimate of the useful lives of capital assets.

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 Board (ERB) and additions to/deductions from ERB's fiduciary net position have been determined on the same basis as they are reported by ERB, on the economic resources measurement focus and accrual basis of accounting. 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.

NOTE 2 **Stewardship, Compliance and Accountability**

Budgetary Information

Budgets for the General and Special Revenue Funds are prepared by management and are approved by the Cooperative's Governing Council and the School Budget and Planning Unit of the Public Education Department.

These budgets are prepared on the non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. The budget process in the State of New Mexico requires that the beginning cash balance be 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 line item basis, i.e., each budgeted expenditure must be within budgeted amounts. Budgets may be amended in two ways. If a budget transfer is necessary

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 Stewardship, Compliance and Accountability (Continued)

Budgetary Information (continued)

within a major category called a 'series,' this may be accomplished with only Governing Council approval. If a transfer between 'series' or a budget increase is required, approval must also be obtained from Public School Finance Division of the Public Education Department.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

The Cooperative follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In April or May, the Executive Director submits to the Governing Council and the Budget Planning Unit (DBPU) of the New Mexico Public Education Department a proposed operating budget for the ensuing fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. All budgets submitted to the State of New Mexico Public Education Department (PED) by the Council shall contain headings and details as described by law and have been approved by the Public Education Department.
2. In May or June of each year, the proposed "operating" budget will be reviewed and approved by the DBPU and certified and approved by the Governing Council at a public hearing of which notice has been published by the Governing Council which fixes the estimated budget for the Cooperative for the ensuing fiscal year.
3. The Governing Council meeting, while not intended for the general public, is open for the general public unless a closed meeting has been called.
4. The "operating" budget will be used by the Cooperative until they have been notified that the budget has been approved by the DBPU and the Governing Council. The budget shall be integrated formally into the accounting system. Encumbrances shall be used as an element of control and shall be integrated into the budget system. The Cooperative shall make corrections, revisions and amendments to the estimated budgets fixed by the local Governing Council to recognize actual cash balances and carryover funds, if any. These adjustments shall be reviewed and approved by the DBPU.
5. The Executive Director is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Governing Council and the State of New Mexico Public Education Department.
6. Budget change requests are processed in accordance with Supplement 1 (Budget Preparation and Maintenance) of the Manual of Procedures Public School Accounting and Budgeting. Such changes are initiated by the Governing Council and approved by the DBPU.
7. Legal budget control for expenditures is by function.
8. Appropriations lapse at fiscal year-end. Funds unused during the fiscal year may be carried over into the next fiscal year by budgeting those in the subsequent fiscal year's budget. The budget of Northwest Regional Education Cooperative #2 has been amended during the current fiscal year in accordance with these procedures. The budget schedules included in the accompanying financial statements reflect the approved budget and amendments thereto.
9. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 Stewardship, Compliance and Accountability (Continued)

Budgetary Information (continued)

10. Budgets for the General and Special Revenue Funds are adopted on a basis not consistent with generally accepted accounting principles (GAAP). Encumbrances are treated the same way for GAAP purposes and for budget purposes.

The Governing Council may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance. New Mexico state law prohibits a Governmental Agency from exceeding an individual line item.

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

NOTE 3 Cash and Temporary Investments

All invested funds of the Cooperative properly followed State investment requirements as of June 30, 2017.

Pledged collateral was required as the Cooperative’s cash balances did exceed FDIC amounts. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits, interest bearing NOW accounts, and non-interest-bearing accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate.

Deposits

New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Schools for at least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico Office of the State Auditor’s requirements in reporting the insured portion of the deposits.

	New Mexico Bank & Trust
Total amounts of deposits	\$ 471,654
FDIC coverage	250,000
Total uninsured public funds	221,654
Collateral requirement (50% of uninsured public funds)	110,827
Pledged security	525,361
Total over (under) collateralized	\$ 414,534

Funds in New Mexico Bank & Trust are maintained in a non-interest bearing checking account.

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 government does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 Cash and Temporary Investments (Continued)

Deposits – The risk exists when a portion of the Cooperative’s deposits are not covered by depository insurance and are:

1. Uncollateralized;
2. Collateralized with securities held by the pledging financial institution; or
3. Collateralized with securities held by the pledging financial institution’s trust department or agent but not in the depositor’s (Cooperative’s) name.

At June 30, 2017, \$221,654 of the Cooperative’s bank balance of \$471,654 was exposed to custodial credit risk as it was uninsured and the collateral was held by the pledging bank’s trust department, not in the Cooperative’s name.

Reconciliation of Cash to the Financial Statements

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

Reconciliation to Statement of Net Position

Governmental Funds - Balance Sheet	
Cash and cash equivalents per Exhibit A-1	\$ 342,387
Add outstanding checks and other reconciling items	<u> 129,267</u>
Bank balance of deposits	<u><u> \$ 471,654</u></u>

The Cooperative utilized pooled accounts for their programs and funds. Negative cash balances in individual funds that were part of the pooled accounts should be reclassified as due to/due from accounts in the combining balance sheets at June 30, 2017. Fund 24153 had a negative cash balance of \$2,857; fund 27189 had a negative cash balance of \$2,936; and fund 27200 had a negative cash balance of \$143,351 as of June 30, 2017.

NOTE 4 Receivables

The Cooperative had governmental receivables in the General Fund in the amount of \$37,504 at June 30, 2017. It also had governmental receivables of \$638,542 in the State Directed Activities Fund and \$11,656 in the College Counselor Initiative Fund at June 30, 2017. Total governmental receivables at June 30, 2017 were \$687,702.

The Cooperative also had \$415 due from a former employee in the General Fund at June 30, 2017.

An allowance for doubtful accounts has not been established. All receivables are expected to be collectible.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 Inter-fund Receivables, Payables, and Transfers

“Inter-fund balances” have primarily been recorded when funds overdraw their share of pooled cash when the Cooperative is waiting for grant reimbursements. At June 30, 2017, the Cooperative had the following:

Governmental Activities	Interfund Receivables	Interfund Payables
Major Funds:		
Operational (27101)	\$ 149,144	\$ -
English Language Acquisition (24153)	-	2,857
College Counselor Initiative (27189)	-	2,936
State Directed Activities (27200)	-	143,351
	\$ 149,144	\$ 149,144
Totals		

During the year ended June 30, 2017 the Cooperative had no Interfund transfers.

NOTE 6 Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2017, including those changes pursuant to the implementation of GASB Statement No. 34, follows.

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets used in governmental activities:				
Capital assets being depreciated:				
Vehicles	\$ 48,236	\$ -	\$ -	\$ 48,236
Less accumulated depreciation:				
Vehicles	43,772	4,464	-	48,236
Total capital assets, net of depreciation	\$ 4,464	\$ (4,464)	\$ -	\$ -

Depreciation expense for the year ended June 30, 2017 was charged to governmental activities as follows:

Governmental activities:	
Instruction	\$ 357
Support services - students	2,821
Support services - general administration	223
School administration	625
Central services	357
Operation and maintenance of plant	81
Total depreciation	\$ 4,464

Capital assets, net of accumulated depreciation, at June 30, 2017 appear in the Statement of Net Position with a zero balance as all assets are fully depreciated.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 Compensated Absences

Compensated absences consist of the following at June 30, 2017:

	Balance at July 01, 2016	Additions	Deletions	Balance at June 30, 2017	Due Within One Year
Compensated absences	\$ 9,716	\$ 14,130	\$ 22,590	\$ 1,256	\$ 1,256

Administrative employees of the Cooperative are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year ended June 30, 2017, compensated absences decreased \$8,460 over the prior year accrual. All amounts are estimated to be paid out in the next year, so all amounts are considered current. Compensated absences have been paid out of the General Fund. See Note 1 for more details.

NOTE 8 Unearned Revenues

In accordance with the terms of the various grant agreements within the General and State Directed Activities Fund, revenues received in excess of expenditures carry over to the subsequent years, unless such excess revenues are requested to be returned to the grantor. There were no unearned revenues at June 30, 2017.

NOTE 9 Risk Management

The Cooperative is a member of the New Mexico Public Schools Insurance Authority (NMPSIA). The Authority was created to provide comprehensive core insurance programs by expanding the pool of subscribers to maximize cost containment opportunities for required insurance coverage. The Cooperative pays an annual premium to the NMPSIA based on claim experience and the status of the pool. The Risk Management Program includes Workers Compensation, General and Automobile Liability, Automobile Physical Damage, and Property and Crime coverage.

The NMPSIA provides coverage for up to a maximum of \$500,000,000 for each property damage claim with a \$1,000 deductible to each building. General liability coverage is afforded to all employees, volunteers and council members and the limit is subject to the NMSA Tort Claims Act on a per occurrence basis. The automobile and property liability limit is subject to the provisions of the Tort Claims Act. The crime limit is \$250,000 per occurrence for Faithful Performance. A limit of \$250,000 applies to Depositor's Forgery, Credit Card Forgery and Money Orders. A limit of \$100,000 applies to Money and Security, which includes a \$750 deductible. The automobile liability coverage includes a deductible of \$750. In case the NMPSIA's assets are not sufficient to meet its liability claims, the agreement provides that subscribers, including the Cooperative, cannot be assessed additional premiums to cover the shortfall. As of June 30, 2017, there have been no claims that have exceeded insurance coverage.

NOTE 10 Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures as part of the Combined Statements of certain information concerning individual funds including:

A. Deficit fund balance of individual funds. The following fund reported a deficit fund balance at June 30, 2017.

Fund #	Fund Description	Amount
24153	English Language Acquisition	\$ 2,857
27200	State Directed Activities	51,246
	Total	\$ 54,103

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 Other Required Individual Fund Disclosures

B. Excess of expenditures over appropriations. The following fund exceeded its approved budgetary authority for the fiscal year ended June 30, 2017:

Fund #	Fund and Function	Amount
27101	General Fund - General Administration	\$ 219,838

C. Cash appropriations in excess of available cash balance. For the year ended June 30, 2017, the Cooperative had \$13,279 in excess of available cash balance in fund 27101.

NOTE 11 General Information on the Pension Plan – Educational Retirement Board

Plan Description. The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB’s comprehensive annual financial report. The report can be found on NMERB’s web site at https://www.nmerb.org/Annual_report.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 agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

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

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

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

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

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

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

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

- The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions, and returned to work for 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 not continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.
- **Option B – Joint 100% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life Benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.
- **Option C – Joint 50% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life Benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

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

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

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction is 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 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

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

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

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

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

The contribution requirements of defined benefit plan members and the Northwest Regional Education Cooperative #2 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, 2017 and 2016, the Northwest Regional Education Cooperative #2 paid employee and employer contributions of \$85,469 and \$98,592 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: The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2016. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2016. At June 30, 2017, the Northwest Regional Education Cooperative #2’s reported a liability of \$1,009,660 for its proportionate share of the net pension liability. The Northwest Regional Education Cooperative #2’s proportion of the net pension liability is based on the employer contributing entity’s long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2016, the Northwest Regional Education Cooperative #2’s proportion was 0.01403% percent, which was a decrease of 0.00179% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Northwest Regional Education Cooperative #2 recognized pension expense of \$69,403. At June 30, 2017, the Northwest Regional Education Cooperative #2 reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net (Inflows) Outflows
Differences between expected and actual experience	\$ 4,380	\$ (9,603)	\$ (5,223)
Changes of assumptions	20,553	-	20,553
Net difference between projected and actual earnings on pension plan investments	60,269	-	60,269
Changes in proportion and differences between Northwest Regional Education Cooperative #2 contributions and proportionate share of contributions	72,008	(109,450)	(37,442)
Northwest Regional Education Cooperative #2 contributions subsequent to the measurement date	48,292	-	48,292
Total	<u><u>\$ 205,502</u></u>	<u><u>\$ (119,053)</u></u>	<u><u>\$ 86,449</u></u>

Deferred outflows of resources of \$48,292 related to pensions resulting from Northwest Regional Education Cooperative #2's contributions subsequent to the measurement date of June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,

2018	\$ (3,465)
2019	21,799
2020	5,124
2021	14,699
Thereafter	-
Total	<u><u>\$ 38,157</u></u>

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

Inflation	3.0%
Salary Increases	Composition: 3% inflation, plus 0.75% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

Investment Rate of Return	7.75% compounded annually, net of expenses. This is made up of a 3.00% inflation rate and a 4.75 real rate of return. The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.
Average of Expected Remaining Service Lives	3.77 years
Mortality	<p>Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB.</p> <p>Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table’s base year of 2012.</p> <p>Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB. Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.</p> <p>Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table’s base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.</p>
Retirement Age	Experience-based table 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 ending June 30, 2014.
Cost-of-Living Increases	2% per year, compounded annually.
Payroll Growth	3.5% per year (with no allowance for membership growth).
Contribution Accumulation	5% increase per year for all years prior to the valuation date. (Contributions are credited with 4.0% interest, compounded annually, applicable to the account balance in the past as well as the future).
Disability Incidence	Approved rates applied to eligible members with at least 10 years of service.

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

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

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

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

The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels.

Additionally, contributions received through the Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

Sensitivity of the Northwest Regional Education Cooperative #2’s proportionate share of the net pension liability to changes in the discount rate. The following table presents the Cooperative’s proportionate share of the net pension liability calculated using the discount rate of 7.75%, 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 one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Northwest Regional Education Cooperative #2’s proportionate share of the net pension liability	<u>\$ 1,337,271</u>	<u>\$ 1,009,660</u>	<u>\$ 737,835</u>

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 web site at https://www.nmerb.org/Annual_reports.html.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 General Information on the Pension Plan – Educational Retirement Board (Continued)

Payables to the pension plan. Northwest Regional Education Cooperative #2 remits the legally required employer and employee contributions on a monthly basis to ERB. The ERB requires that the contributions be remitted by the 15th day of the month following the month for which contributions are withheld. At June 30, 2017 there were no contributions due and payable for the Cooperative.

NOTE 12 Post-Employment Benefits – State Retiree Health Care Plan

Plan Description. Northwest Regional Education Cooperative #2 contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

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

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 Post-Employment Benefits – State Retiree Health Care Plan (Continued)

distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

Northwest Regional Education Cooperative #2's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$6,948, \$8,024, and \$9,000, respectively, which equal the required contributions for each year.

NOTE 13 Operating Leases

Northwest Regional Education Cooperative #2 has an operating lease on a copier. The lease was entered into in February 2016 and is for five years. The lease calls for payments of \$459.75 per month for five years. The lease provides for 6,000 black and white copies per month in the agreement. Amounts over the limit are paid at the rate of \$0.008 per black and white copy and \$0.06 per color copy. In the event of non-appropriation of funds, the lease may be cancelled prior to the original term. However, as likelihood of non-appropriation is seen as remote, the

Cooperative is disclosing the amounts of future lease payments on this lease. Future payments on the lease consist of the following as of June 30, 2017:

Fiscal Year Ended June 30,	Copier Lease
2018	\$ 5,517
2019	5,517
2020	5,517
2021	3,678
Total future lease payments	<u><u>\$ 20,229</u></u>

NOTE 14 Unavailable Revenues

The Cooperative had no unavailable revenues at year end.

NOTE 15 Concentrations

The Cooperative depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the Cooperative is subject to changes in the specific flows of intergovernmental revenues based on modifications to the Federal and State laws and Federal and State appropriations.

NOTE 16 Contingent Liabilities

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 17 **Subsequent Accounting Standard Pronouncements**

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

In January 2017, GASB Statement No. 84 *Fiduciary Activities*, was issued. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

In March 2017, GASB Statement No. 85 *Omnibus 2017*, was issued. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

In May 2017, GASB Statement No. 86 *Certain Debt Extinguishment Issues*, was issued. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 17 **Subsequent Accounting Standard Pronouncements (Continued)**

In June 2017, GASB Statement No. 87 *Leases*, was issued. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Cooperative is still evaluating how this standard will affect the Cooperative.

NOTE 18 **Subsequent Events**

A review of subsequent events through September 27, 2017, which is the date the financial statements were available to be issued, indicated nothing of audit significance.

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REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
LAST 10 FISCAL YEARS*
JUNE 30, 2017

Schedule I

	June 30			
	Fiscal Year	2017	2016	2015
Measurement Date	2016	2015	2014	2013
Northwest Regional Education Cooperative #2's proportion of the net pension liability	0.01403%	0.01582%	0.01349%	
Northwest Regional Education Cooperative #2's proportionate share of the net pension liability	\$ 1,009,660	1,024,704	769,695	
Northwest Regional Education Cooperative #2's covered-employee payroll	\$ 400,780	\$ 449,613	\$ 371,919	
Northwest Regional Education Cooperative #2's proportionate share of the net pension liability as a percentage of covered-employee payroll	251.92%	227.91%	206.95%	
Plan fiduciary net position as a percentage of total pension liability	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 Northwest Regional Education Cooperative #2 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
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 SCHEDULE OF PENSION CONTRIBUTIONS
 EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
 LAST 10 FISCAL YEARS*
 JUNE 30, 2017

Schedule II

	2017	2016	2015
Contractually required contribution	48,292	\$ 55,709	62,506
Contributions in relation to the contractually required contribution	48,292	55,709	62,506
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Northwest Regional Education Cooperative #2's covered-employee payroll	347,422	\$ 400,780	\$ 449,613
Contributions as a percentage of covered-employee payroll	13.90%	13.90%	13.90%

* *Governmental Accounting Standards Board Statement No. 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Northwest Regional Education Cooperative #2 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
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
JUNE 30, 2017

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

See also the *Actuarial Assumptions* subsection of the financial statement note disclosure *General Information on the Pension Plan - Educational Retirement Board, General Information on the Pension Plan*

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

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for Federal, State and Local funded grants. These grants are awarded to the District with the purpose of accomplishing specific educational tasks. Special Revenue Funds include:

English Language Acquisition (24153) – To provide funds to improve the educational performance of limited English proficient students by assisting the children to learn English and meet State academic content standards. No minimum balance required according to legislation.

College Counselor Initiative (27189) - To account for funds provided by the New Mexico Public Education Department to support College Counselors in public schools.

Medicaid HSD (28144) – To account for amounts billed, received, and paid for member schools as reimbursements for services to Medicaid-eligible children. Funding is authorized by the State of New Mexico Human Services Department under the Medicaid Program (42 USC 1396a (a) 5. No minimum balance required according to legislation.

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2017

Statement B-1

	English Language Acquisition 24153	College Counselor Initiative 27189	Medicaid HSD 28144	Total
ASSETS				
<i>Current assets:</i>				
Cash and temporary investments	\$ -	\$ -	\$ 2,082	\$ 2,082
Accounts receivable				
Due from other governments	-	11,656	-	11,656
Other receivables	-	-	-	-
<i>Total assets</i>	<u>-</u>	<u>11,656</u>	<u>2,082</u>	<u>13,738</u>
LIABILITIES				
<i>Current liabilities:</i>				
Accounts payable	-	4,341	-	4,341
Accrued payroll liabilities	-	2,086	-	2,086
Due to other funds	2,857	2,936	-	5,793
<i>Total liabilities</i>	<u>2,857</u>	<u>9,363</u>	<u>-</u>	<u>12,220</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - grants	-	-	-	-
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted for:				
Grant mandates	-	2,293	2,082	4,375
Assigned	-	-	-	-
Unassigned	(2,857)	-	-	(2,857)
<i>Total fund balances</i>	<u>(2,857)</u>	<u>2,293</u>	<u>2,082</u>	<u>1,518</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ -</u>	<u>\$ 11,656</u>	<u>\$ 2,082</u>	<u>\$ 13,738</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

Statement B-2

	English Language Acquisition 24153	College Counselor Initiative 27189	Medicaid HSD 28144	Total
<i>Revenues:</i>				
State grants	\$ -	\$ 70,459	\$ -	\$ 70,459
Federal grants	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>-</u>	<u>70,459</u>	<u>-</u>	<u>70,459</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Instruction	2,857	-	-	2,857
Support services				-
Students	-	67,466	3,033	70,499
General administration	-	-	-	-
School administration	-	-	-	-
Central services	-	-	-	-
Operation & maintenance of plant	-	700	-	700
<i>Total expenditures</i>	<u>2,857</u>	<u>68,166</u>	<u>3,033</u>	<u>74,056</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(2,857)</u>	<u>2,293</u>	<u>(3,033)</u>	<u>(3,597)</u>
<i>Other financing sources (uses):</i>				
Operating transfers	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net changes in fund balances</i>	(2,857)	2,293	(3,033)	(3,597)
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>5,115</u>	<u>5,115</u>
<i>Fund balances - end of year</i>	<u>\$ (2,857)</u>	<u>\$ 2,293</u>	<u>\$ 2,082</u>	<u>\$ 1,518</u>

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

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OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF PLEDGED COLLATERAL
FOR THE YEAR ENDED JUNE 30, 2017

Schedule III

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity Date</u>	<u>CUSIP Number</u>	<u>Fair Market Value June 30, 2017</u>
New Mexico Bank & Trust	Philadelphia PA Authority Rev Bond	4/15/2026	71783DAF2	\$ 525,361
Total New Mexico Bank & Trust				<u>\$ 525,361</u>

The securities are held, not in the Cooperative's name, at:

Sun Trust Bank of Atlanta
PO Box 4418
Atlanta, GA 30302

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

STATE OF NEW MEXICO
 NORTHWEST REGIONAL EDUCATION COOPERATIVE #.
 SCHEDULE OF CASH AND TEMPORARY INVESTMENT ACCOUNTS
 JUNE 30, 2017

Schedule IV

Bank Name/Account Type	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Adjustments	Book Balance
New Mexico Bank & Trust						
Operating	Checking	\$ 471,654	\$ -	\$ (752,007)	\$ 622,740	\$ 342,387
Total New Mexico Bank & Trust		<u>\$ 471,654</u>	<u>\$ -</u>	<u>\$ (752,007)</u>	<u>\$ 622,740</u>	<u>\$ 342,387</u>
Cash per financial statements						342,387
Cash and cash equivalents - Government Activities Exhibit A-1						<u>\$ 342,387</u>

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

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF CASH RECONCILIATION
JUNE 30, 2017

Schedule V

Primary Government

	General Fund 27101	Federal Flowthrough 24000	State Flowthrough 27000	State Direct 28000	Total
Cash, June 30, 2016	\$ 433,013	\$ -	\$ (59,123)	\$ 5,115	\$ 379,005
Add:					
Current year revenues	633,472	-	3,601,838	-	4,235,310
Permanent cash transfers	-	-	-	-	-
Prior period adjustment	-	-	-	-	-
Loans from other funds	-	2,857	146,287	-	149,144
Total cash available	1,066,485	2,857	3,689,002	5,115	4,763,459
Less:					
Current year expenditures	(577,036)	(2,857)	(3,689,002)	(3,033)	(4,271,928)
Permanent cash transfers	-	-	-	-	-
Prior period adjustment	-	-	-	-	-
Loans to other funds	(149,144)	-	-	-	(149,144)
Cash, June 30, 2017	<u>\$ 340,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,082</u>	<u>\$ 342,387</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF JOINT POWERS AGREEMENTS
JUNE 30, 2017

Schedule VI

Title: Regional Education Cooperative

Participants: Northwest Regional Education Cooperative #2, Chama Valley Independent School District, Cuba Independent Schools, Dulce Independent Schools, Jemez Mountain Public Schools, Mesa Vista Consolidated Schools, Penasco Independent School District, and Questa Independent School District

Responsible Party: Northwest Regional Education Cooperative #2's Governing Council

Description: The parties have agreed to form a Regional Education Cooperative to participate in cooperative programs relating to education related services, provide professional services to the districts, and provide other optional services as needed.

Dates of Operation: September 20, 2012 until the end of any fiscal year during which 1) a participating district or institution gives Notice of Intent to Terminate pursuant to the agreement, or 2) a non-participating district or institution gives Notice of Intent to Participate and the Council agrees to such participation for the ensuing fiscal year.

Projected Cost: Based upon budget approved by the Public Education Department.

Current Cost: \$4,431,473 in expenditures for year ended June 30, 2017

Audit Responsibility: Northwest Regional Education Cooperative #2

Fiscal Agent: Northwest Regional Education Cooperative #2

Reporting Agency: Northwest Regional Education Cooperative #2

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

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COMPLIANCE SECTION



Manning Accounting and Consulting Services, LLC

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Timothy Keller, New Mexico State Auditor
The Office of Management and Budget
And the Governing Council of
Northwest Regional Education Cooperative #2
Chama, 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 fund of the Northwest Regional Education Cooperative #2 (the "Cooperative"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements and have issued our report thereon dated September 27, 2017.

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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (FS 2017-001 and FS 2017-002)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Regional Education Cooperative #2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items NM 2017-001 and NM 2017-002.

Northwest Regional Education Cooperative #2's Response to Findings

Northwest Regional Education Cooperative #2's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Cooperative's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Regional Education Cooperative #2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Manning Accounting and Consulting Services, LLC

Manning Accounting and Consulting Services, LLC
Kirtland, New Mexico
September 27, 2017

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Schedule VII

Section I – Summary of Audit Results

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditor's report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Control deficiencies identified not considered to be significant deficiencies? | No |

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Schedule VII

Section II – Financial Statement Findings

FS 2017-001 – Improper Final Payment to Employee (Significant Deficiency)

Criteria: 6.20.2.18 NMAC 1978 PAYROLL:

The local board shall establish written payroll policies and procedures which comply with state and federal regulations on payroll as well as maintaining strict internal controls, close supervision and financial accounting in accordance with GAAP. School districts shall maintain and have available for inspection the following employee record documentation: employment contracts (including increments), personnel/payroll action forms, certification records, employment eligibility verification (federal form I-9 for citizenship certification), federal and state withholding allowance certificates, pay deduction authorizations, pay or position change notices, Educational Retirement Act plan application, and direct deposit authorizations.

Condition: During our review of payroll we noted the following instance in which proper procedures were not followed:

- An employee who left the Cooperative prior to the end of the contract year was over paid. The employee was overpaid by \$1,147.04.

Cause: The Cooperative paid the employee for 5 days more than was actually worked for the contract year. The Cooperative didn't calculate the pay earned by the employee through the last day and then compare that to what had been paid to date, paying the difference between the two amounts. The Cooperative pays on the 10th and 25th of each month, and the employee worked through Friday, June 9, 2017, so employees doing payroll didn't consider that the normal paycheck contained days not yet worked.

Effect: The District is in a violation of NMAC 6.20.2.18 and has overpaid Cooperative funds in the amount of \$1,147.04 plus related employer related deductions.

Auditor's Recommendation: We recommend that the Cooperative always do a payout calculation whenever an employee leaves prior to the end of their stated contract. This includes calculating total days worked, the value of the total days worked for the year compared to the total pay to date. The difference between this should be the final pay to the employee. The Cooperative should attempt to collect the net overpayment from the former employee.

Responsible Official's Plan:

- Specific corrective action plan for finding:

The NW REC #2 initiated a process to collect the overpayment within a 24 hour period of discovering the error. The overpayment will be collected in full as soon as possible. The procedure will be written for calculating the pay for an employee who leaves prior to the end of their stated contract. This written procedure will be adopted into practice and incorporated into the NW REC #2 Internal Controls Manual. The procedure will delineate the process for calculating total days worked, the value of the total days worked for the year compared to the total pay to date. The difference between this should be the final pay to the employee.

- Timeline for completion of corrective action plan:

The NW REC #2 has initiated contact with the former employee and intends to collect the overpayment as soon as possible, but not beyond the date of June 30, 2018. The NW REC #2 Interim Business Manager will create a draft procedure prior to the next Governing Council Meeting scheduled for October 3, 2017. The procedure will be included as part of the Business Manager's report. The procedure will be implemented effective October 5th, 2018

- Employee position(s) responsible for meeting the timeline:

The Interim Business Manager will be responsible for the timeline to collect overpayment and to draft the procedure for calculating the pay for an employee who leaves prior to the end of their contract.

The Assistant Business Manager will be responsible for carrying out the procedure.

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Schedule VII

Section II – Financial Statement Findings (Continued)

FS 2017-002 – Excessive Delays in Requests for Reimbursement (Significant Deficiency)

Criteria: 6.20.2.23 NMAC 1978 OTHER SERVICES:

C. Federal/state grants:

(1) Flowthrough funds: For grant money that flows through the department, school districts shall utilize the funding for the purpose in which it was awarded. School districts shall submit complete and accurate reports required by the grant and the department within the prescribed time. This funding shall be accounted for in accordance with GAAP, applicable federal regulations, and procedures set forth in the grant award.

(2) Direct funds: For grant money that is sent direct, school districts shall utilize the funding for the purpose in which it was awarded. School districts shall submit complete and accurate reports required by the grant within the prescribed time. This funding shall be accounted for in accordance with GAAP, applicable federal regulations, and procedures set forth in the grant award. These direct funds shall be incorporated into the school district operating budget without prior approval provided that a budget adjustment request is submitted to the department.

Condition: During our review of year end receivables we identified the following instances in which proper procedures were not followed:

- The Cooperative did not submit a request for reimbursement to the PED by the end-of-year deadline for Fund 24153. The amount of expenditures which were not reimbursed was \$2,857.

Cause: The Cooperative did not follow state guidelines for the submission of reimbursement requests of state funds. With the changes in financial personnel near year-end, a review of all grants and whether all requests for reimbursements (RfRs) had been done was overlooked.

Effect: The Cooperative is not in compliance with state regulations related to the grant. This has caused the Cooperative to lose the right to request reimbursement for the \$2,857. The Cooperative will need to do a permanent cash transfer in the current year to transfer cash from Fund 27101 to Fund 24153

Auditor's Recommendation: The Cooperative should ensure that requests for reimbursement are made as soon as possible. The Cooperative should assign one or more individuals to ensure that RFR's are requested no less than every 30 days. Additionally, the Cooperative need's to request a permanent cash transfer in the 2017-2018 fiscal year to remove the negative cash balance in Fund 24153.

Responsible official's view:

- Specific corrective action plan for finding:

The NW REC #2 declares the first work day on or after the 25th of each month "Request for Reimbursement Day". On that day, the Interim Business Manager and Assistant Business Manager will meet together and review prior months payments and subsequent invoices associated with any flow through funds. On or about the 25th, but before the 1st of the next month, all outstanding Requests for Reimbursements will be submitted to the Public Education Department.

- Timeline for completion of corrective action plan:

All outstanding flow through "Requests for Reimbursement" will be submitted between the dates of the 25th of the current month and prior to the 1st of the upcoming month.

- Employee position(s) responsible for meeting the timeline:
The Assistant Business Manager and the Interim Business Manager

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Schedule VII

Section III – Section 12-6-5 NMSA 1978 Findings

NM 2017-001 [FS 2015-002] – Budgetary Controls (Compliance and Other Matters) Repeated and Revised

Criteria: According to 22-8-11 NMSA 1978:

B. No School district or state-chartered school or officer or employee of a school district or state-chartered school shall make any expenditure or incur any obligation for the expenditure of public funds unless that expenditure or obligation is made in accordance with an operating budget approved by the department. This prohibition does not prohibit the transfer of funds pursuant to the department’s rules and procedures.

Condition: The Cooperative incurred expenditures in excess of budgetary authority in the following funds and functions:

Fund #	Fund and Function	Amount
27101	General Fund - General Administration	\$ 219,838

During the prior year’s audit we identified one fund which had over expended its budget in one function by \$356.

Cause: The Cooperative moved expenditures from the 2400 function to the 2300 function where they should have been expended. However, no budget adjustment request was done to move the corresponding budget from the 2400 function to the 2300 function.

Effect: The internal controls established by adherence to budgets have been compromised, and excess spending could, and did, result. In addition, New Mexico statutes have been violated.

Auditor’s Recommendation: We recommend that the Cooperative adhere to their policy of obtaining budgets and maintaining those budgets during the year as prescribed by State statutes.

Responsible Official’s Plan:

- Specific corrective action plan for finding:

Monitoring budgetary revenue and expenditures by Fund, Function, and Object Code using the report feature in the Financial Information System will be done monthly. A regular monthly review of a Budget Status Report by Fund will reveal potential exposure and/or risk for the NW REC #2 of compromising budgetary controls compliance. Regular review of the NM PED OBMS system and Budget Adjustment Requests for comparison purposes against the Budget Status Reports will be done monthly as well. The OBMS system will demonstrate, by year’s end that the regular maintenance and transfer of funds will have alleviated budgetary control issues associated with the funds controlled by the NW REC #2.

- Timeline for completion of corrective action plan:

On a very regular basis, at least monthly, the Interim Business Manager will review a budget status report of all funds to specifically identify potential areas of non-compliance and the prepare maintenance and/or transfers Budget Adjustment Requests to address the issues. Budget Adjustment Requests to the NM PED will be regularly presented at the regularly scheduled NW REC #2 Governing Council Meetings and submitted on a timely basis to the PED. Once approved, the Budget Adjustment Requests will be entered into the financial information system.

- Employee position(s) responsible for meeting the timeline:

The Interim Business Manager

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Section III – Section 12-6-5 NMSA 1978 Findings (Continued)

NM 2017-002 – Cash Appropriations in Excess of Available Cash Balances (Compliance and Other Matters)

Criteria: All funds, with the exception of agency funds, are to be budgeted by the local governing body and submitted to the Public Education Department for approval. Cash balances re-budgeted to make up for deficit budgeted revenues that do not cover the budgeted expenditures cannot exceed the actual cash balance available at the end of the prior year.

Condition: The Cooperative re-budgeted “cash balance” in excess of available cash balances in the following funds:

	Designated Cash	Available Cash	Cash Appropriation In Excess of Cash
General Fund	\$ 446,292	\$ 433,013	\$ 13,279

Cause: The Cooperative didn’t compare its actual year-end cash to its budgeted year-end cash and adjust the budgeted cash down to the actual cash amount.

Effect: The District has budgeted a cash balance that does not exist. If the District expends all budgeted expenditures it will continue to overdraw its existing funds.

Auditor’s Recommendation: The budget for future years should be reviewed to ensure all funds have adequate budget authority for budgeted expenditures. Greater attention should be given to the budget monitoring process end-of-the-year cash balance estimates. Adjustments should be made to budgeted cash balances after actual cash balances are determined.

Responsible Official’s Plan:

- Specific corrective action plan for finding:

When the NW REC 2017 Audit has been approved and an audited cash balance established, the Interim Business Manager will compare the audited cash balance to the amount that was estimated (\$424,888) and budgeted FY 17-18 as designated cash against the actual available cash identified in the audited cash balance. The difference will be submitted as a reduction or increase through a Budget Adjustment Request to the Public Education Department. Once approved, the Budget Adjustment request will be entered into the NW REC #2 financial information system and the budget adjusted accordingly.

- Timeline for completion of corrective action plan:

The audited cash balance should be made available by mid-December 2017. The calculations will be prepared and a Budget Adjustment Request submitted to the Governing Council at the February 1, 2018 regular meeting. The adjustment should be approved by the end of February and by March 1st the adjustment reflected in the NW REC #2 Financial Information System.

- Employee position(s) responsible for meeting the timeline:

The Interim Business Manager

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Schedule VII

Section IV – Prior Year Audit Findings

Financial Section Findings

FS 2014-007 Purchase Orders and Payment Authorization – Resolved
FS 2016-001 Incomplete Bidding Procedures for Purchases Greater than \$60,000 – Resolved
FS 2016-002 Improper Controls for Outstanding Warrants – Resolved

Section 12-6-5 NMSA 1978 Findings

NM 2017-001 [FS 2015-002] Budgetary Controls – Repeated and Revised

STATE OF NEW MEXICO
NORTHWEST REGIONAL EDUCATION COOPERATIVE #2
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2017

Section V – Other Disclosures

Auditor Prepared Financials

Manning Accounting and Consulting Services, LLC assisted in the preparation of the financial statements presented in this report. The Cooperative's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

Exit Conference

The contents of this report were discussed on September 27, 2017. The following individuals were in attendance.

NWREC #2

Anthony Casados, Council Chairperson
Valerie Trujillo, Interim Executive Director
Marvin MacAuley, Vice President
Adan Delgado, Council Member
LeAnne Salazar-Montoya, Coordinator
Tom Savage, Interim Business Manager

Manning Accounting and Consulting Services, LLC

Byron Manning, CPA, Managing Partner
Chris Manning, Staff