

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION
COOPERATIVE #4
AUDITED FINANCIAL STATEMENTS AND
ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITORS'
REPORT THEREON
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4**

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4**

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4**

OFFICIAL ROSTER

JUNE 30, 2018

Board

Christopher Gutierrez.....Chairman
Kelt CooperVice-Chairman
Ella Arellano..... Secretary
Richard Perea Member
Anita Romero Member
Fred Trujillo Member

Administration

Dr. James A. Abreu.....Director
Mary A. Sanchez.....Business Manager
Leandra Vigil..... Bookkeeper



Independent Auditors' Report

Honorable Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico
and
The Board of Northeast Regional Education Cooperative # 4
Las Vegas, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the Northeast Regional Education Cooperative #4 (Cooperative), as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Cooperative's nonmajor governmental funds as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2018, as listed in the table of contents. We did not audit the 2017 Schedule of Employer Allocations and Pension Amounts of the State of New Mexico Educational Retirement Board (ERB), the administrator of the cost sharing pension plan for REC. The schedules and statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the REC, is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Cooperative as of June 30, 2018, and the respective changes in financial position and respective budgetary comparisons for the general fund and the major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Cooperative as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information:

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

Accounting principles generally accepted in the United States of America require that the *Cooperative's Proportionate Share of the Net Pension Liability* and their *Proportionate Share of the OPEB Liability* on page 49 and 51, respectively, the *Schedule of the Cooperative's Contributions* on page 50 and 52, and the notes to the required supplementary information, on page 53, 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 and historical context. We have applied certain limited procedures to the *Schedule of the Cooperative's Proportionate Share of the Net Pension Liability* and *Cooperative's Proportionate Share of the OPEB Liability* 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, the combining and individual fund financial statements, and the budgetary comparisons. The other schedules required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 4, 2018 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Kubiak Melton & Associates, LLC

Kubiak Melton & Associates, LLC
Auditors – Business Consultants – CPAs

Albuquerque, New Mexico
September 4, 2018

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018**

	Governmental Activities
ASSETS	
Current Assets	
Cash and Temporary Investments	\$ 306,322
Accounts Receivable, Net	181,146
Total Current Assets	487,468
Noncurrent Assets	
Capital Assets:	
Capital Assets	198,915
Less: Accumulated Depreciation	(182,297)
Total Noncurrent Assets	16,618
Deferred Outflows:	
Deferred Outflows, OPEB Related	21,722
Deferred Outflows, Pension Related	2,064,895
Total Deferred Outflows	2,086,617
Total Assets and Deferred Outflows	\$ 2,590,703
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 30,716
Accrued Compensated Absences	34,678
Total Current Liabilities	65,394
Noncurrent Liabilities:	
Net OPEB Liability	1,234,428
Net Pension Liability	4,564,301
Total Noncurrent Liabilities	5,798,729
Total Liabilities	5,864,123
Deferred Inflows:	
Deferred Inflows, OPEB Related	280,953
Deferred Inflows, Pension Related	379,821
Total Deferred Inflows	660,774
Total Liabilities and Deferred Inflows	6,524,897
NET POSITION	
Net Investment in Capital Assets	16,618
Unrestricted	(3,950,812)
Total Net Position	(3,934,194)
Total Liabilities, Deferred Inflows and Net Position	\$ 2,590,703

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions and Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expenses) Revenues and and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
GOVERNMENTAL ACTIVITIES					
Instruction	\$ 363,855	\$ 6,417	\$ 828,926	\$ -	\$ 471,488
Support Services:					
Students	1,240,625	-	589,322	-	(651,303)
General Administration	1,171,004	-	-	-	(1,171,004)
School Administration	94,902	-	-	-	(94,902)
Central Services	111,730	-	-	-	(111,730)
Operation of Plant	16,408	-	-	-	(16,408)
Total Governmental Activities	\$ 2,998,524	\$ 6,417	\$ 1,418,248	\$ -	\$ (1,573,859)
General Revenues:					
State Aid not restricted to Specific Purpose General					476,032
Loss on Disposal of Capital Assets					(368,202)
Change in Net Position					(1,466,029)
Net Position, Beginning					(1,001,862)
Restatement					(1,466,303)
Net Position, As Restated					(2,468,165)
Net Position, Ending					\$ (3,934,194)

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2018**

	Rec Operating Fund - 27101	Three Rivers Education - 27113	IDEA-B State Directed - 27200
ASSETS			
Cash and Temporary Investments	\$ 443,805	\$ -	\$ -
Receivables:			
Accounts Receivable, Net	51	34,192	144,443
Due From Other Funds	-	-	-
Total Assets	\$ 443,856	\$ 34,192	\$ 144,443
LIABILITIES AND FUND BALANCES			
Liabilities			
Cash Overdraft	\$ -	\$ 32,522	\$ 128,423
Accounts Payable	3,417	613	4,450
Due To Other Funds	-	-	-
Total Liabilities	3,417	33,135	132,873
FUND BALANCES			
Restricted for:			
Special Revenue	-	1,057	11,570
Unassigned	440,439	-	-
Total Fund Balances	440,439	1,057	11,570
Total Liabilities and Fund Balances	\$ 443,856	\$ 34,192	\$ 144,443

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
BALANCE SHEET – GOVERNMENTAL FUNDS (continued)
AS OF JUNE 30, 2018**

	School Based Health Centers - 29130	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Temporary Investments	\$ 4,099	\$ 19,363	\$ 467,267
Receivables:			-
Accounts Receivable, Net	-	2,460	181,146
Due From Other Funds	-	-	-
Total Assets	<u>\$ 4,099</u>	<u>\$ 21,823</u>	<u>\$ 648,413</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Cash Overdraft	\$ -	\$ -	\$ 160,945
Accounts Payable	22,236	-	30,716
Due To Other Funds	-	-	-
Total Liabilities	<u>22,236</u>	<u>-</u>	<u>191,661</u>
FUND BALANCES			
Restricted for:			
Special Revenue	-	21,823	34,450
Unassigned	(18,137)	-	422,302
Total Fund Balances	<u>(18,137)</u>	<u>21,823</u>	<u>456,752</u>
Total Liabilities and Fund Balances	<u>\$ 4,099</u>	<u>\$ 21,823</u>	<u>\$ 648,413</u>

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Funds
Amounts reported for governmental activities in the statement of net position are different because:	
Fund Balance - Total Governmental Funds	\$ 456,752
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, (net):	16,618
Defined benefit pension plan and OPEB deferred outflows are not financial resources and, therefore, are not reported in the funds	2,086,617
Defined benefit pension plan and OPEB deferred inflows are not financial resources and, therefore, are not reported in the funds	(660,774)
Long-Term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
Net OPEB Liability	(1,234,428)
Net Pension Liability	(4,564,301)
Compensated Absences Payable	(34,678)
Net Position per Statement of Net Position	<u>\$ (3,934,194)</u>

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	REC Operating Fund - 27101	Three Rivers Education - 27113	IDEA-B State Directed - 27200
REVENUES:			
Charges for Services	\$ -	\$ -	\$ -
Local Sources	-	828,926	-
State Grants	201,836	-	-
Federal Flow through Grants	103,889	-	428,478
Total Revenues	<u>305,725</u>	<u>828,926</u>	<u>428,478</u>
EXPENDITURES:			
Current:			
Instruction	-	-	81,625
Support Services:			
Students	158,301	828,959	172,975
General Administration	148,391	-	85,226
School Administration	58,821	-	36,081
Central Services	85,816	-	47,636
Operation of Plant	13,483	-	2,925
Capital Outlay	-	-	-
TOTAL EXPENDITURES	<u>464,812</u>	<u>828,959</u>	<u>426,468</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(159,087)</u>	<u>(33)</u>	<u>2,010</u>
Other Financing Sources and Financing Uses:			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources and Financing Uses:	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(159,087)	(33)	2,010
Fund Balance at Beginning of Year	<u>599,526</u>	<u>1,090</u>	<u>9,560</u>
Fund Balance at End of Year	<u>\$ 440,439</u>	<u>\$ 1,057</u>	<u>\$ 11,570</u>

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
GOVERNMENTAL FUNDS (continued)
FOR THE YEAR ENDED JUNE 30, 2018**

	School Based Health Centers - 29130	Other Governmental Funds	Total
	29130	Funds	Total
REVENUES:			
Charges for Services	\$ -	\$ 6,417	\$ 6,417
Local Sources	-	52,096	881,022
State Grants	222,100	56,955	480,891
Federal Flow through Grants	-	-	532,367
Total Revenues	222,100	115,468	1,900,697
EXPENDITURES:			
Current:			
Instruction	225,238	56,992	363,855
Support Services:			
Students	40,013	41,873	1,242,121
General Administration	-	-	233,617
School Administration	-	-	94,902
Central Services	-	-	133,452
Operation of Plant	-	-	16,408
Capital Outlay	-	-	-
TOTAL EXPENDITURES	265,251	98,865	2,084,355
Excess (Deficiency) of Revenues			
Over Expenditures	(43,151)	16,603	(183,658)
Other Financing Sources and Financing Uses:			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources and Financing Uses:	-	-	-
Net Change in Fund Balance	(43,151)	16,603	(183,658)
Fund Balance at Beginning of Year	25,014	5,220	640,410
Fund Balance at End of Year	\$ (18,137)	\$ 21,823	\$ 456,752

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Funds
Amounts reported for governmental activities in the statement of activities are different because:	
Net Change in Fund Balance - Total Governmental Funds	\$ (183,658)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Depreciation Expense	(2,770)
Loss on Disposal of Capital Assets	(368,202)
Governmental funds report NEREC's pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense:	
Pension Expense	(888,309)
Governmental funds report NEREC's OPEB contributions as expenditures. However in the Statement of Activities, the cost of OPEB benefits earned net of employee contributions is reported as OPEB expense:	
OPEB Expense	(49,078)
OPEB Contributions made subsequent to measurement date	21,722
Expenses in the Statement of Activities that do not require current financial resources are not reported as expenditures in the funds:	
Change in Compensated Absences	4,266
Change in Net Position - Total Governmental Activities	\$ (1,466,029)

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
REC OPERATING FUND - 27101
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
– BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance
REVENUES:				
Charges for Services	\$ -	\$ -	\$ -	\$ -
State Grants	333,248	492,818	311,571	(181,247)
Federal Grants	-	-	-	-
Total Revenues	<u>333,248</u>	<u>492,818</u>	<u>311,571</u>	<u>(181,247)</u>
EXPENDITURES:				
Current:				
Instruction	-	-	-	-
Support Services:				
Students	35,000	183,326	158,022	25,304
General Administration	138,128	147,067	147,056	11
School Administration	79,925	60,430	58,845	1,585
Central Services	68,195	89,314	85,873	3,441
Operation of Plant	12,000	12,681	12,679	2
Capital Outlay	-	-	-	-
Total Expenditures	<u>333,248</u>	<u>492,818</u>	<u>462,475</u>	<u>30,343</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(150,904)</u>	<u>(150,904)</u>
Other Financing Sources and Financing Uses:				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources and Financing Uses:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	(150,904)	(150,904)
Fund Balance at Beginning of Year	-	-	(112,194)	(112,194)
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (263,098)</u>	<u>\$ (263,098)</u>
Reconciliation to GAAP Basis:				
Net changes in fund balance (Cash Basis)			\$ (150,904)	
Adjustments to Revenues			(5,847)	
Adjustments to Expenditures			(2,336)	
Net changes in fund balance (GAAP) Basis			<u>\$ (159,087)</u>	

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
THREE RIVERS EDUCATION FUND - 27113
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
– BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance
REVENUES:				
Charges for Services	\$ -	\$ -	\$ -	\$ -
State Grants	828,931	828,931	834,432	5,501
Federal Grants	-	-	-	-
Total Revenues	<u>828,931</u>	<u>828,931</u>	<u>834,432</u>	<u>5,501</u>
EXPENDITURES:				
Current:				
Instruction	-	-	-	-
Support Services:				
Students	828,931	828,931	828,926	5
General Administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operation of Plant	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>828,931</u>	<u>828,931</u>	<u>828,926</u>	<u>5</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>5,506</u>	<u>5,506</u>
Other Financing Sources and Financing Uses:				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources and Financing Uses:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	5,506	5,506
Fund Balance at Beginning of Year	-	-	8,743	8,743
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,249</u>	<u>\$ 14,249</u>
Reconciliation to GAAP Basis:				
Net changes in fund balance (Cash Basis)			\$ 5,506	
Adjustments to Revenues			(5,506)	
Adjustments to Expenditures			<u>(33)</u>	
Net changes in fund balance (GAAP) Basis			<u>\$ (33)</u>	

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
IDEA-B STATE DIRECTED - 27200
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
– BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance
REVENUES:				
Charges for Services	\$ -	\$ -	\$ -	\$ -
State Grants	445,480	445,480	380,712	(64,768)
Federal Grants	-	-	-	-
Total Revenues	<u>445,480</u>	<u>445,480</u>	<u>380,712</u>	<u>(64,768)</u>
EXPENDITURES:				
Current:				
Instruction	92,953	92,418	80,725	11,693
Support Services:				
Students	159,311	171,676	171,600	76
General Administration	103,821	95,039	92,391	2,648
School Administration	36,150	36,149	36,141	8
Central Services	49,245	47,698	47,680	18
Operation of Plant	4,000	2,500	2,500	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>445,480</u>	<u>445,480</u>	<u>431,037</u>	<u>14,443</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(50,325)</u>	<u>(50,325)</u>
Other Financing Sources and Financing Uses:				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources and Financing Uses:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	(50,325)	(50,325)
Fund Balance at Beginning of Year	-	-	239,038	239,038
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,713</u>	<u>\$ 188,713</u>
Reconciliation to GAAP Basis:				
Net changes in fund balance (Cash Basis)			\$ (50,325)	
Adjustments to Revenues			47,766	
Adjustments to Expenditures			4,569	
Net changes in fund balance (GAAP) Basis			<u>\$ 2,010</u>	

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
SCHOOL BASED HEALTH CENTERS - 29130
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
– BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:				
Charges for Services	\$ -	\$ -	\$ -	\$ -
State Grants	217,500	254,100	222,100	(32,000)
Federal Grants	-	-	-	-
Total Revenues	<u>217,500</u>	<u>254,100</u>	<u>222,100</u>	<u>(32,000)</u>
EXPENDITURES:				
Current:				
Instruction	176,667	213,267	203,100	10,167
Support Services:				
Students	40,833	40,833	39,789	1,044
General Administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operation of Plant	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>217,500</u>	<u>254,100</u>	<u>242,889</u>	<u>11,211</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(20,789)</u>	<u>(20,789)</u>
Other Financing Sources and Financing Uses:				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources and Financing Uses:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	(20,789)	(20,789)
Fund Balance at Beginning of Year	-	-	(18,013)	(18,013)
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (38,802)</u>	<u>\$ (38,802)</u>
Reconciliation to GAAP Basis:				
Net changes in fund balance (Cash Basis)			\$ (20,789)	
Adjustments to Revenues			(190)	
Adjustments to Expenditures			(22,172)	
Net changes in fund balance (GAAP) Basis			<u>\$ (43,151)</u>	

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies

Organization

The ten Regional Cooperative Centers established throughout New Mexico in 1984 were originally organized to provide supplementary special education services to local education agencies utilizing federal PL 94-142 funds. The role of the Cooperatives has expanded under the authorization of the regional Coordinating Councils to include a variety of other projects, both federally funded and funded from other sources. Northeast Regional Education Cooperative, through the governing council, has established as its purpose the delivery to local districts and communities those services deemed critical to the ongoing success of regular and special education programs provided by the local agencies. For financial reporting purposes, the Cooperative includes all fund and accounts groups that are controlled by or dependent on the Cooperative for financial support. The Cooperative has no component units. The financial statements of Northeast Regional Education Cooperative #4 (REC) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the REC's accounting policies are described below.

Authority for the operation of the Northeast Regional Education Cooperative #4 (REC) is based upon Chapter 232 of the Laws of 1993, State of New Mexico, and the State Board of Education Regulation 93-23, which authorize the establishment of Regional Educational Cooperatives in the State of New Mexico. The member organizations undertake a Joint Powers Agreement, whereby they will submit a consolidated application to the State Department of Education for certain funds granted to the State of New Mexico pursuant to the Individual with Disabilities Education Act, Part B- (IDEA-B).

The REC's Council will oversee the function and the operation of the Cooperative. The Council will adopt a budget and administrative guidelines as necessary to carry out the purposes of the Cooperative; hire an Executive Director and necessary additional staff; Approve an annual proposal/budget for each project; approve all fiscal arrangements, policies and agreements; approve reports; maintain "education records" in accordance with 34 CFR 300.560-300.576; permit authorized representatives of regulatory agencies to inspect and audit all data and records relating to the Cooperative; annually evaluate cooperative projects and determine which are to be continued; and subject to any applicable requirements of state or federal laws and regulation, including the Procurement Code of the State of New Mexico, take action on any other matters which the Council considers necessary or desirable in furtherance of Cooperative programs, operations or interest.

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (continued)

Financial Reporting Entity

GASB Statement No. 61 established criteria for determining the government reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the REC is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 61, fiscally independent means that the REC may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt. The REC also has no component units, as defined by GASB Statement No. 61, as there are no other legally separate organizations for which the elected REC Council members are financially accountable. There are no other primary governments with which the REC Council Members are financially accountable. There are no other primary governments with which the REC has a significant relationship.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements (GWFS)

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Government-Wide Financial Statements (GWFS) (continued)

Governmental funds are used to account for the REC's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of capital assets, and the servicing of long-term debt. Governmental funds include:

The Operational Fund is the main fund of the REC that accounts for all financial resources, except those required to be accounted for in other funds.

The Special Revenue Funds account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or major capital projects.

Under the requirements of GASB #34, the REC is required to present certain 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), which include funds that were not required to be presented as major but were at the discretion of management:

Governmental Funds

Governmental funds are used to account for the REC's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of capital assets and the servicing of general long-term debt.

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

The REC reports the following major governmental funds:

General Fund

Operating Fund (29101) (27101)

To account for revenues and expenditures from state and local sources for a specified purpose. The fund was created by grant provisions.

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (continued)

Governmental Funds (continued)

Special Revenue Funds

Three Rivers Education Foundation (27113)

To provide payroll services to the foundation of which REC supports for the improvement of reading skills in Cooperatives served by the REC. The fund was created by agreement.

IDEA B State Directed (27200)

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

School Based Health Clinic (29130)

To account for state funds to operate a school based health clinic as required by the Affordable Care Act. The fund was created by the authority of state grant provision.

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

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

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

Program Revenues

Program revenues included in the Statement of Activities derive directly from the program itself or from outside parties, as a whole; program revenues reduce the cost of the function to be financed from the REC's donations. Program revenues are categorized as (a) charges for services, (b) program-specific operating grants, which includes revenues received from state and federal sources such as, State Directed Activities (IDEA B Discretionary) funding to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (continued)

Program Revenues (continued)

The REC reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. 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.

Assets. Deferred Outflows of Resources. Liabilities. Deferred Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

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

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

State statutes authorize the REC to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the REC 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.

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 "internal balances."

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.

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

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.

Elimination and Reclassifications of Certain Receivables and Payables

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

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are to be included as part of the governmental capital assets reported in the government wide statements. However, infrastructure assets have not been included in the June 30, 2018 financial statements of REC, since the REC did not own any infrastructure assets as of June 30, 2018. Information technology equipment, including software, is being capitalized and included in furniture and equipment as the REC did not maintain internally developed software. Donated capital assets are recorded at estimated fair market value at the date of donation. During the year ended June 30, 2018, the REC had not received any donated capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings	50 years
Equipment	3-15 years

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Deferred Outflow of Resources:

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The Cooperative has three types of items that qualify for reporting in this category related to GASB 68 and GASB 75: changes in proportion, net difference between expected and actual experience and employer contributions subsequent to measurement date. These total \$2,086,617 and have been reported as deferred outflows of resources. These amounts are reported in the Statement of Net Position. These amounts are deferred and recognized as outflows of resources the next period.

Deferred Inflows of Resources:

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflow of resources.

In addition, the Cooperative has three types of deferred inflows which arise due to the implementation of GASB 68 and the related net pension liability and GASB 75 and the related postemployment benefits other than pensions (OPEB). Accordingly, these items, net difference between projected and actual investment earnings, change in assumptions, and differences between expected and actual experience, are reported on the Statement of Net Position in the amount of \$660,774 as of June 30, 2018. Net difference between expected and actual investment earnings are amortized into expense over a five-year period. Changes in assumptions are amortized into pension expense over the average remaining service life of the employee participants. Differences between expected and actual experience are amortized into pension expense over the five-year period. Detail is found in the notes and the required supplementary information.

Compensated Absences

All 12-month or full time employees earn vacation and sick leave in amounts varying with tenure and classification. Employees earn 10 days if employed less than 3 years and 15 days if employed more than 3 years. In October 2012 the board passed to set a maximum accumulated amount. The board passed as follows: maximum accumulated annual leave is forty (40) days at 7.5 hrs. per day (300 hours) and employees hired after July 2012 - maximum accumulated annual leave is thirty (30) days (225 hours).

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

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

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

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

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

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Plan (ERP) and additions to/deductions from ERP's fiduciary net position have been determined on the same basis as they are reported by ERP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

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

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Net Position

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

Net Investment in Capital Assets - In the fund financial statements, investment in capital assets is reported net of depreciation and related debt.

Restricted Net Position – This category reflects the portion of net position that have third party limitations on their use.

Unrestricted Net Position – Net position which does not meet the definition of “restricted” and “net investment in capital assets”.

Fund Balances of Fund Financial Statements

The REC has implemented the provisions under GASB 54. The fund balance reporting established by GASB 54 must be followed by all five of the governmental-type funds used by state and local governments. Based on the requirements of GASB 54, the total fund balance can be conceptually separated into two primary components: 1) Nonspendable fund balance and 2) Spendable fund balance. Fund balance is reported in these five classifications:

Non-spendable – the non-spendable balance includes amounts that cannot be spent because they are not in spendable form or legally, contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash; it also includes the long-term amount of interfund loans.

Restricted fund balance – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. The REC’s policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Committed – This fund balance amount has spending limitations that are constrained by the government’s highest level of decision-making authority.

Assigned – The assigned fund balance classification is intended to be used for specific purposes such as special revenue funds, capital project funds, debt service funds and permanent funds.

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NOTES TO FINANCIAL STATEMENTS
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Note 1: Summary of Significant Accounting Policies (continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (continued)

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

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.

Federal Grants

The REC receives revenues from various Federal Departments (both direct and indirect), which are legally restricted to expenditures for specific purposes. These programs are reported as Special Revenue Funds. Each program operated under its own budget, which has been approved by the Federal Department or the flow through agency (usually the New Mexico Public Education Department). The various budgets are approved by the REC Council and the New Mexico Public Education Department.

Estimates

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

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 2: Stewardship, Compliance and Accountability

Basis of Budgeting

Formal budgetary integration is employed as a management control device during the year. Budgets for the General and Special Revenue Funds are adopted on a basis inconsistent with generally accepted accounting principles (GAAP). These budgets are prepared using the cash basis of accounting. Budgetary comparisons for the various funds in this report are on the non-GAAP budgetary basis.

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

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

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 2: Stewardship, Compliance and Accountability (continued)

7. Legal budget control for expenditures is by function.
8. Appropriations lapse at fiscal year-end. Funds unused during the fiscal year may be carried over into the next fiscal year by budgeting those in the subsequent fiscal year's budget. The budget of the REC has been amended during the current fiscal year in accordance with these procedures. The budget schedules included in the accompanying financial statements reflect the approved budget and amendments thereto.

Note 3: Cash and Temporary Investments

The REC is required by New Mexico State Statute (Section 6-10-17) to be 50% collateralized. Following is a schedule calculating the requirement and disclosing the pledged securities:

<u>Name of Account</u>	<u>Balance per Bank at 6/30/2018</u>	<u>Reconciled Balance</u>	<u>Type</u>
NEREC - NOW Public Checking	\$ 333,129	\$ 306,322	Interest Bearing Checking
Total	333,129	<u>306,322</u>	
Less: FDIC Coverage	<u>(250,000)</u>		
Uninsured Balance, June 30, 2018	<u>83,129</u>		
50% collateral requirement	41,565		
Pledged Securities	<u>400,000</u>		
(Over) Under Collateralized	<u>\$ (358,435)</u>		

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

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 REC for a 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.

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**STATE OF NEW MEXICO
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 3: Cash and Temporary Investments (continued)

The following securities are pledged by Financial Institutions:

Description	CUSIP #	Market Value	Quantity	Location
Letter of Credit	NA	\$ 400,000	1	
		<u>\$ 400,000</u>		

Custodial credit risk is the risk that in the event of a bank failure, the governments' deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2018, \$56,975 of the REC's bank balance of \$556,973 was exposed to custodial credit risk.

The following individual funds had negative cash balances as of June 30, 2018:

- 27113 – Three Rivers Educations: \$32,522
- 27200 – IDEA-B State Directed: \$128,423

Note 4: Accounts Receivable – Due from Grantor

Receivables as of June 30, 2018, are as follows:

<u>Governmental Activities:</u>	<u>Accounts Receivable</u>
Funds:	
REC Operating	\$ 51
Three Rivers Education	34,192
IDEA-B State Directed	144,443
Gov. Commission on Disability	<u>2,460</u>
Total Governmental Activities	<u>\$ 181,146</u>

The above receivables are deemed 100% collectible.

Note 5: Due To/From Other Funds

“Due To/From Other Funds” have primarily been recorded when funds overdraw their share of pooled cash when the REC is waiting for grant reimbursements. For the year ended June 30, 2018, the REC did not record any of these balances.

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 6: Capital Assets

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

<u>Governmental Activities</u>	Balance June 30, 2017	Additions	Deletions	Reclassifications	Balance June 30, 2018
Capital Assets being depreciated					
Buildings	\$ 407,935	\$ -	\$ -	\$ (407,935)	\$ -
Equipment	788,240	-	-	(589,325)	198,915
Total Capital Assets being depreciated	1,196,175	-	-	(997,260)	198,915
Less Accumulated Depreciation for:					
Buildings	74,790	-	-	(74,790)	\$ -
Equipment	733,795	2,770	-	(554,268)	182,297
Total Accumulated depreciation	808,585	2,770	-	(629,058)	182,297
Governmental activities capital assets, net	<u>\$ 387,590</u>	<u>\$ (2,770)</u>	<u>\$ -</u>	<u>\$ (368,202)</u>	<u>\$ 16,618</u>

Depreciation expense of \$2,770 was charged to Support Services – Students for the year ended June 30, 2018.

During 2018, the REC reclassified/removed capital assets they originally had on their books. These consisted of improvements made on behalf of other organizations with specified funding for that purpose at the time.

Note 7: Compensated Absences

The following is a summary of the changes in compensated absences for the year ended June 30, 2018:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due Within One Year
Compensated Absences	\$ 38,944	\$ 16,482	\$ 20,748	\$ 34,678	\$ 34,678
Total	<u>\$ 38,944</u>	<u>\$ 16,482</u>	<u>\$ 20,748</u>	<u>\$ 34,678</u>	<u>\$ 34,678</u>

The compensated absences are shown on the statement of net position. The liability is expected to be retired within the year. Typically the general fund retires the compensated absences.

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 8: Pension Plan

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

The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. 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 the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

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

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

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

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**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
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Note 8: Pension Plan (continued)

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

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

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

- The member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.
- The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits.
- The member's age is 67, and has earned 5 or more years of service credit.

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

Benefit Options – The Plan has three benefit options available.

- Option A – Straight Life Benefit – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.

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Note 8: Pension Plan (continued)

- 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 FAS multiplied by the number of years of total service credits. However, the disability benefit shall not be less than the smaller of (a) one-third of the member's FAS or (b) 2% of the member's FAS multiplied by total years of service credit projected to age 60.

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

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

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

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Note 8: Pension Plan (continued)

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

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

Contributions – For the fiscal year ended June 30, 2018 and 2017 educational employers contributed to the Plan based on the following rate schedule:

<u>Fiscal Year</u>	<u>Date Range</u>	<u>Wage Category</u>	<u>Member Rate</u>	<u>Employer Rate</u>	<u>Combined Rate</u>	<u>Increase Over Prior Year</u>
2018	7/1/17 to 6/30/18	Over \$20K	10.70%	13.90%	24.60%	0.00%
2018	7/1/17 to 6/30/18	\$20K or less	7.90%	13.90%	21.80%	0.00%
2017	7/1/16 to 6/30/17	Over \$20K	10.70%	13.90%	24.60%	0.00%
2017	7/1/16 to 6/30/17	\$20K or less	7.90%	13.90%	21.80%	0.00%

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2018, the REC paid employer contributions of \$150,968, which equal the amount of the required contributions for each fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the REC reported a liability of \$4,564,301 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. The REC’s proportion of the net pension liability was based on a projection of the REC’s long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2017, the REC’s proportion was .041070 %, which was a decrease of 0.00639% from its proportion measured as of June 30, 2016.

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NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
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Note 8: Pension Plan (continued)

For the year ended June 30, 2018, the REC recognized pension expense of \$888,309. At June 30, 2018, the REC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,193	\$ 70,317
Net difference between projected and actual investment earnings on pension plan investments	-	626
Changes of assumptions	1,332,409	-
Changes in proportion and differences between REC's contributions and proportionate share of contributions	573,322	308,878
REC's contributions subsequent to the measurement date	150,968	-
Total	\$ 2,064,892	\$ 379,821

\$150,968 reported as deferred outflows of resources related to pensions resulting from REC's Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
2019	\$ 785,457
2020	552,002
2021	234,228
2022	(37,584)
2023	-
Total	\$ 1,534,103

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Note 8: Pension Plan (continued)

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

Actuarial Cost Method	Entry Age
Inflation	3.00%
Salary Increases	Composition: 3.00% inflation plus .75% productivity increase rate, plus step-rate promotional increases for members with less than ten years of service
Investment Rate of Return	7.25%
Single Discount Rate	5.90%
Retirement Age	Experience table of rates based on age and service. Adopted by NMERB on June 12, 2015 in conjunction with the six-year experience study for the period ended June 30, 2014.
Mortality	Healthy males: RP-2000 Combined Mortality Table with white collar adjustments, generational mortality improvements with Scale BB. Healthy females: 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.

The liabilities reflect the impact of Senate Bill 115, signed into law on March 29, 2013, and new assumptions adopted by the Board of Trustees on June 12, 2015 in conjunction with the six-year experience study period ended June 30, 2014. Specifically, the liabilities measured as of June 30, 2016 incorporate the following assumptions:

- All members with annual salary of more than \$20,000 will contribute 10.70% during the fiscal year ending June 30, 2015 and thereafter,
- Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67,
- COLAs for most retirees are reduced until NMERB attains a 100% funded status, and
- For purposes of projecting benefits, it is assumed that the full COLA is paid in all future years.

Basis for Allocation – The employers' proportionate share, reported in the Schedule of Employer Allocations, is calculated using employer contributions for employers that were members of NMERB, as of June 30, 2017.

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Note 8: Pension Plan (continued)

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.

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

Sensitivity of the Net Pension Liability – The following table shows the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2017. In particular, the table presents the REC’s net pension liability if it were calculated using a discount rate one percentage point lower (4.90%) or one percentage point higher (6.90%) than the single discount rate.

	1% Decrease (4.90%)	Current Discount Rate (5.90%)	1% Increase (6.90%)
REC's proportionate share of the net pension liability	\$ 5,941,585	\$ 4,564,301	\$ 3,438,484

Asset Allocation Policy – NMERB has adopted a strategic Asset Allocation Plan, containing weights, ranges, and benchmarks for each asset class. Over time this strategy is expected to achieve NMERB’s assumed overall rate of return on Plan assets of 7.25 percent. Achieving the target weights is a long-term goal. In the short term, a particular asset position may represent an intermediate point in the process of attaining its target weight.

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Note 8: Pension Plan (continued)

NMERB's investment allocation policy was reviewed and amended by the Board of Trustees on August 26, 2016. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following schedule shows the asset allocation policy adopted on August 26, 2016 as well as the prior allocation policy targets.

Schedule of Target Investment Allocations		
Asset Class	After 8/26/2016	Prior to 8/26/2016
Equities		
Domestic Equities:		
Large Cap Equities	16%	18%
Small/Mid Cap Equities	3%	2%
Total Domestic Equities	19%	20%
International Equities:		
Developed	5%	5%
Emerging Markets	9%	10%
Total International Equities	14%	15%
Fixed Income		
Opportunistic Credit	18%	20%
Core Bonds	6%	6%
Emerging Market Debt	2%	2%
Total Fixed Income	26%	28%
Alternatives		
Real Estate/ REITS	7%	7%
Real Assets	8%	8%
Private Equity	13%	11%
Global Asset Allocation	4%	5%
Risk Parity	3%	5%
Other	5%	0%
Total Alternatives	40%	36%
Cash	1%	1%
Total	100%	100%

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Note 8: Pension Plan (continued)

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

Payables to the pension plan. At June 30, 2018, the REC had no outstanding amount of contributions to the pension plan and therefore, had no payables reported at fiscal year 2018.

Note 9: Retiree Health Care Act Contributions

Plan description: Northeast Regional Education Cooperative #4 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 healthcare 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 Retiree Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which event the time period required for the employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; or (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.

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Note 9: Retiree Health Care Act Contributions (continued)

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 RCHA 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 RCHA 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 requirement for the contributions can be changed by the New Mexico State Legislature. Employers that chose 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 plan 3, 4 or 5; municipal fire member coverage plan 3, 4, or 5; municipal detention office member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, 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, 2014, the statute required each participating employer to contribute 2.0% 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 years ended June 30, 2016, June 30, 2017 and June 30, 2018, the statute required each participating employer to contribute 2.0% of each 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 distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The REC's contributions to the RHCA for the years ended June 30, 2018, 2017 and 2016 were \$21,722, \$23,388 and \$27,110 respectively, which equal the required contributions for each year.

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Note 10: Reconciliation of Budgetary Basis to GAAP Basis Statements

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

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

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

Note 11: Risk Management

The REC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; error and omissions; and injuries to employees; and natural disasters. The REC is insured through Risk Management. Annual premiums are paid by the REC for coverage provided in the following areas:

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

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

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Note 12: Joint Powers Agreements and Other Agreements

Mora, Las Vegas City, Pecos, Santa Rosa, West Las Vegas and Wagon Mound Public Schools (Member Cooperatives) and Regional Education Cooperative #4

On December 20, 2007 the Cooperative entered into an Agreement with the Member Cooperatives whereby the Member Cooperative may provide for the efficient delivery of education-related services provided from funding under Part B of the Individuals with Disabilities Education Act, 20 U.S.C. et seq. ("IDEA") and funded by the New Mexico Public Education Department ("NMPED"). The Cooperative will serve as a fiscal agent, accounting and reporting services on behalf of the Member Cooperatives named herein receiving funding under a grant or other award provided from funding under Part B of the IDEA and/or any other funding source. A Member Cooperative must notify REC of any intention to withdraw its agreement to have REC serve as its fiscal agent on or before February 1st preceding the end of the last fiscal year it intends to have REC serve as the fiscal agent.

Note 13: Economic Dependency

The primary source of funding for the REC (reported in fund 27200) consists of Intergovernmental Agreements for services between the New Mexico Public Education Department and the REC to provide services for various contracts that include both federal and state funding.

Note 14: Contingent Liabilities

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

The REC, by its nature, may be subjected to claims and lawsuits arising in the normal course of business. Currently, there are no such pending claims or lawsuits to which the REC is a party.

Note 15: Deficit Fund Balance

There was a fund balance deficit of \$18,137 in Fund 29130, School-based Health Centers.

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Note 16: Postemployment Benefits Other Than Pensions

General Information

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

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

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

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

Plan membership	
Current retirees and surviving spouses	\$ 51,208
Inactive and eligible for deferred benefits	11,478
Current Active Members	<u>97,349</u>
	<u>\$ 160,035</u>
Active membership	
State general	\$ 19,593
State police and corrections	1,886
Municipal General	21,004
Municipal Police	3,820
Municipal FTRE	2,290
Educational Retirement Board	<u>48,756</u>
	<u>\$ 97,349</u>

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Note 16: Postemployment Benefits Other Than Pensions (continued)

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the Cooperative were \$21,722 for the year ended June 30, 2018.

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

At June 30, 2018, the Cooperative reported a liability of \$1,234,428 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Cooperative’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the Cooperative’s proportion was 0.02724 percent.

For the year ended June 30, 2018, the Cooperative recognized OPEB expense of \$49,078. At June 30, 2018 the Cooperative reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 47,371
Changes of Assumptions	-	215,824
Difference between actual and projected earnings on OPEB plan investments	-	17,758
Contributions made after the measurement date	<u>21,722</u>	<u>-</u>
Total	<u>\$ 21,722</u>	<u>\$ 280,953</u>

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Note 16: Postemployment Benefits Other Than Pensions (continued)

Deferred outflows of resources totaling \$21,722 represent the Cooperative's contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30,		
2019	\$	(59,733)
2020		(59,733)
2021		(59,733)
2022		(59,733)
2023		<u>(42,021)</u>
Total	\$	<u>(280,953)</u>

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

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.5% for ERB
Projected payroll increases	3.5%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 year for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 years for Medicare medical plan costs
Mortality	ERB members: RP-2000 Combined Healthy Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females)

See Independent Auditors' Report

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 16: Postemployment Benefits Other Than Pensions (continued)

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

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

Asset Class	Target Allocation	Long-term Rate of Return
U.S core fixed income	20%	4.1%
U.S equity - large cap	20%	9.1%
Non U.S. - emerging markets	15%	12.2%
Non U.S - developed equities	12%	9.8%
Private equity	10%	13.8%
Credit and structured finance	10%	7.3%
Real estate	5%	6.9%
Absolute return	5%	6.1%
U.S equity - small / mid cap	3%	9.1%

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

See Independent Auditors' Report

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 16: Postemployment Benefits Other Than Pensions (continued)

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

1% Decrease (2.81%)	Current Discount (3.81%)	1% Increase (4.81%)
\$ 1,497,342	\$ 1,234,428	\$ 1,028,148

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

1% Decrease	Current Trend Rates	1% Increase
\$ 1,049,966	\$ 1,234,428	\$ 1,378,262

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

Payable Changes in the Net OPEB Liability. At June 30, 2018, the Cooperative reported a payable of \$0 for outstanding contributions due to NMRHCA for the year ended June 30, 2018.

Note 17: Restatement

A restatement of \$1,466,029 is reported on the Statement of Activities due to the implementation of GASB 75, Postemployment Events other Than Pensions, as described in Note 16.

See Independent Auditors' Report

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 18: Subsequent Events

Subsequent events were evaluated through September 4, 2018 which is the date the financial statements were available to be issued. Management has determined that no events have occurred during this period that require adjustment to or disclosure in the financial statements.

See Independent Auditors' Report

REQUIRED SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE NORTHEAST REGIONAL EDUCATION COOPERATIVE'S
PROPORTIONATE SHARE OF NET PENSION LIABILITY
EDUCATIONAL RETIREMENT BOARD
LAST 10 FISCAL YEARS***

	<u>2018</u>	<u>2017</u>
The REC's proportion of the net pension liability	0.041070%	0.04746%
The REC's proportion of the net pension liability	\$ 4,564,301	\$3,415,427
The REC's covered employee payroll	\$ 1,086,100	\$1,169,459
The REC's proportionate share of the net pension liability as a percentage of its covered employee payroll	<u>420.25%</u>	<u>292.05%</u>
Plan fiduciary net position as a percentage of the total pension liability	52.95%	61.58%
	<u>2016</u>	<u>2015</u>
The REC's proportion of the net pension liability	0.03568%	0.02088%
The REC's proportion of the net pension liability	\$ 2,311,089	\$1,191,350
The REC's covered employee payroll	\$ 974,178	\$ 575,420
The REC's proportionate share of the net pension liability as a percentage of its covered employee payroll	<u>237.23%</u>	<u>207.04%</u>
Plan fiduciary net position as a percentage of the total pension liability	63.97%	66.54%

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

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE NORTHEAST REGIONAL EDUCATION COOPERATIVE'S
CONTRIBUTIONS
EDUCATIONAL RETIREMENT BOARD
LAST 10 FISCAL YEARS***

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 150,968	\$ 162,555
Contributions in relation to the contractually required contribution	<u>150,968</u>	<u>162,558</u>
Contributions deficiency (excess)	\$ -	\$ (3)
The REC's covered employee payroll	\$ 1,086,100	\$ 1,169,459
Contributions as a percentage of covered employee payroll	13.90%	13.90%
	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 160,899	\$ 140,981
Contributions in relation to the contractually required contribution	<u>140,981</u>	<u>140,981</u>
Contributions deficiency (excess)	\$ 19,918	\$ -
The REC's covered employee payroll	\$ 974,178	\$ 575,420
Contributions as a percentage of covered employee payroll	16.69%	24.50%

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

**STATE OF NEW MEXICO
 NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
 REQUIRED SUPPLEMENTARY INFORMATION
 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
 FOR THE YEAR ENDED JUNE 30, 2018**

SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE NET LIABILITY

	<u>2018*</u>
Employer's proportion of the net OPEB liability	0.02724%
Employer's proportionate share of the net OPEB liability	\$ 1,234,428
Employer covered employee payroll	\$ 1,134,722
Employer's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	108.79%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

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

**STATE OF NEW MEXICO
 NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
 REQUIRED SUPPLEMENTARY INFORMATION
 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
 FOR THE YEAR ENDED JUNE 30, 2018**

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS

	2018*
Contractually required contribution	\$ 86,500
Less: Contributions in relation to the contractually required contributions	<u>43,413</u>
	<u><u>\$ 43,087</u></u>
Employer's covered employee payroll	\$ 1,134,722
Contributions as a percentage of covered employee payroll	3.83%

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

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
FOR THE YEAR ENDED JUNE 30, 2018**

Changes of benefits terms and assumptions: The Cost of living adjustment (COLA) and retirement eligibility benefits changes in recent years are described in the Benefits Provided subsection of the financial statement note disclosure, Pension Plan.

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUND DESCRIPTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

Special Revenue Funds:

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

ENTITLEMENT IDEA-B (27102) and (27103)

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

GOVERNOR COMMISSION OF DISABILITY (27110)

The New Mexico Governor's Commission on Disability is committed to improving the quality of life of all New Mexicans with disabilities by addressing social integration, economic self-sufficiency, political resolve, physical and program accessibility, and full participation in the benefits of life and rights of all individuals. The fund was created by the authority of state grant provisions.

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	IDEA-B Entitlement Santa Rosa - 27102	IDEA-B Santa Rosa Preschool - 27103	Governor Commission on Disability - 27110	Total
ASSETS				
Cash and Temporary Investments	\$ -	\$ -	\$ 19,363	\$ 19,363
Receivables:				
Accounts Receivable, Net	-	-	2,460	2,460
Due From Other Funds	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,823</u>	<u>\$ 21,823</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Cash Overdraft	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-
Due To Other Funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted for:				
Special Revenue	-	-	21,823	21,823
Unassigned	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>21,823</u>	<u>21,823</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,823</u>	<u>\$ 21,823</u>

See Independent Auditors' Report

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	IDEA-B Entitlement Santa Rosa - 27102	IDEA-B Santa Rosa Preschool - 27103	Governor Commission on Disability - 27110	Total
REVENUES:				
Charges for Services	\$ -	\$ 6,417	\$ -	\$ 6,417
Local Sources	52,096	-	-	52,096
State Grants	-	-	56,955	56,955
Federal Flow through Grants	-	-	-	-
Total Revenues	<u>52,096</u>	<u>6,417</u>	<u>56,955</u>	<u>115,468</u>
EXPENDITURES:				
Current:				
Instruction	50,575	6,417	-	56,992
Support Services:				
Students	1,090	-	40,783	41,873
General Administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operation of Plant	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>51,665</u>	<u>6,417</u>	<u>40,783</u>	<u>98,865</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>431</u>	<u>-</u>	<u>16,172</u>	<u>16,603</u>
Other Financing Sources and Financing Uses:				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources and Financing Uses:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	431	-	16,172	16,603
Fund Balance at Beginning of Year	(431)	-	5,651	5,220
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,823</u>	<u>\$ 21,823</u>

See Independent Auditors' Report

SUPPLEMENTARY SCHEDULES

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
SCHEDULE OF CASH RECONCILIATIONS
JUNE 30, 2018**

Description	Program	Beginning Cash Balance	Revenue	Ending Cash Balance	
Local Grants Fund	26000	\$ (38,029)	\$ 834,433	\$ (828,926)	\$ (32,522)
State Flow Through	27000	521,830	805,292	(992,377)	334,745
Local Grants	29000	25,079	222,100	(243,080)	4,099
Total		<u>\$ 508,880</u>	<u>\$ 1,861,825</u>	<u>\$ (2,064,383)</u>	<u>\$ 306,322</u>

See Independent Auditors' Report



Independent Auditors' 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

Honorable Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico
and

The Board of Education Northeast Regional Education Cooperative
Las Vegas, 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 the major special revenue funds, of the Northeast Regional Education Cooperative (Cooperative) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and the combining and individual funds and related budgetary comparisons of the Cooperative presented as supplementary information, and have issued our report thereon dated September 4, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be deficiencies: 2018-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative'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 questioned costs as items 2018-001 and 2018-003.

The Cooperative's Response to Findings

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

Purpose of this Report

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

Kubiak Melton & Associates, LLC

Kubiak Melton & Associates, LLC
Auditors – Business Consultants – CPAs

Albuquerque, New Mexico
September 4, 2018

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

Section I – Financial Statement Findings

2018-001 – Per Diem and Mileage Act – Noncompliance - Other

Condition: During our test work of NEREC’s compliance with the per diem and mileage act, we noted that one (1) out of ten (10) instances in which an employee of NEREC was paid the incorrect mileage rate. This mileage reimbursement rate of \$0.40 exceeded the statutory rate of \$0.32 during that period. The overpayment totaled \$230.16.

Criteria: The Per Diem and Mileage Act, NMAC 2.42.2.11 (C) states that public officers and employees of local public bodies may be reimbursed for mileage accrued in the use of a private conveyance in the discharge of official duties, at the statutory rates unless such rates have been reduced by the governing bodies of the local public body pursuant to Section 10-8-5 (D) NMSA 1978.

Effect: NEREC overpaid a mileage reimbursement.

Cause: When an employee submitted a summary list of mileage traveled during a period, NEREC did not recalculate the total mileage, and reimbursed the amount calculated by the employee.

Auditors’ Recommendations: We recommend that NEREC recalculates the requested reimbursement amount prior to approval and payment.

Management’s Response: The business manager and bookkeeper will recalculate, verify and sign off on all mileage reimbursements.

Responsible Parties: The business manager and the bookkeeper.

Timeline: Policy will be implemented immediately.

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

2018-002 – Internal Controls over Processing Journal Entries – Deficiency

Condition: During our testwork of journal entries, we noted that four (4) out of eight (8) journal entries tested:

- did not have supporting documentation attached
- did not show indication of journal entry approval

Criteria: Journal entries should be supported by adequate supporting documentation and all journal entries should be approved by a person different than the one who prepared the journal entry, both as required by Generally Accepted Accounting Principles.

Effect: Internal controls could be circumvented to input improperly prepared journal entries.

Cause: NEREC was lacking supporting documentation and proper approval.

Auditors' Recommendation: It is our recommendation that NEREC ensure that all journal entries have supporting documentation attached prior to approval. NEREC should not input a journal entry without physical review approval.

Management's Response: All journal entries with supporting documentation will require email approval from the Director before being processed. After input, the Director will sign the journal entries next to the approval stamp.

Responsible Party: Business manager and Director.

Timeline: Immediate implementation.

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

2018-003 – Capital Asset Inventory – Noncompliance

Condition: NEREC did not conduct an annual capital asset inventory.

Criteria: In accordance 12-6-10(A) NMSA 1978, NEREC must conduct a capital asset inventory to provide accountability for the safeguard of movable chattels and equipment at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory. This certification should be provided to NEREC's Auditors.

Effect: Lack of conducting a capital asset inventory can result in assets that are not properly safeguarded. Asset identification and location are essential in the prevention of theft and loss of assets due to fraudulent activity.

Cause: Annual inventory process is not being conducted by NEREC.

Auditors' Recommendation: We recommend that NEREC conduct a capital asset inventory at the end of each fiscal year.

Management's Response: NEREC will conduct an annual capital asset inventory at the end of each fiscal year.

Responsible Party: Business manager, bookkeeper and Director.

Timeline: Immediate implementation.

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

Section II – Status of Prior Year Audit Findings

There were no findings in the prior year.

**STATE OF NEW MEXICO
NORTHEAST REGIONAL EDUCATION COOPERATIVE #4
EXIT CONFERENCE
JUNE 30, 2018**

The contents of this report were discussed at an exit conference held August 31, 2018.

The Cooperative was represented by:

Christopher Gutierrez, Vice Chairman
Dr. James A. Abreu, Director
Mary Sanchez, Business Manager
Leandra Vigil, Administrative Assistant

The firm of Kubiak Melton & Associates, LLC was represented by:

Lee Baldwin, CPA, CFE, CGFM – Audit Manager

Preparation of Financial Statements

The financial statements in this report were prepared substantially by the Independent Audit firm of Kubiak Melton & Associates, LLC, with the assistance of the Cooperative's management.