

# **Regional Education Cooperative VII**

## **AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION**

**JUNE 30, 2018**

*Woodard, Cowen & Co.*

Certified Public Accountants

STATE OF NEW MEXICO  
 REGIONAL EDUCATION COOPERATIVE VII

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 REGIONAL EDUCATION COOPERATIVE VII

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STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

OFFICIAL ROSTER

JUNE 30, 2018

BOARD MEMBERS

Dwain Haynes	President
Brian Snider	Vice President
Buddy Little	Secretary
TJ Parks	Member

ADMINISTRATORS

Cliff Burch	Executive Director
Karen Soria	Director of Finance

# Woodard, Cowen & Co.

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Brian S. Colon  
New Mexico State Auditor  
Board Members of Regional Education Cooperative VII  
Hobbs, New Mexico

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of Regional Education Cooperative VII (REC) as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Regional Education Cooperative VII's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of Regional Education Cooperative VII's non-major governmental funds, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2018 as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility 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 of 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.

Portales: 305 S. Avenue B or PO Box 445, Portales NM 88130 -- Phone 575-356-8564 Fax 575-356-2453  
Clovis: 116 E. Grand Avenue or PO Box 1874, Clovis NM 88101 -- Phone 575-762-3811 Fax 575-762-3866

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 Regional Education Cooperative VII, as of June 30, 2018, and the respective changes in financial position, thereof and the respective budgetary comparison statements for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of Regional Education Cooperative VII, 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*

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

Accounting principles generally accepted in the United States of America require that the *Schedule of Proportionate Share of the Net Pension Liability* on page 47, the *Schedule of Contributions to ERB* on page 46, with the notes to the required supplementary information on page 48, the *Schedule of Proportionate Share of the Net OPEB Liability* on page 49, and the *Schedule of Contributions to New Mexico Retiree Health Care* on page 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this required supplementary information in accordance with the 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 Regional Education Cooperative VII's financial statements, the combining and individual fund financial statements and budgetary comparisons. The Schedule of Expenditures of federal awards as required by the Title 2 U.S. Code of Federal Regulations (CFR) 20, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards*, the introductory section and the other schedules required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of federal awards, the schedule of changes in assets and liabilities – agency funds and the additional schedules listed as “other supplemental information” in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of federal awards, the schedule of changes in assets and liabilities – agency funds and the additional schedules listed as “other supplemental information” in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2019 on our consideration of Regional Education Cooperative VII's internal control over financial reporting and 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 Regional Education Cooperative VII's internal control over financial reporting and compliance.

*Woodard, Cowen & Co*

Clovis, New Mexico  
January 15, 2019

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT A

STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 769,675
Due from other governments	790,720
Total current assets	<u>1,560,395</u>
Non-current assets:	
Capital assets, net	<u>27,187</u>
Total non-current assets	<u>27,187</u>
Total assets	<u>1,587,582</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows related to pensions	127,922
Deferred outflows related to OPEB	4,837
Total deferred outflows	<u>132,759</u>
<u>LIABILITIES</u>	
Current liabilities:	
Compensated Absences	<u>6,521</u>
Total current liabilities	<u>6,521</u>
Non-current liabilities:	
Net pension liability	230,049
Net OPEB liability	76,585
Total non-current liabilities	<u>306,634</u>
Total liabilities	<u>313,155</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows related to pensions	291,000
Deferred inflows related to OPEB	17,431
Total deferred inflows	<u>308,431</u>
<u>NET POSITION</u>	
Net investment in capital assets	27,187
Restricted:	
Special Revenue	1,234,112
Unrestricted	<u>(162,544)</u>
Total net position	<u>\$ 1,098,755</u>

The accompanying notes are an integral part of these financial statements



STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT B

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue & Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary government:					
Governmental activities:					
Instruction	\$ 1,412,261	\$ 311,896	\$ 1,099,336	\$ -	\$ (1,029)
Support Services	-	-	-	-	-
Support Services Students	2,563,527	1,661,298	717,529	-	(184,700)
Support Services Instruction	-	-	-	-	-
Support Services General Administration	308,399	134,535	86,255	-	(87,609)
Support Services School Administration	6,051	2,498	1,215	-	(2,338)
Central Services	83,847	-	-	-	(83,847)
Operation and Maintenance of Plant	19,317	6,676	-	-	(12,641)
Unallocated	-	400,245	-	-	400,245
<b>Total governmental activities</b>	<b>\$ 4,393,402</b>	<b>\$ 2,517,148</b>	<b>\$ 1,904,335</b>	<b>\$ -</b>	<b>28,081</b>
General revenues:					
Grant & contributions not restricted					
Miscellaneous income					
Total general revenues					
Change in net position					
Net position - beginning					
Restatements					
Net position - beginning as restated					
Net position - ending					

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

BALANCE SHEET-- GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>OPERATIONAL</u>	<u>IDEA-B ENTITLEMENT</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ -
Accounts Receivable		
Federal	-	247,137
State	-	-
Due from Other Funds	326,283	
<b>TOTAL ASSETS</b>	<u>\$ 326,283</u>	<u>\$ 247,137</u>
<b>LIABILITIES AND OTHER CREDITS</b>		
Accounts Payable	\$ -	\$ -
Due to Other Funds	-	247,137
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>247,137</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue	-	-
<b>TOTAL DEFERRED INFLOWS</b>	<u>-</u>	<u>-</u>
<b>FUND BALANCE</b>		
Nonspendable	-	-
Restricted	-	-
Committed	-	-
Assigned	-	-
Unassigned	326,283	-
<b>TOTAL FUND BALANCE</b>	<u>326,283</u>	<u>-</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	<u>\$ 326,283</u>	<u>\$ 247,137</u>

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

EXHIBIT C

MEDICAID TITLE XIX	PRE K INITIATIVE	STATE DIRECTED ACTIVITIES	NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 769,675	\$ -	\$ -	\$ -	\$ 769,675
-	-	-	57,726	304,863
-	309,799	134,047	42,011	485,857
464,437	-	-	-	790,720
<u>\$ 1,234,112</u>	<u>\$ 309,799</u>	<u>\$ 134,047</u>	<u>\$ 99,737</u>	<u>\$ 2,351,115</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	309,799	134,047	99,737	790,720
<u>-</u>	<u>309,799</u>	<u>134,047</u>	<u>99,737</u>	<u>790,720</u>
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
1,234,112	-	-	-	1,234,112
-	-	-	-	-
-	-	-	-	-
-	-	-	-	326,283
<u>1,234,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,560,395</u>
<u>\$ 1,234,112</u>	<u>\$ 309,799</u>	<u>\$ 134,047</u>	<u>\$ 99,737</u>	<u>\$ 2,351,115</u>

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT D

RECONCILIATION OF THE BALANCE SHEET  
ALL GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION

JUNE 30, 2018

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

Fund Balances - total governmental funds	\$ 1,560,395
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	27,187
Deferred outflows related to pensions not reported in the funds	127,922
Deferred outflows related to OPEB not reported in the funds	4,837
Net pension liability not reported in the funds	(230,049)
Net OPEB liability not reported in the funds	(76,585)
Deferred inflows related to pensions not reported in the funds	(291,000)
Deferred inflows related to OPEB not reported in the funds	(17,431)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	
Compensated Absences	<u>(6,521)</u>
Net position of governmental activities	<u>\$ 1,098,755</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE-- GOVERNMENTAL FUNDS

Year Ended June 30, 2018

	OPERATIONAL	IDEA-B ENTITLEMENT
REVENUE		
Federal Programs	\$ -	\$ 1,147,786
State Programs	400,245	-
Local Programs	-	-
State Equalization	-	-
Service Revenues	-	-
Other revenue sources	-	-
TOTAL REVENUES	<u>400,245</u>	<u>1,147,786</u>
EXPENDITURES		
Current		
Instruction	-	455,388
Support Services	-	-
Support Services Students	148,683	614,088
Support Services Instruction	-	-
Support Services General Administration	163,369	78,195
Support Services School Administration	2,338	115
Central Services	83,847	-
Operation and Maintenance of Plant	12,641	-
TOTAL EXPENDITURES	<u>410,878</u>	<u>1,147,786</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(10,633)	-
Other Financing Sources (Uses)		
Transfers In/ Transfers (Out)	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(10,633)	-
FUND BALANCE		
June 30, 2017	<u>336,916</u>	<u>-</u>
FUND BALANCE		
June 30, 2018	<u>\$ 326,283</u>	<u>\$ -</u>

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

EXHIBIT E

MEDICAID TITLE XIX	PRE K INITIATIVE	STATE DIRECTED ACTIVITIES	NON MAJOR GOVERNMENTAL FUNDS	Total GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ 74,587	\$ 1,222,373
-	681,962	194,040	261,565	1,537,812
-	-	-	-	-
-	-	-	-	-
1,661,298	-	-	-	1,661,298
-	-	-	-	-
<u>1,661,298</u>	<u>681,962</u>	<u>194,040</u>	<u>336,152</u>	<u>4,421,483</u>
-	573,454	164,101	218,289	1,411,232
-	-	-	-	-
1,697,315	100,856	-	2,585	2,563,527
-	-	-	-	-
-	7,652	27,441	107,502	384,159
-	-	2,498	1,100	6,051
-	-	-	-	83,847
-	-	-	6,676	19,317
<u>1,697,315</u>	<u>681,962</u>	<u>194,040</u>	<u>336,152</u>	<u>4,468,133</u>
(36,017)	-	-	-	(46,650)
-	-	-	-	-
-	-	-	-	-
(36,017)	-	-	-	(46,650)
<u>1,270,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,607,045</u>
<u>\$ 1,234,112</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,560,395</u>

RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 ALL GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

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

Net change in fund balance - total governmental funds	\$ (46,650)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year</p>	
Capital Outlay	-
Depreciation	(6,438)
Compensated Absences	(1,029)
Pension related expense	80,409
OPEB related expense	1,789
Change in Net Position	<u>\$ 28,081</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT G

STATEMENT OF REVENUE & EXPENDITURES--BUDGET (NON-GAAP)  
AND ACTUAL--GENERAL FUND--OPERATIONAL

Year Ended June 30, 2018

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
<b>REVENUE</b>				
State Programs	\$ 103,888	\$ 434,279	\$ 400,245	\$ (34,034)
TOTAL REVENUE	<u>103,888</u>	<u>434,279</u>	<u>\$ 400,245</u>	<u>\$ (34,034)</u>
BUDGETED CASH BALANCE	-	-		
TOTAL REVENUE & CASH	<u>\$ 103,888</u>	<u>\$ 434,279</u>		
<b>EXPENDITURES</b>				
<b>Current</b>				
Instruction	\$ -	\$ 63,958	\$ -	\$ 63,958
Support Services	-	-	-	-
Support Services Students	-	-	148,683	(148,683)
Support Services Instruction	-	-	-	-
Support Services General Administration	103,888	275,298	163,369	111,929
Support Services School Administration	-	2,400	2,338	62
Central Services	-	78,433	83,847	(5,414)
Operation and Maintenance of Plant	-	14,190	12,641	1,549
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 103,888</u>	<u>\$ 434,279</u>	<u>\$ 410,878</u>	<u>\$ 23,401</u>

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



STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT H

STATEMENT OF REVENUE & EXPENDITURES--BUDGET (NON-GAAP)  
AND ACTUAL--SPECIAL REVENUE FUND--IDEA-B ENTITLEMENT

Year Ended June 30, 2018

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
<b>REVENUE</b>				
Federal Programs	\$ -	\$ -	\$ 1,034,596	\$ 1,034,596
State Programs	-	-	-	-
Local Programs	-	-	-	-
<b>TOTAL REVENUE</b>	<b>-</b>	<b>-</b>	<b>\$ 1,034,596</b>	<b>\$ 1,034,596</b>
<b>BUDGETED CASH BALANCE</b>	<b>-</b>	<b>-</b>		
<b>TOTAL REVENUE &amp; CASH</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>EXPENDITURES</b>				
<b>Current</b>				
Instruction	\$ -	\$ -	\$ 455,388	\$ (455,388)
Support Services	-	-	-	-
Support Services Students	-	-	614,088	(614,088)
Support Services Instruction	-	-	-	-
Support Services General Administration	-	-	78,195	(78,195)
Support Services School Administration	-	-	115	(115)
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,147,786</b>	<b>\$ (1,147,786)</b>

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT I

STATEMENT OF REVENUE AND EXPENDITURES--BUDGET (NON-GAAP)  
AND ACTUAL--SPECIAL REVENUE FUND--MEDICAID TITLE XIX

Year Ended June 30, 2018

	Original Budget	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUE</b>				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	-	-
Local Programs	-	368,200	1,661,298	1,293,098
<b>TOTAL REVENUE</b>	<u>-</u>	<u>368,200</u>	<u>\$ 1,661,298</u>	<u>\$ 1,293,098</u>
BUDGETED CASH BALANCE	<u>1,577,991</u>	<u>1,577,991</u>		
<b>TOTAL REVENUE &amp; CASH</b>	<u>\$ 1,577,991</u>	<u>\$ 1,946,191</u>		
<b>EXPENDITURES</b>				
<b>Current</b>				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	-
Support Services Students	1,577,991	1,946,191	1,697,315	248,876
Support Services Instruction	-	-	-	-
Support Services General Administration	-	-	-	-
Support Services School Administration	-	-	-	-
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,577,991</u>	<u>\$ 1,946,191</u>	<u>\$ 1,697,315</u>	<u>\$ 248,876</u>

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT J

STATEMENT OF REVENUE & EXPENDITURES--BUDGET (NON-GAAP)  
AND ACTUAL--SPECIAL REVENUE FUND--PRE K INITIATIVE

Year Ended June 30, 2018

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
<b>REVENUE</b>				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	765,171	775,171	599,266	(175,905)
Local Programs	-	-	-	-
<b>TOTAL REVENUE</b>	<u>765,171</u>	<u>775,171</u>	<u>\$ 599,266</u>	<u>\$ (175,905)</u>
<b>BUDGETED CASH BALANCE</b>	<u>-</u>	<u>-</u>		
<b>TOTAL REVENUE &amp; CASH</b>	<u>\$ 765,171</u>	<u>\$ 775,171</u>		
<b>EXPENDITURES</b>				
Current				
Instruction	\$ 681,487	\$ 648,451	\$ 573,454	\$ 74,997
Support Services	-	-	-	-
Support Services Students	76,800	119,836	100,856	18,980
Support Services Instruction	-	-	-	-
Support Services General Administration	6,884	6,884	7,652	(768)
Support Services School Administration	-	-	-	-
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>\$ 765,171</u>	<u>\$ 775,171</u>	<u>\$ 681,962</u>	<u>\$ 93,209</u>

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT K

STATEMENT OF REVENUE & EXPENDITURES--BUDGET (NON-GAAP)  
AND ACTUAL--SPECIAL REVENUE FUND--STATE DIRECTED ACTIVITIES

Year Ended June 30, 2018

	Original Budget	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUE</b>				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	222,613	110,370	(112,243)
Local Programs	-	-	-	-
<b>TOTAL REVENUE</b>	<u>-</u>	<u>222,613</u>	<u>\$ 110,370</u>	<u>\$ (112,243)</u>
<b>BUDGETED CASH BALANCE</b>	<u>-</u>	<u>-</u>		
<b>TOTAL REVENUE &amp; CASH</b>	<u>\$ -</u>	<u>\$ 222,613</u>		
<b>EXPENDITURES</b>				
<b>Current</b>				
Instruction	\$ -	\$ 176,901	\$ 164,101	\$ 12,800
Support Services	-	-	-	-
Support Services Students	-	-	-	-
Support Services Instruction	-	-	-	-
Support Services General Administration	-	31,106	27,441	3,665
Support Services School Administration	-	14,606	2,498	12,108
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>\$ -</u>	<u>\$ 222,613</u>	<u>\$ 194,040</u>	<u>\$ 28,573</u>

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Regional Education Cooperative VII (REC), has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued prior to November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of the REC's accounting policies are described below.

During the year ended June 30, 2015, the REC adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. Statements No. 68 and 71 require cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the costs-sharing plan.

During the year ended June 30, 2018, the REC adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the costs-sharing plan.

A. Financial Reporting Entity

The REC has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected REC members are financially accountable. There are no other primary governments with which the Board Members are financially accountable. 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.

The REC through the governing council, has established as its purpose the delivery to local RECs and communities those services deemed critical to the ongoing success of regular and special education programs provided by the local agencies.

GASB Statement No. 14 established criteria for determining the governmental 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. 14, fiscally independent means that the REC may, without the approval or consent of another governmental entity, determine or modify its own budget with approval of the Public Education Department.

The accounts of the REC are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The following funds are used by the REC:

Governmental Funds - Governmental funds are used to account for the REC's general government activities.

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity (continued)

The REC reports the following major governmental funds:

REC Operating Fund - To account for revenues and expenditures of the REC not encompassed within other funds.

IDEA B Entitlement - 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

Medicaid - Measurement Focus and Basis of Accounting To account for a program providing school-based screening, diagnostic services and other related health services and administrative activities in conformance with the approved Medicaid State Plan in order to improve health and developmental outcomes for children. The fund was created by the authority of federal grant provisions. (Title XIX Social Security Act).

Pre K Initiative - To account for revenues and expenditures from a state grant provided for the running of the Pre K program. The fund was created by state grant provisions.

State Directed Activities - To account for expenditures related to an agreement between the REC and the PED for the purpose of providing assistance to the patiating districts to meet standards of the State Performance Plan Indicators and School Grading. The fund was created by management.

B. Measurement Focus and Basis of Accounting

1. Government-Wide Financial Statements (GWFS)

The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflow of resources, liabilities and deferred inflow of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflow of resources, liabilities and deferred inflow of resources resulting from non-exchange transactions are recognized in accordance with the requirement of GASB Statement No. 33 "Accounting and Financial Reporting for Non-exchange Transactions."

2. Program Revenues

Program revenues included in the Statement of Activities derive directly from the program itself; program revenues reduce the cost of the function to be financed from the REC's general revenues. Program revenues include program-specific operating grants funded by the Federal Department of Education and the State Public Education Department.

3. Governmental Funds

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

3. Governmental Funds (continued)

the current period. The government considers all revenues available if they are collected within 30 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Any effect of inter-fund activity has been eliminated from the REC financial statements.

4. Revenues

Entitlement and shared revenues are recorded as unrestricted grants-in-aid at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

5. Revenue Recognition for Grants

Eligibility requirements for government-mandated and voluntary non-exchange transaction comprise one or more of the following:

1. Required characteristics of recipients. The recipient has the characteristics specified by the provider (are required to be school RECs and RECs).
2. Time requirements. Time requirements specified by enabling legislation or the provider have been met (period when the resources are required to be used).
3. Reimbursements. The provider offers resources on a reimbursement ("expenditure-driven") basis and the recipient has incurred allowable costs under the applicable program.
4. Contingencies. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred (the recipient has raised the matching funds).

Other receipts become measurable and available when cash is received by the REC and are recognized as revenue at that time.

6. Expenditures

Salaries are recorded as paid. Salaries for nine-month employees are paid prior to the end of the fiscal year and therefore are not accrued. Salaries for the twelve-month employees payroll are accrued.

7. Other Financing Sources (Uses)

Transfers between funds that are not expected to be repaid (or any other types, such as capital lease transactions, sale of fixed assets, debt extinguishments, long-term debt proceeds, etc.) are accounted for as other financing sources (uses). These other financing sources (uses) are recognized at the time the underlying events occur.

8. 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.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

8. Cash and Cash Equivalents (continued)

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.

9. Investments

All money not immediately necessary for the public uses of the REC may be invested in:

(a) bonds or negotiable securities of the United States, the state or any county, municipality or school which has a taxable valuation of real property for the last preceding year of at least one million dollars (1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or

(b) securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government.

(c) in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with investment.

10. Receivables and Payables

Receivables include inter-fund loans that are expected to be paid back and amount due from state government agencies related to various grant agreements. Payables represent routine monthly bills for services rendered and products purchased and accrued salaries and benefits.

11. 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 inter-fund activity and balances in the funds were eliminated or reclassified. Inter-fund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

12. Capital Assets

Capital assets are recorded at historical costs and depreciated over their estimated useful lives (with no salvage value). Capital assets are defined by the REC as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.



STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

12. Capital Assets (continued)

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used based on the following estimated useful lives:

Buildings	25 Years
Building Improvements	7 Years
Vehicles	7-8 Years
Equipment	5 Years
Information Technology Equipment and Software	3-5 Years
Library Books (if material)	3-5 Years

13. Restricted Net Position

For the government-wide statement of net position, net positions are reported as restricted when constraints placed on net positions use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;

Imposed by law through constitutional provisions or enabling legislation.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available it will first be applied to restricted resources.

14. Compensated Absences

All twelve-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. There is no maximum accumulation.

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.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

15. 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.

16. Pension Plan – Education Retirement Board

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.

17. Postemployment Benefits Other Than Pensions (OPEB).

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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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 in to 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.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. Basis of Budgeting (continued)

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.
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

	Original Budget	Final Budget
General Fund	\$ 103,888	\$ 434,279
Special Revenue Funds	2,343,162	3,316,643
	<u>\$ 2,447,050</u>	<u>\$ 3,750,922</u>

B. Deficit fund equity

There were not any deficit fund balances at June 30, 2018.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and temporary investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2018, none of the REC's bank balance of \$1,123,891 was exposed to custodial credit risk.

Collateral requirements are as follows:

Lea County State Bank	Total Deposits	\$ 1,123,891
	Less: FDIC coverage	<u>(250,000)</u>
	Uninsured Public Funds	873,891
Pledged collateral held by pledging bank's agent in the District's name		<u>1,680,000</u>
Uninsured and un-collateralized		<u>\$ -</u>

B. Receivables

Receivables, as of year-end, for the government's individual major funds and non-major funds in the aggregate, including the following:

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables (continued)

	IDEA-B Entitlement	Pre K Initiative	State Directed Activities	Non Major Governmental	TOTAL
Intergovernmental Grants:					
Federal	\$ 247,137	\$ -	\$ -	\$ 57,726	\$ 304,863
State	-	309,799	134,047	42,011	485,857
	<u>\$ 247,137</u>	<u>\$ 309,799</u>	<u>\$ 134,047</u>	<u>\$ 99,737</u>	<u>\$ 790,720</u>

Receivables are considered fully collectible.

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Capital assets, being depreciated:				
Buildings & building improvements	98,239	-	-	98,239
Equipment	66,084	-	29,579	36,505
Total Capital Assets being depreciated	164,323	-	29,579	134,744
Less accumulated depreciation for:				
Buildings & building improvements	92,576	2,136	-	94,712
Equipment	38,122	4,302	29,579	12,845
Total accumulated depreciation	130,698	6,438	29,579	107,557
Total Capital assets, being depreciated, net	33,625	(6,438)	-	27,187
Governmental activities capital assets, net	<u>\$ 33,625</u>	<u>\$ (6,438)</u>	<u>\$ -</u>	<u>\$ 27,187</u>

Depreciation expense was charged to function/programs of the REC as follows:

Support Services General Administration	\$ 6,438
Total	<u>\$ 6,438</u>

E. Compensated Absences

The following is a summary of compensated absences transactions:

Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Amounts due in One Year
<u>\$ 5,492</u>	<u>\$ 4,570</u>	<u>\$ (3,541)</u>	<u>\$ 6,521</u>	<u>\$ 6,521</u>

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION

A. Pension Plan – Education Retirement Board

General Information about the Pension Plan

Plan description - Substantially all of the Regional Educational Cooperative VII's (REC) full-time employees participate in an educational employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB's comprehensive annual financial report. The report can be found on NMERB's Web site at [https://www.nmerb.org/Annual\\_reports.html](https://www.nmerb.org/Annual_reports.html).

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

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

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

Funding Policy

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.

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.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

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

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

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

Benefit Options – The Plan has three benefit options available.

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

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

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%.

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.

Fiscal Year	Date Range	Wage Category	Member Rate	Employer Rate	Combined Rate	Increase over Prior Year
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	7-1-165 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 and 2017, the REC paid employee and employer contributions of \$56,498 and \$14,469, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

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 \$230,049 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. The roll-forward incorporates the impact of the new assumptions adopted by the Board on April 2, 2017. There were no other significant events of changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2017. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. The 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 0.00207%, which was a decrease of 0.00385% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the REC recognized pension expense of \$(79,959). At June 30, 2018, the REC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actuarial experience	\$ 413	\$ 3,544
Changes of assumptions	67,156	-
Net difference between projected and actual earnings on pension plan investments	-	32
Changes in proportion and differences between contributions and proportionate share of contributions	28,430	287,424
Employer contributions subsequent to the measurement date	31,923	-
Total	<u>\$ 127,922</u>	<u>\$ 291,000</u>

\$31,923 reported as deferred outflows of resources related to pensions resulting from the 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ (74,710)
2019	(88,374)
2020	(30,023)
2021	(1,894)
2022	Unavailable
Thereafter	Unavailable



STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

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

Inflation	2.50%
Salary increases	3.25% composed of 2.50% inflation, plus a 0.75% productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service.
Investment rate of return	7.25% compounded annually, net of expenses. This is made up of a 2.50% inflation rate and a 4.75 real rate of return.

Average of Expected Remaining Service Lives	Fiscal Year	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	Service life in years	3.35	3.77	3.92	3.88.

Mortality	<p>Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB.</p> <p>Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one-year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012.</p> <p>Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.</p> <p>Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.</p> <p>Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.</p>
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STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

Retirement Age	Experience-based table rates based on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.
Cost-of-living increases	1.90% per year, compounded annually.
Payroll growth	3.00% per year (with no allowance for membership growth).
Contribution accumulation	The accumulated member account balance with interest is estimated at the valuation date by assuming that member contributions increased 5.50% per year for all years prior to the valuation date. Contributions Are credited with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future.
Disability Incidence	Approved rates applied to eligible members with at least 10 years of service.

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

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

Rate of return projections that are the sum of current yield plus projected changes in price (valuations, defaults, etc.)

Application of key economic projections (inflation, real growth, dividends, etc.)

Structural themes (supply and demand (supply and demand imbalances, capital flows, etc.) developed for each major asset class.

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Equities	33%	
Fixed Income	26%	
Alternatives	40%	
Cash	1%	
Total	100%	7.75%

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

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

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

Sensitivity of the REC's proportionate share of the net pension liability to changes in the discount rate. The following presents the REC's proportionate share of the net pension liability calculated using the discount rate of 5.90 percent, as well as what the REC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1percentage-point lower (4.90 percent) or 1-percentage-point higher (6.90 percent) than the current rate:

	<b>1% Decrease (4.90%)</b>	<b>Current Discount Rate (5.90%)</b>	<b>1% Increase (6.90%)</b>
The REC's proportionate share of the net pension liability	\$ 299,466	\$ 230,049	\$ 173,306

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

Payables to the pension plan – The REC has no payables to the pension plan.

B. OPEB – State Retiree Health Care Plan

General Information about the OPEB

Plan description - Employees of the Regional Educational Cooperative VII (REC) are provided with 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.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

B. OPEB – State Retiree Health Care Plan (continued)

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 benefit	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>

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 REC were \$4,837 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 REC reported a liability of \$76,585 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 REC’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 REC’s proportion was 0.00169%.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

B. OPEB – State Retiree Health Care Plan (continued)

For the year ended June 30, 2018, the REC recognized OPEB expense of \$3,045. At June 30, 2018 the REC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ 2,939
Changes of assumptions	-	13,390
Differences between projected and actual earnings on OPEB plan investments	-	1,102
Employer contributions subsequent to the measurement date	4,837	-
Total	<u>\$ 4,837</u>	<u>\$ 17,431</u>

Deferred outflows of resources totaling \$4,837 represents the REC'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	\$ (3,706)
2020	(3,706)
2021	(3,706)
2022	(3,706)
2023	<u>(2,607)</u>
Total	<u>\$ (17,431)</u>

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

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REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

B. OPEB – State Retiree Health Care Plan (continued)

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

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:

<u>Asset Class</u>	<u>Long-Term Rate of Return</u>
U.S. core fixed income	4.1%
U.S. equity-large cap	9.1%
Non U.S. - emerging markets	12.2%
Non U.S. - developed equities	9.8%
Private equity	13.8%
Credit and structured finance	7.3%
Real estate	6.9%
Absolute return	6.1%
U.S. equity - small/mid cap	91.0%

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

B. OPEB – State Retiree Health Care Plan (continued)

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.

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 REC, as well as what the REC'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:

	<b>1% Decrease (2.81%)</b>	<b>Current Discount (3.81%)</b>	<b>1% Increase (4.81%)</b>
REC VII	<u>\$ 92,897</u>	<u>\$ 76,585</u>	<u>\$ 63,787</u>

The following presents the net OPEB liability of the REC, as well as what the REC'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:

	<b>1% Decrease</b>	<b>Current Trend Rates</b>	<b>1% Increase</b>
REC VII	<u>\$ 65,141</u>	<u>\$ 76,585</u>	<u>\$ 85,509</u>

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.

Payables to the OPEB plan – The REC has no payables to the OPEB plan.

C. Restatement of Beginning Net Position for Governmental Funds

	Governmental Activities
Net Position at June 30, 2017	\$ 1,161,642
Prior Period Adjustments	
To record deferred outflows related to OPEB liability per GASB 75	1,454
To record OPEB liability per GASB 75	(92,422)
Net Position at June 30, 2017 as Restated	<u>\$ 1,070,674</u>

D. Restatements of Beginning Fund Balances

There were no adjustments made to the REC's beginning fund balances for the fiscal year June 30, 2018.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

E. Inter-fund Receivables

Cash overdrafts are inter-fund receivables and considered to be short-term borrowings from general funds to cover current year operating expenditures and will be paid back within the next year. At June 30, 2018, they consisted of the following:

Due To	
Operational	\$ 326,283
Medicaid	464,437
Total Due To	<u>\$ 790,720</u>
Due From	
IDEA-B Entitlement	\$ 247,137
IDEA-B Preschool	28,448
Teacher Principal Training	29,278
Pre-K Initiative	309,799
Assets	25,315
Best Buddies	16,696
State Directed Activities	134,047
Total Due From	<u>\$ 790,720</u>

F. Permanent Transfers

Transfers are used to move revenue from the fund that statute or budget requires them to be collected in, to the fund that statute or budget requires them to be expend in. These transfers are not routine in nature and are not consistent with the activities of the fund making transfer. At June 30, 2018 there were no permanent transfers

G. Fund Balances Classified

GASB 54 includes a prescribed hierarchy based on the extent to which a city is bound by constraints for the use of the funds reported in governmental funds. GASB 54 provides the classification as non-spendable, restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The following definitions are provided in GASB 54:

Non-spendable - These funds are not available for expenditures based on legal or contractual requirements.

Restricted - These funds are governed by externally enforceable restrictions.

Committed - Fund balances in this category are limited by the government's highest level of decision making (in this case the School Board). Any changes of this designation must be done in the same manner that it was implemented.

Assigned - For funds to be assigned, there must be an intended use which can be established by the School Board or an official delegated by the board, such as a superintendent.

Unassigned - This classification is the default for all funds that do not fit into the other categories. This, however, should not be a negative number for the General Fund. If it is, the assigned fund balance must be adjusted.



STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

G. Fund Balances Classified (continued)

The constraints placed on fund balance for the major governmental funds and all other governmental funds are as follows:

Fund Balances	Operational	Medicaid	Non-Major Governmental Funds	Total
Restricted for:				
Special Revenue Funds	\$ -	\$ 1,234,112	\$ -	\$ 1,234,112
Total Restricted	-	1,234,112	-	1,234,112
Unassigned	326,283	-	-	326,283
Total Fund Balances	\$ 326,283	\$ 1,234,112	\$ -	\$ 1,560,395

H. Insurance Coverage

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, as a New Mexico Public School, is insured through the New Mexico Public Schools Insurance Authority (NMPSIA). Annual premiums are paid by the REC to NMPSIA for coverage provided in the following areas:

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

I. SURETY BOND

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

J. JOINT POWERS AGREEMENTS AND OTHER AGREEMENTS

Eunice Public Schools, Hobbs Municipal Schools, Jal Public Schools, Tatum Municipal Schools (Member RECs) and Regional Education Cooperative VII

On December 20, 2007 the Cooperative entered into an Agreement with the Member RECs whereby the Member REC 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 RECs 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 REC must notify REC VII of any intention to withdraw its agreement to have REC VII serve as its fiscal agent on or before February 1st preceding the end of the last fiscal year it intends to have REC VII serve as the fiscal agent.

STATE OF NEW MEXICO  
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

J. JOINT POWERS AGREEMENTS AND OTHER AGREEMENTS (continued)

New Mexico Human Services Department

On March 10, 2003 the Cooperative entered into a Joint Powers Agreement with the New Mexico Human Services Department (HSD). The purpose of this agreement is to set forth the requirements for the Cooperative to participate in the Medicaid program as a provider of school based health services in conformance with the approved New Mexico Medicaid Plan and the HSD Medicaid regulations in order to improve health and developmental outcomes to children. The Agreement shall remain in effect until amended or terminated by either party upon written notice delivered to the other party no less than ninety (90) days prior to the intended date of termination. If the Centers for Medicare and Medicaid Services (CMS) changes the funding methodology for the New Mexico Medicaid program, or state or federal legislation is enacted, or Medicaid policy is promulgated changes that materially modifies either of the parties obligations under this Agreement, the Agreement will be terminated effective on the date of receipt by HSD of written notice of such changes.

K. Overspent budgets at June 30, 2018 are as follows:

Fund	Function	Amount
IDEA-B Entitlement	Instruction	\$ 455,388
IDEA-B Entitlement	Support Services Students	614,088
IDEA-B Entitlement	Support Services General Administration	78,195
IDEA-B Entitlement	Support Services School Administration	115
Teacher/Principal Training	Instruction	11,894
Teacher/Principal Training	Support Services General Administration	408
Operational	Support Services Students	148,683
Operational	Central Services	5,414
Pre K Initiative	Support Services General Administration	768
Assets	Support Services General Administration	1,589
	Total	<u>\$ 1,316,542</u>

L. GASB 77 – Tax abatements

Regional Educational Cooperative VII does not have the authority to levy property taxes therefore, GASB 77 does not apply.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

V. OTHER INFORMATION (continued)

M. Reconciliation of Budgetary and GAAP Basis Amounts

	<u>Operational</u>	<u>Entitlement</u>	<u>Title XIX Medicaid</u>	<u>Pre K Initiative</u>	<u>State Directed Activities</u>
<b>REVENUES</b>					
Budgetary Basis	\$ 400,245	\$ 1,034,596	\$ 1,661,298	\$ 599,266	\$ 110,370
Add:					
Current Year Receivables & Other Credits	-	247,137	-	309,799	134,047
Deduct:					
Prior Year Receivables & Other Debits	-	133,947	-	227,103	50,377
<b>REVENUE --GAAP BASIS</b>	<u>\$ 400,245</u>	<u>\$ 1,147,786</u>	<u>\$ 1,661,298</u>	<u>\$ 681,962</u>	<u>\$ 194,040</u>
<b>EXPENDITURES</b>					
Budgetary Basis	\$ 410,878	\$ 1,147,786	\$ 1,697,315	\$ 681,962	\$ 194,040
Add:					
Current Year Payables & Other Debits	-	-	-	-	-
Deduct:					
Prior Year Payables & Other Credits	-	-	-	-	-
<b>EXPENDITURES --GAAP BASIS</b>	<u>\$ 410,878</u>	<u>\$ 1,147,786</u>	<u>\$ 1,697,315</u>	<u>\$ 681,962</u>	<u>\$ 194,040</u>

## SPECIAL REVENUE FUNDS

IDEA Preschool - To account for a program funded by a Federal grant to assist the REC in providing a free appropriate public education to preschool disabled children aged three through five years. Funding authorized by the Individuals with Disabilities Education Act, Part B, Section 619, as amended, Public Laws 94-142, 99-457, 100-630, 101-497, 101-476, and 102-119. The fund was created by the authority of federal grant provisions.

Teacher & Principal Training - To provide grants to State Education Agencies (SEAs) on a formula basis to increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools and hold local educational agencies and schools accountable for improvements in student academic achievement. Elementary and Secondary Education Act of 1965, as amended, Title II, Part A (PL 107-110).

Assets - To account for funds received from the New Mexico Public Education Department for the support and direct services, including technical assistance, preparation and professional development and training. To support capacity building activities and improve the delivery of services by local agencies to improve results for children with disabilities. The fund was created by state provisions.

Best Buddies - To account for expenditures resulting from a contract between the REC and Best Buddies International, Inc. (a non-profit organization) for the purpose of implementing and managing Project SEARCH. The fund was created by management.

STATE OF NEW MEXICO  
 REGIONAL EDUCATION COOPERATIVE VII

COMBINING BALANCE SHEET--NON-MAJOR GOVERNMENTAL FUNDS  
 SPECIAL REVENUE FUNDS

JUNE 30, 2018

	<u>IDEA- B Preschool</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ -
Accounts Receivable	
Federal	28,448
State	-
Due from Other Funds	-
<b>TOTAL ASSETS</b>	<u><u>\$ 28,448</u></u>
 <b>LIABILITIES AND OTHER CREDITS</b>	
Accounts Payable	\$ -
Due to Other Funds	28,448
<b>TOTAL LIABILITIES</b>	<u><u>28,448</u></u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable Revenue	-
<b>TOTAL DEFERRED INFLOWS</b>	<u><u>-</u></u>
 <b>FUND BALANCE</b>	
Nonspendable	-
Restricted	-
Committed	-
Assigned	-
Unassigned	-
<b>TOTAL FUND BALANCE</b>	<u><u>-</u></u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	 <u><u>\$ 28,448</u></u>

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

EXHIBIT A-1

Teacher/Principal Training	Assets	Best Buddies	Total Non-Major Special Revenue Funds	TOTAL NONMAJOR GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ -	\$ -
29,278	-	-	57,726	57,726
-	25,315	16,696	42,011	42,011
-	-	-	-	-
<u>\$ 29,278</u>	<u>\$ 25,315</u>	<u>\$ 16,696</u>	<u>\$ 99,737</u>	<u>\$ 99,737</u>
\$ -	\$ -	\$ -	\$ -	\$ -
29,278	25,315	16,696	99,737	99,737
<u>29,278</u>	<u>25,315</u>	<u>16,696</u>	<u>99,737</u>	<u>99,737</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 29,278</u>	<u>\$ 25,315</u>	<u>\$ 16,696</u>	<u>\$ 99,737</u>	<u>\$ 99,737</u>

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Year Ended June 30, 2018

	<u>IDEA- B Preschool</u>
<b>REVENUE</b>	
Federal Programs	\$ 31,792
State Programs	-
Local Programs	-
State Equalization	-
Service Revenues	-
Taxes	-
Interest	-
Other revenue sources	-
TOTAL REVENUES	<u>31,792</u>
<b>EXPENDITURES</b>	
Current	
Instruction	31,207
Support Services	-
Support Services Students	585
Support Services Instruction	-
Support Services General Administration	-
Support Services School Administration	-
Central Services	-
Operation and Maintenance of Plant	-
Student Transportation	-
Other Support Services	-
Food Services Operations	-
Capital Outlay	-
TOTAL EXPENDITURES	<u>31,792</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	-
Other Financing Sources (Uses)	
Transfer In/Transfers (Out)	-
Total Other Financing Sources	<u>-</u>
NET CHANGE IN FUND BALANCE	-
<b>FUND BALANCE</b>	
June 30, 2017	-
Restatements	-
June 30, 2017 as restated	<u>-</u>
FUND BALANCE	
June 30, 2018	<u>\$ -</u>

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

EXHIBIT A-2

Teacher/Principal Training	Assets	Best Buddies	TOTAL NONMAJOR SPECIAL REVENUE FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
\$ 42,795	\$ -	\$ -	\$ 74,587	\$ 74,587
-	161,565	100,000	261,565	261,565
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>42,795</u>	<u>161,565</u>	<u>100,000</u>	<u>336,152</u>	<u>336,152</u>
39,287	147,795	-	218,289	218,289
-	-	-	-	-
2,000	-	-	2,585	2,585
-	-	-	-	-
408	13,770	93,324	107,502	107,502
1,100	-	-	1,100	1,100
-	-	-	-	-
-	-	6,676	6,676	6,676
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>42,795</u>	<u>161,565</u>	<u>100,000</u>	<u>336,152</u>	<u>336,152</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ -	\$ -	\$ -	\$ -	\$ -



REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS EDUCATIONAL RETIREMENT  
 BOARD (ERB) PENSION PLAN - LAST 10 FISCAL YEARS\*

JUNE 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutory required contributions	\$ 31,923	\$ 8,175	\$ 23,500	\$ 36,700
Contributions in relation to the statutorily required contributions	31,923	8,175	23,500	36,700
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY  
EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN - LAST 10 FISCAL YEARS\*

JUNE 30, 2018

Fiscal Year Measurement Date	June 30			
	2018 2017	2017 2016	2016 2015	2015 2014
Regional Education Cooperative VII proportion of the net pension liability (asset)	0.00207%	0.59200%	0.00929%	0.00737%
Regional Education Cooperative VII proportionate share of the net pension liability (asset)	\$ 230,049	\$ 426,029	\$ 601,738	\$ 420,505
Regional Education Cooperative VII covered-employee payroll	\$ 58,815	\$ 169,060	\$ 253,647	\$ 264,032
Regional Education Cooperative VII proportionate share of the net pension liability as a percentage of its covered-employee payroll	391.14%	252.00%	237.23%	62.79%
Plan fiduciary net position as a percentage of total pension liability	52.95%	61.58%	63.97%	66.54%

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (ERB)

JUNE 30, 2018

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

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

STATE OF NEW MEXICO  
 REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 3

SCHEDULE OF THE PROPORTIONATE SHARE OF NET OPEB LIABILITY  
 NEW MEXICO RETIREE HEALTH CARE ASSOCIATION (NMRHCA)  
 OPEB PLAN - LAST 10 FISCAL YEARS\*

JUNE 30, 2018

	<u>2018*</u>
REC VII's proportion of the net OPEB liability	0.00169%
REC VII's proportionate share of the net OPEB liability	\$ 76,585
REC VII's covered-employee payroll	\$ 70,399
REC VII's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	108.79%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

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

STATE OF NEW MEXICO  
 REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 4

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS NEW MEXICO RETIREE  
 HEALTH CARE ASSOCIATION (NMRHCA) - LAST 10 FISCAL YEARS\*

JUNE 30, 2018

	<u>2018*</u>
Contractually required contribution	\$ 5,367
Contributions in relation to the contractually required contribution	2,693
Contribution deficiency (excess)	<u>\$ 2,674</u>
REC VII's covered-employee payroll	\$ 70,399
Contributions as a percentage of covered-employee payroll	3.83%

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RHCA)

JUNE 30, 2018

Changes in benefit provisions - There were no modifications to the benefit provisions as this is the first year of adoption of the OPEB accounting standard.

Changes in assumptions and methods - There were no modifications to the benefit provisions as this is the first year of adoption of the OPEB accounting standard.

OTHER SUPPLEMENTARY INFORMATION



STATE OF NEW MEXICO  
 REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 5

BANK SUMMARY

JUNE 30, 2018

Bank	ACCT TYPE	FUND	BANK BALANCE	OUTSTANDING (CHECKS) DEPOSITS	NET CASH BALANCE
Lea County State Bank	Checking	Multi Fund *	\$ 1,121,529	\$ (351,854)	\$ 769,675
	Checking	Payroll *	2,362	(2,362)	-
Total Lea County State Bank			<u>\$ 1,123,891</u>	<u>\$ (354,216)</u>	<u>\$ 769,675</u>

\* Interest Bearing

SCHEDULE OF PLEDGED COLLATERAL

JUNE 30, 2018

	Total Deposits	FDIC Insurance	Uninsured Deposits	Collateral Required	Collateral Pledged	Uninsured & Uncollateralized Deposits
Lea County State Bank	\$ 1,123,891	\$ 250,000	\$ 873,891	\$ 436,946	\$ 1,680,000	\$ -
Total	\$ 1,123,891	\$ 250,000	\$ 873,891	\$ 436,946	\$ 1,680,000	\$ -

Collateral	CUSIP #	Amount	Matures
Loving NM ISD #10	547413CW2	\$ 500,000	
Lea County NM PSD	521513AV3	720,000	
Bernalillo NM MSD	085279TE7	460,000	
Total Collateral all Accounts		\$ 1,680,000	

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 7

BANK RECONCILIATION

JUNE 30, 2018

	OPERATIONAL	FEDERAL PROJECTS	LOCAL/STATE ACCOUNT
Audited Net Cash			
June30, 2017	\$ 6,075	\$ 1,070,849	\$ -
Investments & cash on hand/Loans	-	-	-
TOTAL CASH BALANCE			
June30, 2017	6,075	1,070,849	-
Add: Prior year void checks	-	-	-
2017-2018 Revenue	400,245	2,744,703	1,015,936
Transfers In & Adjustments	330,841	504,143	485,856
 TOTAL AVAILABLE CASH	 737,161	 4,319,695	 1,501,792
Less: 2017-2018 Expenditures	410,878	2,919,688	1,137,567
Returned Checks	-	-	-
Transfers Out & Adjustments	326,283	630,332	364,225
	737,161	3,550,020	1,501,792
 NET CASH, JUNE 30, 2018	 -	 769,675	 -
Cash On hand	-	-	-
 TOTAL CASH, JUNE 30, 2018	 \$ -	 \$ 769,675	 \$ -

# Woodward Cowen & Co.

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Brian S. Colon  
New Mexico State Auditor  
Board Members of Regional Education Cooperative VII  
Hobbs, New Mexico

We have audited, 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, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds, of the Regional Education Cooperative VII as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Regional Education Cooperative VII's basic financial statements, and the combining and individual funds of Regional Education Cooperative VII, presented as supplemental information, and have issued our report thereon dated January 15, 2019.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Regional Education Cooperative VII'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 Regional Education Cooperative VII's internal control. Accordingly, we do not express an opinion on the effectiveness of the Regional Education Cooperative VII'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 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 significant deficiencies identified as 2018-001.

Portales: 305 S. Avenue B or PO Box 445, Portales NM 88130 -- Phone 575-356-8564 Fax 575-356-2453  
Clovis: 116 E. Grand Avenue or PO Box 1874, Clovis NM 88101 -- Phone 575-762-3811 Fax 575-762-3866

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regional Education Cooperative VII'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 Standard* and which are described in the accompanying Schedule of 12-6-5 NMSA 1978 Findings as items 2018-002 and 2018-003.

### Regional Education Cooperative VII's Responses to Findings

The Regional Education Cooperative VII's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Regional Education Cooperative VII's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

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

*Woodard, Cowen & Co*

Clovis, New Mexico  
January 15, 2019

Single Audit Section

# Woodard Cowen & Co.

Certified Public Accountants

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

Brian S. Colon  
New Mexico State Auditor  
Board Members of Regional Education Cooperative VII  
Hobbs, New Mexico

### Report on Compliance for Each Major Federal Program

We have audited Regional Education Cooperative VII's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Regional Education Cooperative VII's major federal programs for the year ended June 30, 2018. Regional Education Cooperative VII's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Regional Education Cooperative VII's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Regional Education Cooperative VII's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Portales: 305 S. Avenue B or PO Box 445, Portales NM 88130 – Phone 575-356-8564 Fax 575-356-2453  
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## Opinion on Each Major Federal Program

In our opinion, Regional Education Cooperative VII, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## Report on Internal Control Over Compliance

The management of Regional Education Cooperative VII is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Regional Education Cooperative VII's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Regional Education Cooperative VII's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Woodard, Cowen & Co*

Clovis, New Mexico  
January 15, 2019



STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2018

I. SUMMARY OF AUDITORS RESULTS:

Report on Financial Statements	Unmodified
Significant Deficiencies on GAGAS	2018-001
Other Items required to be reported	None
Material Noncompliance	None
Questioned Cost	None
Type A & Type B dollar threshold	\$750,000
Entity Risk	High Risk
Major Federal Programs	IDEA-B Special Education Cluster and CFDA #84.027 CFDA#84.173
Reportable Conditions on Internal Control over Major Programs	None
Material Weaknesses	None
Report on Compliance with Major Programs	Unmodified
Findings reportable under the Uniform Guidance 2 CFR 200.516(a)	None

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2018

II. FINANCIAL STATEMENT FINDINGS

Control

2018-001 Expenditures (significant deficiency)

- Condition: Of 128 (\$2,700,677) expenditures tested 122 (\$2,651,060) did not have copies of the checks or vouchers issued and 71 (\$907,150) did not have an approved purchase order.
- Criteria: Good internal control procedures dictate that supporting documentation for expenditures would include all documentation including copies of the checks or vouchers. Per the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13– Purchasing, the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services, or construction.
- Cause: The finance officer did not know the policy was to keep the checks or vouchers as supporting documentation for all expenditures. There was a failure to follow the full purchase order process by ensuring all purchased orders were signed appropriately
- Effect: Risk of loss or possible increase in risk of errors of Cooperative assets or recording of transactions has been increased.
- Recommendation: Management should discuss and provide additional training with staff so they understand the importance of maintaining and following all internal control and budgetary procedures to ensure the assets of the Cooperative are kept safe and all transactions are properly accounted for.
- Response: We now have the ability to print a copy of the check and we are now attaching the copy to all expenditures. We are also attaching copies of the original signed PO to all expenditures including encumbrances. This will be done by the administrative staff under the direction of the Finance Director.

Compliance

None

III. FEDERAL FINDINGS

None

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF 12-6-5 NMSA 1978 FINDINGS

JUNE 30, 2018

Compliance

2018-002 (2017-002) Overspent Budget (other non-compliance)

Condition: The following budgets were overspent for fiscal year ending June 30, 2018.

	Fund	Fund		
	Description	Number	Function	Amount
	IDEA B - Entitlement	24106	1000	455,388
	IDEA B - Entitlement	24106	2100	614,088
	IDEA B - Entitlement	24106	2300	78,195
	IDEA B - Entitlement	24106	2400	115
	Teacher/Principal Training	24154	1000	11,894
	Teacher/Principal Training	24154	2300	408
	Operational	27101	2100	148,683
	Operational	27101	2500	5,414
	Pre K	27149	2300	768
	Assets	27201	2300	1,589

The REC has implemented a plan of corrective action in the latter part of 2018.

Criteria: New Mexico statutes regarding school districts apply also to the Regional Educational Cooperatives. 22-8-11(B) NMSA 1978, states "No school board or officer or employee of a school district shall make any expenditure or incur any obligation for the expenditure of public funds unless that expenditure or obligation is made in accordance with an operating budget approved by the department. This prohibition does not prohibit the transfer of funds pursuant to the department's rules and procedures."

Cause: The finance director was using the budget for the 24106 and 24154 funds which was approved for the participating school districts and treating the funds as though they were trust and agency funds under the administration of the Cooperative. The other funds overspent were due to lack of monitoring of the funds towards the end of the year. Also, the New Mexico Public Education Department will not allow the Cooperative to budget any 2 way agreement funds as federal monies. PED requires these funds to be treated under the general fund category. This issue needs a resolution for the Cooperative to have a corrective action that will be acceptable to all parties.

Effect: Violation of statutes regarding budgets and expenditures could affect future funding from the state and the Members or Director did not have complete reporting as to budgetary revenue and expenditure amounts legally available to the Cooperative.

Recommendation: It is imperative that the Cooperative follow their internal controls for the monitoring process of budgets on a monthly basis to ensure that the budgets are not in violation of the law. Management should implement a corrective action plan that would ensure that these budgets are monitored on a regular basis and review the Cooperative's control procedures to see if changes are necessary. The Cooperative should have someone review the budget amounts entered to ensure that both the revenue and expenditure budgets are entered into the accounting software. The Cooperative should keep working with PED and the SAO to ensure a final resolution of agreement as to the reporting of the 2 way agreement monies is reached between the two agencies.

Response: The Finance Director completed a corrective action plan with PED to ensure these federal monies are budgeted in the allowed fund. The plan was implemented the latter part of 2018.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF 12-6-5 NMSA 1978 FINDINGS

JUNE 30, 2018

Compliance (continued)

2018-003 Late Audit Report (other non-compliance)

**Condition:** The Cooperative audit report was not delivered to the Office of the New Mexico State Auditor on the report due date of September 30, 2018.

**Criteria:** NMAC 2.2.2.9 Subsection A(1)(a) of the Audit Rule 2018 states that regional educational cooperative audits must be delivered to the Office of the State Auditor or post marked by September 30, 2018.

**Cause:** The Independent audit firm had completed the primary fieldwork by the end of August 2018, however, due to a referral letter regarding specific funding that flows from the participating school districts through a 2 way agreement, the auditor in charge wanted to meet with the Office of the State Auditor to discuss how these specific funds were to be best handled. The meeting was in early September 2018. At that time the auditor in charge was informed that the federal monies in these 2 way agreements had to be treated as federal pass through funds for purposes of determining the need for a single audit. This was in contradiction to how the public education department has these funds treated for reporting purposes and how the participating school districts treat the funds in their schedule of expenditures of federal awards within their own audited financial statements. Due to this change in determination of federal funds the Cooperative fell into the category of needing additional audit work to be in compliance with the single audit section of the uniform guidance. This created the need for an updated engagement letter and audit contract, as well as additional time to perform the work. The Independent audit firm was already scheduled into November and could not rearrange scheduling to get the work done before the due date of the audit. The SAO was notified that the report would be late.

**Effect:** Late audits can cause loss of funding from state sources.

**Recommendation:** The Independent audit firm needs to try and leave more flexibility in scheduling in the future to be able to rearrange work in cases where unexpected circumstances come up.

**Response:** The Finance Director in conjunction with the Executive Director are developing strategies with the Independent Auditor to insure we will not have this issue again. We believe this was an isolated incident due to the disagreements between PED and the Office of the State Auditor regarding the 2 way agreement funding.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

JUNE 30, 2018

GAGAS FINDINGS:

2016-002	Payroll Processing Internal Controls (significant deficiency)	Resolved
2017-001	General Ledger (significant deficiency)	Resolved

12-6-5 NMSA 1978 FINDINGS:

2017-002	Budgeted Revenue (Other)	Revised and Repeated
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STATE OF NEW MEXICO  
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor and Number	Federal Expenditures(\$)
U.S. Department of Education			
Passthrough NM Public Education Department and Participating Districts			
<1>Special Education Cluster (IDEA-B)			
Entitlement	84.027	NM PED,24106	\$ 1,147,786
Preschool	84.173	NM PED,24109	31,792
Total Special Education Cluster (IDEA-B)			<u>1,179,578</u>
Other Programs			
Improving Teacher Quality State Grants	84.367	NM PED,24154	42,795
Total Other Programs			<u>42,795</u>
Total Passthrough NM Public Education Department and Participating Districts			<u>1,222,373</u>
Total Expenditures of Federal Awards			<u>\$ 1,222,373</u>

<1> Major Program

Note 1 The accompanying schedule of expenditures of Federal awards include the Federal awards activity, under programs of the federal government for the year ended June 30, 2018 in accordance with the requirements of Title 2 U.S. code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements of Federal awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the district, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

Note 2 The Cooperative has elected to not use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

STATE OF NEW MEXICO  
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OTHER DISCLOSURES

JUNE 30, 2018

PREPARATION OF FINANCIAL STATEMENTS

We prepared the draft financial statements based on management's chart of accounts and trial balances and any adjusting, correcting, and closing entries have been approved by management. We also have prepared the draft footnotes based on the information determined, provided by and approved by management. These services are allowable under SAS 115.

EXIT CONFERENCE

An Exit Conference was held on January 15, 2019. Present were:

David B. Snider  
Cliff Burch  
Pat Jaco  
D. Brent Woodard

Board Member  
Executive Director  
Director of Finance  
Auditor