

Regional Education Cooperative VII

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

JUNE 30, 2016

Woodard, Cowen & Co.

Certified Public Accountants

STATE OF NEW MEXICO
 REGIONAL EDUCATION COOPERATIVE VII

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JUNE 30, 2016

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STATE OF NEW MEXICO
 REGIONAL EDUCATION COOPERATIVE VII

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STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

OFFICIAL ROSTER

JUNE 30, 2016

BOARD MEMBERS

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

ADMINISTRATORS

Patti Harrelson	Executive Director
Karen Soria	Director of Finance

Woodard, Cowen & Co.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Timothy Keller
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, 2016, 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 and the budgetary comparisons all non-major funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016 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.

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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, 2016, 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, 2016, and the respective changes in financial position, thereof and the respective budgetary comparisons statements for all non-major funds 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 49, the *Schedule of Contributions* on page 50, with the notes to the required supplementary information 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 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 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, except schedule 6, 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 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 Schedule of Vendor Information, schedule 6, 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 August 18, 2016 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.

Woodward, Cowen & Co.

Clovis, New Mexico
August 18, 2016

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT A

STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 406,919
Due from other governments	740,480
Total current assets	<u>1,147,399</u>
Non-current assets:	
Capital assets, net	41,279
Total non-current assets	<u>41,279</u>
Total assets	<u>1,188,678</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows related to pensions	197,343
Total deferred outflows	<u>197,343</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	46,530
Compensated Absences	4,234
Total current liabilities	<u>50,764</u>
Non-current liabilities:	
Net pension liability	601,738
Total non-current liabilities	<u>601,738</u>
Total liabilities	<u>652,502</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unavailable revenue	-
Deferred inflows related to pensions	2,489
Total deferred inflows	<u>2,489</u>
<u>NET POSITION</u>	
Net investment in capital assets	41,279
Restricted:	
Special Revenue	811,729
Unrestricted	<u>(121,978)</u>
Total net position	<u>\$ 731,030</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, 2016

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	\$ 931,100	\$ 939,708	\$ -	\$ -	\$ 8,608
Support Services	-	-	-	-	-
Support Services Students	1,024,160	1,022,222	-	-	(1,938)
Support Services Instruction	-	-	-	-	-
Support Services General Administration	1,829,242	1,612,053	-	-	(217,189)
Support Services School Administration	143,941	29,058	-	-	(114,883)
Central Services	88,819	-	-	-	(88,819)
Operation and Maintenance of Plant	22,015	6,728	-	-	(15,287)
Student Transportation	-	-	-	-	-
Other Support Services	1,688	-	-	-	(1,688)
Food Services Operations	500	500	-	-	-
Bond Interest Paid	-	-	-	-	-
Amortization - Unallocated	-	477,402	-	-	477,402
Total governmental activities	\$ 4,041,465	\$ 4,087,671	\$ -	\$ -	46,206
General revenues:					
Grant & contributions not restricted					103,956
Total general revenues					103,956
Change in net position					150,162
Net position - beginning					582,164
Restatements					(1,296)
Net position - beginning as restated					580,868
Net position - ending					\$ 731,030

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, 2016

	<u>OPERATIONAL</u>	<u>IDEA-B ENTITLEMENT</u>	<u>MEDICAID TITLE XIX</u>
ASSETS			
Cash and cash equivalents	\$ 163	\$ -	\$ 406,756
Accounts Receivable			
Property Taxes Receivable	-	-	-
Other Governments	-	-	-
State	-	-	-
Inventories	-	-	-
Due from Other Funds	297,997		442,483
TOTAL ASSETS	<u>\$ 298,160</u>	<u>\$ -</u>	<u>\$ 849,239</u>
LIABILITIES AND OTHER CREDITS			
Accounts Payable	\$ 9,020	\$ -	\$ 37,510
Due to Other Funds	-	-	-
Accrued Interest Payable	-	-	-
TOTAL LIABILITIES	<u>9,020</u>	<u>-</u>	<u>37,510</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	-	-	-
TOTAL DEFERRED INFLOWS	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE			
Nonspendable	-	-	-
Restricted	-	-	811,729
Committed	-	-	-
Assigned	-	-	-
Unassigned	289,140	-	-
TOTAL FUND BALANCE	<u>289,140</u>	<u>-</u>	<u>811,729</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	<u>\$ 298,160</u>	<u>\$ -</u>	<u>\$ 849,239</u>

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

EXHIBIT C

<u>PRE K INITIATIVE</u>	<u>ASSETS</u>	<u>BEST BUDDIES</u>	<u>STATE DIRECTED ACTIVITIES</u>	<u>NON MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 406,919
-	-	-	-	-	-
153,421	365,948	91,175	124,820	5,116	740,480
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	740,480
<u>\$ 153,421</u>	<u>\$ 365,948</u>	<u>\$ 91,175</u>	<u>\$ 124,820</u>	<u>\$ 5,116</u>	<u>\$ 1,887,879</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,530
153,421	365,948	91,175	124,820	5,116	740,480
-	-	-	-	-	-
<u>153,421</u>	<u>365,948</u>	<u>91,175</u>	<u>124,820</u>	<u>5,116</u>	<u>787,010</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	811,729
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	289,140
-	-	-	-	-	1,100,869
<u>\$ 153,421</u>	<u>\$ 365,948</u>	<u>\$ 91,175</u>	<u>\$ 124,820</u>	<u>\$ 5,116</u>	<u>\$ 1,887,879</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, 2016

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

Fund Balances - total governmental funds	\$ 1,100,869
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	41,279
Deferred outflows related to pensions not reported in the funds	197,343
Net pension liability not reported in the funds	(601,738)
Deferred inflows related to pensions not reported in the funds	(2,489)
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>(4,234)</u>
Net position of governmental activities	<u>\$ 731,030</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, 2016

	OPERATIONAL	IDEA-B ENTITLEMENT	MEDICAID TITLE XIX
REVENUE			
Federal Programs	\$ -	\$ -	\$ -
State Programs	103,956	-	-
Local Programs	-	-	-
State Equalization	-	-	-
Service Revenues	383,217	851,148	557,944
Taxes	-	-	-
Interest	-	-	-
Other revenue sources	-	-	-
TOTAL REVENUES	487,173	851,148	557,944
EXPENDITURES			
Current			
Instruction	-	345,339	-
Support Services	-	-	-
Support Services Students	1,938	413,732	463,759
Support Services Instruction	-	-	-
Support Services General Administration	195,016	92,077	-
Support Services School Administration	114,883	-	-
Central Services	88,819	-	-
Operation and Maintenance of Plant	15,287	-	-
Student Transportation	-	-	-
Other Support Services	1,688	-	-
Food Services Operations	-	-	-
Capital Outlay	34,415	-	-
Debt Service	-	-	-
Principal	-	-	-
Interest and Fiscal Charge	-	-	-
TOTAL EXPENDITURES	452,046	851,148	463,759
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	35,127	-	94,185
Other Financing Sources (Uses)			
Transfers In/ Transfers (Out)	-	-	-
Total Other Financing Sources	-	-	-
NET CHANGE IN FUND BALANCE	35,127	-	94,185
FUND BALANCE			
June 30, 2015	255,309	-	717,544
Restatements	(1,296)	-	-
June 30, 2015 as restated	254,013	-	717,544
FUND BALANCE	289,140	-	811,729
June 30, 2016	\$ 289,140	\$ -	\$ 811,729

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

EXHIBIT E

PRE K INITIATIVE	ASSETS	BEST BUDDIES	STATE DIRECTED ACTIVITIES	NON MAJOR GOVERNMENTAL FUNDS	Total GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	103,956
-	-	-	-	-	-
476,906	1,439,382	108,000	217,447	53,627	4,087,671
-	-	-	-	-	-
-	-	-	-	-	-
<u>476,906</u>	<u>1,439,382</u>	<u>108,000</u>	<u>217,447</u>	<u>53,627</u>	<u>4,191,627</u>
476,906	69,904	-	17,482	30,077	939,708
-	-	-	-	-	-
-	-	-	128,467	16,264	1,024,160
-	1,369,478	101,272	45,101	4,125	1,807,069
-	-	-	26,397	2,661	143,941
-	-	-	-	-	88,819
-	-	6,728	-	-	22,015
-	-	-	-	-	-
-	-	-	-	-	1,688
-	-	-	-	500	500
-	-	-	-	-	34,415
-	-	-	-	-	-
-	-	-	-	-	-
<u>476,906</u>	<u>1,439,382</u>	<u>108,000</u>	<u>217,447</u>	<u>53,627</u>	<u>4,062,315</u>
-	-	-	-	-	129,312
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	129,312
-	-	-	-	-	972,853
-	-	-	-	-	(1,296)
-	-	-	-	-	<u>971,557</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,100,869</u>

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT F

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, 2016

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

Net change in fund balance - total governmental funds	\$ 129,312
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	
Capital Outlay	34,415
Depreciation	(5,503)
Compensated Absences	8,608
Pension related expense	(16,670)
Change in Net Position	<u>\$ 150,162</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, 2016

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
State Programs	\$ 103,955	\$ 511,404	\$ 487,173	\$ (24,231)
TOTAL REVENUE	<u>103,955</u>	<u>511,404</u>	<u>\$ 487,173</u>	<u>\$ (24,231)</u>
BUDGETED CASH BALANCE	-	-		
TOTAL REVENUE & CASH	<u>\$ 103,955</u>	<u>\$ 511,404</u>		
EXPENDITURES				
Current				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	-
Support Services Students	500	4,545	1,938	2,607
Support Services Instruction	-	-	-	-
Support Services General Administration	76,168	195,836	186,707	9,129
Support Services School Administration	-	118,296	114,883	3,413
Central Services	21,030	95,512	88,819	6,693
Operation and Maintenance of Plant	6,157	18,915	15,287	3,628
Student Transportation	-	-	-	-
Other Support Services	100	43,135	1,688	41,447
Food Services Operations	-	-	-	-
Capital Outlay	-	35,165	34,415	750
TOTAL EXPENDITURES	<u>\$ 103,955</u>	<u>\$ 511,404</u>	<u>\$ 443,737</u>	<u>\$ 67,667</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, 2016

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	-	-
Local Programs	494,569	2,418,994	898,377	(1,520,617)
TOTAL REVENUE	<u>494,569</u>	<u>2,418,994</u>	<u>\$ 898,377</u>	<u>\$ (1,520,617)</u>
BUDGETED CASH BALANCE	-	-		
TOTAL REVENUE & CASH	<u>\$ 494,569</u>	<u>\$ 2,418,994</u>		
EXPENDITURES				
Current				
Instruction	\$ 160,923	\$ 1,146,760	\$ 348,083	\$ 798,677
Support Services	-	-	-	-
Support Services Students	253,109	1,179,827	413,732	766,095
Support Services Instruction	-	-	-	-
Support Services General Administration	80,537	92,407	92,077	330
Support Services School Administration	-	-	-	-
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 494,569</u>	<u>\$ 2,418,994</u>	<u>\$ 853,892</u>	<u>\$ 1,565,102</u>

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, 2016

	Original Budget	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	-	-
Local Programs	571,000	577,000	557,944	(19,056)
TOTAL REVENUE	<u>571,000</u>	<u>577,000</u>	<u>\$ 557,944</u>	<u>\$ (19,056)</u>
BUDGETED CASH BALANCE	<u>-</u>	<u>50,000</u>		
TOTAL REVENUE & CASH	<u>\$ 571,000</u>	<u>\$ 627,000</u>		
EXPENDITURES				
Current				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	-
Support Services Students	571,000	627,000	432,339	194,661
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>\$ 571,000</u>	<u>\$ 627,000</u>	<u>\$ 432,339</u>	<u>\$ 194,661</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

=OPERATIONALIA7

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	654,064	647,651	463,319	(184,332)
Local Programs	-	-	-	-
TOTAL REVENUE	<u>654,064</u>	<u>647,651</u>	<u>\$ 463,319</u>	<u>\$ (184,332)</u>
BUDGETED CASH BALANCE				
	-	-		
TOTAL REVENUE & CASH	<u>\$ 654,064</u>	<u>\$ 647,651</u>		
EXPENDITURES				
Current				
Instruction	\$ 654,064	\$ 647,651	\$ 476,906	\$ 170,745
Support Services	-	-	-	-
Support Services Students	-	-	-	-
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>\$ 654,064</u>	<u>\$ 647,651</u>	<u>\$ 476,906</u>	<u>\$ 170,745</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-- ASSETS

Year Ended June 30, 2016

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	1,602,856	1,602,856	1,126,229	(476,627)
Local Programs	-	-	-	-
TOTAL REVENUE	<u>1,602,856</u>	<u>1,602,856</u>	<u>\$ 1,126,229</u>	<u>\$ (476,627)</u>
 BUDGETED CASH BALANCE	 <u>-</u>	 <u>-</u>		
 TOTAL REVENUE & CASH	 <u>\$ 1,602,856</u>	 <u>\$ 1,602,856</u>		
 EXPENDITURES				
Current				
Instruction	\$ 82,800	\$ 82,800	\$ 69,904	\$ 12,896
Support Services	-	-	-	-
Support Services Students	-	-	-	-
Support Services Instruction	-	-	-	-
Support Services General Administration	1,520,056	1,520,056	1,369,478	150,578
Support Services School Administration	-	-	-	-
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 1,602,856</u>	<u>\$ 1,602,856</u>	<u>\$ 1,439,382</u>	<u>\$ 163,474</u>

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT L

STATEMENT OF REVENUE & EXPENDITURES--BUDGET (NON-GAAP)
AND ACTUAL--SPECIAL REVENUE FUND--BEST BUDDIES

Year Ended June 30, 2016

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	108,000	108,000	130,061	22,061
Local Programs	-	-	-	-
TOTAL REVENUE	<u>108,000</u>	<u>108,000</u>	<u>\$ 130,061</u>	<u>\$ 22,061</u>
BUDGETED CASH BALANCE				
	-	-		
TOTAL REVENUE & CASH	<u>\$ 108,000</u>	<u>\$ 108,000</u>		
EXPENDITURES				
Current				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	-
Support Services Students	-	-	-	-
Support Services Instruction	-	-	-	-
Support Services General Administration	100,500	100,500	101,272	(772)
Support Services School Administration	-	-	-	-
Central Services	-	-	-	-
Operation and Maintenance of Plant	7,500	7,500	6,728	772
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 108,000</u>	<u>\$ 108,000</u>	<u>\$ 108,000</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT M

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

Year Ended June 30, 2016

	Original Budget	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	217,464	217,464	129,868	(87,596)
Local Programs	-	-	-	-
TOTAL REVENUE	<u>217,464</u>	<u>217,464</u>	<u>\$ 129,868</u>	<u>\$ (87,596)</u>
BUDGETED CASH BALANCE	<u>-</u>	<u>-</u>		
TOTAL REVENUE & CASH	<u>\$ 217,464</u>	<u>\$ 217,464</u>		
EXPENDITURES				
Current				
Instruction	\$ 17,494	\$ 17,494	\$ 17,482	\$ 12
Support Services	-	-	-	-
Support Services Students	128,471	128,471	128,467	4
Support Services Instruction	-	-	-	-
Support Services General Administration	45,102	45,102	45,101	1
Support Services School Administration	26,397	26,397	26,397	-
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 217,464</u>	<u>\$ 217,464</u>	<u>\$ 217,447</u>	<u>\$ 17</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, 2016

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.

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.

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity (continued)

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.

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 Directed Activities - To account for expenditures related to an agreement between the REC and the PED for the purpose of providing assistance to the patriating 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 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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

3. Governmental Funds (continued)

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 providers 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.

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

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.

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

12. Capital Assets (continued)

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 12-month or full time employees earn vacation and sick leave in amounts varying with tenure and classification. Employees earn 10 days if employed less than 3 years and 15 days if employed more than 3 years. 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.

14. Compensated Absences (continued)

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.

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.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.
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	\$ 103,955	\$ 511,404
Special Revenue Funds	3,688,410	5,766,825
	<u>\$ 3,792,365</u>	<u>\$ 6,278,229</u>

B. Deficit fund equity

There were not any deficit fund balances at June 30, 2016.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016 \$326,523 of the REC's bank balance of \$729,777 was exposed to custodial credit risk.

Collateral requirements are as follows:

Wells Fargo Bank	Total Deposits	\$	729,777
	Less: FDIC coverage		(250,000)
	Uninsured Public Funds		<u>479,777</u>
Pledged collateral held by pledging bank's agent in the District's name			153,254
Uninsured and un-collateralized		\$	<u><u>326,523</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:

	Pre K Initiative	Assets	Best Buddies	State Directed Activities	Non Major Governmental	TOTAL
Intergovernmental Grants:						
Other Governments	\$153,421	\$ 365,948	\$ 91,175	\$ 124,820	\$ 5,116	\$ 740,480
	<u>\$153,421</u>	<u>\$ 365,948</u>	<u>\$ 91,175</u>	<u>\$ 124,820</u>	<u>\$ 5,116</u>	<u>\$ 740,480</u>

Receivables are considered fully collectible.

C. Capital Assets

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

	Beginning Balance	Adjustments	Increases	Decreases	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Capital assets, being depreciated:					
Buildings & building improvements	103,048	(4,809)	-	-	98,239
Equipment	39,988	13,616	34,415	21,935	66,084
Total Capital Assets being depreciated	<u>143,036</u>	<u>8,807</u>	<u>34,415</u>	<u>21,935</u>	<u>164,323</u>
Less accumulated depreciation for:					
Buildings & building improvements	90,681	(4,809)	3,352	-	89,224
Equipment	39,988	13,616	2,151	21,935	33,820
Total accumulated depreciation	<u>130,669</u>	<u>8,807</u>	<u>5,503</u>	<u>21,935</u>	<u>123,044</u>
Total Capital assets, being depreciated, net	<u>12,367</u>	<u>-</u>	<u>28,912</u>	<u>-</u>	<u>41,279</u>
Governmental activities capital assets, net	<u>\$ 12,367</u>	<u>\$ -</u>	<u>\$ 28,912</u>	<u>\$ -</u>	<u>\$ 41,279</u>

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

III. DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets (continued)

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

Support Services General Administration	\$ 5,503
Total	<u>\$ 5,503</u>

E. Compensated Absences

The following is a summary of compensated absences transactions:

Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Amounts due in One Year
<u>\$ 12,842</u>	<u>\$ 7,313</u>	<u>\$ (15,921)</u>	<u>\$ 4,234</u>	<u>\$ 4,234</u>

V. OTHER INFORMATION

A. Pension Plan – Education Retirement Board

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

Plan Description – Substantially all of the Regional Education 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 Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers, and other employees of State public school districts, colleges and universities, and some state agency employees) and beneficiaries. ERB issues a separate, publicly available financial report that includes the financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, New Mexico 87502. The report is also available on ERB's website at www.nmerb.org.

Funding Policy

Benefits provided - A member's retirement benefit is determined by a formula which includes three component parts: the member's final average salary (FAS), the number of years of service credit, and 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. A brief summary of Plan coverage provisions follows:

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.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, reemployed after that date 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.

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. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. 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%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. 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.

A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

Contributions - The contribution requirements of defined benefit plan members and the District are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2014 employers contributed 13.15% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed 10.10% of their gross annual salary. For fiscal year ended June 30, 2015 employers contributed 13.90%, and employees earning \$20,000 or less continued to contribute 7.90% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross annual salary. Contributions to the pension plan from the REC were \$23,500 for the year ended June 30, 2016.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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: The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2015. At June 30, 2016, the REC reported a liability of \$601,738 for its proportionate share of the net pension liability. The REC's proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2015. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2015, the REC's proportion was .00929 percent, which was a decrease of .00192 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the REC recognized pension expense of \$40,178. At June 30, 2016, 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
Beginning balance	\$ 74,805	\$ 44,515
Changes of assumptions	20,698	-
Net difference between projected and actual earnings on pension plan investments	33,430	-
Changes in proportion	81,610	-
2015 Actual employer contributions	(36,700)	-
2016 Actual employer contributions	23,500	-
Differences between expected and actuarial experience	-	6,001
Proportionate change in deferred outflow/inflow	-	(49,526)
Net amortization of deferred amounts from changes in proportion	-	1,499
Total	<u>\$ 197,343</u>	<u>\$ 2,489</u>

\$23,500 reported as deferred outflows of resources related to pensions resulting from the REC contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:	
2017	70,701
2018	65,724
2019	26,595
2020	8,358
Thereafter	Unavailable

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

Actuarial assumptions - As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. Specifically, the liabilities measured as of June 30, 2015 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2014 and 10.7% thereafter.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on April 26, 2013 in conjunction with the six-year experience study period ending June 30, 2012.

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5 year smoothed market for funding valuation (fair value for financial valuation)
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement age	Experience base table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment projected to 2014 using Scale AA (one year setback for females)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2014 and 2013 for 30- year return assumptions are summarized in the following table:

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

Asset Class	2014 Long-Term Expected Real Rate of Return	2013 Long-Term Expected Real Rate of Return
Cash	1.50%	0.75%
Treasuries	2.00%	1.00%
IG Corp Credit	3.50%	3.00%
MBS	2.25%	2.50%
Core Bonds	2.53%	2.04%
TIPS	2.50%	1.50%
High Yield Bonds	4.50%	5.00%
Bank Loans	5.00%	5.00%
Global Bonds (Unhedged)	1.25%	0.75%
Global Bonds (Hedged)	1.38%	0.93%
EMD External	5.00%	4.00%
EMD Local Currency	5.75%	5.00%
Large Cap Equities	6.25%	6.75%
Small/Mid Cap	6.25%	7.00%
International Equities (Unhedged)	7.25%	7.75%
International Equities (Hedged)	7.50%	8.00%
Emerging International Equities	9.50%	9.75%
Private Equity	8.75%	9.00%
Private Debt	8.00%	8.50%
Private Real Assets	7.75%	8.00%
Real Estate	6.25%	6.00%
Commodities	5.00%	5.00%
Hedge Funds Low Vol	5.50%	4.75%
Hedge Funds Mod Vol	5.50%	6.50%

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

Discount rate: A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2015 and June 30, 2014. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

Sensitivity of the REC's proportionate share of the net pension liability to changes in the discount rate. The following table presents the REC's proportionate share of the net pension liability calculated using the discount rate of 7.75 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 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
The REC's proportionate share of the net pension liability	<u>\$809,679</u>	<u>\$601,738</u>	<u>\$427,046</u>

Pension plan fiduciary net position - Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2015 and 2014 which are publicly available at www.nmerb.org.

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

D. Post-Employment Benefits – State Retiree Health Care Plan

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

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

V. OTHER INFORMATION (continued)

B. Post-Employment Benefits – State Retiree Health Care Plan (continued)

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3,4 or 5; municipal fire member coverage plan 3,4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30,2016, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, that statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The REC's contributions to the RHCA for the years ended June 30, 2016, 2015 and 2014 were \$3,544, \$5,284 and \$4,065 respectively, which equal the required contributions for each year.

C. Restatement of Beginning Net Position for Governmental Funds

	Governmental Activities
Net Position at June 30, 2015	\$ 582,164
Prior Period Adjustments	
To correct cash balances in the operational fund	(1,296)
Net Position at June 30, 2015 as Restated	<u>\$ 580,868</u>

D. Restatements of Beginning Fund Balances

Operational	\$ (1,296)
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STATE OF NEW MEXICO
 REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, they consisted of the following:

Due To	
Operational	\$ 297,997
Medicaid	442,483
Total Due To	<u>\$ 740,480</u>
Due From	
Pre K Initiative	\$ 153,421
Assets	365,948
State Directed Activities	124,820
Teacher Principal Training	5,116
Best Buddies	91,175
Total Due From	<u>\$ 740,480</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, 2016 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, 2016

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	-	811,729	-	811,729
Total Restricted	-	811,729	-	811,729
Unassigned	289,140	-	-	289,140
Total Fund Balances	\$ 289,140	\$ 811,729	\$ -	\$ 1,100,869

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
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

STATE OF NEW MEXICO
 REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

V. OTHER INFORMATION (continued)

K. Reconciliation of Budgetary and GAAP Basis Amounts

	<u>Operational</u>	<u>Entitlement</u>	<u>Preschool</u>	<u>Risk Pool</u>	<u>Teacher/ Principal Training</u>
REVENUES					
Budgetary Basis	\$ 487,173	\$ 898,377	\$ 31,242	\$ 2,068	\$ 41,977
Add:					
Current Year Receivables & Other Credits	-	-	-	-	5,116
Deduct:					
Prior Year Receivables & Other Debits	<u>-</u>	<u>47,229</u>	<u>5,613</u>	<u>304</u>	<u>20,859</u>
REVENUE --GAAP BASIS	<u>\$ 487,173</u>	<u>\$ 851,148</u>	<u>\$ 25,629</u>	<u>\$ 1,764</u>	<u>\$ 26,234</u>
EXPENDITURES					
Budgetary Basis	\$ 443,737	\$ 853,892	\$ 25,629	\$ 1,764	\$ 26,234
Add:					
Current Year Payables & Other Debits	9,020	-	-	-	-
Deduct:					
Prior Year Payables & Other Credits	<u>711</u>	<u>2,744</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES --GAAP BASIS	<u>\$ 452,046</u>	<u>\$ 851,148</u>	<u>\$ 25,629</u>	<u>\$ 1,764</u>	<u>\$ 26,234</u>

<u>Title XIX Medicaid</u>	<u>Pre K Initiative</u>	<u>Assets</u>	<u>Best Buddies</u>	<u>NMAA</u>	<u>Assets School Projects</u>	<u>State Directed Activities</u>
\$ 557,944	\$ 463,319	\$ 1,126,229	\$ 130,061	\$ 19,205	\$ 152,789	\$ 129,868
-	153,421	365,948	91,175	-	-	124,820
-	139,834	52,795	113,236	19,205	152,789	37,241
<u>\$ 557,944</u>	<u>\$ 476,906</u>	<u>\$ 1,439,382</u>	<u>\$ 108,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,447</u>
\$ 432,339	\$ 476,906	\$ 1,439,382	\$ 108,000	\$ -	\$ -	\$ 217,447
37,510	-	-	-	-	-	-
6,090	-	-	-	-	-	-
<u>\$ 463,759</u>	<u>\$ 476,906</u>	<u>\$ 1,439,382</u>	<u>\$ 108,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,447</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.

IDEA B Risk Pool - To account for an additional allocation from PED to fund children at risk. The program is 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.

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).

NMAA - To account for expenditures to provide financial support for athletic and extracurricular activities and support for public school students. The fund was created by management.

Assets School Projects - To account for expenditures to achieve increased student performance. ASSETS will establish and implement a coordinated system for personnel development that (1) increases the capacity of schools to navigate statewide demands, (2) supports and maintains a blended model of academic and behavioral supports with a Response to Intervention framework, and (3) ensures sustainability. 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, 2016

	<u>IDEA- B Preschool</u>	<u>IDEA- B Risk Pool</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ -
Accounts Receivable		
Property Taxes Receivable	-	-
Other Governments	-	-
State	-	-
Inventories	-	-
Due from Other Funds	-	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND OTHER CREDITS		
Accounts Payable	\$ -	\$ -
Due to Other Funds	-	-
Accrued Interest Payable	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	-	-
TOTAL DEFERRED INFLOWS	<u>-</u>	<u>-</u>
FUND BALANCE		
Nonspendable	-	-
Restricted	-	-
Committed	-	-
Assigned	-	-
Unassigned	-	-
TOTAL FUND BALANCE	<u>-</u>	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>

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

EXHIBIT A-1

Teacher/Principal Training	NMAA	Assets School Projects	Total Non-Major Special Revenue Funds	TOTAL NONMAJOR GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
5,116	-	-	5,116	5,116
-	-	-	-	-
-	-	-	-	-
<u>\$ 5,116</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,116</u>	<u>\$ 5,116</u>
\$ -	\$ -	\$ -	\$ -	\$ -
5,116	-	-	5,116	5,116
<u>5,116</u>	<u>-</u>	<u>-</u>	<u>5,116</u>	<u>5,116</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 5,116</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,116</u>	<u>\$ 5,116</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, 2016

	IDEA- B Preschool	IDEA- B Risk Pool
REVENUE		
Federal Programs	\$ -	\$ -
State Programs	-	-
Local Programs	-	-
State Equalization	-	-
Service Revenues	25,629	1,764
Taxes	-	-
Interest	-	-
Other revenue sources	-	-
TOTAL REVENUES	<u>25,629</u>	<u>1,764</u>
EXPENDITURES		
Current		
Instruction	11,689	1,764
Support Services	-	-
Support Services Students	13,440	-
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	500	-
Capital Outlay	-	-
TOTAL EXPENDITURES	<u>25,629</u>	<u>1,764</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	-	-
Other Financing Sources (Uses)		
Transfer In/Transfers (Out)	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-
FUND BALANCE		
June 30, 2015	-	-
Restatements	-	-
June 30, 2015 as restated	<u>-</u>	<u>-</u>
FUND BALANCE		
June 30, 2016	<u>\$ -</u>	<u>\$ -</u>

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

EXHIBIT A-2

Teacher/Principal Training	NMAA	Assets School Projects	TOTAL NONMAJOR SPECIAL REVENUE FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
26,234	-	-	53,627	53,627
-	-	-	-	-
-	-	-	-	-
<u>26,234</u>	<u>-</u>	<u>-</u>	<u>53,627</u>	<u>53,627</u>
16,624	-	-	30,077	30,077
-	-	-	-	-
2,824	-	-	16,264	16,264
-	-	-	-	-
4,125	-	-	4,125	4,125
2,661	-	-	2,661	2,661
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	500	500
-	-	-	-	-
<u>26,234</u>	<u>-</u>	<u>-</u>	<u>53,627</u>	<u>53,627</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT A-3

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

Year Ended June 30, 2016

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	-	-
Local Programs	14,001	71,989	31,242	(40,747)
TOTAL REVENUE	<u>14,001</u>	<u>71,989</u>	<u>\$ 31,242</u>	<u>\$ (40,747)</u>
BUDGETED CASH BALANCE	<u>-</u>	<u>-</u>		
TOTAL REVENUE & CASH	<u>\$ 14,001</u>	<u>\$ 71,989</u>		
EXPENDITURES				
Current				
Instruction	\$ 6,549	\$ 54,956	\$ 11,689	\$ 43,267
Support Services	-	-	-	-
Support Services Students	6,952	16,533	13,440	3,093
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	500	500	500	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 14,001</u>	<u>\$ 71,989</u>	<u>\$ 25,629</u>	<u>\$ 46,360</u>

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT A-4

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

Year Ended June 30, 2016

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	-	-
Local Programs	1,849	2,133	2,068	(65)
TOTAL REVENUE	<u>1,849</u>	<u>2,133</u>	<u>\$ 2,068</u>	<u>\$ (65)</u>
BUDGETED CASH BALANCE	-	-		
TOTAL REVENUE & CASH	<u>\$ 1,849</u>	<u>\$ 2,133</u>		
EXPENDITURES				
Current				
Instruction	\$ 1,849	\$ 2,133	\$ 1,764	\$ 369
Support Services	-	-	-	-
Support Services Students	-	-	-	-
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>\$ 1,849</u>	<u>\$ 2,133</u>	<u>\$ 1,764</u>	<u>\$ 369</u>

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT A-5

STATEMENT OF REVENUE & EXPENDITURES--BUDGET (NON-GAAP)
AND ACTUAL--SPECIAL REVENUE FUND--TEACHER/PRINCIPAL TRAINING

Year Ended June 30, 2016

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	-	-
Local Programs	24,607	70,738	41,977	(28,761)
TOTAL REVENUE	<u>24,607</u>	<u>70,738</u>	<u>\$ 41,977</u>	<u>\$ (28,761)</u>
BUDGETED CASH BALANCE	<u>-</u>	<u>-</u>		
TOTAL REVENUE & CASH	<u>\$ 24,607</u>	<u>\$ 70,738</u>		
EXPENDITURES				
Current				
Instruction	\$ 13,160	\$ 28,753	\$ 16,624	\$ 12,129
Support Services	-	-	-	-
Support Services Students	3,700	13,238	2,824	10,414
Support Services Instruction	-	-	-	-
Support Services General Administration	4,547	15,547	4,125	11,422
Support Services School Administration	3,200	13,200	2,661	10,539
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 24,607</u>	<u>\$ 70,738</u>	<u>\$ 26,234</u>	<u>\$ 44,504</u>

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

STATE OF NEW MEXICO
 REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT A-6

STATEMENT OF REVENUE & EXPENDITURES--BUDGET (NON-GAAP)
 AND ACTUAL--SPECIAL REVENUE FUND--NMAA

Year Ended June 30, 2016

	ORIGINAL ACTUAL	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	19,205	19,205
Local Programs	-	-	-	-
TOTAL REVENUE	<u>-</u>	<u>-</u>	<u>\$ 19,205</u>	<u>\$ 19,205</u>
BUDGETED CASH BALANCE	<u>-</u>	<u>-</u>		
TOTAL REVENUE & CASH	<u>\$ -</u>	<u>\$ -</u>		
EXPENDITURES				
Current				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	-
Support Services Students	-	-	-	-
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>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATEMENT OF REVENUE & EXPENDITURES--BUDGET (NON-GAAP)
 AND ACTUAL--SPECIAL REVENUE FUND--ASSETS SCHOOL PROJECTS

Year Ended June 30, 2016

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
REVENUE				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	152,789	152,789
Local Programs	-	-	-	-
TOTAL REVENUE	<u>-</u>	<u>-</u>	<u>\$ 152,789</u>	<u>\$ 152,789</u>
BUDGETED CASH BALANCE	<u>-</u>	<u>-</u>		
TOTAL REVENUE & CASH	<u>\$ -</u>	<u>\$ -</u>		
EXPENDITURES				
Current				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	-
Support Services Students	-	-	-	-
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>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

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

JUNE 30, 2016

	<u>2016</u>
Proportion of the net pension liability	0.00929%
Proportionate share of the net pension liability	\$ 601,738
Covered-employee payroll	\$ 253,647
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	237.23%
Plan fiduciary net position as a percentage of total pension liability	66.54%

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

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 2

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

JUNE 30, 2016

	<u>2016</u>
Contractually required contribution	\$ 23,500
Contributions in relation to the contractually required contribuion	23,500
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 169,060
Contributions as a percentage of covered-employee payroll	13.90%

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

Notes to Required Supplementary Information (Schedules 4 & 5)

Changes of benefit terms - The COLA and retirement eligibility benefits changes in recent years are described in the Benefits Provided subsection of the financial statement note disclosure General Information on the Pension Plan.

Changes of assumptions - ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on April 26, 2013, ERB implemented the following changes in assumptions for fiscal years 2014 and 2013.

1. Fiscal year 2014 and 2013 valuation assumptions that changed based on this study:
 - a. Lower wage inflation from 4.75% to 4.25%
 - b. Lower payroll growth from 3.75% to 3.50%
 - c. Minor changes to demographic assumptions
 - d. Population growth per year from 0.75% to 0.50%
2. Assumptions that were not changed:
 - a. Investment return will remain at 7.75%
 - b. Inflation will remain at 3.00%

See also the Actuarial Assumptions subsection of the financial statement note disclosure General Information on the Pension Plan.

OTHER SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
 REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 3

BANK SUMMARY

JUNE 30, 2016

Bank	ACCT TYPE	FUND	BANK BALANCE	OUTSTANDING (CHECKS) DEPOSITS	NET CASH BALANCE
Wells Fargo Bank	Checking	Multi Fund	\$ 723,107	\$ (316,351)	\$ 406,756
	Checking	Operational	6,670	(6,507)	163
Total Wells Fargo Bank			<u>729,777</u>	<u>(322,858)</u>	<u>406,919</u>
Total All Accounts			<u>\$ 729,777</u>	<u>\$ (322,858)</u>	<u>\$ 406,919</u>

* Interest Bearing

SCHEDULE OF PLEDGED COLLATERAL

JUNE 30, 2016

	Total Deposits	FDIC Insurance	Uninsured Deposits	Collateral Required	Collateral Pledged	Uninsured & Uncollateralized Deposits
Wells Fargo Bank	\$ 729,777	\$ 250,000	\$ 479,777	\$ 239,889	\$ 153,254	\$ 326,523

Collateral	CUSIP #.	Amount	Matures
FMAC FGPC 3%	3128MMSN4	123,692	9/1/2029
FMNMA FNMS 3%	3138AVF83	29,562	11/1/2026
		<u>153,254</u>	

Collateral is held at the Wells Fargo Bank in Hobbs, New Mexico in the name of the District.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 5

BANK RECONCILIATION

JUNE 30, 2016

	OPERATIONAL	FEDERAL PROJECTS	LOCAL/STATE ACCOUNT
Audited Net Cash			
June30, 2015	\$ -	\$ 723,633	\$ (330,340)
Investments & cash on hand/Loans	-	-	-
TOTAL CASH BALANCE			
June30, 2015	-	723,633	(330,340)
Add: Prior year void checks	-	-	-
2015-2016 Revenue	487,173	1,531,568	2,021,471
Transfers In & Adjustments	256,020	330,340	1,046,499
TOTAL AVAILABLE CASH	743,193	2,585,541	2,737,630
Less: 2015-2016 Expenditures	443,737	1,339,858	2,241,735
Returned Checks	-	-	-
Transfers Out & Adjustments	299,293	838,927	495,895
	<u>743,030</u>	<u>2,178,785</u>	<u>2,737,630</u>
NET CASH, JUNE 30, 2016	163	406,756	-
Cash On hand	-	-	-
TOTAL CASH, JUNE 30, 2016	\$ 163	\$ 406,756	\$ -

STATE OF NEW MEXICO
 REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF VENDOR INFORMATION FOR PURCHASES
 EXCEEDING \$60,000 (EXCLUDING GRT)

FOR THE YEAR ENDED JUNE 30, 2016

PREPARED BY AGENCY STAFF NAME: Karen Soria
 TITLE: Director of Finance DATE: 8/17/2016

<i>Agency Number</i>	<i>Agency Name</i>	<i>Agency Type</i>	<i>RFB#/RFP# (if applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	Exempt	To and From Transportation Exemption #13-1-98H	B&G Transportation	Winner
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	15-16-1	Ancillary Services	April Collins (Williams)	Winner
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	NA	IGA #16-924-00134	Best Buddies	Winner
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	NA	TCPN R5141	Flippen Group, LLC	Winner
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	NA	IGA #16-924-00134	NMSU	Winner
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	15-16-1	Ancillary Services	Thomas Salb	Winner
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	NA	IGA #16-924-00134	Sharon Gatti-Carson	Winner

SCHEDULE 6

<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
\$ 115,661.17	\$ 115,661.17	B&G Transportation PO Box 247 Hobbs, NM 88241	No	No	Transportation of Students by Bus	Not Applicable
\$ 84,029.00	\$ 84,029.00	2508 Seaboard Midland, TX 79705	No	No	Speech and Language Services	Not Applicable
\$ 99,999.97	\$ 99,999.97	100 SE 2nd Street, Suite 2200 Miami, FL 33131-2151	No	No	IGA for Best Buddies	Not Applicable
\$ 163,226.27	\$ 163,226.27	Filppen Group LLC 1199 Haywood Dr. College Station, TX 77845	No	No	Capturing Kids Hearts Trainings	Not Applicable
\$ 750,211.79	\$ 750,211.79	NMSU PO Box 30001 Las Cruces, NM 88003	No	No	IGA for Assets	Not Applicable
\$ 99,689.34	\$ 99,689.34	1849 N. Jefferson Hobbs, NM 88240	No	No	Psychological Services	Not Applicable
\$ 167,200.00	\$ 167,200.00	3109 Megan Way Berthoud, CO 80513	No	No	IGA for Assets	Not Applicable

Woodard Cowen & Co.

Certified Public Accountants

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

Timothy Keller
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, 2016, 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 and related budgetary comparisons of Regional Education Cooperative VII, presented as supplemental information, and have issued our report thereon dated August 18, 2016.

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 2016-001 and 2016-002.

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 item 2016-003.

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
August 18, 2016

STATE OF NEW MEXICO
 REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

I. SUMMARY OF AUDITORS RESULTS:

Report on Financial Statements	Unmodified
Significant Deficiencies on GAGAS	2016-001 and 2016-002
Other Items required to be reported	None
Material Noncompliance	None
Questioned Cost	None

II. FINANCIAL STATEMENT FINDINGS

Control

2016-001 Purchase Orders (significant deficiency)

- Condition:** The REC had invoices for which there was no purchase order prepared. Of 80 invoices tested, 49 or 61% were dated prior to the purchase order. This amounted to \$ 183,411 of \$ 230,440 or 80% of the amounts tested. Also, 13 of the 49 exceptions were from per diem expenditures.
- Criteria:** 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 REC was not using purchase orders for funds that the participating school districts were requesting reimbursements for.
- Effect:** Not properly using purchase orders creates a situation where expenditures could exceed budgets at the function level, thus violating budgetary control and state statute.
- Recommendation:** The REC should consider using more open purchase orders for recurring charges, contracts and utilities. Also, more effort should be made to ensure the schools notify the REC prior to the the expenditure, in order for the REC to prepare a purchase order.
- Response:** According to NMSA 13-1-98 (Exemptions from Procurement), the majority of Regional Education Cooperative VIIs' purchases are either exempt by NMSA 13-1-98A, 13-1-98F, and/or 13-1-98J. Also, the Director of Finance produces an expenditure report monthly to its board members. While preparing this financial statement all aspects of the budget are reviewed; Regional Education Cooperative VII feels it has a good grasp on how our budget dollars are being spent. That being stated, Regional Education Cooperative VII acknowledges the finding and the Director of Finance will immediately take the steps to improve its' current purchasing procedures; changes have already been implemented with the issuance of more open purchase orders for recurring expenses.

2016-002 Payroll Processing Internal Controls (significant deficiency)

- Condition:** Internal controls over the payroll process allow for one person to process payroll from initial setup of employees in the system to writing and running payroll disbursements.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

II. FINANCIAL STATEMENT FINDINGS (continued)

2016-002 Payroll Processing Internal Controls (significant deficiency) (continued)

Criteria: Each educational cooperative shall develop, establish and maintain a structure of internal accounting controls and written procedures to provide for segregation of duties, a system of authorization and recording procedures, and sound accounting practices in performance of duties and functions. The duties to be segregated are the authorization to execute a transaction, recording the transaction, and custody of assets involved in the transaction.

Cause: Internal controls over payroll functions have not been established by the REC.

Effect: Protection of city assets has been weakened.

Recommendation: Internal controls be established which segregate some of the payroll duties to ensure one person does not have total access to all processes.

Response: The Regional Education Cooperative VII's finance department has one full time employee (Director of Finance) and one part-time employee. We simply don't have enough staff to cover every area and do the best we can to separate duties as required. That being stated, Regional Education Cooperative VII will have the part-time finance employee enter any new employees in the future relieving the Director of Finance of being the only person who enters new employees into the software. Regional Education Cooperative VII is in the process of updating its Policy and Procedures manual and will present it to the board members for approval throughout this year. This finding will be fixed before the next audit.

Compliance

None

III. FEDERAL FINDINGS

None

IV. PRIOR YEAR AUDIT FINDINGS

None

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF 12-6-5 NMSA 1978 FINDINGS

JUNE 30, 2016

Compliance

2016-003 Uncollateralized Funds (Other)

- Condition: Bank balance at Wells Fargo Bank was under collateralized by \$ 86,635 on June 30, 2016.
- Criteria: 6-10-17 NMSA 1978 Compilation – Any bank or savings loan association designated as a depository shall deliver securities of the kind specified in Section 6-10-16 NMSA, or join safekeeping receipt, therefore, to the public official from whom, or the public board from which, the public money is received for deposit is an aggregate value equal to one-half the amount public money to be received in accordance with Subsection B Section 6-10-16 NMSA 1978.
- Effect: Potential loss of funds if operation of bank ceases.
- Cause: The REC was not adequately monitoring the collateral pledged by the bank to ensure that the state requirements are being met.
- Recommendation: Notify the bank to provide the collateral to meet state requirements. Also, the REC should monitor the monthly collateralization statement provided by the bank to determine collateral is adequate.
- Response: Regional Education Cooperative VII is starting the process of changing banks to a local branch. Our current bank, Wells Fargo, made no attempt to contact us about this issue. Board members will approve the new bank and they will be kept apprised of any changes as they occur. Regional Education Cooperative VII's Director of Finance will work closely with this local branch to ensure that proper amounts of collateral are provided and this finding will not occur in the future.

STATE OF NEW MEXICO
REGIONAL EDUCATION COOPERATIVE VII

OTHER DISCLOSURES

JUNE 30, 2016

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 August 18, 2016. Present were:

David B. Snider
Patti Harrelson
Karen Soria
D. Brent Woodard
Martin Mackechnie

Board Vice President
Executive Director
Director of Finance
Auditor
Staff Accountant