

**Regional Education Cooperative VII**

**AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION**

**JUNE 30, 2017**

*Woodard, Corwen & Co.*

Certified Public Accountants

STATE OF NEW MEXICO  
 REGIONAL EDUCATION COOPERATIVE VII

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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, 2017

BOARD MEMBERS

Dwain Haynes

President

Brian Snider

Vice President

Buddy Little

Secretary

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, 2017, and the related notes to the financial statements which collectively comprise the Regional Education Cooperative VII's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of Regional Education Cooperative VII's non-major governmental funds, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2017 as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Regional Education Cooperative VII, as of June 30, 2017, 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, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the *Schedule of Proportionate Share of the Net Pension Liability* on page 43, the *Schedule of Contributions* on page 44, with the notes to the required supplementary information on page 44 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 September 22, 2017 on our consideration of Regional Education Cooperative VII's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional Education Cooperative VII's internal control over financial reporting and compliance.

*Woodard, Cowen & Co*

Clovis, New Mexico  
September 22, 2017

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT A

STATEMENT OF NET POSITION

JUNE 30, 2017

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 1,076,924
Due from other governments	531,359
Total current assets	<u>1,608,283</u>
Non-current assets:	
Capital assets, net	<u>33,625</u>
Total non-current assets	<u>33,625</u>
Total assets	<u>1,641,908</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows related to pensions	<u>115,107</u>
Total deferred outflows	<u>115,107</u>
<u>LIABILITIES</u>	
Current liabilities:	
Compensated Absences	5,492
Due to other agencies	1,238
Total current liabilities	<u>6,730</u>
Non-current liabilities:	
Net pension liability	<u>426,029</u>
Total non-current liabilities	<u>426,029</u>
Total liabilities	<u>432,759</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows related to pensions	<u>162,614</u>
Total deferred inflows	<u>162,614</u>
<u>NET POSITION</u>	
Net investment in capital assets	33,625
Restricted:	
Special Revenue	1,270,129
Unrestricted	<u>(142,112)</u>
Total net position	<u>\$ 1,161,642</u>

The accompanying notes are an integral part of these financial statements



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STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT B

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue & Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary government:					
Governmental activities:					
Instruction	\$ 1,457,625	\$ 1,456,367	\$ -	\$ -	\$ (1,258)
Support Services	-	-	-	-	-
Support Services Students	1,215,031	1,213,693	-	-	(1,338)
Support Services Instruction	-	-	-	-	-
Support Services General Administration	486,285	283,022	-	-	(203,263)
Support Services School Administration	45,731	43,364	-	-	(2,367)
Central Services	87,174	-	-	-	(87,174)
Operation and Maintenance of Plant	19,285	7,622	-	-	(11,663)
Unallocated	-	632,254	-	-	632,254
Total governmental activities	\$ 3,311,131	\$ 3,636,322	\$ -	\$ -	325,191
General revenues:					
Grant & contributions not restricted					103,955
Miscellaneous income					1,466
Total general revenues					105,421
Change in net position					430,612
Net position - beginning					731,030
Net position - ending					\$ 1,161,642

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, 2017

	<u>OPERATIONAL</u>	<u>IDEA-B ENTITLEMENT</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,075	\$ -
Accounts Receivable		
Property Taxes Receivable	-	-
Other Governments	-	133,948
State	-	-
Inventories	-	-
Due from Other Funds	330,841	-
<b>TOTAL ASSETS</b>	<u>\$ 336,916</u>	<u>\$ 133,948</u>
<b>LIABILITIES AND OTHER CREDITS</b>		
Accounts Payable	\$ -	\$ -
Due to Other Funds	-	133,948
Due to Other Agencies	-	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>133,948</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue	-	-
<b>TOTAL DEFERRED INFLOWS</b>	<u>-</u>	<u>-</u>
<b>FUND BALANCE</b>		
Nonspendable	-	-
Restricted	-	-
Committed	-	-
Assigned	-	-
Unassigned	336,916	-
<b>TOTAL FUND BALANCE</b>	<u>336,916</u>	<u>-</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	<u>\$ 336,916</u>	<u>\$ 133,948</u>

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

EXHIBIT C

<u>MEDICAID TITLE XIX</u>	<u>PRE K INITIATIVE</u>	<u>ASSETS</u>	<u>NON MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ 1,070,849	\$ -	\$ -	\$ -	\$ 1,076,924
-	-	-	-	-
-	228,341	86,557	82,513	531,359
-	-	-	-	-
199,280	-	-	-	530,121
<u>\$ 1,270,129</u>	<u>\$ 228,341</u>	<u>\$ 86,557</u>	<u>\$ 82,513</u>	<u>\$ 2,138,404</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	227,103	86,557	82,513	530,121
-	1,238	-	-	1,238
<u>-</u>	<u>228,341</u>	<u>86,557</u>	<u>82,513</u>	<u>531,359</u>
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
1,270,129	-	-	-	1,270,129
-	-	-	-	-
-	-	-	-	-
-	-	-	-	336,916
<u>1,270,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,607,045</u>
<u>\$ 1,270,129</u>	<u>\$ 228,341</u>	<u>\$ 86,557</u>	<u>\$ 82,513</u>	<u>\$ 2,138,404</u>

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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, 2017

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

Fund Balances - total governmental funds	\$ 1,607,045
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	33,625
Deferred outflows related to pensions not reported in the funds	115,107
Net pension liability not reported in the funds	(426,029)
Deferred inflows related to pensions not reported in the funds	(162,614)
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>(5,492)</u>
Net position of governmental activities	<u>\$ 1,161,642</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, 2017

	OPERATIONAL	IDEA-B ENTITLEMENT
<b>REVENUE</b>		
Federal Programs	\$ -	\$ -
State Programs	103,955	-
Local Programs	-	-
State Equalization	-	-
Service Revenues	173,854	744,676
Other revenue sources	1,466	-
TOTAL REVENUES	<u>279,275</u>	<u>744,676</u>
<b>EXPENDITURES</b>		
Current		
Instruction	-	381,042
Support Services	-	-
Support Services Students	1,338	288,539
Support Services Instruction	-	-
Support Services General Administration	128,957	72,009
Support Services School Administration	2,367	3,086
Central Services	87,174	-
Operation and Maintenance of Plant	11,663	-
TOTAL EXPENDITURES	<u>231,499</u>	<u>744,676</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	47,776	-
<b>Other Financing Sources (Uses)</b>		
Transfers In/ Transfers (Out)	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	47,776	-
<b>FUND BALANCE</b>		
June 30, 2016	<u>289,140</u>	-
<b>FUND BALANCE</b>		
June 30, 2017	<u>\$ 336,916</u>	<u>\$ -</u>

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

EXHIBIT E

MEDICAID TITLE XIX	PRE K INITIATIVE	ASSETS	NON MAJOR GOVERNMENTAL FUNDS	Total GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	103,955
-	-	-	-	-
1,373,039	695,630	368,204	280,919	3,836,322
-	-	-	-	1,466
<u>1,373,039</u>	<u>695,630</u>	<u>368,204</u>	<u>280,919</u>	<u>3,741,743</u>
-	688,385	274,787	112,153	1,456,367
-	-	-	-	-
914,639	-	-	10,515	1,215,031
-	-	-	-	-
-	7,245	93,417	110,351	411,979
-	-	-	40,278	45,731
-	-	-	-	87,174
-	-	-	7,622	19,285
<u>914,639</u>	<u>695,630</u>	<u>368,204</u>	<u>280,919</u>	<u>3,235,567</u>
458,400	-	-	-	506,176
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
458,400	-	-	-	506,176
811,729	-	-	-	1,100,869
<u>\$ 1,270,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,607,045</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, 2017

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

Net change in fund balance - total governmental funds	\$ 506,176
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	-
Depreciation	(7,654)
Compensated Absences	(1,258)
Pension related expense	(66,652)
Change in Net Position	<u>\$ 430,612</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, 2017

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
<b>REVENUE</b>				
State Programs	\$ 217,298	\$ 294,702	\$ 279,275	\$ (15,427)
TOTAL REVENUE	<u>217,298</u>	<u>294,702</u>	<u>\$ 279,275</u>	<u>\$ (15,427)</u>
BUDGETED CASH BALANCE	-	-		
TOTAL REVENUE & CASH	<u>\$ 217,298</u>	<u>\$ 294,702</u>		
<b>EXPENDITURES</b>				
<b>Current</b>				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	-
Support Services Students	500	1,345	1,338	7
Support Services Instruction	-	-	-	-
Support Services General Administration	109,722	145,582	137,977	7,605
Support Services School Administration	-	2,400	2,367	33
Central Services	88,161	122,668	87,174	35,494
Operation and Maintenance of Plant	18,915	22,707	11,663	11,044
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 217,298</u>	<u>\$ 294,702</u>	<u>\$ 240,519</u>	<u>\$ 54,183</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, 2017

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
<b>REVENUE</b>				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	-	-
Local Programs	-	2,864,393	610,728	(2,253,665)
<b>TOTAL REVENUE</b>	<u>-</u>	<u>2,864,393</u>	<u>\$ 610,728</u>	<u>\$ (2,253,665)</u>
BUDGETED CASH BALANCE	-	-		
<b>TOTAL REVENUE &amp; CASH</b>	<u>\$ -</u>	<u>\$ 2,864,393</u>		
<b>EXPENDITURES</b>				
<b>Current</b>				
Instruction	\$ -	\$ 1,515,139	\$ 381,042	\$ 1,134,097
Support Services	-	-	-	-
Support Services Students	-	1,217,926	288,539	929,387
Support Services Instruction	-	-	-	-
Support Services General Administration	-	81,328	72,009	9,319
Support Services School Administration	-	50,000	3,086	46,914
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>\$ -</u>	<u>\$ 2,864,393</u>	<u>\$ 744,676</u>	<u>\$ 2,119,717</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, 2017

	Original Budget	Adjusted Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUE</b>				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	-	-
Local Programs	725,000	1,105,000	1,373,039	268,039
<b>TOTAL REVENUE</b>	<u>725,000</u>	<u>1,105,000</u>	<u>\$ 1,373,039</u>	<u>\$ 268,039</u>
BUDGETED CASH BALANCE	-	-		
<b>TOTAL REVENUE &amp; CASH</b>	<u>\$ 725,000</u>	<u>\$ 1,105,000</u>		
<b>EXPENDITURES</b>				
<b>Current</b>				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	-
Support Services Students	725,000	1,105,000	952,149	152,851
Support Services Instruction	-	-	-	-
Support Services General Administration	-	-	-	-
Support Services School Administration	-	-	-	-
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>\$ 725,000</u>	<u>\$ 1,105,000</u>	<u>\$ 952,149</u>	<u>\$ 152,851</u>

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

EXHIBIT J

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

Year Ended June 30, 2017

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
<b>REVENUE</b>				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	724,601	621,948	(102,653)
Local Programs	-	-	-	-
TOTAL REVENUE	-	724,601	\$ 621,948	\$ (102,653)
<b>BUDGETED CASH BALANCE</b>				
	-	-		
TOTAL REVENUE & CASH	\$ -	\$ 724,601		
<b>EXPENDITURES</b>				
<b>Current</b>				
Instruction	\$ -	\$ 717,356	\$ 688,385	\$ 28,971
Support Services	-	-	-	-
Support Services Students	-	-	-	-
Support Services Instruction	-	-	-	-
Support Services General Administration	-	7,245	7,245	-
Support Services School Administration	-	-	-	-
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	\$ -	\$ 724,601	\$ 695,630	\$ 28,971

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, 2017

	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	VARIANCE Favorable (Unfavorable)
<b>REVENUE</b>				
Federal Programs	\$ -	\$ -	\$ -	\$ -
State Programs	-	398,559	647,594	249,035
Local Programs	-	-	-	-
<b>TOTAL REVENUE</b>	<u>-</u>	<u>398,559</u>	<u>\$ 647,594</u>	<u>\$ 249,035</u>
<b>BUDGETED CASH BALANCE</b>	<u>-</u>	<u>-</u>		
<b>TOTAL REVENUE &amp; CASH</b>	<u>\$ -</u>	<u>\$ 398,559</u>		
<b>EXPENDITURES</b>				
<b>Current</b>				
Instruction	\$ -	\$ 302,400	\$ 274,787	\$ 27,613
Support Services	-	-	-	-
Support Services Students	-	-	-	-
Support Services Instruction	-	-	-	-
Support Services General Administration	-	96,159	93,417	2,742
Support Services School Administration	-	-	-	-
Central Services	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-
Student Transportation	-	-	-	-
Other Support Services	-	-	-	-
Food Services Operations	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>\$ -</u>	<u>\$ 398,559</u>	<u>\$ 368,204</u>	<u>\$ 30,355</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, 2017

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, 2017

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.

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 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.



STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

4. Revenues

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

5. Revenue Recognition for Grants

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

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

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

6. Expenditures

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

7. Other Financing Sources (Uses)

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

8. Cash and Cash Equivalents

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

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, 2017

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, 2017

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 twelve-month or full-time employees earn vacation and sick leave in amounts varying with tenure and classification. Employees earn 10 days if employed less than 3 years and 15 days if employed more than 3 years. There is no maximum accumulation.

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

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

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

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

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

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, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

16. Pension Plan

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

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.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. Basis of Budgeting (continued)

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	\$ 217,298	\$ 294,702
Special Revenue Funds	725,000	5,586,002
	<u>\$ 942,298</u>	<u>\$ 5,880,704</u>

B. Deficit fund equity

There were not any deficit fund balances at June 30, 2017.

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, 2017, none of the REC's bank balance of \$1,118,337 was exposed to custodial credit risk.

Collateral requirements are as follows:

Wells Fargo Bank	Total Deposits	\$ 368,337
Lea County State Bank	Total Deposits	750,000
	Less: FDIC coverage	<u>(500,000)</u>
	Uninsured Public Funds	618,337
	Pledged collateral held by pledging bank's agent in the District's name	<u>714,909</u>
	Uninsured and un-collateralized	<u>\$ -</u>

B. Receivables

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

	IDEA-B Entitlement	Pre K Initiative	Assets	Non Major Governmental	TOTAL
Intergovernmental Grants:					
Other Governments	\$ 133,948	\$ 228,341	\$ 86,557	\$ 82,513	\$ 531,359
	<u>\$ 133,948</u>	<u>\$ 228,341</u>	<u>\$ 86,557</u>	<u>\$ 82,513</u>	<u>\$ 531,359</u>

Receivables are considered fully collectible.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

III. DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Capital assets, being depreciated:				
Buildings & building improvements	98,239	-	-	98,239
Equipment	66,084	-	-	66,084
Total Capital Assets being depreciated	<u>164,323</u>	<u>-</u>	<u>-</u>	<u>164,323</u>
Less accumulated depreciation for:				
Buildings & building improvements	89,224	3,352	-	92,576
Equipment	33,820	4,302	-	38,122
Total accumulated depreciation	<u>123,044</u>	<u>7,654</u>	<u>-</u>	<u>130,698</u>
Total Capital assets, being depreciated, net	<u>41,279</u>	<u>(7,654)</u>	<u>-</u>	<u>33,625</u>
Governmental activities capital assets, net	<u>\$ 41,279</u>	<u>\$ (7,654)</u>	<u>\$ -</u>	<u>\$ 33,625</u>

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

Support Services General Administration	\$ 7,654
Total	<u>\$ 7,654</u>

E. Compensated Absences

The following is a summary of compensated absences transactions:

Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Amounts due in One Year
<u>\$ 4,234</u>	<u>\$ 9,497</u>	<u>\$ (8,239)</u>	<u>\$ 5,492</u>	<u>\$ 5,492</u>

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

V. OTHER INFORMATION

A. Pension Plan – Education Retirement Board

General Information about the Pension Plan

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

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

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

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

Funding Policy

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

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

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

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

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

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

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

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

Benefit Options – The Plan has three benefit options available.

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

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



STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

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

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

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

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

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

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

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

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2017 and 2016, the REC paid employee and employer contributions of \$14,469 and \$41,589, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the REC reported a liability of \$426,029 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The REC's proportion of the net pension liability was based on a projection of the REC's long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2016, the REC's proportion was 0.00592%, which was a decrease of 0.00337% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the REC's recognized pension expense of \$66,652. At June 30, 2017, the REC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actuarial experience	\$ 1,848	\$ 4,052
Changes of assumptions	8,672	-
Net difference between projected and actual earnings on pension plan investments	25,430	-
Changes in proportion and differences between contributions and proportionate share of contributions	70,982	158,562
Employer contributions subsequent to the measurement date	8,175	-
Total	<u>\$ 115,107</u>	<u>\$ 162,614</u>

\$8,175 reported as deferred outflows of resources related to pensions resulting from the REC's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ ( 8,506)
2019	(21,341)
2020	(32,036)
2021	6,201
2022	Unavailable
Thereafter	Unavailable

STATE OF NEW MEXICO  
 REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

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

Inflation	3.0%
Salary increases	Composed of 3.0% inflation, plus a 0.75% productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service.
Investment rate of return	7.75% compounded annually, net of expenses. This is made up of a 3.00% inflation rate and a 4.75 real rate of return. The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.
Average of Expected Remaining Service Lives	3.77 years.
Mortality	Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB. Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012. Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB. Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB. Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

V. OTHER INFORMATION (continued)

A. Pension Plan – Education Retirement Board (continued)

Retirement Age	Experience-based table rates based on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.
Cost-of-living increases	2% per year, compounded annually.
Payroll growth	3.5% per year (with no allowance for membership growth).
Contribution accumulation	5% increase per year for all years prior to the valuation date. (Contributions are credited with 4.0% interest, compounded annually, applicable to the account balance in the past as well as the future).
Disability Incidence	Approved rates applied to eligible members with at least 10 years of service.

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

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

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

Sensitivity of the REC's proportionate share of the net pension liability to changes in the discount rate. The following presents the REC's proportionate share of the net pension liability calculated using the discount rate of 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 1percentage-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	\$ 564,265	\$ 426,029	\$ 311,332

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

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

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, 2017

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](http://www.nmrhca.state.nm.us).

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3,4 or 5; municipal fire member coverage plan 3,4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30,2017, the 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, 2017, 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, 2017, 2016 and 2015 were \$1,454, \$3,544 and \$5,284 respectively, which equal the required contributions for each year.

C. Restatement of Beginning Net Position for Governmental Funds

There was no restatement of the REC's net position for the fiscal year June 30, 2017.

D. Restatements of Beginning Fund Balances

There were no adjustments made to the REC's beginning fund balances for the fiscal year June 30, 2017.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, they consisted of the following:

Due To		
Operational	\$	330,841
Medicaid		199,280
Total Due To	\$	<u>530,121</u>
Due From		
IDEA-B Entitlement	\$	133,948
IDEA-B Preschool		26,409
Teacher Principal Training		5,539
Pre-K Initiative		227,103
Assets		86,557
Best Buddies		188
State Directed Activities		50,377
Total Due From	\$	<u>530,121</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, 2017 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, 2017

V. OTHER INFORMATION (continued)

G. Fund Balances Classified (continued)

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

Fund Balances	Operational	Medicaid	Non-Major Governmental Funds	Total
Restricted for:				
Special Revenue Funds	\$ -	\$ 1,270,129	\$ -	\$ 1,270,129
Total Restricted	-	1,270,129	-	1,270,129
Unassigned	336,916	-	-	336,916
Total Fund Balances	\$ 336,916	\$ 1,270,129	\$ -	\$ 1,607,045

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, 2017

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, 2017

V. OTHER INFORMATION (continued)

K. Reconciliation of Budgetary and GAAP Basis Amounts

	<u>Operational</u>	<u>Entitlement</u>	<u>Title XIX Medicaid</u>	<u>Pre K Initiative</u>	<u>Assets</u>
<b>REVENUES</b>					
Budgetary Basis	\$ 279,275	\$ 610,728	\$ 1,373,039	\$ 621,948	\$ 647,594
Add:					
Current Year Receivables & Other Credits	-	133,948	-	228,341	86,557
Deduct:					
Prior Year Receivables & Other Debits	-	-	-	154,659	365,947
<b>REVENUE --GAAP BASIS</b>	<b><u>\$ 279,275</u></b>	<b><u>\$ 744,676</u></b>	<b><u>\$ 1,373,039</u></b>	<b><u>\$ 695,630</u></b>	<b><u>\$ 368,204</u></b>
<b>EXPENDITURES</b>					
Budgetary Basis	\$ 240,519	\$ 744,676	\$ 952,149	\$ 695,630	\$ 368,204
Add:					
Current Year Payables & Other Debits	-	-	-	-	-
Deduct:					
Prior Year Payables & Other Credits	9,020	-	37,510	-	-
<b>EXPENDITURES --GAAP BASIS</b>	<b><u>\$ 231,499</u></b>	<b><u>\$ 744,676</u></b>	<b><u>\$ 914,639</u></b>	<b><u>\$ 695,630</u></b>	<b><u>\$ 368,204</u></b>

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## SPECIAL REVENUE FUNDS

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

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

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 participating districts to meet standards of the State Performance Plan Indicators and School Grading. 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, 2017

	<u>IDEA- B Preschool</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ -
Accounts Receivable	
Property Taxes Receivable	-
Other Governments	26,409
State	-
Inventories	-
Due from Other Funds	-
<b>TOTAL ASSETS</b>	<u><u>\$ 26,409</u></u>
 <b>LIABILITIES AND OTHER CREDITS</b>	
Accounts Payable	\$ -
Due to Other Funds	26,409
Due to Other Agencies	-
<b>TOTAL LIABILITIES</b>	<u><u>26,409</u></u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable Revenue	-
<b>TOTAL DEFERRED INFLOWS</b>	<u><u>-</u></u>
 <b>FUND BALANCE</b>	
Nonspendable	-
Restricted	-
Committed	-
Assigned	-
Unassigned	-
<b>TOTAL FUND BALANCE</b>	<u><u>-</u></u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	 <u><u>\$ 26,409</u></u>

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

EXHIBIT A-1

Teacher/Principal Training	Best Buddies	State Directed Activities	Total Non-Major Special Revenue Funds	TOTAL NONMAJOR GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
5,539	188	50,377	82,513	82,513
-	-	-	-	-
-	-	-	-	-
<u>\$ 5,539</u>	<u>\$ 188</u>	<u>\$ 50,377</u>	<u>\$ 82,513</u>	<u>\$ 82,513</u>
\$ -	\$ -	\$ -	\$ -	\$ -
5,539	188	50,377	82,513	82,513
-	-	-	-	-
<u>5,539</u>	<u>188</u>	<u>50,377</u>	<u>82,513</u>	<u>82,513</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 5,539</u>	<u>\$ 188</u>	<u>\$ 50,377</u>	<u>\$ 82,513</u>	<u>\$ 82,513</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, 2017

	<u>IDEA- B Preschool</u>
REVENUE	
Federal Programs	\$ -
State Programs	-
Local Programs	-
State Equalization	-
Service Revenues	43,833
Taxes	-
Interest	-
Other revenue sources	-
TOTAL REVENUES	<u>43,833</u>
EXPENDITURES	
Current	
Instruction	33,318
Support Services	-
Support Services Students	10,515
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>43,833</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	-
Other Financing Sources (Uses)	
Transfer In/Transfers (Out)	-
Total Other Financing Sources	<u>-</u>
NET CHANGE IN FUND BALANCE	-
FUND BALANCE	
June 30, 2016	-
Restatements	-
June 30, 2016 as restated	<u>-</u>
FUND BALANCE	
June 30, 2017	<u>\$ -</u>

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

EXHIBIT A-2

Teacher/Principal Training	Best Buddies	State Directed Activities	TOTAL NONMAJOR SPECIAL REVENUE FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
10,687	97,267	129,132	280,919	280,919
-	-	-	-	-
-	-	-	-	-
<u>10,687</u>	<u>97,267</u>	<u>129,132</u>	<u>280,919</u>	<u>280,919</u>
10,687	-	68,148	112,153	112,153
-	-	-	-	-
-	-	-	10,515	10,515
-	-	-	-	-
-	89,645	20,706	110,351	110,351
-	-	40,278	40,278	40,278
-	-	-	-	-
-	7,622	-	7,622	7,622
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>10,687</u>	<u>97,267</u>	<u>129,132</u>	<u>280,919</u>	<u>280,919</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



REQUIRED SUPPLEMENTARY INFORMATION

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

JUNE 30, 2017

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

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

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

JUNE 30, 2017

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

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

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30,2017

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

OTHER SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO  
 REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 3

BANK SUMMARY

JUNE 30, 2017

<u>Bank</u>	<u>ACCT TYPE</u>	<u>FUND</u>	<u>BANK BALANCE</u>	<u>OUTSTANDING (CHECKS) DEPOSITS</u>	<u>NET CASH BALANCE</u>
Wells Fargo Bank	Checking	Multi Fund *	\$ 360,202	\$ (39,353)	\$ 320,849
	Checking	Operational *	8,135	(2,060)	6,075
Total Wells Fargo Bank			<u>368,337</u>	<u>(41,413)</u>	<u>326,924</u>
Lea County State Bank	Checking	Medicaid *	750,000	-	750,000
Total Lea County State Bank			<u>750,000</u>	<u>-</u>	<u>750,000</u>
Total All Accounts			<u>\$ 1,118,337</u>	<u>\$ (41,413)</u>	<u>\$ 1,076,924</u>

\* Interest Bearing

STATE OF NEW MEXICO  
 REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 4

SCHEDULE OF PLEDGED COLLATERAL

JUNE 30, 2017

	Total Deposits	FDIC Insurance	Uninsured Deposits	Collateral Required	Collateral Pledged	Uninsured & Uncollateralized Deposits
Wells Fargo Bank	\$ 368,337	\$ 250,000	\$ 118,337	\$ 59,169	\$ 214,909	\$ -
Lea County State Bank	750,000	250,000	500,000	250,000	500,000	-
Total	<u>\$ 1,118,337</u>	<u>\$ 500,000</u>	<u>\$ 618,337</u>	<u>\$ 309,169</u>	<u>\$ 714,909</u>	<u>\$ -</u>

Collateral	CUSIP #	Amount	Matures
FMNMA FNMS 3%	3138AXG88	\$ 214,909	11/1/2028
Total Collateral at Wells Fargo Bank		<u>214,909</u>	
Loving NM ISD #10		<u>500,000</u>	
Total Collateral at Lea County State Bank		<u>500,000</u>	
Total Collateral all Accounts		<u>\$ 714,909</u>	

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE 5

BANK RECONCILIATION

JUNE 30, 2017

	OPERATIONAL	FEDERAL PROJECTS	LOCAL/STATE ACCOUNT
Audited Net Cash			
June30, 2016	\$ 163	\$ 406,756	\$ -
Investments & cash on hand/Loans	-	-	-
TOTAL CASH BALANCE			
June30, 2016	163	406,756	-
Add: Prior year void checks	-	-	-
2016-2017 Revenue	279,275	2,011,455	1,661,372
Transfers In & Adjustments	297,997	608,379	364,225
TOTAL AVAILABLE CASH	577,435	3,026,590	2,025,597
Less: 2016-2017 Expenditures	240,519	1,751,345	1,290,233
Returned Checks	-	-	-
Transfers Out & Adjustments	330,841	204,396	735,364
	571,360	1,955,741	2,025,597
NET CASH, JUNE 30, 2017	6,075	1,070,849	-
Cash On hand	-	-	-
TOTAL CASH, JUNE 30, 2017	\$ 6,075	\$ 1,070,849	\$ -



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, 2017

PREPARED BY AGENCY STAFF NAME: Karen Soria  
 TITLE: Director of Finance DATE: 8/16/2017

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Bidder/Vendor Name	Did Bidder/Vendor Win Contract?
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	Exempt	Exempt - Transaction	B&G Transportation	Winner
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	IGA#17-924-00074	Exempt - Agency	Best Buddies International LLC	Yes
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	NA	Cooperative Agreement	CES	Yes
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	RFB	Competitive (RFP or RFB)	Thomas Salb, Psychologist	Yes
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	IGA#17-924-00109	Exempt - Agency	Sharon Gatti-Carson	Yes
7130	Regional Education Cooperative VII	Regional Educational Cooperatives	RFB	Competitive (RFP or RFB)	April Williams	Yes

SCHEDULE 6

\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Estimated Contract Value	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for In-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
\$ 173,812.80	\$ 173,812.80	\$ 173,812.80	B&G PO Box 247 Hobbs, NM 88240	No	No	To and From Transportation SPED Students	Not Applicable
\$ 92,591.99	\$ 92,591.99	\$ 92,591.99	100 SE 2nd Street Suite 2200 Miami, FL 33131-2151	No	No	IGA Grant for Teacher Buddy System	Not Applicable
\$ 113,338.27	\$ 113,338.27	\$ 113,338.27	PO Box 92223 Albuquerque, NM 87199	No	No	Multiple contracts	Not Applicable
\$ 86,608.38	\$ 86,608.38	\$ 86,608.38	1849 N. Jefferson Hobbs, NM 88240	No	No	Psychology Services	Not Applicable
\$ 191,000.00	\$ 191,000.00	\$ 191,000.00	3109 Megan Way Berthoud, CO 80513	No	No	IGA Grant for Professional Development	Not Applicable
\$ 73,161.68	\$ 73,161.68	\$ 73,161.68	2315 SW Avenue F Seminole, TX 79360	No	No	Ancillary Services	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, 2017, and the related notes to the financial statements, which collectively comprise the Regional Education Cooperative VII's basic financial statements, and the combining and individual funds of Regional Education Cooperative VII, presented as supplemental information, and have issued our report thereon dated September 22, 2017.

### 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 2016-002 and 2017-001.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regional Education Cooperative VII's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying Schedule of 12-6-5 NMSA 1978 Findings as item 2017-002.

### 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  
September 22, 2017

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2017

I. SUMMARY OF AUDITORS RESULTS:

Report on Financial Statements	Unmodified
Significant Deficiencies on GAGAS	2016-002 and 2017-001
Other Items required to be reported	None
Material Noncompliance	None
Questioned Cost	None

II. FINANCIAL STATEMENT FINDINGS

Control

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. Management is working to find a way to segregate duties that is cost effective to the Cooperative, however, resources have been limited.
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:	The Cooperative has limited number of employees which makes it difficult to implement internal controls over payroll functions.
Effect:	Risk of loss of Cooperative assets has been increased.
Recommendation:	Additional internal controls should 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 did not add any new employees for this audited 16-17 fiscal year. The Regional Education Cooperative VII does not have enough employees to properly segregate this function. Beginning in October 2017, the Director of Finance will make every possible arrangement to have another employee add new employees to our software in the future. The Director is now reviewing the payroll listing before the final amounts are wired to the employee accounts.

2017-001 General Ledger (significant deficiency)

Condition:	The Cooperative opened a new bank account during the fiscal year, however, there was not a new general ledger account set up in the accounting software to account for the transactions that were made through the new account. Instead the transactions were run in the same general ledger account as the other bank account.
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STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2017

II. FINANCIAL STATEMENT FINDINGS (continued)

2017-001 General Ledger (significant deficiency) (continued)

- Criteria: Standard accounting policies and procedures require that each bank account be accounted for in a separate general ledger account in order to provide correct reporting for management and an adequate audit trail.
- Cause: The Director of Finance was planning on closing the original bank account and believed it would be easier to use the same general ledger account for the new bank account transactions. The intent was that this would save on time of trying to set up a new reconciliation process in the accounting system.
- Effect: This created a very difficult reconciliation of the bank account process and did not provide a clean audit trail to follow.
- Recommendation: The Cooperative should set up a new general ledger account for any new bank accounts opened in the name of the Cooperative.
- Response: The Regional Education Cooperative VII's Director of Finance will successfully close out the old Operational account and have the new Operational account set-up this fiscal year (17-18) before December 31, 2017.

Compliance

None

III. FEDERAL FINDINGS

None

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SCHEDULE OF 12-6-5 NMSA 1978 FINDINGS

JUNE 30, 2017

Compliance

2017-002 Budgeted Revenue (Other)

- Condition:** The revenue side of four budget adjustment requests was not posted to the accounting system.
- Criteria:** As part of the budgetary process outlined in 22-8-11 NMSA 1978, every BAR should have both a revenue and an expenditure. Each BAR should be implemented into the control system in place, which is typically the accounting software. This maintains accurate budgetary reporting for both revenues and expenditures.
- Effect:** The Members or Director did not have complete reporting as to budgetary revenue amounts available to the Cooperative.
- Cause:** This was an oversight by the Director of Finance.
- Recommendation:** The Cooperative should have someone review the budget amounts entered to ensure that both the revenue and expenditure budgets are entered into the accounting software.
- Response:** The Regional Education Cooperative VII's Director of Finance will properly review budget entries into our software, beginning with October 2017, to make sure all budget has been entered correctly.

STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

JUNE 30, 2017

GAGAS FINDINGS:

2016-001	Purchase Orders	Resolved
2016-002	Payroll Processing Internal Controls	Repeated

12-6-5 NMSA 1978 FINDINGS:

2016-003	Uncollateralized Funds	Resolved
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STATE OF NEW MEXICO  
REGIONAL EDUCATION COOPERATIVE VII

OTHER DISCLOSURES

JUNE 30, 2017

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 September 22, 2017. Present were:

TJ Parks  
Cliff Burch  
Karen Soria  
D. Brent Woodard

Board Member  
Executive Director  
Director of Finance  
Auditor