

Pecos Valley Regional Education Cooperative No. 8

Financial Statements
For the Year Ended June 30, 2018



Supporting Excellence in Education.

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STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
June 30, 2018
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STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Official Roster
June 30, 2018

<u>Name</u>	<u>Governing Body</u>	<u>Title</u>
Mr. Michael Grossman		Chair
Ms. Lesa Dodd		Vice Chair
Ms. Ann Lynn McIlroy		Member
Mr. Ricky Williams		Member
	<u>Administrative Officials</u>	
Dave Willden		Executive Director
Kelley Alsup		Deputy Director
Christine Hendershot		Business Manager

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INDEPENDENT AUDITORS' REPORT

Wayne Johnson
New Mexico State Auditor
Pecos Valley Regional Education Cooperative No. 8
Board of Directors and Management
Artesia, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons of the General Fund and major special revenue funds of Pecos Valley Regional Education Cooperative No. 8 (the "REC"), as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise Pecos Valley Regional Education Cooperative No. 8's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to Pecos Valley Regional Education Cooperative No. 8'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 Pecos Valley Regional Education Cooperative No. 8's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the budgetary comparisons of the General Fund and major special revenue funds of Pecos Valley Regional Education Cooperative No. 8, as of June 30, 2018, and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules A-1 through B-2 and notes to the Required Supplementary Information on pages 52 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not 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 financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pecos Valley Regional Education Cooperative No. 8's basic financial statements. The introductory section and Supporting Schedules I through III required by 2.2.2 NMAC are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2018, on our consideration of the Pecos Valley Regional Education Cooperative No. 8's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pecos Valley Regional Education Cooperative No. 8's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC
Albuquerque, New Mexico
September 18, 2018

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Pecos Valley Regional Educational Cooperative No. 8
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 725,294
Receivables:	
Due from other governments	187,355
Total current assets	912,649
Noncurrent assets	
Capital assets	576,630
Less: accumulated depreciation	(344,376)
Total noncurrent assets	232,254
<i>Total assets</i>	1,144,903
Deferred outflows of resources	
Deferred outflows - OPEB	13,727
Deferred outflows - ERB pension plan	920,365
<i>Total deferred outflows of resources</i>	934,092
<i>Total assets and deferred outflows of resources</i>	\$ 2,078,995

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

	Governmental Activities
Liabilities	
Current liabilities	
Accounts payable	\$ 4,592
Accrued payroll	34,744
Current portion of leases payable	2,820
	<hr/>
Total current liabilities	42,156
	<hr/>
Noncurrent liabilities	
Accrued compensated absences	5,285
Leases payable	4,466
Net pension liability	2,092,666
Net OPEB liability	566,459
	<hr/>
Total noncurrent liabilities	2,668,876
	<hr/>
<i>Total liabilities</i>	2,711,032
	<hr/>
Deferred inflows of resources	
Deferred inflows - ERB pension plan	475,274
Deferred inflows - OPEB	128,925
	<hr/>
<i>Total deferred inflows of resources</i>	604,199
	<hr/>
Net position	
Net investment in capital assets	224,968
Restricted for:	
Special revenue	311,784
Unrestricted	(1,772,988)
	<hr/>
<i>Total net position</i>	(1,236,236)
	<hr/>
<i>Total liabilities, deferred inflows of resources, and net position</i>	\$ 2,078,995
	<hr/> <hr/>

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

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Statement of Activities
For the Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$ 42,103	\$ 29,219	\$ 7,427
Support services - students	1,675,272	1,162,603	295,513
Support services - general administration	221,287	153,568	39,034
Support services - school administration	69,897	48,507	12,330
Central services	121,440	84,277	21,422
Operation and maintenance of plant	44,379	30,798	7,828
<i>Total governmental activities</i>	<u>\$ 2,171,558</u>	<u>\$ 1,508,972</u>	<u>\$ 383,554</u>

General Revenues:

Investment income

Total general revenues

Change in net position

Net position, beginning

Net position - restatement (Note 12)

Net position - as restated

Net position, ending

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

Net (Expense) Revenue and Changes in Net Position	
Governmental Activities	
\$	(5,457)
	(217,156)
	(28,685)
	(9,060)
	(15,741)
	(5,753)
	<u>(279,032)</u>
	 331
	<u>331</u>
	 (278,701)
	 (284,668)
	<u>(672,867)</u>
	 (957,535)
\$	<u><u>(1,236,236)</u></u>

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

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Balance Sheet
Governmental Funds
June 30, 2018

	Operational 27101	Medicaid in Our Schools 25153
<i>Assets</i>		
Cash and cash equivalents	\$ 445,900	\$ 279,394
Receivables:		
Due from other governments	58,803	35,914
Due from other funds	88,785	-
<i>Total assets</i>	\$ 593,488	\$ 315,308
<i>Liabilities and fund balances</i>		
<i>Liabilities</i>		
Accounts payable	\$ 3,314	\$ 1,278
Accrued payroll	28,645	2,246
Due to other funds	-	-
<i>Total liabilities</i>	31,959	3,524
<i>Fund balances</i>		
<i>Spendable:</i>		
<i>Restricted for:</i>		
Instructional materials and student services	-	311,784
<i>Committed for:</i>		
Subsequent year's expenditures	447,297	-
Unassigned	114,232	-
<i>Total fund balances</i>	561,529	311,784
<i>Total liabilities and fund balances</i>	\$ 593,488	\$ 315,308

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

SNMERC 26101	State Directed Activities 27200	Total
\$ -	\$ -	\$ 725,294
-	92,638	187,355
-	-	88,785
<u>\$ -</u>	<u>\$ 92,638</u>	<u>\$ 1,001,434</u>
\$ -	\$ -	\$ 4,592
-	3,853	34,744
-	88,785	88,785
<u>-</u>	<u>92,638</u>	<u>128,121</u>
-	-	311,784
-	-	447,297
-	-	114,232
<u>-</u>	<u>-</u>	<u>873,313</u>
<u>\$ -</u>	<u>\$ 92,638</u>	<u>\$ 1,001,434</u>

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

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STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2018

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

Fund balances - total governmental funds	\$	873,313
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds		232,254
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and therefore, are not reported in funds:		
Deferred outflows related to pension		920,365
Deferred inflows related to pension		(475,274)
Deferred outflows related to OPEB		13,727
Deferred inflows related to OPEB		(128,925)
Liabilities, including accrued compensated absences and net pension and OPEB liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued compensated absences not due and payable		(5,285)
Lease payable		(7,286)
Net pension liability		(2,092,666)
Net OPEB liability		(566,459)
		(1,236,236)
<i>Total net position - governmental activities</i>	\$	(1,236,236)

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

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	Operational 27101	Medicaid in Our Schools 25153
<i>Revenues</i>		
Intergovernmental revenue:		
Federal flowthrough	\$ -	\$ 418,489
State flowthrough	103,889	-
State direct	1,109,770	-
Investment income	331	-
<i>Total revenues</i>	1,213,990	418,489
 <i>Expenditures</i>		
Current:		
Instruction	42,103	-
Support services - students	912,716	208,068
Support services - general administration	167,709	7,256
Support services - school administration	-	69,897
Central services	96,124	25,316
Operation and maintenance of plant	24,635	18,406
<i>Total expenditures</i>	1,243,287	328,943
 <i>Excess (deficiency) of revenues over expenditures</i>	(29,297)	89,546
 <i>Other financing sources (uses)</i>		
Transfers in	3,755	-
Transfers (out)	-	-
<i>Total other financing sources (uses)</i>	3,755	-
 <i>Net change in fund balances</i>	(25,542)	89,546
 <i>Fund balances - beginning</i>	587,071	222,238
 <i>Fund balances - end of year</i>	\$ 561,529	\$ 311,784

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

SNMERC 26101	State Directed Activities 27200	Total
\$ -	\$ -	\$ 418,489
-	260,378	364,267
-	-	1,109,770
-	-	331
<u>-</u>	<u>260,378</u>	<u>1,892,857</u>
-	-	42,103
-	238,901	1,359,685
-	20,406	195,371
-	-	69,897
-	-	121,440
-	1,338	44,379
<u>-</u>	<u>260,645</u>	<u>1,832,875</u>
-	(267)	59,982
-	-	3,755
<u>(3,755)</u>	<u>-</u>	<u>(3,755)</u>
<u>(3,755)</u>	<u>-</u>	<u>-</u>
(3,755)	(267)	59,982
<u>3,755</u>	<u>267</u>	<u>813,331</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 873,313</u>

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

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

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

Net change in fund balances - total governmental funds	\$	59,982
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Governmental funds report capital outlays as expenditures. However, in the Statement
of Activities, the cost of those assets is allocated over their estimated useful lives
and reported as depreciation expense:

Depreciation expense		(48,525)
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Governmental funds report REC pension and OPEB contributions as expenditures. However
in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee
contributions is reported as pension and OPEB expense:

REC pension and OPEB contributions subsequent to measurement date		109,111
Pension and OPEB expense		(396,804)

Long-term debt (accrued compensated absences) provides current financial
resources to governmental funds, while the repayment of the long-term
debt consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net position.

Increase in accrued compensated absences not due and payable		(5,285)
Principal payments on leases		<u>2,820</u>

<i>Change in net position of governmental activities</i>	<u>\$</u>	<u>(278,701)</u>
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STATE OF NEW MEXICO

Exhibit C-1

Pecos Valley Regional Education Cooperative No. 8

Operational Fund - 27101

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variances Final to Actual
	Original	Final		
<i>Revenues</i>				
Intergovernmental revenue:				
State flowthrough	\$ 103,955	\$ 103,889	\$ 103,889	\$ -
State direct	866,258	866,258	1,059,399	193,141
Investment income	100	100	331	231
<i>Total revenues</i>	<u>970,313</u>	<u>970,247</u>	<u>1,163,619</u>	<u>193,372</u>
<i>Expenditures</i>				
Current:				
Instruction	-	53,379	42,103	11,276
Support services	1,253,493	1,271,729	1,077,245	194,484
Central services	111,165	107,085	97,099	9,986
Operation and maintenance of plant	126,025	57,419	25,936	31,483
<i>Total expenditures</i>	<u>1,490,683</u>	<u>1,489,612</u>	<u>1,242,383</u>	<u>247,229</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(520,370)</u>	<u>(519,365)</u>	<u>(78,764)</u>	<u>440,601</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	520,370	519,365	-	(519,365)
Transfers in	-	-	3,755	(3,755)
<i>Total other financing sources (uses)</i>	<u>520,370</u>	<u>519,365</u>	<u>3,755</u>	<u>(523,120)</u>
<i>Net change in fund balance</i>	-	-	(75,009)	(82,519)
<i>Fund balance - beginning of year</i>	-	-	581,049	581,049
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 506,040</u>	<u>\$ 498,530</u>
Net change in fund balance (Non-GAAP Budgetary Basis)				\$ (75,009)
Adjustments to revenues for state funds				50,371
Adjustments for accounts payable and accrued payroll				(904)
<i>Net change in fund balance (GAAP Basis)</i>				<u>\$ (25,542)</u>

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

STATE OF NEW MEXICO

Exhibit C-2

Pecos Valley Regional Education Cooperative No. 8
 Medicaid in Our Schools Special Revenue Fund - 25153
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget (Non-GAAP Budgetary Basis) and Actual
 For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variances
	Original	Final		Final to Actual
<i>Revenues</i>				
Intergovernmental revenue:				
Federal flowthrough	\$ 196,092	\$ 196,092	\$ 413,945	\$ 217,853
<i>Total revenues</i>	<u>196,092</u>	<u>196,092</u>	<u>413,945</u>	<u>217,853</u>
<i>Expenditures</i>				
Current:				
Support services	309,585	326,480	285,861	40,619
Central services	52,850	29,848	25,316	4,532
Operation and maintenance of plant	14,507	20,614	17,865	2,749
<i>Total expenditures</i>	<u>376,942</u>	<u>376,942</u>	<u>329,042</u>	<u>47,900</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(180,850)</u>	<u>(180,850)</u>	<u>84,903</u>	<u>265,753</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	180,850	180,850	-	(180,850)
<i>Total other financing sources (uses)</i>	<u>180,850</u>	<u>180,850</u>	<u>-</u>	<u>(180,850)</u>
<i>Net change in fund balance</i>	-	-	84,903	84,903
<i>Fund balance - beginning of year</i>	-	-	192,245	192,245
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 277,148</u>	<u>\$ 277,148</u>
Net change in fund balance (Non-GAAP Budgetary Basis)				\$ 84,903
Adjustments to revenues for federal programs				4,544
Adjustments to expenditures for accounts payable and accrued payroll				<u>99</u>
<i>Net change in fund balance (GAAP Basis)</i>				<u>\$ 89,546</u>

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

STATE OF NEW MEXICO

Exhibit C-3

Pecos Valley Regional Education Cooperative No. 8
State Directed Activities Special Revenue Fund - 27200
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variances
	Original	Final		Final to Actual
<i>Revenues</i>				
Intergovernmental revenue:				
State flowthrough	\$ 260,440	\$ 260,440	\$ 200,477	\$ (59,963)
<i>Total revenues</i>	<u>260,440</u>	<u>260,440</u>	<u>200,477</u>	<u>(59,963)</u>
<i>Expenditures</i>				
Current:				
Support services	260,440	259,100	259,062	38
Operation and maintenance of plant	-	1,340	1,338	2
<i>Total expenditures</i>	<u>260,440</u>	<u>260,440</u>	<u>260,400</u>	<u>40</u>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	(59,923)	(59,923)
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Net change in fund balance</i>	-	-	(59,923)	(59,923)
<i>Fund balance - beginning of year</i>	-	-	(32,715)	(32,715)
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (92,638)</u>	<u>\$ (92,638)</u>
Net change in fund balance (Non-GAAP Budgetary Basis)				\$ (59,923)
Adjustments to revenues for state grants				59,901
Adjustments to expenditures for accounts payable and accrued payroll				(245)
<i>Net change in fund balance (GAAP Basis)</i>				<u>\$ (267)</u>

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

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies

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. Pecos Valley Regional Education Cooperative No. 8 (REC or the Cooperative), through the governing council, has established as its purpose the delivery to local districts and communities those services deemed critical to the ongoing success of regular and special education programs provided by the local agencies. For financial reporting purposes, the Cooperative includes all fund and accounts groups that are controlled by or dependent on the Cooperative for financial support.

Authority for the operation of the Pecos Valley Regional Education Cooperative No. 8 is based upon Chapter 232 of the Laws of 1993, State of New Mexico, and the State Board of Education Regulation 93-23, which authorize the establishment of Regional Educational Cooperatives in the State of New Mexico. The member organizations undertake a Joint Powers Agreement, whereby they will submit a consolidated application to the State Department of Education for certain funds granted to the State of New Mexico pursuant to the Individual with Disabilities Education Act, Part B- (IDEA-B).

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

The summary of significant accounting policies of the REC is presented to assist in the understanding of the REC's financial statements. The financial statements and notes are the representation of Pecos Valley Regional Education Cooperative No. 8's management, who is responsible for their integrity and objectivity. The financial statements of the REC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the REC's accounting policies are described below.

During the year ended June 30, 2018, the REC adopted GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, No. 81, *Irrevocable Split-Interest Agreements*, No. 85, *Omnibus 2017*, No. 86, *Certain Debt Extinguishment Issues*, are required to be implemented for the fiscal year ending June 30, 2018.

The pronouncement adopted that materially affects the financial statements and disclosures of the REC for the year ended June 30, 2018 is GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. The requirements of this Statement improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity

In evaluating how to define the REC, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 61. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate the potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Under provisions of this Statement, the REC is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 61, fiscally independent means that the REC may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt.

Based upon the application of these criteria, the REC has no component units and is not a component unit of another governmental agency.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The REC does not have business-type activities as of and for the year ended June 30, 2018.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Under the requirements of GASB Statement No. 34, the REC is required to present certain of its governmental funds as major funds based upon certain criteria. The major funds presented in the fund financial statements include the following (in addition to the General Fund), which may include funds that were not required to be presented as major but were at the discretion of management:

General Fund:

The *Operational Fund* (27101) is used to account for state funds granted to the REC operating fund for the REC per the request of NM Public Education Department. Authorized by Laws 2005, Chapter 33.

Special Revenue Funds:

The Medicaid in Schools Fund (25153) is used to account for amounts billed, received, and paid for member schools as reimbursements for services to Medicaid-eligible children. Funding is authorized by the State of New Mexico Human Services Department under the Medicaid Program (42 USC 1396a (a)5). No minimum balance required according to legislation.

The State Directed Activities Fund (27200) is used to account for a program funded by a State 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, 936-380 ,94-142 ,98-199 ,99-457, 100-639, and 101-476, 20 U.S.C. 1411-1420. The fund was created by the authority of federal grant provisions.

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

Private-sector standards of accounting and financial reporting are now included in GASB guidance from the Accounting Codification Standards.

Program revenues included in the Statement of Activities derive directly from the program itself or from outside parties, as a whole; program revenues reduce the cost of the function to be financed from the REC's donations.

Program revenues are categorized as (a) charges for services, (b) program-specific operating grants, which includes revenues received from state and federal sources such as, State Directed Activities (Idea B Discretionary) funding to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

The REC reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with the function. Depreciation expense is specifically identified by function and is included in the direct expense of each function, except for that portion of depreciation that is identified as unallocated in the Statement of Activities.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position or Equity

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

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

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

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). As of June 30, 2018, there are no items that are required to be valued using valuation techniques.

Receivables and Payables: Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, per section 12-6-10 NMSA 1978, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are to be included as part of the governmental capital assets reported in the government wide statements.

However, infrastructure assets have not been included in the June 30, 2018 financial statements of REC, since the REC did not own any infrastructure assets as of June 30, 2018. Donated capital assets are recorded at estimated fair market value at the date of donation. Information Technology Equipment including software is being capitalized and included in furniture, fixtures, and equipment in accordance with NMAC 2.20.1.9 C (5).

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

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

Buildings	40 years
Equipment and furniture	10 years

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

Deferred Inflows/Outflows of Resources: GASB 63 amended previous guidance on deferred revenues in the Government-Wide Financial Statements to include deferred outflow of resources, which is the consumption of net assets by the government that is applicable to a future reporting period and deferred inflow of resources, which is acquisition of net assets by the government that is applicable to a future reporting period.

Compensated Absences: Qualified employees are entitled to accumulate annual leave at a rate of two weeks for the first three years and one additional day for years four through eight up to a maximum of three weeks. Employees may carry over hours limited to a maximum of three weeks per year depending on their numbers of years of service with the REC. Upon termination, employees will be paid for accrued annual leave.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the operational fund. Amounts of vested or accumulated leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net position.

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

Net Position and Fund Equity: Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The detail of the REC's fund balances is presented on the face of the fund financial statements.

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

Net investment in capital assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

Restricted Net Position: Consist of net position with “legally enforceable” constraints placed on the use, either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Legally enforceable means that a government can be compelled by an external party – such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation, only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment.

If it is determined that the restrictions continue to be legally enforceable, then for the purposes of financial reporting, the restricted net position should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation. Descriptions for the related restrictions for net position are restricted for “debt service or capital projects.”

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

The government-wide Statement of Net Position reports \$311,784 of restricted net position related to grants, capital projects and debt service.

Fund Balance: In the fund financial statements, governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the REC is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. For committed and assigned fund balance, the REC’s highest level of decision-making authority is the Board of Education. Formal action by the Board of Education is required to establish a fund balance commitment or assignment.

For the classification of fund balances, the REC considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the REC considers committed, assigned or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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

Nonspendable: Consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

Committed: Consist of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the REC’s Board of Education. Those committed amounts cannot be used for any other purpose unless the REC’s Board of Education removes or changes the specified use by taking formal action.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

Assigned: Consist of amounts that are constrained by the REC's *intent* to be used for specific purposes, but are neither restricted nor committed. Formal action by the REC's Board of Education is required to assign amounts to be used for specific purposes.

Unassigned: Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund except for those other governmental funds reflecting a deficit.

The REC's policy is to apply restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net positions are available.

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

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates affecting the REC's financials include management's estimate of the useful lives of capital assets and the net pension liability (including the related components).

E. Revenues

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

F. Pensions

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

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (continued)

G. Postemployment Benefits Other Than Pensions (OPEB)

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

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

Budgets for the General and Special Revenue Funds are prepared by management and are approved by the local governing council, made up of participating School Superintendents, and the REC Budget and Planning Unit of the New Mexico Public Education Department.

These budgets are prepared on the Non-GAAP (Cash) budgetary basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. Because the budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year, such appropriated balance is legally restricted and is therefore presented as a committed portion of the fund balance.

Actual expenditures may not exceed the budget at the function level. Budgets may be amended in two ways. If a budget transfer is necessary within a major category called a 'series,' this may be accomplished with only local Council approval. If a transfer between 'series' or a budget increase is required, approval must also be obtained from the New Mexico Public Education Department.

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

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

1. Prior to April 15, the REC Council submits to the REC Budget Planning Unit (SBPU) of the New Mexico Public Education Department a proposed operating budget for the ensuing fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. All budgets submitted to the State of New Mexico Public Education Department (PED) by the REC shall contain headings and details as described by law and have been approved by the Public Education Department.
2. Prior to June 20 of each year, the proposed "operating" budget will be reviewed and approved by the DBPU and certified and approved by the local Council at a public hearing of which notice has been published by the local REC board which fixes the estimated budget for the REC for the ensuing fiscal year.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information - (Continued)

3. The REC board meeting, while not intended for the general public, is open for the general public unless a closed meeting has been called.
4. The “operating” budget will be used by the REC until they have been notified that the budget has been approved by the SBPU and the local board. The budget shall be integrated formally into the accounting system. Encumbrances shall be used as an element of control and shall be integrated into the budget system.
5. 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 SBPU.
6. The board is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the REC board and the State of New Mexico Public Education Department.
7. Budget change requests are processed in accordance with Supplement 1 (Budget Preparation and Maintenance) of the Manual of Procedures Public Schools Accounting and Budgeting. Such changes are initiated by the REC and approved by the SBPU.
8. Legal budget control for expenditures is by function.
9. 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 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.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds.
11. Budgets for the General, Special Revenue, Capital Projects, and Debt Service Funds are adopted on a basis not consistent with generally accepted accounting principles (GAAP). Encumbrances are treated the same way for GAAP purposes and for budget purposes.

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

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, perspective, equity, and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2018, is presented.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 3. Deposits

State statutes authorize the investment of the REC funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the REC properly followed State investment requirements as of June 30, 2018.

Deposits of funds may be made in interest or non-interest-bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the REC. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

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

The collateral pledged is listed on Schedule I of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

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

Deposits:

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure, the REC's deposits may not be returned to it. The REC does not have a deposit policy for custodial credit risk, other than the following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978.) At June 30, 2018, \$529,781 of the REC's deposits of \$779,781 was exposed to custodial credit risk. All of the \$779,781 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the REC's name. As of June 30, 2018, none of the deposits were uninsured and uncollateralized. As of June 30, 2018, the carrying amount of these deposits was \$725,294; total amount of deposits of \$779,781 less outstanding items of \$54,487. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the REC for a least one half of the amount on deposit with the institution.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 3. Deposits (continued)

	First American Bank
Amount of deposits	\$ 779,781
FDIC Coverage	(250,000)
Total uninsured public funds	529,781
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the REC's name	529,781
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured funds)	\$ 264,891
Pledged Collateral	723,282
Over (Under) collateralized	\$ 458,391
 <u>Reconciliation to the Statement of Net Position:</u>	
Cash - Governmental Activities Exhibit A-1	\$ 725,294
Total cash	725,294
Plus: reconciling items	54,487
Bank balance of deposits	\$ 779,781

NOTE 4. Receivables

Receivables as of June 30, 2018 are as follows:

	Operational	Medicaid in Our Schools	State Directed Activities	Total
Due from other governments:				
Federal sources	\$ -	\$ 35,914	\$ -	\$ 35,914
State sources	58,803	-	92,638	151,441
	\$ 58,803	\$ 35,914	\$ 92,638	\$ 187,355

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Financial Statements
June 30, 2018

NOTE 5. Interfund Receivables, Payables, and Transfers

During the year, the REC closed out the SNMERC fund and transferred an amount of \$3,755 to the Operational Fund as a net operating transfer for the year ended June 30, 2018.

The REC records temporary interfund receivable and payables to enable the funds to operate until grant monies are received. The composition of interfund balances as of June 30, 2018 is as follows:

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Operational Fund - 27101	State Directed Activities - 27200	<u>\$ 88,785</u>

All Interfund balances are to be paid within one year.

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2018 follows. Land is not subject to depreciation.

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2018</u>
Governmental activities:				
Capital assets not depreciated				
Land	\$ 25,977	\$ -	\$ -	\$ 25,977
Total assets not depreciated	<u>25,977</u>	<u>-</u>	<u>-</u>	<u>25,977</u>
Capital assets depreciated				
Buildings	317,361	-	-	317,361
Equipment and furniture	233,292	-	-	233,292
Total assets depreciated	<u>550,653</u>	<u>-</u>	<u>-</u>	<u>550,653</u>
Total assets	<u>576,630</u>	<u>-</u>	<u>-</u>	<u>576,630</u>
Less accumulated depreciation for:				
Buildings	122,182	20,631	-	142,813
Equipment and furniture	173,669	27,894	-	201,563
Total accumulated depreciation	<u>295,851</u>	<u>48,525</u>	<u>-</u>	<u>344,376</u>
Capital assets, net	<u>\$ 280,779</u>	<u>\$ (48,525)</u>	<u>\$ -</u>	<u>\$ 232,254</u>

Depreciation expense for the year ended June 30, 2018 was charged to governmental activities as follows:

Support services - students	\$ 27,894
Support services - general admin	<u>20,631</u>
Total	<u>\$ 48,525</u>

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NOTE 7. Long-Term Debt

During the year ended June 30, 2018 the following changes occurred in the liabilities reported in the government-wide Statement of Net Position:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Lease payable	\$ 10,106	\$ -	\$ 2,820	\$ 7,286	\$ 2,820
Compensated Absences	-	5,285	-	5,285	-
	<u>\$ 10,106</u>	<u>\$ 5,285</u>	<u>\$ 2,820</u>	<u>\$ 12,571</u>	<u>\$ 2,820</u>

The REC entered into a 60-month capital lease agreement with Xerox Corporation which has no interest due and principal payment of \$235.04 due monthly. The annual debt service payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 2,820	\$ -	\$ 2,820
2020	2,820	-	2,820
2021	1,646	-	1,646
	<u>\$ 7,286</u>	<u>\$ -</u>	<u>\$ 7,286</u>

Compensated Absences - Administrative employees of the REC can accrue vacation and other compensatory time during the year. During fiscal year June 30, 2018, compensated absences increased by \$5,285 from the prior year accrual. Any liability would be liquidated out of the Operational Fund. See Note 1 for more details.

NOTE 8. Risk Management

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

Workers Compensation, Property and Automobile Liability, and Physical Damage Liability and Civil Rights and Personal Injury; and Crime.

NOTE 9. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds: There are no deficit fund balances as of June 30, 2018.
- B. Excess of expenditures over appropriations: There are no instances of excess expenditures over authorized budget for the year ended June 30, 2018.

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NOTE 10. Pension Plan – Educational Retirement Board

General Information about the Pension Plan

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

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

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

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

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

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

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

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

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NOTE 10. Pension Plan – Educational 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.

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NOTE 10. Pension Plan – Educational 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 1.5%. 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 1.7%.

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

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

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

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

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NOTE 10. Pension Plan – Educational Retirement Board (continued)

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2018 and 2017, the REC paid employee and employer contributions of \$95,384 and \$74,701, which equal the amount of the required contributions for each fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the REC reported a liability of \$2,092,666 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. The roll-forward incorporates the impact of the new assumptions adopted by the Board on April 21, 2017. There were no other significant events of changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2017. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. The REC’s proportion of the net pension liability was based on a projection of the REC’s long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2017, the REC’s proportion was 0.01883 percent, which was an decrease of .00916 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the REC recognized pension expense of \$278,903. At June 30, 2018, the REC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 3,757	\$ 32,239
Net difference between expected and actual investments on pension plan investments	-	287
Change in assumptions	610,890	-
Change in proportion	210,334	442,748
REC's contributions subsequent to the measurement date	<u>95,384</u>	<u>-</u>
Total	<u>\$ 920,365</u>	<u>\$ 475,274</u>

\$95,384 reported as deferred outflows of resources related to pensions resulting from REC contributions subsequent to the measurement date will be recognized as a 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:

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June 30, 2018

NOTE 10. Pension Plan – Educational Retirement Board (continued)

Year ended June 30:

2018	\$	215,294
2019		118,115
2020		33,529
2021		(17,231)

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

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

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

Mortality
Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, not set back. Generational mortality improvements with Scale BB from the table's base year of 2000.

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.

Retirement Age
Experience-based table rates based on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.

Cost-of-living increases
1.90% per year, compounded annually.

Payroll growth
3.00% per year (with no allowance for membership growth).

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NOTE 10. Pension Plan – Educational Retirement Board (continued)

Contribution accumulation	The accumulated member account balance with interest is estimated at the valuation date by assuming that member contributions increased 5.50% per year for all years prior to the valuation date. Contributions are credited with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future.
Disability Incidence	Approved rates applied to eligible members with at least 10 years of service.

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

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

- Rate of return projections that are the sum of current yield plus projected changes in price (valuations, defaults, etc.)
- Application of key economic projections (inflation, real growth, dividend, etc.)
- Structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.

Asset Class	Target Allocation	Long-term Expected Rate of Return
Equities	33%	
Fixed Income	26%	
Alternatives	40%	
Cash	1%	
Total	100%	7.25%

Discount rate. A single discount rate of 5.9% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, and a municipal bond rate of 3.56%, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2053. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2053 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

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

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NOTE 10. Pension Plan – Educational Retirement Board (continued)

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

	1% Decrease (4.90%)	Current Discount Rate (5.90%)	1% Increase (6.90%)
REC's proportionate share of the net pension liability	\$ 2,724,131	\$ 2,092,666	\$ 1,576,495

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

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

NOTE 11. Post-Employment Benefits – State Retiree Health Care Plan

General Information about the OPEB

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

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

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

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

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NOTE 11. Post-Employment Benefits – State Retiree Health Care Plan (continued)

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

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the REC were \$13,727 for the year ended June 30, 2018.

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

At June 30, 2018, the REC reported a liability of \$566,459 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The REC’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the REC’s proportion was 0.0125 percent.

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NOTE 11. Post-Employment Benefits – State Retiree Health Care Plan (continued)

For the year ended June 30, 2018, the REC recognized OPEB expense of \$22,521. At June 30, 2018 the REC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ 21,738
Net difference between expected and actual investments on OPEB plan investments	-	8,149
Change in assumptions	-	99,038
REC's contributions subsequent to the measurement date	13,727	-
Total	\$ 13,727	\$ 128,925

Deferred outflows of resources totaling \$13,727 represent REC contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

2019	\$	(27,410)
2020		(27,410)
2021		(27,410)
2022		(27,410)
2023		(19,285)

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

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

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NOTE 11. Post-Employment Benefits – State Retiree Health Care Plan (continued)

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

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

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

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

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

	1% Decrease (2.81%)	Current Discount Rate (3.81%)	1% Increase (4.81%)
REC's proportionate share of the net OPEB liability	\$ 687,106	\$ 566,459	\$ 471,801

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NOTE 11. Post-Employment Benefits – State Retiree Health Care Plan (continued)

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

	Trend Rate Sensitivity Analysis		
	1% Decrease	Rate	1% Increase
REC's proportionate share of the net OPEB liability	<u>\$ 481,812</u>	<u>\$ 566,459</u>	<u>\$ 632,463</u>

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

Payable Changes in the Net OPEB Liability. At June 30, 2018, the REC had no outstanding amount of contributions to the OPEB plan and therefore, had no payables reported at fiscal year 2018.

NOTE 12. Prior Period Adjustments

The REC has a prior period adjustment of (\$672,867) which was required for implementation of GASB Statement No. 75. The adjustment reflects a beginning net OPEB liability of (\$683,596) and a beginning of deferred outflow of resources- employer contributions subsequent to the measurement date of \$10,729.

NOTE 13. Concentrations

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

NOTE 14. Subsequent Events

The date to which events occurring after June 30, 2018, the date of the most recent Statement of Net Position, have been evaluated for possible adjustment to the financial statements or disclosures is September 18, 2018 which is the date on which the financial statements were available to be issued.

NOTE 15. Contingent Liabilities

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

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Schedule of Proportionate Share of the Net Pension Liability
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years*

	2018 Measurement Date (As of and for the Year Ended June 30, 2017)	2017 Measurement Date (As of and for the Year Ended June 30, 2016)
Pecos Valley Regional Education Cooperative No. 8's proportion of the net pension liability (asset)	0.01883%	0.02799%
Pecos Valley Regional Education Cooperative No. 8's proportionate share of the net pension liability (asset)	\$ 2,092,666	\$ 2,014,282
Pecos Valley Regional Education Cooperative No. 8's covered payroll	537,415	799,288
Pecos Valley Regional Education Cooperative No. 8's proportionate share of the net pension liability as a percentage of its covered payroll	389%	252%
Plan fiduciary net position as a percentage of the total pension liability	52.95%	61.58%

* Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Pecos Valley Regional Education Cooperative No. 8 is not available prior to fiscal year 2015, the year the statement's requirements became effective.

See independent auditors' report.
See notes to required supplementary information.

2016 Measurement Date (As of and for the Year Ended June 30, 2015)	2015 Measurement Date (As of and for the Year Ended June 30, 2014)
0.02422%	0.01770%
\$ 1,568,798	\$ 1,008,195
688,470	487,131
228%	207%
63.97%	66.54%

See independent auditors' report.
See notes to required supplementary information.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Schedule of Contributions
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years*

	As of and for the Year Ended June 30, 2018	As of and for the Year Ended June 30, 2017
Contractually required contribution	\$ 95,384	\$ 74,701
Contributions in relation to the contractually required contribution	95,384	74,701
Contribution deficiency (excess)	\$ -	\$ -
 Pecos Valley Regional Education Cooperative No. 8's covered payroll	 686,282	 537,415
Contribution as a percentage of covered payroll	13.90%	13.90%

* Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Pecos Valley Regional Education Cooperative No. 8 is not available prior to fiscal year 2015, the year the statement's requirements became effective.

See independent auditors' report.
See notes to required supplementary information.

As of and for the Year Ended June 30, 2016	As of and for the Year Ended June 30, 2015
\$ 111,106	\$ 95,696
<u>111,106</u>	<u>95,696</u>
<u>\$ -</u>	<u>\$ -</u>
799,288	688,470
13.90%	13.90%

See independent auditors' report.
See notes to required supplementary information.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Notes to Required Supplementary Information
June 30, 2018

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

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

See independent auditors' report.
See notes to required supplementary information.

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STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Schedule of Proportionate Share of the Net OPEB Liability
Retiree Health Care OPEB Plan
Last 10 Fiscal Years*

	2018 Measurement Date (As of and for the Year Ended June 30, 2017)
Pecos Valley Regional Education Cooperative No. 8's proportion of the net OPEB liability (asset)	0.01250%
Pecos Valley Regional Education Cooperative No. 8's proportionate share of the net OPEB liability (asset)	\$ 566,459
Pecos Valley Regional Education Cooperative No. 8's covered payroll	536,450
Pecos Valley Regional Education Cooperative No. 8's proportionate share of the net OPEB liability as a percentage of its covered payroll	106%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

* Governmental Accounting Standards Board Statement No. 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Pecos Valley Regional Education Cooperative No. 8 is not available prior to fiscal year 2018, the year the statement's requirements became effective.

See independent auditors' report.
See notes to required supplementary information.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Schedule of Contributions
Retiree Health Care OPEB Plan
Last 10 Fiscal Years*

Schedule B-2

	As of and for the Year Ended June 30, 2018
Contractually required contribution	\$ 13,727
Contributions in relation to the contractually required contribution	13,727
Contribution deficiency (excess)	\$ -
Pecos Valley Regional Education Cooperative No. 8's covered payroll	686,282
Contribution as a percentage of covered payroll	2.00%

* Governmental Accounting Standards Board Statement No. 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Pecos Valley Regional Education Cooperative No. 8 is not available prior to fiscal year 2018, the year the statement's requirements became effective.

See independent auditors' report.
See notes to required supplementary information.

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SUPPORTING SCHEDULES

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2018

Schedule I

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market June 30, 2018</u>
First American Bank				
	Los Alamos School District NM 2 3.00%	8/1/2020	54422NBY1	\$ 202,910
	Alamogordo Municipal Schools NM 3 3.00%	8/1/2030	011464KV5	258,112
	GNMA II 5x1 3.13%	10/20/2041	36225FJD2	<u>262,260</u>
	Total First American Bank			<u>723,282</u>
Name and location of safekeeper for above pledged collateral: Federal Home Loan Bank, Dallas, Texas				
	<i>Total collateral pledged</i>			<u><u>\$ 723,282</u></u>

See independent auditors' report.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Schedule of Deposits
June 30, 2018

Schedule II

<u>Bank Account Type/ Name</u>	<u>First American Bank</u>	<u>Total</u>
Cash Deposits:		
Checking - Operational	\$ 741,683	\$ 741,683
Checking - Payroll	38,098	38,098
Total Cash Deposits	<u>779,781</u>	<u>779,781</u>
Total Deposits	779,781	779,781
Reconciling items	<u>(54,487)</u>	<u>(54,487)</u>
<i>Reconciled balance June 30, 2018</i>	<u>\$ 725,294</u>	<u>\$ 725,294</u>
Reconciliation to financial statements:		
Cash:		
Government-wide statement of net position - Exhibit A-1		<u>\$ 725,294</u>
<i>Cash per Financial Statements</i>		<u>\$ 725,294</u>

See independent auditors' report.

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Cash Reconciliation
For the Year Ended June 30, 2018

Schedule III

	Medicaid in Our Schools 25000	Local Grants 26000	State 27000	Total
Audited Cash June 30, 2017	\$ 192,245	\$ 3,755	\$ 548,334	\$ 744,334
Add:				
2017-2018 receipts	413,945	-	1,364,096	1,778,041
Total cash available	606,190	3,755	1,912,430	2,522,375
Less:				
2017-2018 expenditures	(329,042)	-	(1,502,783)	(1,831,825)
Permanent cash transfers	-	(3,755)	3,755	-
<i>Cash per PED Report</i>	<u>\$ 277,148</u>	<u>\$ -</u>	<u>\$ 413,402</u>	<u>\$ 690,550</u>
Add / Less:				
Plus payroll accruals	2,246	-	32,498	34,744
<i>Cash per financial statement</i>	<u>\$ 279,394</u>	<u>\$ -</u>	<u>\$ 445,900</u>	<u>\$ 725,294</u>

See independent auditors' report.

COMPLIANCE SECTION

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

INDEPENDENT AUDITORS' REPORT

Wayne Johnson
New Mexico State Auditor
Pecos Valley Regional Education Cooperative No. 8
Board of Directors and Management
Artesia, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the General Fund and major special revenue funds of the Pecos Valley Regional Education Cooperative No. 8, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Pecos Valley Regional Education Cooperative No. 8's basic financial statements, and have issued our report thereon dated September 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pecos Valley Regional Education Cooperative No. 8'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 Pecos Valley Regional Education Cooperative No. 8's internal control. Accordingly, we do not express an opinion on the effectiveness of Pecos Valley Regional Education Cooperative No. 8's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pecos Valley Regional Education Cooperative No. 8's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Pecos Valley Regional Education Cooperative No. 8's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pecos Valley Regional Education Cooperative No. 8's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC
Albuquerque, New Mexico
September 18, 2018

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Schedule of Findings and Responses
For the Year Ended June 30, 2018

Schedule IV

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | None noted |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| c. Noncompliance material to the financial statements noted? | None noted |

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Schedule of Findings and Responses
For the Year Ended June 30, 2018

Schedule IV

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - PRIOR YEAR AUDIT FINDINGS

None

STATE OF NEW MEXICO
Pecos Valley Regional Education Cooperative No. 8
Other Disclosures
June 30, 2018

OTHER DISCLOSURES

Exit Conference

An exit conference was held on August 23, 2018. In attendance were the following:

Representing Pecos Valley Regional Education Cooperative No. 8:

Ricky Williams – Board of Directors
Dave Willden – Executive Director
Christine Hendershot – Business Manager
Kelley Alsup – Deputy Director

Representing Cordova CPAs LLC:

Robert Cordova, CPA – Principal
Rufino Rodriguez, CPA – Senior Manager

Auditor Prepared Financial Statements

Cordova CPAs LLC prepared the GAAP-basis financial statements and footnotes of Pecos Valley Regional Education Cooperative No. 8 from the original books and records asserted by management. The responsibility for the financial statements remains with Pecos Valley Regional Education Cooperative No. 8.