RPC
CPAs + CONSULTANTS, LLP
ACHIEVING RESULTS

State of New Mexico

Pecos Valley Regional Education Cooperative #8

# Annual Financial Report
## For the Year Ended June 30, 2017

(This page intentionally left blank.)

**STATE OF NEW MEXICO**
Pecos Valley Regional Education Cooperative No. 8
Table of Contents
June 30, 2017

**STATE OF NEW MEXICO**
Pecos Valley Regional Education Cooperative No. 8
Official Roster
June 30, 2017

| **Name** | **Title** |
|---|---|
| Coordinating Council | |
| Mr. Michael Grossman | Chairperson |
| Ms. Lesa Dodd | Vice-Chairperson |
| Mr. Ricky Williams | Member |
| Dr. Ann Lynn Mcllroy | Member |
| Administrative Officials | |
| David Willden | Executive Director |
| Christine Hendershot | Business Manager |

# FINANCIAL SECTION

**INDEPENDENT AUDITORS' REPORT**

Timothy Keller
New Mexico State Auditor
The Coordinating Council
Pecos Valley Regional Education Cooperative No. 8
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 for the general fund and major special revenue funds of Pecos Valley Regional Education Cooperative No. 8 (the "Cooperative"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Cooperative'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 auditor considers internal control relevant to the Cooperative'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 Cooperative'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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 and each major fund of the Cooperative, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require the Schedules I and II and the Notes to the Required Supplementary Information on pages 52 through 54 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 inquires, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements and the budgetary comparisons. The introductory section and the Supporting Schedules III through V 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 III through V 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 III through V 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 25, 2017, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Cooperative's internal control over financial reporting and compliance.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP
Albuquerque, NM
September 25, 2017

**BASIC**

**FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**
Pecos Valley Regional Education Cooperative No. 8
Statement of Net Position
June 30, 2017

| | | Governmental Activities |
|---|---|---|
| **Assets** | | |
| *Current assets* | | |
| Cash and cash equivalents | $ | 791,512 |
| Receivables: | | |
| Due from other governments | | 73,530 |
| *Total current assets* | | 865,042 |
| *Noncurrent assets* | | |
| Capital assets | | 576,630 |
| Less: accumulated depreciation | | (295,851) |
| *Total noncurrent assets* | | 280,779 |
| *Total assets* | | 1,145,821 |
| **Deferred outflows of resources** | | |
| Changes in proportion | | 420,089 |
| Changes of assumptions | | 41,003 |
| Net difference between projected and actual investment earnings on pension plan investments | | 120,236 |
| Employer contributions subsequent to the measurement date | | 74,701 |
| Differences between expected and actual experience | | 8,739 |
| *Total deferred outflows of resources* | | 664,768 |
| *Total assets and deferred outflows of resources* | $ | 1,810,589 |

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

| | | Governmental Activities |
|---|---|---|
| **Liabilities** | | |
| *Current liabilities* | | |
| Accounts payable | $ | 4,533 |
| Accrued payroll | | 47,178 |
| Current portion of leases payable | | 2,820 |
| *Total current liabilities* | | 54,531 |
| *Noncurrent liabilities* | | |
| Lease payable | | 7,286 |
| Net pension liability | | 2,014,282 |
| *Total noncurrent liabilities* | | 2,021,568 |
| *Total liabilities* | | 2,076,099 |
| **Deferred inflows of resources** | | |
| Differences between expected and actual experience | | 19,158 |
| *Total deferred inflows of resources* | | 19,158 |
| **Net position** | | |
| Net investment in capital assets | | 270,673 |
| Restricted for: | | |
| Special revenue | | 226,260 |
| Unrestricted | | (781,601) |
| *Total net position* | | (284,668) |
| *Total liabilities, deferred inflows of resources, and net position* | $ | 1,810,589 |

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, 2017

| Functions/Programs | Expenses | Program Revenues: Operating Grants and Contributions |
|---|---|---|
| **Primary government:** | | |
| Governmental activities: | | |
| Support services - students | $ 1,357,609 | $ 1,172,621 |
| Support services - general administration | 296,653 | 256,231 |
| Support services - school administration | 73,620 | 63,588 |
| Central services | 250,834 | 216,655 |
| Operation and maintenance of plant | 46,760 | 40,388 |
| *Total governmental activities* | $ 2,025,476 | $ 1,749,483 |

**General revenues:**
Investment income

Total general revenues

Change in net position

*Net position - beginning of year*

Net position - restatement (note 16)

Net position - as restated

*Net position - end of year*

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

| Net (Expense) Revenue and Changes in Net Position | |
|---|---|
| **Governmental Activities** | |
| $ | (184,988) |
| | (40,422) |
| | (10,032) |
| | (34,179) |
| | (6,372) |
| | (275,993) |
| | 303 |
| | 303 |
| | (275,690) |
| | 138,842 |
| | (147,820) |
| | (8,978) |
| $ | (284,668) |

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, 2017

| | General Fund | Medicaid Special Revenue Fund | SNMERC Special Revenue Fund |
|---|---|---|---|
| *Assets* | | | |
| Cash and cash equivalents | $ 581,003 | $ 195,045 | $ 15,464 |
| Receivables: | | | |
| Due from other governments | 8,198 | 31,370 | - |
| Due from other funds | 24,741 | - | - |
| *Total assets* | $ 613,942 | $ 226,415 | $ 15,464 |
| *Liabilities* | | | |
| Accounts payable | $ 2,176 | $ 1,377 | $ - |
| Accrued payroll | 24,695 | 2,800 | 11,709 |
| Due to other funds | - | - | - |
| *Total liabilities* | 26,871 | 4,177 | 11,709 |
| *Fund balances* | | | |
| Spendable: | | | |
| Restricted for: | | | |
| Education | - | 222,238 | 3,755 |
| Committed for: | | | |
| Subsequent year's expenditures | 521,440 | - | - |
| Unassigned | 65,631 | - | - |
| *Total fund balances* | 587,071 | 222,238 | 3,755 |
| *Total liabilities and fund balances* | $ 613,942 | $ 226,415 | $ 15,464 |

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

| State Directed Activities Special Revenue Fund | Total |
|---|---|
| $ - | $ 791,512 |
| 33,962 | 73,530 |
| - | 24,741 |
| $ 33,962 | $ 889,783 |
| $ 980 | $ 4,533 |
| 7,974 | 47,178 |
| 24,741 | 24,741 |
| 33,695 | 76,452 |
| 267 | 226,260 |
| - | 521,440 |
| - | 65,631 |
| 267 | 813,331 |
| $ 33,962 | $ 889,783 |

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

(This page intentionally left blank.)

**STATE OF NEW MEXICO**
Pecos Valley Regional Education Cooperative No. 8
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2017

| | | |
|---|---|---|
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Fund balances - total governmental funds | $ | 813,331 |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds | | 280,779 |
| Deferred outflows and inflows or resources related to pensions are applicable to future periods and therefore, are not reported in the funds: | | |
| Deferred outflows of resources related to changes in proportion | | 420,089 |
| Deferred outflows of resources related to changes of assumption | | 41,003 |
| Deferred outflows of resources related to the net difference between projected and actual investment earnings on pension plan investments | | 120,236 |
| Deferred outflows of resources related to employer contributions subsequent to the measurement date | | 74,701 |
| Deferred outflows of resources related to net differences between projected and actual experience | | 8,739 |
| Deferred inflows of resources related to differences between expected and to actual experience | | (19,158) |
| Certain liabilities, including lease payable and net pension liability are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Lease payable | | (10,106) |
| Net pension liability | | (2,014,282) |
| *Total net position - governmental funds* | $ | (284,668) |

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, 2017

| | General Fund | Medicaid Special Revenue Fund | SNMERC Special Revenue Fund |
|---|---|---|---|
| *Revenues* | | | |
| Intergovernmental revenue | | | |
| Federal direct | $ - | $ 425,398 | $ - |
| State flowthrough | 51,978 | - | - |
| State direct | 917,230 | - | - |
| Combined state/local | - | - | 96,068 |
| Investment income | 260 | - | 43 |
| *Total revenues* | 969,468 | 425,398 | 96,111 |
| *Expenditures* | | | |
| Current | | | |
| Support services - students | 751,965 | 150,475 | 15,678 |
| Support services - general administration | 124,945 | - | 77,920 |
| Support services - school administration | - | 54,459 | - |
| Central services | 58,025 | 6,621 | 117,089 |
| Operation and maintenance of plant | 24,310 | 9,462 | 5,295 |
| Capital outlay | - | 41,167 | - |
| Debt service | | | |
| Principal | - | - | - |
| *Total expenditures* | 959,245 | 262,184 | 215,982 |
| *Excess (deficiency) of revenues over expenditures* | 10,223 | 163,214 | (119,871) |
| *Net change in fund balances* | 10,223 | 163,214 | (119,871) |
| *Fund balances - beginning of year* | 576,848 | 59,024 | 123,626 |
| *Fund balances - end of year* | $ 587,071 | $ 222,238 | $ 3,755 |

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

| State Directed Activities Special Revenue Fund | Total |
|---|---|
| | |
| $ - | $ 425,398 |
| 258,809 | 310,787 |
| - | 917,230 |
| - | 96,068 |
| - | 303 |
| 258,809 | 1,749,786 |
| | |
| 228,101 | 1,146,219 |
| 19,928 | 222,793 |
| - | 54,459 |
| - | 181,735 |
| 7,693 | 46,760 |
| - | 41,167 |
| | |
| 2,820 | 2,820 |
| 258,542 | 1,695,953 |
| | |
| 267 | 53,833 |
| 267 | 53,833 |
| - | 759,498 |
| $ 267 | $ 813,331 |

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

(This page intentionally left blank.)

**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, 2017

| | | |
|---|---|---|
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Net change in fund balances - total governmental funds | $ | 53,833 |
| 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: | | |
| Capital expenditures | | 41,167 |
| Depreciation expense | | (29,762) |
| Governmental funds report cooperative pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense: | | |
| Pension contributions and other related reconciling items | | 74,701 |
| Pension expense | | (418,449) |
| The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position: | | |
| Principal payments on debt | | 2,820 |
| *Change in net position of governmental activities* | $ | (275,690) |

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

**STATE OF NEW MEXICO**

Exhibit C-1

Pecos Valley Regional Education Cooperative No. 8
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2017

| | Budgeted Amounts | | | Variances Favorable (Unfavorable) |
|---|---|---|---|---|
| | **Original** | **Final** | **Actual** | **Final to Actual** |
| *Revenues* | | | | |
| Intergovernmental revenue | | | | |
| Federal flowthrough | $ - | $ - | $ - | $ - |
| Federal direct | - | - | - | - |
| State flowthrough | 103,956 | 103,956 | 103,956 | - |
| State direct | 871,974 | 871,974 | 952,839 | 80,865 |
| Combined state/local | - | - | - | - |
| Investment income | - | - | 260 | 260 |
| *Total revenues* | 975,930 | 975,930 | 1,057,055 | 81,125 |
| *Expenditures* | | | | |
| Current | | | | |
| Instruction | - | - | - | - |
| Support services - students | 1,034,466 | 1,034,466 | 752,860 | 281,606 |
| Support services - general administration | 171,944 | 171,944 | 141,331 | 30,613 |
| Support services - school administration | - | - | - | - |
| Central services | 77,317 | 77,317 | 58,454 | 18,863 |
| Operation and maintenance of plant | 191,763 | 191,763 | 24,214 | 167,549 |
| Other support services | 970 | 970 | - | 970 |
| Capital outlay | - | - | - | - |
| *Total expenditures* | 1,476,460 | 1,476,460 | 976,859 | 499,601 |
| *Excess (deficiency) of revenues over expenditures* | (500,530) | (500,530) | 80,196 | 580,726 |
| *Other financing sources (uses)* | | | | |
| Designated cash (budgeted increase in cash) | 500,530 | 500,530 | - | (500,530) |
| Transfers in | - | - | - | - |
| Transfers (out) | - | - | - | - |
| *Total other financing sources (uses)* | 500,530 | 500,530 | - | (500,530) |
| *Net change in fund balances* | - | - | 80,196 | 80,196 |
| *Fund balances - beginning of year* | - | - | 500,853 | 500,853 |
| *Fund balances - end of year* | $ - | $ - | $ 581,049 | $ 581,049 |
| *Net change in fund balances (Budget Basis)* | | | | $ 80,196 |
| Adjustments to revenues for changes in state revenues | | | | (87,587) |
| Adjustments to expenditures for payroll and service expenditures | | | | 17,614 |
| *Net change in fund balances (GAAP Basis)* | | | | $ 10,223 |

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 Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2017

| | Budgeted Amounts | | | Variances Favorable (Unfavorable) |
|---|---|---|---|---|
| | **Original** | **Final** | **Actual** | **Final to Actual** |
| *Revenues* | | | | |
| Intergovernmental revenue | | | | |
| Federal flowthrough | $ - | $ - | $ - | $ - |
| Federal direct | 340,522 | 340,522 | 423,153 | 82,631 |
| State flowthrough | - | - | - | - |
| State direct | - | - | - | - |
| Combined state/local | - | - | - | - |
| Investment income | - | - | - | - |
| *Total revenues* | 340,522 | 340,522 | 423,153 | 82,631 |
| *Expenditures* | | | | |
| Current | | | | |
| Instruction | - | - | - | - |
| Support services - students | 233,817 | 233,817 | 167,378 | 66,439 |
| Support services - general administration | - | - | - | - |
| Support services - school administration | 94,940 | 94,940 | 54,285 | 40,655 |
| Central services | 6,639 | 6,639 | 6,621 | 18 |
| Operation and maintenance of plant | 53,230 | 53,230 | 50,729 | 2,501 |
| Other support services | - | - | - | - |
| Capital outlay | - | - | - | - |
| *Total expenditures* | 388,626 | 388,626 | 279,013 | 109,613 |
| *Excess (deficiency) of revenues over expenditures* | (48,104) | (48,104) | 144,140 | 192,244 |
| *Other financing sources (uses)* | | | | |
| Designated cash (budgeted increase in cash) | 48,104 | 48,104 | - | (48,104) |
| Transfers in | - | - | - | - |
| Transfers (out) | - | - | - | - |
| *Total other financing sources (uses)* | 48,104 | 48,104 | - | (48,104) |
| *Net change in fund balances* | - | - | 144,140 | 144,140 |
| *Fund balances - beginning of year* | - | - | 48,105 | 48,105 |
| *Fund balances - end of year* | $ - | $ - | $ 192,245 | $ 192,245 |
| *Net change in fund balances (Budget Basis)* | | | | $ 144,140 |
| Adjustments to revenues for changes in federal revenues | | | | 2,245 |
| Adjustments to expenditures for payroll and service expenditures | | | | 16,829 |
| *Net change in fund balances (GAAP Basis)* | | | | $ 163,214 |

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
SNMERC Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2017

| | Budgeted Amounts | | | Variances Favorable (Unfavorable) |
|---|---|---|---|---|
| | **Original** | **Final** | **Actual** | **Final to Actual** |
| *Revenues* | | | | |
| Intergovernmental revenue | | | | |
| Federal flowthrough | $ - | $ - | $ - | $ - |
| Federal direct | - | - | - | - |
| State flowthrough | - | - | - | - |
| State direct | - | - | - | - |
| Combined state/local | 104,000 | 104,000 | 104,456 | 456 |
| Investment income | - | - | 43 | 43 |
| *Total revenues* | 104,000 | 104,000 | 104,499 | 499 |
| *Expenditures* | | | | |
| Current | | | | |
| Instruction | - | - | - | - |
| Support services - students | 15,679 | 15,679 | 15,678 | 1 |
| Support services - general administration | 79,091 | 79,091 | 78,419 | 672 |
| Support services - school administration | - | - | - | - |
| Central services | 121,090 | 121,090 | 118,531 | 2,559 |
| Operation and maintenance of plant | 5,710 | 5,710 | 5,687 | 23 |
| Other support services | - | - | - | - |
| Capital outlay | - | - | - | - |
| *Total expenditures* | 221,570 | 221,570 | 218,315 | 3,255 |
| *Excess (deficiency) of revenues over expenditures* | (117,570) | (117,570) | (113,816) | 3,754 |
| *Other financing sources (uses)* | | | | |
| Designated cash (budgeted increase in cash) | 117,570 | 117,570 | - | (117,570) |
| Transfers in | - | - | - | - |
| Transfers (out) | - | - | - | - |
| *Total other financing sources (uses)* | 117,570 | 117,570 | - | (117,570) |
| *Net change in fund balances* | - | - | (113,816) | (113,816) |
| *Fund balances - beginning of year* | - | - | 117,571 | 117,571 |
| *Fund balances - end of year* | $ - | $ - | $ 3,755 | $ 3,755 |
| *Net change in fund balances (Budget Basis)* | | | | $ (113,816) |
| Adjustments to revenues for changes in state revenues | | | | (8,388) |
| Adjustments to expenditures for payroll and service expenditures | | | | 2,333 |
| *Net change in fund balances (GAAP Basis)* | | | | $ (119,871) |

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

**STATE OF NEW MEXICO**

Exhibit C-4

Pecos Valley Regional Education Cooperative No. 8
State Directed Activities Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2017

| | **Budgeted Amounts** | | | **Variances Favorable (Unfavorable)** |
|---|---|---|---|---|
| | **Original** | **Final** | **Actual** | **Final to Actual** |
| *Revenues* | | | | |
| Intergovernmental revenue | | | | |
| Federal flowthrough | $ - | $ - | $ - | $ - |
| Federal direct | - | - | - | - |
| State flowthrough | 260,006 | 260,006 | 409,961 | 149,955 |
| State direct | - | - | - | - |
| Combined state/local | - | - | - | - |
| Investment income | - | - | - | - |
| *Total revenues* | 260,006 | 260,006 | 409,961 | 149,955 |
| *Expenditures* | | | | |
| Current | | | | |
| Instruction | - | - | - | - |
| Support services - students | 229,562 | 229,562 | 228,990 | 572 |
| Support services - general administration | 19,930 | 19,930 | 19,928 | 2 |
| Support services - school administration | - | - | - | - |
| Central services | - | - | - | - |
| Operation and maintenance of plant | 10,514 | 10,514 | 10,513 | 1 |
| Other support services | - | - | - | - |
| Capital outlay | - | - | - | - |
| *Total expenditures* | 260,006 | 260,006 | 259,431 | 575 |
| *Excess (deficiency) of revenues over expenditures* | - | - | 150,530 | 150,530 |
| *Other financing sources (uses)* | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers (out) | - | - | - | - |
| *Total other financing sources (uses)* | - | - | - | - |
| *Net change in fund balances* | - | - | 150,530 | 150,530 |
| *Fund balances - beginning of year* | - | - | (183,245) | (183,245) |
| *Fund balances - end of year* | $ - | $ - | $ (32,715) | $ (32,715) |
| *Net change in fund balances (Budget Basis)* | | | | $ 150,530 |
| Adjustments to revenues for changes in state revenues | | | | (151,152) |
| Adjustments to expenditures for payroll and service expenditures | | | | 889 |
| *Net change in fund balances (GAAP Basis)* | | | | $ 267 |

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

**NOTE 1. Summary of Significant Accounting Policies**

Pecos Valley Regional Education Cooperative No. 8 (the "Cooperative") is one of ten Regional Cooperative Centers established throughout New Mexico in 1984. The Regional Cooperative Centers were originally organized to provide supplementary special education services to local education agencies utilizing federal PL 94-142 funds. The role of the Cooperatives have 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, 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.

This summary of significant accounting policies of the Cooperative is presented to assist in the understanding of the Cooperative's financial statements. The financial statements and notes are the representation of the Cooperative's management, who are responsible for the financial statements. The financial statements of the Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

During the year ended June 30, 2017, the Cooperative adopted GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (partial), No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* No. 77, *Tax Abatement Disclosures,* No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, and* No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14,* and No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73.* These five Statements are required to be implemented as of June 30, 2017, if applicable.

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement was effective and was implemented for the June 30, 2016 year end, and a portion is effective for June 30, 2017 year end. Effective for June 30, 2017 are the provisions of the statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. This does not have a material effect on the financial statements of the Cooperative, as its pension plan is within the scope of Statement 68.

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement does not affect the Cooperative's financial statements directly; however, the effects on the Cooperative's OPEB plan, administered through the New Mexico Retiree Health Care Authority, will be seen in future periods.

**NOTE 1. Summary of Significant Accounting Policies (continued)**

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources came from and how it uses them, and (4) a government's financial position and economic condition and how they have changed after time – by including information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

For tax abatement agreements entered into by other governments, the following should be disclosed:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The Cooperative's pension plan does not meet the criteria for exclusion.

**NOTE 1. Summary of Significant Accounting Policies (continued)**

The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended.* This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

*A. Financial Reporting Entity*

In evaluating how to define the Cooperative 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. 39, GASB Statement No. 61, and GASB Statement No. 80. 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 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.

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

*B. Government-wide and fund financial statements*

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund 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 Cooperative does not have any business-type activities.

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis by column, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Cooperative's net position is reported in three parts – Net investment in capital assets, restricted net position, and unrestricted net position.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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, state equalization, and other items not properly included among program revenues are reported instead as *general revenues*.

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.

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund 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.

*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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

All other revenue items are considered to be measurable and available only when cash is received by the government.

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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

The Cooperative reports the following major governmental funds:

The G*eneral Fund* is the Cooperative's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Medicaid Special Revenue Fund* accounts for a program providing school-based screening, diagnostic services and other related health services and administrative activities in conformance with the approved Medicaid State Plan in order to improve health and developmental outcomes for children. Authority for the creation of this fund is the Social Security Act, Title XIX, as amended; Public Laws 89-97, 90-248, and 91-56; 42 U.S.C. 1396 et seq., as amended; Public Law 92-223; Public Law 92-603; Public Law 93-66; Public Law 93-233; Public Law 96-499; Public Law 97-35; Public Law 97-248; Public Law 98-369; Public Law 99-272; Public Law 99-509; Public Law 100-93; Public Law 100-202; Public Law 100-203; Public Law100-360; Public Law 100-436; Public Law 100-485; Public Law 100-647; Public Law 101-166; Public Law 101-234; Public Law 101-239; Public Law 101-508; Public Law 101-517; Public Law 102-234; Public Law 102-170; Public Law 102-394; Public Law 103-66; Public Law 103-112; Public Law 103-333; Public Law 104-91; Public Law 104-191; Public Law 104-193; Public Law 104-208,104-134; Balanced Budget Act of 1997, Public Law 105-33; Public Law 106-113; Public Law 106-554; Public Law 108-27; Public Law 108-173; Public Law 109-91; Public Law 109-171; Public Law 109-432; Public Law 110-28.

The *SNMERC Special Revenue Fund* is used to account for the science resource kits provided by a state grant to assist the Cooperative schools with science education. Authority for creation of the fund is the New Mexico Public Education Department.

The *State Directed Activities Special Revenue Fund* is used to account for a program funded by a state grant to assist the Cooperative in providing free appropriate public education to all handicapped students that attend the School Districts that are members of the Cooperative. Funding is authorized by the Individuals with Disabilities Education Act.

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

When both restricted and unrestricted resources are available for use, it is the Cooperative's policy to use restricted resources first, then unrestricted resources as they are needed.

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*D. Assets, Deferred outflows of resources, Liabilities, Deferred inflows of resources, and Net Position or Equity*

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

State statutes authorize the Cooperative to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Local Government Investment Pool (LGIP).

Investments for the Cooperative are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**Fair Value Measurements:** 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, 2017, there are no items are required to be valued using valuation techniques.

**Receivables and Payables**: Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements. The period of availability is deemed to be sixty days subsequent to year end.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**Capital Assets**: Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Cooperative as assets with an initial, individual cost of more than $5,000 (amount not rounded) 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. 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 Cooperative was a phase III government for purposes of implementing GASB Statement No. 34 however, the Cooperative does not have any infrastructure assets to report.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The Cooperative does not have a library.

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*D. Assets, Deferred outflows of resources, Liabilities, Deferred inflows of resources, and Net Position or Equity (continued)*

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

| Assets | Years |
|---|---|
| Buildings and improvements | 10-40 |
| Furniture, fixture and equipment | 5-15 |

**Deferred Inflows of Resources**: In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflow of resources. The Cooperative has one item that falls into this category, which arises due to the implementation of GASB 68 and the related net pension liability. Accordingly, the item, differences between expected and actual experience of $19,158, is reported on the Statement of Net Position. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**Deferred Outflows of Resources**: In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The Cooperative has five types of items that qualify for reporting in this category. Accordingly, the items, changes in proportion of $420,089, changes of assumptions of $41,003, the net difference between projected and actual investment earnings on pension plan investments of $120,236, and employer contributions subsequent to measurement date of $74,701, and the differences between expected and actual experience of $8,739, are reported in the Statement of Net Position. These amounts are deferred and recognized as outflows of resources in future periods.

**Accrued Payroll**: In the fund financial statements, governmental fund types recognize the accrual of unpaid wages and benefits that employees have earned at the close of each fiscal year.

**Compensated Absences:** The Cooperative allows full-time employees one day paid of personal leave per contract month per year without deduction in salary. Leave will be credited at the beginning of the contract year. If an employee's employment is terminated before the end of the regular contract, the employee's final salary compensation shall be reduced by the value of any paid personal leave taken but not earned. Paid personal leave may be accumulated up to ninety (90) days.

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*D. Assets, Deferred outflows of resources, Liabilities, Deferred inflows of resources, and Net Position or Equity (continued)*

The Cooperative allows twelve-month (235-day) employees to have two working weeks' vacation yearly. Only one week is accruable to be carried over to the next contract year. Upon termination of employment or retirement, the employee will not be reimbursed for unused accumulated leave and therefore, the Cooperative does not have a liability at June 30, 2017.

**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.

**Fund Balance Classification Policies and Procedures:** The Cooperative has implemented GASB Statement No. 54 and has defined the various categories reported in fund balance. For committed fund balance, the Cooperative's highest level of decision-making authority is the Coordinating Council. The formal action that is required to be taken to establish a fund balance commitment is the Coordinating Council.

For assigned fund balance, the Coordinating Council or an official or body to which the Coordinating Council delegates the authority is authorized to assign amounts to a specific purpose. The authorization policy is that in governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

For the classification of fund balances, the Cooperative 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 Cooperative 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.

**Nonspendable Fund Balance:** At June 30, 2017, the Cooperative did not have any fund balance that is not in spendable form.

**Restricted and Committed Fund Balance:** At June 30, 2017, the restricted fund balance on the governmental funds balance sheet is made up of $226,260 for providing education services to the students of the member Districts.

The Cooperative has also committed fund balance in the amount of $521,440 for expenditures in the subsequent year.

**Minimum Fund Balance Policy:** The Cooperative has not developed a policy for maintaining a minimum amount of fund balance for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies.

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*D. Assets, Deferred outflows of resources, Liabilities, Deferred inflows of resources, and Net Position or Equity (continued)*

**Net Position:** Equity is classified as net position and displayed in three components:

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

b. Restricted Net Position: Net position is reported as restricted when constraints are 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. Descriptions for the related restrictions for net position restricted for "special revenue" are described on page 30.

c. Unrestricted Net Position: Net position that does not meet the definition of "Restricted" or "Net Investment in Capital Assets."

**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 for the Cooperative are management's estimate of depreciation on assets over their estimated useful lives and the net pension liability and related deferred inflows and outflows.

**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.

*E. Revenues*

**Federal and State Grants:** In addition to funding from the State of New Mexico, the Cooperative receives revenues from various Federal departments (both direct and indirect), which are legally restricted to expenditures for specific purposes. These programs are reported as Special Revenue Funds. Each program operates 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 local School Board and the New Mexico Public Education Department.

## 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 Coordinating Council and the School Budget and Planning Unit of the Public Education Department.

These budgets are prepared on the Non-GAAP cash 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 committed 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 Coordinating Council approval. If a transfer between 'series' or a budget increase is required, approval must also be obtained from Public School Finance Division.

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

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

1. In April or May, the Director submits to the District Budget Planning Unit (DBPU) of the New Mexico Public Education Department (PED) 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 are submitted to the State of New Mexico Public Education Department.

2. In May or June of each year, the proposed "operating" budget will be reviewed and approved by the DBPU and certified and approved by the Coordinating Council at a public hearing of which notice has been published by the Coordinating Council which fixes the estimated budget for the Cooperative for the ensuing fiscal year.

3. The Coordinating Council meeting is open for the general public unless a closed meeting has been called.

4. The "operating" budget will be used by the Cooperative until they have been notified that the budget has been approved by the DBPU and the Coordinating Council. 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 Cooperative shall make corrections, revisions and amendments to the estimated budgets fixed by the Coordinating Council to recognize actual cash balances and carryover funds, if any. These adjustments shall be reviewed and approved by the DBPU.

6. The superintendent 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 Coordinating Council and the State of New Mexico Public Education Department.

## NOTE 2. Stewardship, Compliance, and Accountability (continued)

*Budgetary Information (continued)*

7. Budget change requests are processed in accordance with Supplement 1 (Budget Preparation and Maintenance) of the Manual of Procedures Public School Accounting and Budgeting. Such changes are initiated by the Cooperative and approved by the DBPU.

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 schedules included in the accompanying financial statements reflect the original budget and the final budget.

10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.

The Coordinating Council may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance. New Mexico Administrative Code 6.20.2.9 prohibits the Cooperative from exceeding budgetary control at the function level.

The appropriated budget for the year ended June 30, 2017, was properly amended by the Cooperative's Coordinating Council throughout the year. These amendments resulted in the following changes:

| | Excess (deficiency) of revenues over expenditures | |
|---|---|---|
| | **Original Budget** | **Final Budget** |
| Budgeted Funds: | | |
| General Fund | $ (500,530) | $ (500,530) |
| Medicaid Special Revenue Fund | $ (48,104) | $ (48,104) |
| SNMERC Special Revenue Fund | $ (117,570) | $ (117,570) |
| State Directed Activities Special Revenue Fund | $ - | $ - |

The Cooperative is required to balance its budgets each year. Accordingly, amounts that are excess or deficient are presented as changes in cash designated for expenditures, not as an excess or deficiency of revenues over expenditures.

The reconciliation between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis for each governmental fund are included in each individual budgetary comparison.

## NOTE 3. Deposits and Investments

State statutes authorize the investment of Cooperative 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 Cooperative properly followed State investment requirements as of June 30, 2017.

**NOTE 3. Deposits and Investments (continued)**

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 Cooperative. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance.

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 asking price on United States treasury bills of the same maturity on the day of deposit.

Excess 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 Cooperative's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of $250,000 for all deposit accounts up to $250,000 for all time and saving accounts plus up to $250,000 for all demand deposit accounts held at a single institution in state.

*Custodial Credit Risk – Deposits*. Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2017, $548,068 of the Cooperative's bank balance of $798,068 was subject to custodial credit risk. $544,466 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Cooperative's name. $3,602 of the Cooperative's deposits were uninsured and uncollateralized at June 30, 2017.

| | First American Bank |
|---|---|
| Amount of deposits | $ 798,068 |
| FDIC Coverage | (250,000) |
| Total uninsured public funds | 548,068 |
| Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Cooperative's name | 544,466 |
| Uninsured and uncollateralized | $ 3,602 |
| Collateral requirement (50% of uninsured funds) | $ 274,034 |
| Pledged Collateral | 544,466 |
| Over (Under) collateralized | $ 270,432 |

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

**NOTE 3. Deposits and Investments (continued)**

The Cooperative utilizes internal pooled accounts for some of their programs and funds. Negative cash balances in individual funds that were part of the pooled accounts were reclassified as due to/from accounts in the combining balance sheet as of June 30, 2017. Fund 27200 is a nonfederal fund. The following individual fund had negative cash balances as of June 30, 2017:

| Fund # | Fund Name | Amount |
|---|---|---|
| 27200 | State Directed Activities Special Revenue Fund | $ 24,741 |

Reconciliation to the Statement of Net Position

The carrying amount of deposits and investments shown above are included in the Cooperative's statement of net position as follows:

| | |
|---|---|
| Cash and cash equivalents per Exhibit A-1 | 791,512 |
| Total cash and cash equivalents | 791,512 |
| Add: outstanding checks | 6,556 |
| Bank balance of deposits | $ 798,068 |

**NOTE 4. Accounts Receivable**

Accounts receivable as of June 30, 2017, are as follows:

| | General Fund | Medicaid Special Revenue | State Directed Activities Special Revenue | Total |
|---|---|---|---|---|
| Due from other governments: | | | | |
| Federal sources | $ - | $ 31,370 | $ - | $ 31,370 |
| State sources | 8,198 | - | 33,962 | 42,160 |
| | $ 8,198 | $ 31,370 | $ 33,962 | $ 73,530 |

All of the above receivables are deemed to be fully collectible.

**NOTE 5. Interfund Receivables, Payables, and Transfers**

The Cooperative records temporary interfund receivables and payables to enable the funds to operate until grant monies are received. The composition of interfund balances during the year ended June 30, 2017 is as follows:

| | Due from other funds | Due to other funds |
|---|---|---|
| General Fund | $ 24,741 | $ - |
| State Directed Activities Special Revenue Fund | - | 24,741 |
| Total | $ 24,741 | $ 24,741 |

All interfund balances are intended to be repaid within one year.

There were not any operating transfers in the normal course of operations during the year ended June 30, 2017.

**NOTE 6. Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2017 follows. Land is not subject to depreciation.

| | Balance June 30, 2016 | Additions | Deletions | Balance June 30, 2017 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 25,977 | $ - | $ - | $ 25,977 |
| Total capital assets not being depreciated | 25,977 | - | - | 25,977 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 317,361 | - | - | 317,361 |
| Furniture, fixtures, and equipment | 316,440 | 41,167 | 124,315 | 233,292 |
| Total capital assets being depreciated | 633,801 | 41,167 | 124,315 | 550,653 |
| Total capital assets | 659,778 | 41,167 | 124,315 | 576,630 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 114,248 | 7,934 | - | 122,182 |
| Furniture, fixtures, and equipment | 276,156 | 21,828 | 124,315 | 173,669 |
| Total accumulated depreciation | 390,404 | 29,762 | 124,315 | 295,851 |
| Total capital assets, net of depreciation | $ 269,374 | $ - | $ - | $ 280,779 |

## NOTE 6. Capital Assets (continued)

For the year ended June 30, 2017, depreciation expense was charged to the following functions:

| | |
|---|---|
| Depreciation Expense - Support Services - General Administration | $ 7,934 |
| Depreciation Expense - Support Services - Students | 21,828 |
| Total depreciation | $ 29,762 |

The Cooperative does not have any active construction projects as of June 30, 2017.

## NOTE 7. Long-term Debt

The Cooperative entered into a 60 month capital lease agreement with Xerox Corporation beginning January 4, 2016 and maturing on January 31, 2021. The capital lease was issued with no interest and principal payments of $235.04 due monthly.

The following is a summary of the long-term debt and the related activity for the year ended June 30, 2017:

| | Balance June 30, 2016 | Additions | Retirements | Balance June 30, 2017 | Due Within One Year |
|---|---|---|---|---|---|
| Lease payable | $ 12,926 | $ - | $ 2,820 | $ 10,106 | $ 2,820 |

The annual requirements to extinguish the capital lease outstanding as of June 30, 2017, including interest payments are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 2018 | $ 2,820 | $ - | $ 2,820 |
| 2019 | 2,820 | - | 2,820 |
| 2020 | 2,820 | - | 2,820 |
| 2021 | 1,646 | - | 1,646 |
| | $ 10,106 | $ - | $ 10,106 |

## NOTE 8. Risk Management

The Cooperative is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; error omissions; and natural disasters, for which the Cooperative is a member of the New Mexico Public School Insurance Authority (NMPSIA). The Authority was created to provide comprehensive core insurance programs by expanding the pool of subscribers to maximize cost containment opportunities for required insurance coverage. The Cooperative pays an annual premium to the NMPSIA based on claim experience and the status of the pool. The Risk Management Program includes Workers Compensation, General and Automobile Liability, Automobile Physical Damage, and Property and Crime coverage. Also included under the risk management program are Boiler, Machinery and Student Accident Insurance.

**NOTE 8. Risk Management (continued)**

The NMPSIA provides coverage for up to a maximum of $500,000,000 for each property damage claim with a $15,000 deductible per occurrence with a maximum annual deductible of $60,000. General liability coverage is afforded to all employees, volunteers and school board members and the limit is subject to the NMSA Tort Claims Act on a per occurrence basis. The automobile and property liability limit is subject to the provisions of the Tort Claims Act. The crime limit is $250,000 per occurrence for Faithful Performance. A limit of $250,000 applies to Depositor's Forgery, Credit Card Forgery, and Money Orders. A limit of $100,000 applies to Money and Securities, which include a $750 deductible.

In case the NMPSIA's assets are not sufficient to meet its liability claims, the agreement provides that subscribers, including the Cooperative, cannot be assessed additional premiums to cover the shortfall. As of June 30, 2017, there have been no claims that have exceeded insurance coverage.

**NOTE 9. Pension Plan – Educational Retirement Board**

**General Information about the Pension Plan**

***Plan description.*** ERB was created by the state's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer 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 agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

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

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member's age and earned service credit add up to the sum or 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. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, reemployed after that date is as follows: the member's age and earned service credit add up to the sum of 80 or more; the member is at least sixty- seven years of age and has five or more years of earned service credit; or the member has service credit totaling 30 years or more.

**NOTE 9. Pension Plan – Educational Retirement Board (continued)**

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the Cola would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%.

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

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

***Contributions.*** The contribution requirements of plan members and the Cooperative are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2017 employers contributed 13.90% of employees' gross annual salary to the Plan. Employees earning $20,000 or less contributed 7.90% and employees earning more than $20,000 contributed 10.70% of their gross annual salary. For fiscal year ended June 30, 2017 employers contributed 13.90%, and employees earning 20,000 or less continued to contribute 7.90% and employees earning more than $20,000 continued contributing at an amount of 10.70% of their gross annual salary. Contributions to the pension plan from the Cooperative were $74,701 for the year ended June 30, 2017.

**NOTE 9. Pension Plan – Educational Retirement Board (continued)**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:*** The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016. At June 30, 2017, the Cooperative reported a liability of $2,014,282 for its proportionate share of the net pension liability. The Cooperative's proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2016. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2016, the Cooperative's proportion was 0.02799 percent, which was an increase of 0.00377 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Cooperative recognized pension expense of $418,449. At the June 30, 2017, the Cooperative reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

| | Deferred Outflow of Resources | Deferred Inflow of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 8,739 | $ 19,158 |
| Changes of assumptions | 41,003 | - |
| Net difference between projected and actual earnings on pension plan investments | 120,236 | - |
| Changes in proportion and differences between Cooperative contributions and proportionate share of contribution | 420,089 | - |
| Cooperative's contributions subsequent to the measurement date | 74,701 | - |
| Total | $ 664,768 | $ 19,158 |

$74,701 reported as deferred outflows of resources related to pensions resulting from Cooperative contributions subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|---|---|
| 2018 | $ (239,006) |
| 2019 | (196,342) |
| 2020 | (106,240) |
| 2021 | (29,321) |
| 2022 | - |
| Thereafter | - |

**NOTE 9. Pension Plan – Educational Retirement Board (continued)**

***Actuarial assumptions.*** The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on actuarial valuation and performed as of June 30, 2015. The liabilities reflect the impact of Senate Bill 115, signed into law March 29, 2013 and new assumptions adopted by the Board of Trustees on June 12, 2015. Specifically, the liabilities measured as of June 30, 2015 incorporate the following assumptions:

1. All members with an annual salary of more than $20,000 will contribute 10.70% during the fiscal year ending June 30, 2016 and thereafter.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by the Board on June 12, 2015 in conjunction with the six year experience study period ending June 30, 2014.
5. For purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

The actuarial methods and assumptions used to determine contributions rates included in the measurement are as follows:

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll |
| Remaining Period | Amortized – closed 30 years from June 30, 2012 to June 30, 2042 |
| Asset Valuation Method | 5 year smoothed market for funding valuation (fair value for financial valuation) |
| Inflation | 3.00% |
| Salary Increase | Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service |
| Investment Rate of Return | 7.75% |
| Retirement Age | Experience based table of age and service rates |
| Mortality | Healthy males: RP-2000 Combined Mortality Table, set back one year, generational mortality improvements in accordance with scale BB from the table's base year of 2012 |

**NOTE 9. Pension Plan – Educational Retirement Board (continued)**

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. ERB's investment allocation policy was reviewed and amended by the Board of Trustees on August 26, 2016. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following schedule shows the current asset allocation policy adopted on August 26, 2016, as well as the prior allocation policy targets.

**Comparative Schedule of Target Investment Allocation**

| | Target Allocation | |
|---|---|---|
| **Asset Class** | **After 8/26/2016** | **Prior to 8/26/2016** |
| *Domestic Equities* | | |
| Large cap equities | 16% | 18% |
| Small- mid cap equities | 3% | 2% |
| *Total domestic* | 19% | 20% |
| *International Equities* | | |
| Developed | 5% | 5% |
| Emerging markets | 9% | 10% |
| *Total international* | 14% | 15% |
| **Total equities** | 33% | 35% |
| **Fixed Income** | | |
| Opportunistic credit | 18% | 20% |
| Core bonds | 6% | 6% |
| Emerging market debt | 2% | 2% |
| **Total fixed income** | 26% | 28% |
| **Alternatives** | | |
| Real estate - REITS | 7% | 7% |
| Real assets | 8% | 8% |
| Private equity | 13% | 11% |
| Global asset allocation | 4% | 5% |
| Risk parity | 3% | 5% |
| Other | 5% | 0% |
| **Total alternatives** | 40% | 36% |
| **Cash** | 1% | 1% |

**NOTE 9. Pension Plan – Educational Retirement Board (continued)**

For the years ended June 30, 2016 and 2015, the annual money-weighted rates of return on pension plan investments were 2.68% and 4.06%, respectively.

***Discount rate:*** A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2016 and June 30, 2015. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

***Sensitivity of the Cooperative's proportionate share of the net pension liability to changes in the discount rate.*** The following table shows the sensitivity of the net pension liability to changes in the discount rate as of the fiscal year end 2016. In particular, the table presents the (employer's) net pension liability under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| Cooperative's proportionate share of the net pension liability | $ 2,667,869 | $ 2,014,282 | $ 1,471,989 |

**Pension plan fiduciary net position**. Detailed information about the pension plan's fiduciary net position is available in the separately issued audited financial statements as of and for the year ended June 30, 2016, which is publicly available at www.nmerb.org.

**Payables to the pension plan.** The Cooperative remits the legally required employer and employee contributions on a monthly basis to ERB. The ERB requires that the contributions be remitted by the 15th day of the month following the month for which contributions are withheld. At June 30, 2017, the Cooperative owed the ERB $8,854 for the contributions withheld in the month of June 2017.

**NOTE 10. Post-Employment Benefits – State Retiree Health Care Plan**

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

**NOTE 10. Post-Employment Benefits – State Retiree Health Care Plan (continued)**

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

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

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

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

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

The Cooperative's contribution to the RHCA for the years ended June 30, 2017, 2016, and 2015 were $10,726, $15,991, and $13,772, respectively, which equal the required contributions for each year.

**NOTE 11. 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 Cooperative expects such amount, if any, to be immaterial. The Cooperative is involved in various claims and lawsuits arising in the normal course of business. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Cooperative's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Cooperative.

**NOTE 12. Other Required Individual Fund Disclosures**

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

A. Deficit Fund Balances. The Cooperative did not have any funds with a deficit fund balance as of June 30, 2017.

B. Excess of expenditures over appropriations. The Cooperative did not have any funds in which expenditures were in excess of the budgeted appropriations for the year ended June 30, 2017.

C. Designated cash appropriations in excess of available balance. The Cooperative did not have any funds in which designated cash appropriations were in excess of available balances for the year ended June 30, 2017.

**NOTE 13. Concentrations**

The Cooperative depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the Cooperative 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. Commitments**

The Cooperative did not have any construction projects ongoing or other commitments as of the year ended June 30, 2017.

## NOTE 15. Joint Powers Agreements

**Pecos Valley Regional Education Cooperative Council**

| | |
|---|---|
| Participants | Pecos Valley Regional Education Cooperative No. 8<br>Dexter Consolidated Schools<br>Hagerman Municipal Schools<br>Lake Arthur Municipal Schools<br>Loving Municipal Schools |
| Responsible party | Pecos Valley Regional Education Cooperative No. 8 |
| Description | To establish and maintain a cooperative program of various federal and state grants. |
| Term of agreement | May 2012 until cancelled |
| Amount of project | Unknown |
| Cooperative contributions | Unknown |
| Audit responsibility | Pecos Valley Regional Education Cooperative No. 8 |

## NOTE 16. Net Position Restatement

The Cooperative had a prior period adjustment of ($147,820), which was required for the restatement of the prior year deferred inflows and outflows of resources related to the changes in proportion and related pension expense due to the Educational Retirement Board restating the prior year report after the Cooperative's financial statements were issued for the year ended June 30, 2016.

## NOTE 17. Restricted Net Position

The government-wide statement of net position reports $226,260 of restricted net position, all of which is restricted by enabling legislation. For descriptions of the related restrictions for net position restricted for special revenue funds, see page 30.

## NOTE 18. Subsequent Events

The date to which events occurring after June 30, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statement or disclosures is September 25, 2017, which is the date on which the financial statements were issued.

**NOTE 19. Subsequent Pronouncements**

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The Cooperative expects this pronouncement to have a material effect on the financial statements.

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The Cooperative is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Cooperative is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84, *Fiduciary Activities,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Cooperative is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85, *Omnibus 2017,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Cooperative is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to in-substance defeasance of debt using only existing resources. The Cooperative does not expect the pronouncement to have a material effect on the financial statements.

In June 2017, GASB Statement No. 87, *Leases,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Cooperative is still evaluating how this pronouncement will affect the financial statements.

# REQUIRED SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO** Schedule I

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*

| | 2017 Measurement Date (As of and for the Year Ended June 30, 2016) | 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) |
|---|---|---|---|
| Pecos Valley Regional Education Cooperative No. 8's proportion of the net pension liability (asset) | 0.02799% | 0.02422% | 0.01770% |
| Pecos Valley Regional Education Cooperative No. 8's proportionate share of the net pension liability (asset) | $ 2,014,282 | $ 1,568,798 | $ 1,008,195 |
| Pecos Valley Regional Education Cooperative No. 8's covered-employee payroll | 799,288 | 688,470 | 487,131 |
| Pecos Valley Regional Education Cooperative No. 8's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 252% | 228% | 207% |
| Plan fiduciary net position as a percentage of the total pension liability | 61.58% | 63.97% | 66.54% |

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Pecos Valley Regional Education Cooperative No. 8 will present information for those years for which information is available.

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, 2017 | As of and for the Year Ended June 30, 2016 | As of and for the Year Ended June 30, 2015 |
|---|---|---|---|
| Contractually required contribution | $ 74,701 | $ 111,106 | $ 95,696 |
| Contributions in relation to the contractually required contribution | 74,701 | 111,106 | 95,696 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Pecos Valley Regional Education Cooperative No. 8's covered-employee payroll | 537,415 | 799,288 | 688,470 |
| Contribution as a percentage of covered-employee payroll | 13.90% | 13.90% | 13.90% |

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Pecos Valley Regional Education Cooperative No. 8 will present information for those years for which information is available.

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

*Changes of benefit terms.*

The COLA and retirement eligibility benefits changes in recent years are described in the Benefits Provided subsection of the financial statement note disclosure Pension Plan – Educational Retirement Board, General Information on the Pension Plan.

*Changes of assumptions.*

The Board of Trustees approved the following economic and demographic assumptions used in the fiscal year 2015 actuarial calculation of the total pension liability on June 12, 2015:

1) Lower wage inflation from 4.25% to 3.75%
2) Update the mortality tables to incorporate generational improvements
3) Update demographic assumptions to use currently published tables, which may result in minor calculation changes
4) Maintain in current 3.00% inflation assumption
5) Retain net 4.75% real return assumption
6) Retain 7.75% nominal return assumption
7) No change to COLA assumption of 2.00% per year
8) Maintain current payroll growth assumption of 3.50%
9) Maintain experience-based rates for members who joined NMERB by June 30, 2010
10) Remove population growth assumption for projections
11) Lower population growth from .50% to zero (no impact on valuation results)

Assumption changes increased the Education Retirement Board's total pension liability by $299,084,856 for fiscal year ending June 30, 2015 as a result of the changes of assumptions described above.

## SUPPORTING SCHEDULES

(This page intentionally left blank.)

**STATE OF NEW MEXICO**
Pecos Valley Regional Education Cooperative No. 8
Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2017

| Name of Depository | Description of Pledged Collateral | Maturity | CUSIP Number | Fair Market Value June 30, 2017 |
|---|---|---|---|---|
| **First American Bank** | | | | |
| | Los Lunas NM SD 1 | 7/15/2017 | 545562PD6 | $ 200,000 |
| | G2 82959 | 10/20/2041 | 36225FJD2 | 344,466 |
| | | | | 544,466 |
| | Name and location of safekeeper for above pledged collateral: Federal Home Loan Bank Dallas, TX | | | |
| | *Total pledged collateral* | | | $ 544,466 |

See independent auditors' report.

**STATE OF NEW MEXICO**
Pecos Valley Regional Education Cooperative No. 8
Schedule of Deposits
June 30, 2017

| Bank Account Type/Name | First American Bank | Totals |
|---|---|---|
| Checking - Operational | $ 767,217 | $ 767,217 |
| Checking - Payroll Clearing | 30,851 | 30,851 |
| Total | 798,068 | 798,068 |
| Reconciling items | (6,556) | (6,556) |
| *Reconciled balance* | $ 791,512 | 791,512 |
| *Total unrestricted cash and cash equivalents per Exhibit A-1* | | $ 791,512 |

See independent auditors' report.

**STATE OF NEW MEXICO**

Schedule V

Pecos Valley Regional Education Cooperative No. 8
Cash Reconciliation
For the Year Ended June 30, 2017

| | Federal Direct 25000 | Local Grants 26000 | State Flowthrough 27000 | Total |
|---|---|---|---|---|
| Audited Cash | | | | |
| June 30, 2016 | $ 48,105 | $ 117,571 | $ 317,608 | $ 483,284 |
| Add: | | | | |
| 2016-2017 revenues | 423,152 | 104,499 | 1,467,015 | 1,994,666 |
| Repayment of prior year loans | - | - | 176,768 | 176,768 |
| Loans from other funds | - | - | 24,741 | 24,741 |
| Total cash and investments available | 471,257 | 222,070 | 1,986,132 | 2,679,459 |
| Less: | | | | |
| 2016-2017 expenditures | 279,012 | 218,315 | 1,236,289 | 1,733,616 |
| Repayment of prior year loans | - | - | 176,768 | 176,768 |
| Loans to other funds | - | - | 24,741 | 24,741 |
| *Net cash and investments* | $ 192,245 | $ 3,755 | $ 548,334 | $ 744,334 |
| Plus: held checks | 2,800 | 11,709 | 32,669 | 47,178 |
| *Audited cash June 30, 2017* | $ 195,045 | $ 15,464 | $ 581,003 | $ 791,512 |

See independent auditors' report.

(This page intentionally left blank.)

# 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

Timothy Keller
New Mexico State Auditor
The Coordinating Council
Pecos Valley Regional Education Cooperative No. 8
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, and the budgetary comparisons of the general fund and major special revenue funds of Pecos Valley Regional Education Cooperative No. 8 (the "Cooperative") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated September 25, 2017.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP
Albuquerque, NM
September 25, 2017

**STATE OF NEW MEXICO**
Pecos Valley Regional Education Cooperative No. 8
Schedule of Findings and Responses
June 30, 2017

## A. 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 |

## B. FINDINGS – FINANCIAL STATEMENT AUDIT

None Noted

## C. FINDINGS – SECTION 12-6-5 NMSA FINDINGS

None Noted

## D. PRIOR YEAR AUDIT FINDINGS

FS 2015-001 Capital Asset Maintenance and Controls – Material Weakness – Resolved

FS 2016-001 Internal Control over Travel and Per Diem (Finding That Does Not Rise to the Level of a Significant Deficiency) – Resolved

## OTHER DISCLOSURES

### Exit Conference

An exit conference was held on August 24, 2017. In attendance were the following:

**Representing Pecos Valley Regional Education Cooperative No. 8:**

David Willden, Executive Director
Christine Hendershot, Business Manager
Mike Grossman, Chairperson
Ann Lynn McIlroy, Member
Delma Perez, COTA

**Representing RPC CPAs + Consultants, LLP:**

Alan D. Bowers, Jr., CPA, Partner
Steven Martinez, In-Charge

### Auditor Prepared Financial Statements

RPC CPAs + Consultants, LLP prepared the GAAP-basis financial statements and footnotes of Pecos Valley Regional Education Cooperative No. 8 from the original books and records provided to them by the management of the Cooperative. The responsibility for the financial statements remains with the Cooperative.