

Southwest Regional Education Cooperative #10

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S
REPORT THEREON**

For The Fiscal Year Ended June 30, 2018

Southwest Regional Education Cooperative #10
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Southwest Regional Education Cooperative #10
DIRECTORY OF OFFICIALS
June 30, 2018

School District Superintendents

Truth of Consequences	Craig Cummins
Deming	Arsenio Romero
Hatch	Linda Hale
Lordsburg	Randy Piper
Reserve	Bill Green
Animas	Loren Cushman
Cobre	Robert Mendoza

Regional Education Center Officials

Director	Vicki Chavez
Business Manager	Geralyn Bennett



MIKE STONE, C.P.A.
LINDA STONE MCGEE, C.P.A.
KAY STONE, C.P.A.
KELLEY WYATT, C.P.A.

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INDEPENDENT AUDITOR'S REPORT

Wayne Johnson, State Auditor
And
Board of Superintendents
Southwest Regional Education Cooperative #10
Truth or Consequences, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the Southwest Regional Education Cooperative #10, as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Southwest Regional Education Cooperative #10'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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Regional Education Cooperative #10 as of June 30, 2018, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10; information related to the Cooperative's pension plan presented on pages 50 to 54; and the Cooperative's information related to other postemployment benefits presented on pages 55 to 57 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Southwest Regional Education Cooperative #10's financial statements that collectively comprise the Cooperative's basic financial statements. The other schedules presented as other supplemental data as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018, on our consideration of the Southwest Regional Education Cooperative #10's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement 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 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 Southwest Regional Education Cooperative #10's internal control over financial reporting and compliance.

Stone, McGee & Co CPAs

Silver City, New Mexico
September 24, 2018

Stone, McGee & Co.
Certified Public Accountants

**STATE OF New Mexico SOUTHWEST REGIONAL
EDUCATION COOPERATIVE #10
MANAGEMENTS DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The following is an overview of the financial condition for the Southwest Regional Education Cooperative #10 (Cooperative), for the fiscal year ended June 30, 2018. This narrative highlights the major aspects of the Cooperative's financial status for this period, and should be considered in conjunction with the information presented in other sections of this audit report.

Financial Highlights

The overall fund cash budget balance was \$2,845,729 for the year ending June 30, 2018; with an overall \$7,977,723 budget for the fiscal year 2017/2018. This represents support funding for member districts in the federal funding programs of Title I, II, , Strategic Out Reach, Charter School Division Migrant and for the IDEA-B funding of State Directed, Preschools and Entitlement. The SWREC has continued support in the Medicaid funding as the administrative time claims funding, continued another year. The SWREC continued to work in conjunction with the New Mexico Public Education Department with additional funding for Educational Technologies Bureau, IDEALNM, Priority School Bureau, and STEM.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Cooperative's basic financial statements. The Cooperative's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Cooperative's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the Cooperative's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Cooperative is improving or deteriorating.

The statement of activities presents information showing how the Cooperative's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements identify the functions of the Cooperative that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Cooperative include direct instruction, instructional support, administrative, operation of plant, business support services, and community services. The government-wide financial statements can be found on pages eleven through thirteen of this report.

**STATE OF NEW MEXICO SOUTHWEST REGIONAL
EDUCATION COOPERATIVE #10
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cooperative, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Cooperatives funds can be divided into governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Cooperative's financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In addition to the general fund, the Cooperative maintains twenty-three other individual governmental funds of which all are classified as special revenue funds. Information for the general fund, Dual LENM, STEM Symposium, Strategic Outreach B8 and B9, Literacy Bureau, and Medicaid special revenue funds, which all are considered to be major funds is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the non-major governmental funds is provided in the form of combining statement following the notes to the financial statements.

The Cooperative adopts an annual appropriated budget for all of its funds. Budgetary comparison statements for the general and special revenue major funds are located on pages twenty through twenty six. The basic governmental fund financial statements can be found on pages fourteen through nineteen of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages twenty-seven through forty-eight of this report.

**STATE OF NEW MEXICO SOUTHWEST REGIONAL
EDUCATION COOPERATIVE #10
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Other Information

The combining statements referred to earlier in connection with non-major are presented as other supplemental data following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages fifty-eight through sixty-four of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position, in the case of the Cooperative, assets exceeded liabilities by \$-153,264.00 at the close of the most recent fiscal year. Ninety-five percent of the Cooperative's net assets are composed of restricted net assets. The Cooperative uses these assets to provide various services to the member school districts, while grant reimbursement forms are being processed and paid.

Overall, the Center has improved their financial condition, in comparison with the previous fiscal year. The Center has continued to closely monitor the expenditures in the general fund and all other funds.

FUND	BUDGET	ACTUAL- EXPENDITURES	VARIANCE
Operating	1,612,794.00	1,215,918.23	396,921.93
DVR/CREC	103,914.00	103,812.56	201.44
Charter Conference	101,997.92	101,523.36	474.56
CSD APP Review	5,398.80	3,706.97	2,189.83
SDA IT Hardware	8,100.00	0.00	8,100.00
Options for Parents	64,750.00	64,297.18	452.82
State Directed Activity	327,474.00	327,474.00	0.00
Medicaid	2,001,252.69	1,016,252.69	984,907.31
DUALe NM	1,317,956.46	1,280,818.34	37,138.12
IDEAL NM Sub Account	375,000.00	95,823.74	279,176.26
CCSSO	200,000.00	198,525.74	1,474.26
Literacy Bureau	507,000.00	457,453.75	50,146.25
Strategic Outreach B8	432,000.00	430,235.79	1,764.21
Strategic Outreach B9	459,000.00	459,000.00	0.00

Priority Schools	77,000.00	77,000.00	0.00
STEM Symposium	197,950.00	197,950.00	0.00
Sponsorship	2,100.00	2,100.00	0.00
STEM Initiative	24,610.00	24,610.00	0.00
Title I-IASA	109,920.24	56,197.88	53,722.36
Strategic Outreach B11	0.00	0.00	0.00
Technology for Education	48,600.00	48,600.00	0.00
TOTAL	7,977,723.42	6,161,100.23	1,816,623.19

**STATE OF NEW MEXICO
SOUTHWEST REGIONAL EDUCATION
COOPERATIVE #10
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Financial Analysis of the Cooperative's Funds

Southwest Regional Education Cooperative's Net Assets

	Governmental Activities	
	06/30/18	06/30/17
Assets:		
Current and other assets	\$4,933,336	\$3,202,134
Capital assets, net of accumulated Depreciation	273,503	225,158
Deferred Outflow of resources	<u>2,411,158</u>	<u>633,951</u>
Total Assets	\$5,206,839	\$4,091,243
Liabilities:		
Current Liabilities	7,178,393	2,557,286
Deferred inflow of resources	592,868	102,713
Net Assets:		
Invested in capital assets	\$273,503	\$223,597
Restricted-Education	1,593,035	1,591,600
Restricted-Social Service	2,975,202	
Unrestricted	<u>(4,995,004)</u>	<u>(524,016)</u>
Total Net Assets	\$(153,264)	\$1,291,181

Capital Assets and Debt Administration

Capital Assets

The Cooperative's investment in capital assets for the government as of June 30, 2018 amounts to \$273,503 (net of accumulated depreciation).

This investment in capital assets includes equipment and vehicles.

During the fiscal year, the Cooperative \$43,920 for capital assets items. The capital assets on hand will allow the Cooperative to provide more efficient services to the member's districts. Funding is provided by the federal and state grant revenues

	2018	2017
Equipment	\$273,503	\$255,158

Long-Term Debt

As of June 30, 2018, the Cooperative did not have any long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Southwest Regional Educational Cooperative was established in 1984 under the SBE Regulation No. 84-6. The SWREC will assist member districts with compliance with IDEA-B. Since this time we have expanded to offer a variety of additional services to our districts including literacy training and teacher mentorship. The SWREC also serves as flow through for Federal Funds for most of our districts.

Our 2017-2018 operating budget was passed on an allocation from the State of New Mexico and indirect costs the SWREC received from various programs/grants we administer. Additional operating funding is based on \$19,000.00 membership fee from the seven districts to equal \$133,000.00, as well as the \$103,889.00 allocation from the State of New Mexico. Entrepreneurial activities with several Charter Schools and a variety of projects from PED also contribute to the operational funds of the SWREC

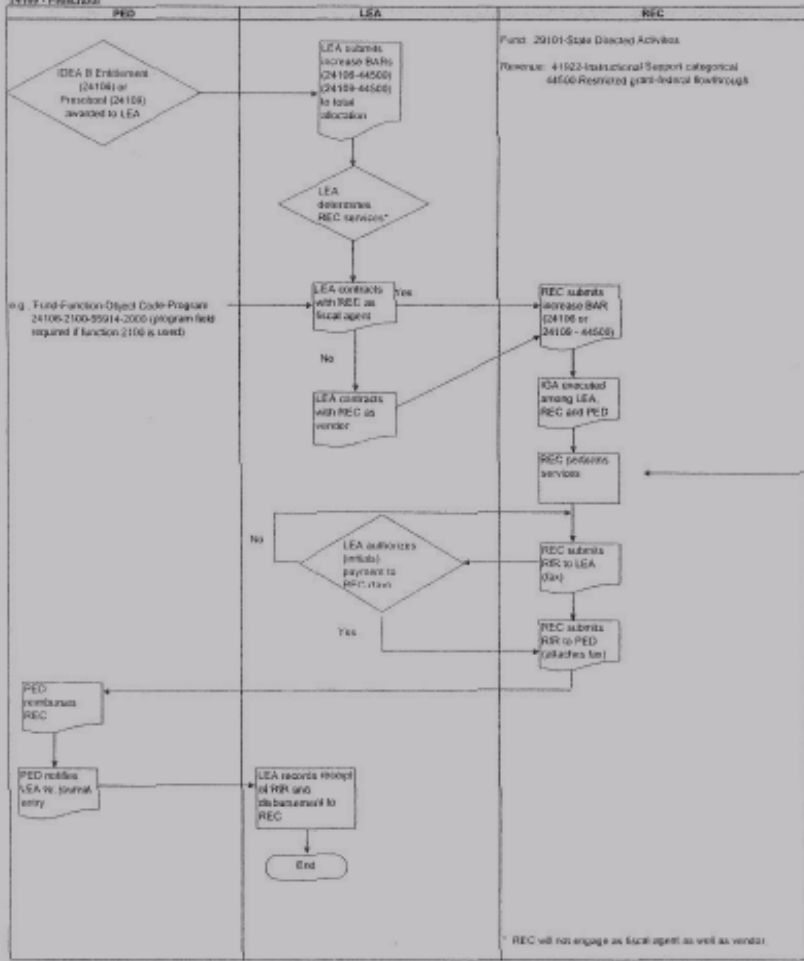
Decrease for Nonrenewable funding from the State of New Mexico will continue to be an issue and the Administration for the SWREC, in cooperation with the other Regional Education Cooperative in the state, will continue to advocate for continued support.

The SWREC continues to look for entrepreneurial activities that can contribute to the REC's operating budget to help keep dues charged to member district as low as possible. In fact, membership fees have not increased over the last fourteen years. The staff of the SWREC will continue to research grant opportunities, provide professional development, after school tutoring and technology to the member districts at the lowest cost possible.

Request for Information

This financial report is designed to provide a general overview of the SWREC finances and to show the SWREC's accountability for the revenue it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Business Manager, 405 N. Date Street Suite #8, Truth or Consequences, New Mexico 87901.

24198 - Enrichment
24199 - Preschool

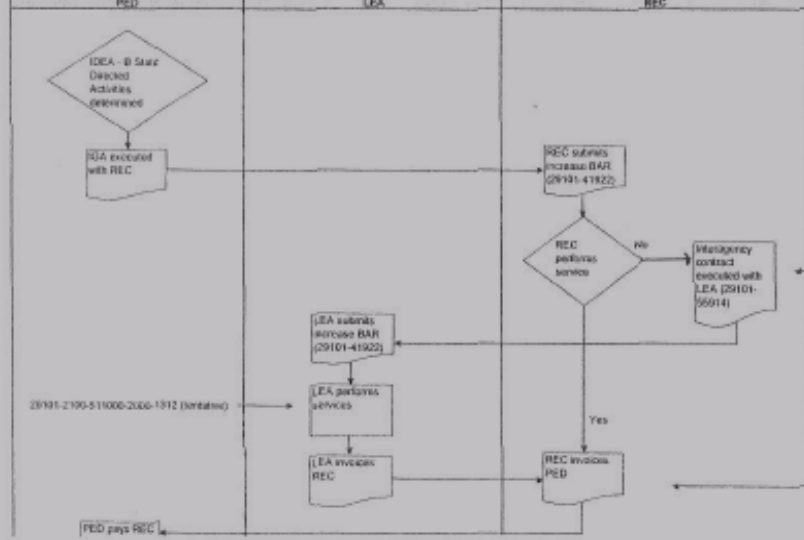


* e.g. Fund-Function-Object Code-Program-Location
24106-2100-59914-2000 (program field
required if function 2100 is used)

REC Location Codes
990 - REC 2
991 - REC 3
992 - REC 4
993 - REC 5
994 - REC 6
995 - REC 7
997 - REC 8
998 - REC 9
999 - REC 10
NNN - District Code

* REC will not engage as fiscal agent as well as vendor

24197 State Directed Activities



20101-2100-59914-2000-990NNN

24101-2100-51100-2000-660NNN-1312

PED pays REC

Southwest Regional Education Cooperative # 10
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,063,890
Due from other governments	1,869,446
	\$ 4,933,336
Capital assets:	
Furniture and equipment	\$ 352,200
Less accumulated depreciation	(78,697)
	\$ 273,503
Total capital assets, net of depreciation	\$ 273,503
Total assets	\$ 5,206,839
Deferred Outflows of Resources	
Related to pensions	\$ 2,377,438
Related to other postemployment benefits	33,720
	\$ 2,411,158
Total deferred outflows of resources	\$ 2,411,158
Liabilities	
Accounts payable	\$ 201,567
Compensated absences	67,572
Net pension liability	5,437,820
Net other postemployment benefits liability	1,471,434
	\$ 7,178,393
Total liabilities	\$ 7,178,393
Deferred Inflows of Resources	
Unavailable revenue	\$ 163,532
Related to pensions	94,440
Related to other postemployment benefits	334,896
	\$ 592,868
Total deferred inflows of resources	\$ 592,868
Net Position	
Net Investment in capital assets	\$ 273,503
Restricted for:	
Education	1,593,035
Social services	2,975,202
Unrestricted	(4,995,004)
	\$ (153,264)
Total net position	\$ (153,264)

The accompanying notes are an integral part of these financial statements

Southwest Regional Education Cooperative # 10
STATEMENT OF ACTIVITIES
For the Fical Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>
Governmental activities:		
Instruction	\$ 1,788,745	\$ -
Support services - Students	938,042	
Support services - Instruction	2,487,638	
General administration	1,419,244	
School administration	307,990	
Central services	353,283	
Operation of plant	85,630	
	\$ 7,380,572	\$ -

General revenues:

- State aid
- Unrestricted investment earnings
- Loss on disposition of assets

Total general revenues and special items

Change in net position

Net position, July 1, 2017 as originally reported

Restatement

Net position, July 1, 2017 as restated

Change in net position for the year ended June 30, 2018

Net position, June 30, 2018

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

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
\$ 1,280,818	\$ -	\$ (507,927)
938,042		-
1,694,280		(793,358)
825,582		(593,662)
307,990		-
86,212		(267,071)
11,698		(73,932)
<u>\$ 5,144,622</u>	<u>\$ -</u>	<u>\$ (2,235,950)</u>
		\$ 2,621,599
		4,127
		<u>(8,134)</u>
		<u>\$ 2,617,592</u>
		<u>\$ 381,642</u>
		\$ 1,218,619
		<u>(1,753,525)</u>
		\$ (534,906)
		<u>381,642</u>
		<u>\$ (153,264)</u>

Southwest Regional Education Cooperative #10
BALANCE SHEET--GOVERNMENTAL FUNDS
 June 30, 2018

	<u>General</u>	<u>Medicaid</u>	<u>Dual LENM</u>	<u>STEM Symposium</u>
Assets				
Cash and investments	\$ 218,142	\$ 2,556,695	\$ 11,350	\$ -
Interfund receivables	1,070,297	465,581		
Due from other governments	166,721	124,883	8,818	200,895
Interest receivable				
Total assets	<u><u>\$ 1,455,160</u></u>	<u><u>\$ 3,147,159</u></u>	<u><u>\$ 20,168</u></u>	<u><u>\$ 200,895</u></u>
Liabilities				
Accounts payable	\$ 7,485	\$ 171,957	\$ -	\$ -
Interfund payables				200,446
Total liabilities	<u><u>\$ 7,485</u></u>	<u><u>\$ 171,957</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 200,446</u></u>
Deferred Inflows of Resources				
Unavailable revenue	\$ -	\$ -	\$ -	\$ -
Total deferred inflows of resources	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Fund balance:				
Restricted for:				
Education	\$ 1,447,675	\$ -	\$ 20,168	\$ 449
Social services		2,975,202		
Unassigned				
Total fund balances	<u><u>\$ 1,447,675</u></u>	<u><u>\$ 2,975,202</u></u>	<u><u>\$ 20,168</u></u>	<u><u>\$ 449</u></u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 1,455,160</u></u>	<u><u>\$ 3,147,159</u></u>	<u><u>\$ 20,168</u></u>	<u><u>\$ 200,895</u></u>

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

<u>Strategic Outreach B8</u>	<u>Strategic Outreach B9</u>	<u>Literacy Bureau</u>	<u>Other Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 277,703	\$ 3,063,890
279,326	396,670	457,454	234,679	1,535,878
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ 279,326	\$ 396,670	\$ 457,454	\$ 512,382	\$ 6,469,214
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ -	\$ -	\$ -	\$ 22,125	\$ 201,567
279,371	396,316	457,454	202,291	1,535,878
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ 279,371	\$ 396,316	\$ 457,454	\$ 224,416	\$ 1,737,445
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ -	\$ -	\$ -	\$ 163,532	\$ 163,532
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ -	\$ -	\$ -	\$ 163,532	\$ 163,532
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ (45)	\$ 354	\$ -	\$ 124,434	\$ 1,593,035
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ (45)	\$ 354	\$ -	\$ 124,434	\$ 4,568,237
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ 279,326	\$ 396,670	\$ 457,454	\$ 512,382	\$ 6,469,214
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Southwest Regional Education Cooperative # 10
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES**
June 30, 2018

Total governmental fund balances	\$ 4,568,237
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	273,503
--	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
Compensated absences	(67,572)
Net pension liability	(5,437,820)
Net other postemployment benefits liability	(1,471,434)

Deferred outflows and inflows or resources related to pensions and other postemployment benefits are applicable to future periods and therefore,are not reported in the funds	
Deferred outflows of resources related to pensions	2,377,438
Deferred inflows of resources related to pensions	(94,440)
Deferred outflows of resources related to postemployment benefits	33,720
Deferred inflows of resources related to postemployment benefits	<u>(334,896)</u>

<i>Net position of governmental activities</i>	<u><u>\$ (153,264)</u></u>
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The accompanying notes are an integral part of these financial statements.

Southwest Regional Education Cooperative # 10
**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**
For The Fiscal Year Ended June 30, 2018

	<u>General Fund</u>	<u>Medicaid</u>	<u>Dual LENM</u>	<u>STEM Symposium</u>
Revenues:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	1,240,667	2,578,123	1,280,818	197,950
Local sources				
Earnings on investments	4,127			
	<u>4,127</u>			
Total revenues	<u>\$ 1,244,794</u>	<u>\$ 2,578,123</u>	<u>\$ 1,280,818</u>	<u>\$ 197,950</u>
Expenditures:				
Current:				
Instruction	\$ 507,927	\$ -	\$ 1,280,818	\$ -
Support services - Students		938,042		
Support services - Instruction				
General administration	457,481	152,012		197,950
School administration				
Central services	168,671	86,212		
Operation of plant	73,932	11,698		
Other support services				
Capital outlay	43,920			
	<u>43,920</u>			
Total expenditures	<u>\$ 1,251,931</u>	<u>\$ 1,187,964</u>	<u>\$ 1,280,818</u>	<u>\$ 197,950</u>
Revenues over (under) expenditures	<u>\$ (7,137)</u>	<u>\$ 1,390,159</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance July 1, 2017 as originally reported	\$ 1,454,812	\$ 1,585,043	\$ 20,168	\$ 449
Restatement				
Fund balance, July 1, 2017 as restated	\$ 1,454,812	\$ 1,585,043	\$ 20,168	\$ 449
Revenues over (under) expenditures	<u>(7,137)</u>	<u>1,390,159</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2018	<u>\$ 1,447,675</u>	<u>\$ 2,975,202</u>	<u>\$ 20,168</u>	<u>\$ 449</u>

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

<u>Strategic Outreach B8</u>	<u>Strategic Outreach B9</u>	<u>Literacy Bureau</u>	<u>Other Funds</u>	<u>Governmental Funds Total</u>
\$ -	\$ -	\$ -	\$ 398,317	\$ 398,317
430,236	459,000	457,454	723,656	7,367,904
				-
				4,127
<u>\$ 430,236</u>	<u>\$ 459,000</u>	<u>\$ 457,454</u>	<u>\$ 1,121,973</u>	<u>\$ 7,770,348</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,788,745
398,236	425,100	424,483	446,371	938,042
32,000	33,900	32,971	376,749	1,694,190
			307,990	1,283,063
				307,990
				254,883
				85,630
				-
				43,920
<u>\$ 430,236</u>	<u>\$ 459,000</u>	<u>\$ 457,454</u>	<u>\$ 1,131,110</u>	<u>\$ 6,396,463</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,137)</u>	<u>\$ 1,373,885</u>
\$ (45)	\$ 354	\$ -	\$ 139,267	\$ 3,200,048
			(5,696)	(5,696)
\$ (45)	\$ 354	\$ -	\$ 133,571	\$ 3,194,352
-	-	-	(9,137)	1,373,885
<u>\$ (45)</u>	<u>\$ 354</u>	<u>\$ -</u>	<u>\$ 124,434</u>	<u># \$ 4,568,237</u>

Southwest Regional Education Cooperative # 10
**RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For The Fiscal Year Ended June 30, 2018

Net change in fund balances - total governmental funds \$ 1,373,885

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

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 as depreciation expense:

Capital outlay	43,920
Depreciation expense	(17,441)

Governmental funds report 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	234,353
Cost of benefits earned net of employee contributions	(1,210,620)

Governmental funds report other postemployment benefits as expenditures.
However, in the Statement of Activities, the cost of postemployment
benefits earned net of employee contributions is reported as postemployment
expense

Post employment benefit contributions	33,720
Cost of benefits earned net of employee contributions	(58,501)

Governmental funds only report the disposal of assets to the extent proceeds
are received from the sale. In the Statement of Activities, a gain or loss is
reported for each disposal. This is the basis of the assets disposed of.

(8,134)

Some expenses reported in the Statement of Activities, such as compensated
absences, do not require the use of current financial resources and there-
fore are not reported as expenditures in governmental funds. This is the
net change for the year.

(9,540)

Change in Net Position of Governmental Activities

\$ 381,642

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

Southwest Regional Education Cooperative #10
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For the Fiscal Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
State sources	\$ 1,648,861	\$ 1,648,794	\$ 1,129,908	\$ (518,886)
Local sources				-
Interest income				-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 1,648,861</u>	<u>\$ 1,648,794</u>	<u>\$ 1,129,908</u>	<u>\$ (518,886)</u>
Expenditures:				
Current:				
Support services - Instruction	\$ 738,910	\$ 582,194	\$ 474,461	\$ 107,733
Support services - Students				-
General administration	438,476	550,907	454,941	95,966
Central services	196,742	226,841	170,278	56,563
Operation of plant	198,733	208,932	72,318	136,614
Other support services				-
Capital outlay	40,000	43,920	43,920	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 1,612,861</u>	<u>\$ 1,612,794</u>	<u>\$ 1,215,918</u>	<u>\$ 396,876</u>
Revenues over (under) expenditures	<u>\$ 36,000</u>	<u>\$ 36,000</u>	<u>\$ (86,010)</u>	<u>\$ (122,010)</u>
Other financing sources (uses)				
Transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance	\$ 36,000	\$ 36,000	\$ (86,010)	\$ (122,010)
Fund balance, July 1, 2017	<u>1,141,841</u>	<u>1,141,841</u>	<u>1,141,841</u>	<u>-</u>
Fund balance, June 30, 2018	<u><u>\$ 1,177,841</u></u>	<u><u>\$ 1,177,841</u></u>	<u><u>\$ 1,055,831</u></u>	<u><u>\$ (122,010)</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis			\$ (7,137)	
Revenue accruals (net)			(114,886)	
Expenditure accruals (net)			<u>36,013</u>	
Net change in fund balance, NON-GAAP budgetary basis			<u><u>\$ (86,010)</u></u>	

The accompanying notes are an integral part of these financial statements

Southwest Regional Education Cooperative #10
SPECIAL REVENUE FUND - MEDICAID
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Fiscal Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
State sources	\$ 1,201,160	\$ 2,001,160	\$ 2,580,461	\$ 579,301
Interest income				-
 Total revenues	 <u>\$ 1,201,160</u>	 <u>\$ 2,001,160</u>	 <u>\$ 2,580,461</u>	 <u>\$ 579,301</u>
Expenditures:				
Current:				
Support services - Students	\$ 958,394	\$ 1,687,556	\$ 766,564	\$ 920,992
General administration	104,500	166,278	152,012	14,266
Central services	120,566	129,625	86,212	43,413
Operation of plant	17,700	17,700	11,698	6,002
Capital outlay				-
 Total expenditures	 <u>\$ 1,201,160</u>	 <u>\$ 2,001,159</u>	 <u>\$ 1,016,486</u>	 <u>\$ 984,673</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1,563,975</u>	<u>\$ 1,563,974</u>
Other financing sources (uses)				
Transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance	\$ -	\$ 1	\$ 1,563,975	\$ 1,563,974
Fund balance, July 1, 2017	<u>1,458,301</u>	<u>1,458,301</u>	<u>1,458,301</u>	<u>-</u>
Fund balance, June 30, 2018	<u><u>\$ 1,458,301</u></u>	<u><u>\$ 1,458,302</u></u>	<u><u>\$ 3,022,276</u></u>	<u><u>\$ 1,563,974</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis			\$ 1,390,159	
Revenue accruals (net)			2,338	
Expenditure accruals (net)			<u>171,478</u>	
Net change in fund balance, NON-GAAP budgetary basis			<u><u>\$ 1,563,975</u></u>	

The accompanying notes are an integral part of these financial statements

Southwest Regional Education Cooperative #10
SPECIAL REVENUE - DUAL LENM
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
State sources	\$ 1,317,956	\$ 1,317,956	\$ 1,272,000	\$ (45,956)
Expenditures:				
Current:				
Support services - Instruction	<u>1,317,956</u>	<u>1,317,956</u>	<u>1,280,818</u>	<u>37,138</u>
Net change in fund balance	\$ -	\$ -	\$ (8,818)	\$ (8,818)
Fund balance, July 1, 2017	<u>20,168</u>	<u>20,168</u>	<u>20,168</u>	<u>-</u>
Fund balance, June 30, 2018	<u>\$ 20,168</u>	<u>\$ 20,168</u>	<u>\$ 11,350</u>	<u>\$ (8,818)</u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis			\$ -	
Revenue accruals (net)			(8,818)	
Expenditure accruals (net)			<u> </u>	
Net change in fund balance, NON-GAAP budgetary basis			<u>\$ (8,818)</u>	

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

Southwest Regional Education Cooperative #10
SPECIAL REVENUE FUND - STEM SYMPOSIUM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Fiscal Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
State sources	\$ 415,695	\$ 465,450	\$ 264,555	\$ (200,895)
Expenditures:				
Current:				
General administration	\$ 148,195	\$ 197,950	\$ 197,950	\$ -
Capital outlay				-
Total expenditures	<u>\$ 148,195</u>	<u>\$ 197,950</u>	<u>\$ 197,950</u>	<u>\$ -</u>
Revenues over (under) expenditures	<u>\$ 267,500</u>	<u>\$ 267,500</u>	<u>\$ 66,605</u>	<u>\$ (200,895)</u>
Other financing sources (uses)				
Transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance	\$ 267,500	\$ 267,500	\$ 66,605	\$ (200,895)
Fund balance, July 1, 2017	<u>(267,051)</u>	<u>(267,051)</u>	<u>(267,051)</u>	<u>-</u>
Fund balance, June 30, 2018	<u><u>\$ 449</u></u>	<u><u>\$ 449</u></u>	<u><u>\$ (200,446)</u></u>	<u><u>\$ (200,895)</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis			\$ -	
Revenue accruals (net)			66,605	
Other financing sources (net)				
Expenditure accruals (net)				
Net change in fund balance, NON-GAAP budgetary basis			<u><u>\$ 66,605</u></u>	

The accompanying notes are an integral part of these financial statements

Southwest Regional Education Cooperative #10
SPECIAL REVENUE FUND - STRATEGIC OUTREACH B8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Fiscal Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
State sources	\$ 587,416	\$ 587,416	\$ 306,281	\$ (281,135)
Expenditures:				
Current:				
Support services - Instruction	\$ 400,000	\$ 400,000	\$ 398,236	\$ 1,764
General administration	32,000	32,000	32,000	-
Capital outlay				-
Total expenditures	<u>\$ 432,000</u>	<u>\$ 432,000</u>	<u>\$ 430,236</u>	<u>\$ 1,764</u>
Revenues over (under) expenditures	<u>\$ 155,416</u>	<u>\$ 155,416</u>	<u>\$ (123,955)</u>	<u>\$ (279,371)</u>
Other financing sources (uses)				
Transfers out	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance	\$ 155,416	\$ 155,416	\$ (123,955)	\$ (279,371)
Fund balance, July 1, 2017	<u>(155,416)</u>	<u>(155,416)</u>	<u>(155,416)</u>	<u>-</u>
Fund balance, June 30, 2018	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (279,371)</u></u>	<u><u>\$ (279,371)</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis			\$ -	
Revenue accruals (net)			(123,955)	
Other financing sources (net)				
Expenditure accruals (net)				
Net change in fund balance, NON-GAAP budgetary basis			<u><u>\$ (123,955)</u></u>	

The accompanying notes are an integral part of these financial statements

Southwest Regional Education Cooperative #10
SPECIAL REVENUE FUND - STRATEGIC OUTREACH B9
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Fiscal Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
State sources	\$ 551,485	\$ 551,485	\$ 155,169	\$ (396,316)
Expenditures:				
Current:				
Support services - Instruction	\$ 425,000	\$ 425,100	\$ 425,100	\$ -
General administration	34,000	33,900	33,900	-
Total expenditures	<u>\$ 459,000</u>	<u>\$ 459,000</u>	<u>\$ 459,000</u>	<u>\$ -</u>
Revenues over (under) expenditures	<u>\$ 92,485</u>	<u>\$ 92,485</u>	<u>\$ (303,831)</u>	<u>\$ (396,316)</u>
Other financing sources (uses)				
Transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance	\$ 92,485	\$ 92,485	\$ (303,831)	\$ (396,316)
Fund balance, July 1, 2017	<u>(92,485)</u>	<u>(92,485)</u>	<u>(92,485)</u>	<u>-</u>
Fund balance, June 30, 2018	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (396,316)</u></u>	<u><u>\$ (396,316)</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis			\$ -	
Revenue accruals (net)			(303,831)	
Other financing sources (net)				
Expenditure accruals (net)				
Net change in fund balance, NON-GAAP budgetary basis			<u><u>\$ (303,831)</u></u>	

The accompanying notes are an integral part of these financial statements

Southwest Regional Education Cooperative #10
SPECIAL REVENUE FUND - LITERACY BUREAU
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For The Fiscal Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
State sources	\$ 507,600	\$ 507,600	\$ -	\$ (507,600)
Expenditures:				
Current:				
Support services - Instruction	\$ 470,000	\$ 470,000	\$ 424,483	\$ 45,517
General administration	37,600	37,600	32,971	4,629
Total expenditures	\$ 507,600	\$ 507,600	\$ 457,454	\$ 50,146
Revenues over (under) expenditures	\$ -	\$ -	\$ (457,454)	\$ (457,454)
Other financing sources (uses)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Net change in fund balance	\$ -	\$ -	\$ (457,454)	\$ (457,454)
Fund balance, July 1, 2017	-	-	-	-
Fund balance, June 30, 2018	\$ -	\$ -	\$ (457,454)	\$ (457,454)
Budgetary reconciliation:				
Net change in fund balance, GAAP basis			\$ -	
Revenue accruals (net)			(457,454)	
Other financing sources (net)				
Expenditure accruals (net)			-	
Net change in fund balance, NON-GAAP budgetary basis			\$ (457,454)	

The accompanying notes are an integral part of these financial statements

Southwest Regional Education Center #10
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1 Summary of Significant Accounting Policies

The ten Regional Cooperative Centers established throughout New Mexico in 1984 were originally organized to provide supplementary special education services to local education agencies utilizing federal PL 94-142 funds. The role of the Cooperatives has expanded under the authorization of the regional Coordinating Councils to include a variety of other projects, both federally funded and funded from other sources. Southwest Regional Education Cooperative, through the governing council, has established as its purpose the delivery to local districts and communities those services deemed critical to the ongoing success of regular and special education programs provided by the local agencies. For financial reporting purposes, the Cooperative includes all fund and accounts groups that are controlled by or dependent on the Cooperative for financial support.

Authority for the operation of the Southwest Regional Education Cooperative #10 (REC) is based upon Chapter 232 of the Laws of 1993, State of New Mexico, and the State Board of Education Regulation 93-23, which authorize the establishment of Regional Educational Cooperatives in the State of New Mexico. The member organizations undertake a Joint Powers Agreement, whereby they will submit a consolidated application to the State Department of Education for certain funds granted to the State of New Mexico pursuant to the Individual with Disabilities Education Act, Part B-(IDEA-B).

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

The Regional Education Cooperative's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Regional Education Cooperative are discussed below.

A. Reporting Entity

These financial statements present the Regional Education Cooperative (the primary government). As defined by GASBS No. 14 & 61, component units are legally separate entities that are included in the Regional Education Cooperative's reporting entity because of the significance of their operating or financial relationships with the Regional

Education Cooperative Based on the criterion in GASBS No. 14 & 61, the Regional Education Cooperative had no component units.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Regional Education Cooperative has no business-type activities, nor any fiduciary funds.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into one major category: governmental. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the Regional Education Cooperative or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund:

The General Fund is the primary operating fund of the Regional Education Cooperative and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

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

Major-Fund Description

Special Revenue Funds:

Stem Symposium - To account for the State grant to provide training to 300 educational

leaders through a one day meeting for Science Standards Leadership training. Authorization is the New Mexico Department of Public Education.

Strategic Outlook B-8 and B-9 - To account for the State Grant to develop and execute contractual agreements with qualified New Mexico Public Education Department (PED) approved organizations and/or individuals to provide support, technical assistance, training, monitoring, reporting and event planning to include maintenance of registration website pre/post arrangements of events in support of Family Programs and teacher outreach initiatives to New Mexico districts and schools. Authorization is the NMPED.

Literacy Bureau - To account for the State grant to provide fiscal and administrative support for the PED Literacy, the Humanities and Early Childhood Bureau by developing and executing contractual agreements with qualified organizations and/or individuals approved by PED to provide support, technical assistance, training, monitoring, reporting and event planning to include maintenance of registration website pre/post arrangements of events in support of Early Learning outreach initiative to New Mexico districts and schools. Authorization is the NMPED.

Dual LENM - To account for the grant from the dual language of New Mexico to provide support to schools in implementing dual language education. Authorization is the New Mexico Public Education Department.

Medicaid - To account for the federal revenues and expenditures to provide health related services to students receiving special education as well as for outreach and cash coordination activities provided to all students at risk. The creation of this fund was authorized by the Social Security Act Title XIX, as amended; Public Law 89-97, OP-248, 91-56 and (42 U.S.A. 1396, et. Seq.).

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined in item “b” below.

In the fund financial statements, the “current financial resources” measurement focus is used.

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflow of resources, liabilities and deferred inflow of resources are generally included in their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

- b. The government-wide financial statements utilize an “economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflow of resources, liabilities and deferred inflow of resources (whether current or noncurrent) associated with their activities are reported.

Revenues, expenses, gains, losses, assets, deferred outflow of resources, liabilities and deferred inflows of resources resulting from non-exchange transactions are recognized when the earning process is complete.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

The government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Substantially all governmental fund revenues are accrued. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as deferred outflows of resources by the provider and deferred inflows of resources by the recipient. Grant revenues not collected within 60 days of year end are recorded as receivables and deferred inflows of resources. Such amounts are recorded net of estimated uncollectible amounts.

In the government-wide Statement of Net Position, the governmental activities columns (a) are presented on a consolidated basis by column, (b) and are 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 Regional Education Cooperative’s net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The Regional Education Cooperative first utilizes restricted resources

to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Regional Education Cooperative's functions. The functions are also supported by general government revenues (certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function and are typically charges for services. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (intergovernmental revenues, interest income, etc.).

The Regional Education Cooperative does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Regional Education Cooperative as an entity and the change in the Regional Education Cooperative's net position resulting from the current year's activities.

D. Budgets

Budgets for the General and Special Revenue Funds are prepared by management and are approved by the Members of the Board 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.

Actual expenditures may not exceed the budget on a functional category basis, i.e., each budgeted expenditure must be within budgeted amounts. 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 Member approval. If a transfer between "series" or a budget increase is required, approval must also be obtained from Public Education Department.

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

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

1. In April or May, the Executive Director submits a proposed operating budget of the fiscal year commencing the following July. The operating budget includes proposed expenditures and the means of financing them, and has approval by the Department of Education.
2. In May or June, the budget is approved by the Members.

3. The Executive Director 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 Members and the State of New Mexico Public Education Department.
4. Formal budgetary integration is employed as a management control device during the year for the Special Revenue Funds.
5. Budgets for the Special Revenues Funds are adopted on a basis not consistent with generally accepted accounting principles (GAAP). Encumbrances are treated the same way for GAAP purposes and for Budget purposes.

The Members may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance. The appropriated budget for the year ended June 30, 2018 was properly amended by the Board through the year.

E. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity of six months from the date acquired by the government. State statutes authorize the government to invest in obligations of the U.S. Treasury, interest-bearing accounts with local financial institutions and the State Treasurer Pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owners of such monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Regional Education Cooperative. The pledged securities remain in the name of the financial institution.

F. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000.00 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5-10 years
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The accounting treatment over property, plant and equipment depends on whether they are reported in the government-wide financial statements or fund financial statements. In the government-wide financial statements, fixed assets are accounted for as capital assets. In the fund financial statements, fixed assets are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

G. Compensated Absences

The Regional Education Cooperative's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is not estimable. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources. These liabilities have typically been liquidated from General Fund Resources.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period, and so will not be recognized as an outflow or resource (expenses/expenditures) until then. The Government has deferred outflows of resources related to pension funding, as discussed in Note 5, and related to other postemployment benefits, as discussed in Note 6.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Government has one type of item which arises under both the full accrual and modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in both the statement of net position and the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Government reports unavailable revenue from the following sources:

	<u>State Directed</u>
Advances received under expenditure driven grant	\$ 163,532

In addition, the Government has deferred inflows of resources related to pension funding, as discussed in Note 5, and related to other postemployment benefits as discussed in Note 6.

I. Equity Classifications

Government-wide Statements

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

- a. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable

to the acquisition, construction, or improvement of those assets.

- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - all other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Fund Statements

During the year ended June 30, 2011, the Cooperative implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to remain intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change its constraints.
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government body delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by adoption of a resolution or a vote of the Board. This is typically done through the adoption and amendment of the budget. Assigned fund balance is established by the Board of Directors through adoption or amendment of the budget as intended for a specific purpose (such as purchase of fixed assets, construction, debt service or for other purposes). Expenditures eligible to be paid from committed, assigned or unassigned

funds are charged first to committed, secondly to assigned, and finally to unassigned.

J. Interfund Activity

Interfund activity is reported as either 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.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 Custodial Credit Risk

Custodial credit risk is the risk in the event of a bank failure the government's deposits may not be returned to it. The government does not have a deposit policy for credit risk beyond that disclosed in Note 1. As of June 30, 2018, \$782,549 of the Government's bank balance of \$3,532,549 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized		<u>\$ 782,549</u>
	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits by custodial risk category:		
Insured	\$ 250,000	\$ 250,000
Collateral held by the pledging bank agent in the Cooperative's name	2,500,000	2,500,000
Uninsured	<u>782,549</u>	<u>95,744</u>
	<u>\$ 3,532,549</u>	<u>\$ 2,845,744</u>

The Education Cooperative invests in the State Treasurer Local Governmental Investment Pool, a New Mexico sponsored investment alternative.

The State Treasurer Local Government Investment Pool is not SEC registered. The State Treasurer, with the advice and consent of the State Board of Finance, is authorized to invest money held in the short-term investment fund in accordance with Sections 6-10-101 through 6-10-10P and Sections 6-10-10.1 A and E, NMSA 1978. The Local Government Investment

Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments.

The pool does not have unit shares. Per Section 6-10-10.IF, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested.

Investments are valued at amortized cost.

Participation in the pool is voluntary. The Cooperative has \$218,146 on deposit in the pool at June 30, 2018, which is AAAM rated with a weighted average maturity of 50 days (WAM(R)) and 100 days (WAM(F)).

Note 3 Capital Assets

The following is summary of capital asset activity during the fiscal year:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>Assets Being Depreciated</u>				
Furniture and equipment	\$ 480,864	\$ 43,920	\$ (172,584)	\$ 352,200
Less accumulated depreciation	<u>(225,706)</u>	<u>(17,441)</u>	<u>164,450</u>	<u>(78,697)</u>
Net capital assets	<u>\$ 255,158</u>	<u>\$ 26,479</u>	<u>\$ (8,134)</u>	<u>\$ 273,503</u>

Depreciation expense was charged to the governmental activities as follows:

Support Services - Instruction	<u>\$ 17,441</u>
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Note 4 Risk Management

Southwest Regional Education Cooperative #10 is a member of the New Mexico Public School Insurance authority (NMPSIA). The Authority was created to provide comprehensive care insurance program by expanding the pool of subscribers to maximize cost containment opportunities for required insurance coverage. The Southwest Regional Education Cooperative #10 pays an annual premium to the NPSIA, and risk of loss is transferred. The Risk Management Program includes Workers Compensation, General and Automobile Liability, Automobile Physical Damage, and Property and Crime coverage. Also included under risk management program are Boiler, Machinery and Student Accident Insurance.

Pension Plan

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

Plan Description – 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 of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

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

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

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

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

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

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

Contributions – The contribution requirements of defined benefit plan members and the Southwest Regional Education Cooperative #10 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, 2018 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. Contributions to the pension plan from the Southwest Regional Education Cooperative #10 were \$234,353 for the year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension - The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2016. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2017, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2017. At June 30, 2018, the Southwest Regional Education Cooperative #10 reported a liability of \$5,437,820 for its proportionate share of the net pension liability. The Southwest Regional Education Cooperative #10’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, 2017. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2017, the Southwest Regional Education Center #10’s proportion was .04893 percent, which was an increase of .01292 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Southwest Regional Education Cooperative #10 recognized pension expense of \$1,210,620. At June 30, 2018, the Southwest Regional Education Cooperative #10 reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Differences between expected and actual experience	\$ 9,761	\$ 83,774
Changes of assumptions	1,587,408	-
Net difference between projected and actual earnings on pension plan investments	-	746
Changes in proportion and differences between the Cooperative’s contributions and proportionate share of contributions	545,916	9,920
Southwest Regional Education Cooperative #10 Contributions subsequent to the measurement date	<u>234,353</u>	<u>-</u>
Total	<u>\$2,377,438</u>	<u>\$ 94,440</u>

\$234,353 reported as deferred outflows of resources related to pensions resulting from

Southwest Regional Education Cooperative #10 contributions subsequent to the measurement date, June 30, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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:

2019	\$ 801,559
2017	798,886
2018	492,975
2019	(44,775)

Actuarial assumptions – as described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2016. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2017 using generally accepted actuarial principles. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. Specifically the liabilities measured as of June 30, 2017 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.70%.
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. COLA's for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014.

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

Actuarial Cost Method	Entry Age Normal
Single Discount Rate	5.9%
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus .75% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.25%
Retirement Age	Experience based table of age and service rates

Mortality

Healthy males - RP-2000 Combined mortality Table with White Collar adjustment using Scale BB

Healthy females – GRS Southwest Region Teacher mortality table set back one year using scale BB from base year 2012.

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.

Discount Rate – A single discount rate of 5.9% was used to measure the total ERB pension liability as of June 30, 2019. This single discount rate was based on the expected rate of return on pension plan investments of 5.9%. 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 Southwest Regional Education Cooperative #10 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 2017. 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 (4.90%) or one percentage point higher (6.90%) than the single discount rate.

	1% Decrease (4.90%)	Current Discount Rate (5.90%)	1% Increase (6.90%)
Southwest Regional Education Cooperative #10 proportionate share of the net pension liability	\$7,078,689	\$5,437,820	\$4,096,543

Pension Plan Fiduciary Net Position – Detailed information about the ERB’s fiduciary net position is available in the separately issued audited financial statements as of and for June

30, 2017 and 2016 which are publicly available at www.nmerb.org.

Note 6 Retiree Health Care Plan

Summary of Significant Accounting Policies

For purposes of measuring the net other postemployment benefits liability (OPEB) deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Retiree Health Care Authority (RHCA) and additions to/deductions from RHCA's fiduciary net position have been determined on the same basis as they are reported by RHCA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Health Care

The New Mexico Retiree Health Care Authority (the Authority) was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Retiree Health Care Fund (the Fund) under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

RHCA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmrhca.state.nm.us, or by contacting the New Mexico Retiree Health Care Authority at 4308 Carlisle N.E., Albuquerque, N.M. 87107.

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

The plan has 310 participating employers and 160,035 current members, including active employees, terminated eligible members, retirees, and surviving spouses. As of June 30, 2017, membership in the plan consists of the following:

Plan membership:

Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	<u>97,349</u>
	<u>160,035</u>

Active membership:

State general	19,593
State police and corrections	1,886
Municipal general	21,004

Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	<u>48,756</u>
	<u>97,349</u>

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

Employer and employee contributions to the Authority total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Authority.

Current retirees are required to make monthly contributions for individual basic medical coverage. The Board may designate other plans as "optional coverages". See Section 10-7C-13 NMSA 1978 for more details.

The plan's actuarial valuation and measurement of the net OPEB liability and other OPEB amounts were performed by the Authority's independent actuary as of June 30, 2017. The plan's valuation and measurement of the total OPEB liability and related net OPEB liability were performed in accordance with GASB No. 74. The components of the net OPEB liability as of June 30, 2017 are as follows:

	<u>June 30, 2017</u>
Total OPEB liability	\$ 5,111,141,659
Plan fiduciary net position	<u>579,468,641</u>
Net OPEB liability	<u>\$ 4,531,673,018</u>
Plan fiduciary net position as a percentage of the total OPEB liability (funded status)	11.34%

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

The Southwest Regional Education Cooperative No. 10 reported a liability of \$1,471,434 for its proportionate share of the net OPEB liability. The Cooperative's proportion of the net OPEB liability based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2017. At June 30, 2017, the Cooperative's proportion was .03247 percent.

For the year ended June 30, 2018, the Cooperative recognized OPEB expense of \$58,501. At June 30, 2018, the Cooperative reported deferred outflows of resources and deferred inflows

of resources related to other postemployment benefits from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Differences between expected and actual experience	\$	\$ 56,466
Net difference between projected and actual earnings on plan investments		21,168
Changes of assumptions		257,262
The Cooperative's contributions subsequent to the measurement date	<u>33,720</u>	<u> </u>
Total	<u>\$ 33,720</u>	<u>\$ 334,896</u>

\$33,720 reported as deferred outflows of resources related to OPEB resulting from The Cooperative contributions subsequent to the measurement date, June 30, 2017 will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:

2019	\$ (71,201)
2020	(71,201)
2021	(71,201)
2022	(71,201)
2023	(50,092)

Actuarial Valuation

The total OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2017. The mortality, retirement, disability, turnover and salary increase assumptions are based on the PERA annual valuation as of June 30, 2016 and the ERB actuarial experience study as of June 30, 2016. The following actuarial assumptions were applied to the actuary's measurement:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50% for ERB members; 2.25% for PERA members
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs
Mortality	ERB members: RP-2000 Combined Healthy Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females) PERA Members: RP-2000 Combined Healthy Mortality.

Rate of Return

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Rate of Return</u>
U.S. Core Fixed Income	20%	4.1%
U.S. Equity – Large Cap	20%	9.1%
Non U.S. – Emerging Markets	15%	12.2%
Non U.S. – Developed Equities	12%	9.8%
Private Equity	10%	13.8%
Credit and Structured Finance	10%	7.3%

Real Estate	5%	6.9%
Absolute Return	5%	6.1%
U.S. Equity – Small/Mid Cap	3%	9.1%

Discount Rate

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

Sensitivity of the Net Cooperative’s OPEB Liability

The following presents the Cooperative’s net OPEB liability, calculated using the discount rate of 3.81%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percent lower or 1-percent higher than the current rate:

<u>1% Decrease</u> <u>(2.81%)</u>	<u>Current Discount</u> <u>(3.81%)</u>	<u>1% Increase</u> <u>(4.81%)</u>
\$1,784,827	\$1,471,434	\$1,225,550

Note 7 Contingencies

The Southwest Regional Education Cooperative #10 participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Southwest Regional Education Cooperative #10 may be required to reimburse the grantor government. As of June 30, 2018, significant amounts of grant expenditures have not been audited by the grantor agencies. Management believes that any disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the Southwest Regional Education Cooperative #10.

Note 8 Joint Powers Agreement

The Regional Education Cooperative #10 participated in joint powers agreements with its member schools.

Note 9 Interfund Transactions

	<u>Interfund Receivable</u>		
	<u>General</u>	<u>Medicaid</u>	<u>Total</u>
<u>Interfund Payable</u>			
STEM Symposium	\$ 200,446	\$ -	\$ 200,446
Strategic Outreach B8	279,371		279,371
Strategic Outreach B9	396,316		396,316
Literacy Bureau	194,164	263,290	457,454
Other Funds	<u>-</u>	<u>202,291</u>	<u>202,291</u>
	<u>\$1,070,297</u>	<u>\$ 465,581</u>	<u>\$1,535,878</u>

All interfund balances are expected to be repaid within one year. The purpose of these loans was to provide cash for operating purposes, while reimbursements are collected.

Note 10 Compensated Absences

Compensated absence activity was as follows for the year ended June 30, 2018:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Compensated absences	<u>\$ 58,032</u>	<u>\$ 28,781</u>	<u>\$ 19,240</u>	<u>\$ 67,572</u>

The amount of compensated absences due within the next year are not estimable. The liabilities will be paid from the fund which is charged with the employee as a direct cost, and will be paid from available funds. Typically, the general fund bears the majority of compensated absences cost.

Note 11 Restricted Net Position

Net Position restricted for other purposes consist of General and Special Revenue Fund balances which are restricted by enabling legislation, as listed in the fund descriptions elsewhere in this report. Restrictions are as follows:

Social Services:		
Medicaid		<u>\$2,975,202</u>
Education:		
General		\$1,447,675
Other		<u>145,360</u>
Total Education		<u>\$1,593,035</u>
Total Restricted Net Position		<u>\$4,568,237</u>

Note 12 Evaluation of Subsequent Events

The Cooperative has evaluated subsequent events through September 24, 2018, the date which the financial statements were available to be issued.

Note 13 Restatement

During the year ended June 30, 2018, the Southwest Regional Education Center #10 adopted Governmental Accounting Standards Board Statement No. 75. This statement requires the recognition of a net other postemployment benefit liability for the unfunded postemployment benefits as currently measured by the Retiree Health Care Authority.

In addition certain transactions recorded as of June 30, 2017, in various funds did not materialize, requiring restatement of the June 30, 2017, fund balances.

	<u>Governmental</u> <u>Activities</u>	<u>Governmental</u> <u>Funds</u>
Retiree Health Care Liability as of June 30, 2017	\$1,747,829	\$
Transaction Corrections	<u>5,696</u>	<u>5,696</u>
	<u>\$1,753,525</u>	<u>\$ 5,696</u>

Prior year balances have been restated to show the effect of the changes, where necessary.

SPECIAL REVENUE FUNDS

21st Century – To account for federal resources administered by the NM State Department of Education (NMPED) to enable public schools to plan, implement or expand projects that benefit the community. Authority for creation of this fund is P.L. 103-382.

IDEAL NM – To account for State grant revenue for innovative digital education and learning to New Mexico K-12 schools. Authorization is NMPED.

Technology for Education – Used to assist the District with State funding to develop and implement strategic long-term plan for utilizing educational technology in the school system. Authority is NMSA 22-15A-1 to 22-1.5A-10.

Priority Schools – To account for the State grant revenues used to train and equip teachers. Authorization is the NMPED.

State Directed – to account for the federal grant passed through the New Mexico Public Education Department to support students with disabilities. Authorization is the New Mexico Public Education Department, through P.L. 94-142 and P.L. 99-457.

STEM Projects/State Teachers – To account for the state grants from the New Mexico Public Education Department to train teachers to more effectively educate students in science technology and math. Authorization is the New Mexico Public Education Department.

Title I – Fund used to account for federal resources administered by the NMPED to provide assistance to educationally deprived students in low-income areas of school districts. Authorization is P.L. 103-382.

DVR-CREC

Charter Conferences

CSD App Review

Options for Parents

CCCSO

Sponsorship

Strategic Outreach B10 – Each of these funds is used to account for the State grants from NMPED to support teachers, and to provide meetings and training sessions. Authorization is the NMPED.

Southwest Regional Education Cooperative #10
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY OF
 THE EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
 LAST 10 FISCAL YEARS*

	<u>2018</u>	<u>2017</u>
Southwest Regional Education Cooperative #10's proportion of the net pension liability	.04893%	.03850%
Southwest Regional Education Cooperative #10's proportionate share of the net pension liability	\$ 5,437,820	\$ 2,770,627
Southwest Regional Education Cooperative #10's covered payroll	\$ 1,685,996	\$ 1,442,301
Southwest Regional Education Cooperative #10's proportionate share of the net pension liability as a percentage of its covered payroll	323%	192%
Plan fiduciary net position as a percentage of the total pension liability	52.95%	61.58%

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

<u>2016</u>	<u>2015</u>
.03883%	.03601%
\$ 2,515,123	\$ 2,054,625
\$ 1,060,183	\$ 992,446
237%	207%
63.97%	66.54%

Southwest Regional Education Cooperative #10
SCHEDULE OF CONTRIBUTIONS
THE EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
LAST 10 FISCAL YEARS*

	2018	2017
Contractually required contributions	\$ 234,353	\$ 193,701
Contributions in relation to contractually required contributions	234,353	193,701
Contribution deficiency (excess)	\$ -	\$ -
 Southwest Regional Education Cooperative #10's covered payroll	 \$ 1,685,996	 \$ 1,442,301
 Contributions as a percentage of Covered payroll	 13.90%	 13.43%

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

<u>2016</u>	<u>2015</u>
\$ 153,215	\$ 153,262
<u>153,215</u>	<u>153,262</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 1,060,183	\$ 1,103,897
14.45%	13.88%

Southwest Regional Education Cooperative #10
NOTES TO REQUIRED EDUCATIONAL RETIREMENT BOARD (ERB)
SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018

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

Changes of Assumptions

ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study for period ending June 30, 2016, presented to the Board of Trustees on April 21, 2017, ERB implemented the following changes in assumptions for the fiscal year 2017:

1. Fiscal year 2017 valuation assumptions that changed based on this study:
 - a. Lower inflation assumption from 3.00% to 2.50%
 - b. Lower payroll growth from 3.50% to 3.00%
 - c. Wage inflation rate from 3.75% to 3.25%
 - d. Investment return assumption from 7.75% to 7.25%
 - e. Annual assumed COLA from 2.00% to 1.9%

All other assumptions remain unchanged.

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

Southwest Regional Education Cooperative #10
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER
 POSTEMPLOYMENT BENEFIT (OPEB) LIABILITY OF THE
 RETIREE HEALTH CARE AUTHORITY (RHCA) PLAN
 LAST 10 FISCAL YEARS*

	2017
Southwest Regional Education Cooperative #10's proportion of the net OPEB liability	.03247%
Southwest Regional Education Cooperative #10's share of the OPEB liability	\$ 1,471,434
Southwest Regional Education Cooperative #10's covered employee payroll	\$ 1,686,996
Southwest Regional Education Cooperative #10's proportionate share of the net OPEB liability as a percentage of it covered employee payroll	87%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

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

Southwest Regional Education Cooperative #10
 SCHEDULE OF CONTRIBUTIONS
 RETIREE HEALTH CARE AUTHORITY (RHCA) PLAN
 LAST 10 FISCAL YEARS*

	2017
Contractually required contributions	\$ 33,720
Contributions in relation to contractually required contributions	(33,720)
Contribution deficiency (excess)	\$ -
Southwest Regional Education Cooperative #10's covered employee payroll	\$ 1,686,996
Southwest Regional Education Cooperative #10's contributions as a percentage of its covered employee payroll	2%

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

Southwest Regional Education Cooperative #10
NOTES TO REQUIRED RETIREE HEALTH CARE AUTHORITY (RHCA)
SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018

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

Changes of Assumptions

RHCA conducted an actuarial experience study for the Plan as of June 30, 2017. The mortality, retirement, disability, turnover and salary increase assumptions are based on the Public Employees Retirement Association (PERA) of New Mexico Actuarial Valuation as of June 30, 2016, and the New Mexico Educational Retirement Board (ERB) Actuarial Experience Study as of June 30, 2016. Changes in those assumptions as they relate to the Southwest Regional Education Cooperative #10 are detailed in the ERB notes to supplementary information included elsewhere in this report.

1. Fiscal year 2017 valuation assumptions are as follows:
 - a. Inflation assumptions 2.50% for ERB, 2.25% for PERA
 - b. Investment return assumption 7.25%
 - c. Health care trend 8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 years for Medicare medical plan costs

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

Southwest Regional Education Cooperative #10
COMBINING BALANCE SHEET-
NONMAJOR FUNDS
June 30, 2018

	<u>Tech For Education</u>	<u>Ideal NM</u>	<u>DVR- CREC</u>	<u>Priority Schools</u>
Assets				
Cash and investments	\$ -	\$ 99,975	\$ -	\$ -
Interfund receivables				
Due from other governments		40,010	10,656	19,263
Interest receivable				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ -</u>	<u>\$ 139,985</u>	<u>\$ 10,656</u>	<u>\$ 19,263</u>
Liabilities				
Accounts payable	\$ -	\$ 20,875	\$ -	\$ -
Interfund payables			10,656	16,161
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ -</u>	<u>\$ 20,875</u>	<u>\$ 10,656</u>	<u>\$ 16,161</u>
Deferred Inflows of Resources				
Unavailable revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance:				
Restricted for:				
Education	\$ -	\$ 119,110	\$ -	\$ 3,102
Social services				
Unassigned				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>\$ -</u>	<u>\$ 119,110</u>	<u>\$ -</u>	<u>\$ 3,102</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ -</u>	<u>\$ 139,985</u>	<u>\$ 10,656</u>	<u>\$ 19,263</u>

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

<u>STEM Initiative</u>	<u>Charter Conferences</u>	<u>Title I</u>	<u>State Directed</u>	<u>CSD App Review</u>	<u>Options For Parents</u>
\$ -	\$ -	\$ -	\$ 175,503	\$ -	\$ -
24,610	2,228	7,623		101,523	5,240
<u>\$ 24,610</u>	<u>\$ 2,228</u>	<u>\$ 7,623</u>	<u>\$ 175,503</u>	<u>\$ 101,523</u>	<u>\$ 5,240</u>
\$ -	\$ -	\$ 1,250	\$ -	\$ -	\$ -
24,610	2,228	6,373	11,970	101,523	5,244
<u>\$ 24,610</u>	<u>\$ 2,228</u>	<u>\$ 7,623</u>	<u>\$ 11,970</u>	<u>\$ 101,523</u>	<u>\$ 5,244</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,532</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,532</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ 1	\$ -	\$ (4)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ (4)</u>
<u>\$ 24,610</u>	<u>\$ 2,228</u>	<u>\$ 7,623</u>	<u>\$ 175,503</u>	<u>\$ 101,523</u>	<u>\$ 5,240</u>

Southwest Regional Education Cooperative #10
COMBINING BALANCE SHEET-
NONMAJOR FUNDS (concluded)
June 30, 2018

	CCSSO	21st Century	Sponsor- Ship	Total
Assets				
Cash and investments	\$ -	\$ 20	\$ 2,205	\$ 277,703
Interfund receivables				-
Due from other governments	23,526			234,679
Interest receivable				-
	<u>\$ 23,526</u>	<u>\$ 20</u>	<u>\$ 2,205</u>	<u>\$ 512,382</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 22,125
Interfund payables	23,526			202,291
	<u>\$ 23,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 224,416</u>
Deferred Inflows of Resources				
Unavailable revenue	\$ -	\$ -	\$ -	\$ 163,532
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,532</u>
Fund balance:				
Restricted for:				
Education	\$ -	\$ 20	\$ 2,205	\$ 124,434
Social services				-
Unassigned				-
	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ 2,205</u>	<u>\$ 124,434</u>
	<u>\$ 23,526</u>	<u>\$ 20</u>	<u>\$ 2,205</u>	<u>\$ 512,382</u>

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

Southwest Regional Education Cooperative # 10
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For The Fiscal Year Ended June 30, 2018

	<u>Tech For Education</u>	<u>Ideal NM</u>	<u>DVR- CREC</u>	<u>Priority Schools</u>
Revenues:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	48,600	95,824	103,613	77,000
Local sources				
Earnings on investments				
Total revenues	\$ 48,600	\$ 95,824	\$ 103,613	\$ 77,000
Expenditures:				
Current:				
Instruction	\$ -	\$ -	\$ -	\$ -
Support services - Students				
Support services - Instruction			103,613	
General administration	48,600	116,699		77,000
School administration				
Central services				
Operation of plant				
Other support services				
Community services				
Total expenditures	\$ 48,600	\$ 116,699	\$ 103,613	\$ 77,000
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (20,875)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, July 1, 2017 as originally reported	\$ -	\$ 139,985	\$ -	\$ 3,102
Restatement	-	-	-	-
Fund balance, July 1, 2017 as restated	\$ -	\$ 139,985	\$ -	\$ 3,102
Revenues over (under) expenditures	<u>-</u>	<u>(20,875)</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2018	<u>\$ -</u>	<u>\$ 119,110</u>	<u>\$ -</u>	<u>\$ 3,102</u>

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

<u>STEM Initiative</u>	<u>Charter Conference</u>	<u>Title I</u>	<u>State Directed</u>	<u>CSD App Review</u>	<u>Options For Parents</u>
\$ - 26,266	\$ - 3,703	\$ 57,447	\$ 340,870	\$ - 101,523	\$ - 64,296
<u>\$ 26,266</u>	<u>\$ 3,703</u>	<u>\$ 57,447</u>	<u>\$ 340,870</u>	<u>\$ 101,523</u>	<u>\$ 64,296</u>
\$ - 24,610	\$ - 3,432 275	\$ - 57,447	\$ - 24,998 307,990	\$ - 94,003 7,520	\$ - 59,497 4,800
<u>\$ 24,610</u>	<u>\$ 3,707</u>	<u>\$ 57,447</u>	<u>\$ 332,988</u>	<u>\$ 101,523</u>	<u>\$ 64,297</u>
<u>\$ 1,656</u>	<u>\$ (4)</u>	<u>\$ -</u>	<u>\$ 7,882</u>	<u>\$ -</u>	<u>\$ (1)</u>
\$ (1,656) -	\$ 4 -	\$ - -	\$ (7,881) -	\$ - -	\$ (3) -
<u>\$ (1,656)</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ (7,881)</u>	<u>\$ -</u>	<u>\$ (3)</u>
<u>1,656</u>	<u>(4)</u>	<u>-</u>	<u>7,882</u>	<u>-</u>	<u>(1)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ (4)</u>

Southwest Regional Education Cooperative # 10
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (Concluded)
For The Fiscal Year Ended June 30, 2018

	<u>CCSSO</u>	<u>21st Century</u>	<u>Strategic Outreach B10</u>	<u>STEM Training</u>
Revenues:				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	198,526			
Local sources				
Earnings on investments				
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	<u>\$ 198,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:				
Current:				
Instruction	\$ -	\$ -	\$ -	\$ -
Support services - Students				
Support services - Instruction	183,726			
General administration	14,800			
School administration				
Central services				
Operation of plant				
Other support services				
Community services				
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	<u>\$ 198,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Revenues over (under) expenditures	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Fund balance July 1, 2017 as originally reported	\$ -	\$ 20	\$ 3,200	\$ 18,041
Restatement	<hr/>	<hr/>	<u>(3,200)</u>	<u>(18,041)</u>
Fund balance, July 1, 2017 as restated	\$ -	\$ 20	\$ -	\$ -
Revenues over (under) expenditures	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, June 30, 2018	<u><u>\$ -</u></u>	<u><u>\$ 20</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

<u>STEM Facilitator</u>	<u>STEM Elem Training</u>	<u>Sponsor- Ship</u>	<u>Total</u>
\$ -	\$ -	\$ - 4,305	\$ 398,317 723,656 - -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,305</u>	<u>\$ 1,121,973</u>
\$ -	\$ -	\$ - 2,100	\$ - - 446,371 376,749 307,990 - - -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,100</u>	<u>\$ 1,131,110</u>
<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,205</u></u>	<u><u>\$ (9,137)</u></u>
\$ (31,209)	\$ 15,664	\$ -	\$ 139,267
<u>31,209</u>	<u>(15,664)</u>	<u>-</u>	<u>(5,696)</u>
\$ -	\$ -	\$ -	\$ 133,571
<u>-</u>	<u>-</u>	<u>2,205</u>	<u>(9,137)</u>
<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>2,205</u></u>	<u><u>\$ 124,434</u></u>

Southwest Regional Education Cooperative #10
SCHEDULE OF DEPOSITORY COLLATERAL
 June 30, 2018

	BBVA Compass Bank <hr style="width: 100%;"/>
Total Deposits	\$ 3,532,549
Less: FDIC insurance	<u>(250,000)</u>
 Total uninsured public funds	 <u><u>\$ 3,282,549</u></u>
 50% collateralization requirement (Section 6-10-17 NMSA)	 <u>\$ 1,641,275</u>
Pledged Securities:	
FHLB Letter of credit 119884 12/26/18	<u>\$ 2,500,000</u>
Total pledged securities	<u>\$ 2,500,000</u>
Pledged securities over (under) requirement	 <u><u>\$ 858,725</u></u>

* These securities are pledged to Southwest Regional Education Center, and are held at the Federal Home Loan Bank in Atlanta, GA. The securities remain in the name of the financial institution, with safekeeping receipts held by the Cooperative.

Southwest Regional Education Cooperative #10
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND INVESTMENTS
 June 30, 2018

	<u>Account Type</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
<u>BBVA Compass Bank</u>			
SW Regional Education Cooperative	Checking	\$ 3,532,534	\$ 2,845,729
SW Regional Education Cooperative	Checking	15	15
Total BBVA Compass Bank		\$ 3,532,549	\$ 2,845,744
<u>NM LGIP</u>			
SW Regional Education Cooperative	Investment	\$ 218,142	\$ 216,907
SW Regional Education Cooperative	Investment	1,239	1,239
Total NM LGIP		\$ 219,381	\$ 218,146
Total cash and investments		\$ 3,751,930	\$ 3,063,890

Southwest Regional Education Cooperative #10
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
ALL FUNDS BY PUBLIC EDUCATION DEPARTMENT CLASSIFICATION
For The Fiscal Year Ended June 30, 2018

	State Flowthrough	State Direct	Total
Total cash as of July 1, 2017	\$ (51,909)	\$ 1,458,301	\$ 1,406,392
Add: Current year receipts	2,776,391	2,580,461	5,356,852
Prior year warrants voided			
Less: Current year expenditures	(2,547,960)	(1,016,486)	(3,564,446)
Chargebacks/(Overdrafts)			-
Abatements			-
Transfers			-
Total cash as of June 30, 2018 per cash report	\$ 176,522	\$ 3,022,276	\$ 3,198,798
Expenditures under contracts not yet approved, therefore omitted from cash report			(353,054)
	218,146		218,146
Investments			-
Cash and investments per audit report	\$ 394,668	\$ 3,022,276	\$ 3,063,890

Southwest Regional Education Cooperative #10
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2018

Findings – Financial Statement Audit

Current Status

2016-001 Support for Per Diem Reimbursements

Revised and Repeated

2017-001 Fair Labor Standards Noncompliance

Resolved

2017-002 School Personnel Act Noncompliance

Resolved

2017-003 Contract Noncompliance

Resolved

2017-004 Procurement Noncompliance

Revised and Repeated

MIKE STONE, C.P.A.
LINDA STONE MCGEE, C.P.A.
KAY STONE, C.P.A.
KELLEY WYATT, C.P.A.

RYAN MONTOYA, C.P.A.

1311 N. GRANT ST.
P.O. BOX 2828
SILVER CITY, NEW MEXICO 88062
TELEPHONE (575) 388-1777
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Wayne Johnson, State Auditor
And
Board of Superintendents
Southwest Regional Education Cooperative #10
Truth or Consequences, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the Southwest Regional Education Cooperative #10 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Southwest Regional Education Cooperative #10's basic financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control Over financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Regional Education Cooperative #10'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 Southwest Regional Education Cooperative #10's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 Southwest Regional Education Cooperative #10's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002.

Southwest Regional Education Cooperative #10's Responses to Findings

Southwest Regional Education Cooperative #10's responses to the findings in are audit are described in the accompanying schedule of findings and responses, and their accompanying corrective action plan. The Cooperative's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Stone, McGee & Co CPAs

Silver City, New Mexico
September 24, 2018

Stone, McGee & Co.
Certified Public Accountants

Southwest Regional Education Cooperative #10
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2018

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Southwest Regional Education Cooperative #10.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Southwest Regional Education Cooperative #10, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Southwest Regional Education Cooperative #10 expended less than \$750,000 in federal funds.

FINDINGS – FINANCIAL STATEMENT AUDIT

2018-001(2016-001) Per Diem Reimbursements (Other Noncompliance)

Condition – In a test of 40 travel and per diem payments made, we noted 3 instances where the payments exceeded those allowed by the Per Diem and Mileage Act, totaling \$1,129.

The Cooperative has made significant progress in monitoring travel and per diem payments, and the exceptions noted above were reimbursed based on the New Mexico Public Education Department's request and approval.

Criteria – The Per Diem and Mileage Act, Sections 10-8-1 to 10-8-8 NMSA 1978, and Regulations Governing the Per Diem and Mileage Act, Section 2.42.2 NMAC, require in part that per diem and mileage reimbursements be made at no more than the rates stated in the Act and Regulations.

Effect – The Per Diem and Mileage Act has been violated, and expenditures in excess of those approved by law have been made.

Cause – The Cooperative has relied on the New Mexico Public Education Department to monitor payments requested to traveling personnel.

Recommendation – We recommend that the Cooperative reimburse personnel in accordance with the rates established by the Per Diem and Mileage Act and concurrent regulations.

Agency Response – The Cooperative has established procedures to ensure the proper reimbursement of employees and other eligible participants, to ensure that reimbursements are in accordance with New Mexico law. It is anticipated that these procedures will be fully

operational by October 1, 2018, with the Executive Director and the Business Manager bearing responsibility.

2018-002(2017-004) Procurement of Goods and Services (Other Noncompliance)

Condition – In a review of 138 expenditure related documents, we noted 3 instances where the purchase order was dated subsequent to the invoice, totaling \$669.

The Cooperative has made significant progress in updating their policies and procedures related to purchasing, and the current error rate of 2% is well below the stated rate of 13% in the prior year’s audit report.

Criteria – Section 13-1-1 to 13-1-199 NMSA 1978, commonly known as the Procurement Code, requires, in part, that purchases be properly authorized prior to execution, and that purchase orders be issued prior to the purchase being made.

Effect – There is an increased likelihood purchases could be made without proper authorization, resulting in non-priority purchases that could exceed the appropriate budgetary line items.

Cause – The purchases in question were priority purchases that were made prior to the execution of the duly approved purchase order.

Recommendation – We recommend that the Cooperative follow its already established procedures in making purchases, which includes the issuance of a properly executed purchase order prior to making the purchase.

Agency Response – We will continue to monitor our purchasing procedures to ensure that properly authorized purchase orders are issued prior to purchase execution. This policy is already in place, and is the responsibility of the Business Manager.

OTHER – FINANCIAL STATEMENT PREPARATION

The financial statements were prepared by Stone, McGee & Co., C.P.A.’s. However, the management of Southwest Regional Education Cooperative #10 has acknowledged its responsibility for the financial statements and has taken responsibility for them.

EXIT CONFERENCE

The contents of this report were discussed September 24, 2018. Present at this exit conference were:

<u>Name</u>	<u>Title</u>	<u>Affiliation</u>
Linda Hale	Board Member	Southwest REC #10
Vicki Chavez	Executive Director	Southwest REC #10
Geralyn Bennett	Business Manager	Southwest REC #10
Mike Stone, CPA	Shareholder	Stone, McGee & Co., CPAs

405 N. Date St. Suite 8
Truth or Consequences,
New Mexico 87901
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F (575)894-7584



Vicki Chavez
Executive Director

Geri Bennett
Business Manager

CORRECTIVE ACTION PLAN

September 24, 2018

Cognizant of Oversight Agency for Audit

Southwest Regional Education Cooperative respectfully submits the following corrective action plan for the year ended June 30, 2018.

Name and address of independent public accounting firm:

Stone McGee & Co. CPAs

PO Box 2828

Silver City, NM 88062

Audit Period:

July 1, 2017 - June 30, 2018

The findings from the September 24, 2018 schedule of findings and questioned costs are discussed below. The auditor's report expresses an unmodified opinion on the financial statements. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS- FINANCIAL STATEMENT AUDIT

2018-001(2016-001) Per Diem Reimbursement (Other Noncompliance's)

Condition -In a test of 40 travel and per diem payment made, noted 3 instances where the payments exceeded those allowed by the Per Diem and Mileage Act, totaling \$1,129.

Recommendation -We recommend that the Cooperative reimburse personnel in accordance with the rates established by the Per Diem and Mileage Act and concurrent regulations.

SWREC Response - the Cooperative has established procedures to ensure the proper reimbursement of employees and other eligible participants, to ensure that reimbursements are in accordance with New Mexico law. It is anticipated that these procedures will be fully operational by October 1, 2018, with the Executive Director and Business Manager bearing responsibility.

2018-002 (2017-004) Procurement of Goods and Services (Other Noncompliance)

Condition - In a review of 138 expenditure related documents, we noted 3 instances where the purchase order was dated subsequent to the invoice, totaling \$669.

Recommendation -We recommend that the Cooperative follow its already establish procedures in making purchases, which includes the issuances of a properly executed purchase order prior to making the purchase.

SWREC Response - The SWREC will continue to monitor our purchasing procedures to ensure that properly authorized purchase order are issued prior to purchase execution. This policy is already in place, and is the responsibility of the Business Manager.

Prior Year Findings-Financial Statement Audits

Current Status

2016-001 Support for Per Diem Reimbursement	Revised and Repeated
2017-001 Fair Labor Standards Noncompliance	Resolved
2017-002 School Personnel Act Noncompliance	Resolved
2017-003 Contract Noncompliance	Resolved
2017-004 Procurement Noncompliance	Revised and Repeated

Action Taken

This has been presented at the exit conference, The SWREC Management and Finance Team will continue to meet, discuss and implement new steps to ensure that this issue will not continue.

If there is any further information needed, please contact me @gbennett@swrecnm.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Geri Bennett". The signature is written in a cursive style with a vertical line at the end.

Geri Bennett

Business Manager

Cc: file