

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE**

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2017

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 REGION IX EDUCATION COOPERATIVE
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**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE**

Directory of Officials
June 30, 2017

COORDINATING COUNCIL

<u>Member</u>	<u>Position</u>	<u>School Represented</u>
Travis Lightfoot	Chairman	Corona
Brenda Vigil	Vice-Chairman	Tularosa
Sean Wootton	Member	Capitan
Travis Dempsey	Member	Cloudcroft
Rick Espinoza	Member	Carrizozo
Marvin Martin	Member	Hondo Valley
George Bickert, Ed.D	Member	Ruidoso

ADMINISTRATIVE STAFF

Bryan Dooley Executive Director

Carmen Spann Business Manager

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Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.comIndependent Auditors' ReportTimothy Keller, State Auditor
and
Coordinating Council
Region IX Education Cooperative
Ruidoso, 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 fund of Region IX Education Cooperative (Cooperative), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Cooperative's nonmajor governmental funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this 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 the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 Cooperative, as of June 30, 2017, and the respective changes in financial position, thereof and the respective budgetary comparisons for the general fund and the major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Cooperative as of June 30, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require the schedule of the Cooperative's proportionate share of the net pension liability and the schedule of the Cooperative's contributions on pages thirty-five and thirty-six be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on Cooperative's basic financial statements and the combining and individual fund financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the other schedules required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and other schedules required by Section 2.2.2 NMAC are the responsibility of management and were derived from and relates 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 the auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures and other schedules required by Section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2017 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.



Fierro & Fierro, P.A.
Las Cruces, New Mexico

September 27, 2017

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
Assets	
Cash	\$ 2,728,082
Receivables, net	4,594,546
Capital assets:	
Land	20,494
Other capital assets, net of depreciation	<u>93,499</u>
Total capital assets	<u>113,993</u>
Total assets	7,436,621
Deferred Outflows of Resources	
Pension related	1,293,968
Liabilities	
Bank overdraft	9
Accounts payable	52,174
Unearned revenues	576,460
Net pension liability	<u>7,120,151</u>
Total liabilities	7,748,794
Deferred Inflows of Resources	
Pension related	186,009
Net Position	
Invested in capital assets	113,993
Unrestricted	<u>681,793</u>
Total net position	<u><u>\$ 795,786</u></u>

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

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental activities:					
Instruction	\$ 388,252	\$ -	\$ 2,044,411	\$ -	\$ 1,656,159
Support services:					
Students	3,928,676	-	15,132,405	-	11,203,729
Instruction	4,177,935	7,945	3,981,442	-	(188,548)
General administration	9,225,265	-	-	-	(9,225,265)
Central services	836,567	-	-	-	(836,567)
Operation of plant	244,083	-	-	-	(244,083)
Student transportation	52,465	-	-	-	(52,465)
Operation services:					
Food	12,790	-	-	-	(12,790)
Community	2,260,324	-	408,246	-	(1,852,078)
Total governmental activities	<u>\$ 21,126,357</u>	<u>\$ 7,945</u>	<u>\$ 21,566,504</u>	<u>\$ -</u>	448,092
General Revenues:					
Interest income					2,360
Donations					4,500
Total general revenues					6,860
Change in net position					454,952
Net position, beginning of year					378,457
Restatement					(37,623)
Net position, beginning of year restated					340,834
Net position, end of year					<u>\$ 795,786</u>

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

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<u>General Fund</u>	<u>State Directed Activities Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash	\$ 2,188,081	\$ -	\$ 540,001	\$ 2,728,082
Receivables, net	38,328	4,351,700	204,518	4,594,546
Due from other funds	4,476,457	-	33,708	4,510,165
Total assets	<u>\$ 6,702,866</u>	<u>\$ 4,351,700</u>	<u>\$ 778,227</u>	<u>\$ 11,832,793</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Bank overdraft	\$ -	\$ -	\$ 9	\$ 9
Accounts payable	8,881	6,024	37,269	52,174
Unearned revenues	-	-	576,460	576,460
Due to other funds	-	4,345,676	164,489	4,510,165
Total liabilities	8,881	4,351,700	778,227	5,138,808
Fund Balances:				
Unassigned	<u>6,693,985</u>	<u>-</u>	<u>-</u>	<u>6,693,985</u>
Total liabilities and fund balances	<u>\$ 6,702,866</u>	<u>\$ 4,351,700</u>	<u>\$ 778,227</u>	<u>\$ 11,832,793</u>

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

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

Total fund balance governmental funds (page seven)	\$ 6,693,985
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	113,993
Pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(7,120,151)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources related to pension of \$1,293,968 is equal to 2017 employer contributions related to pensions.	1,293,968
Deferred inflows of resources related to pensions	<u>(186,009)</u>
Net position of governmental activities (page five)	<u><u>\$ 795,786</u></u>

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	State Directed Activities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Intergovernmental:				
Federal	\$ 139,015	\$ 1,830,852	\$ 3,004,183	\$ 4,974,050
State	3,818,427	12,768,030	185,179	16,771,636
Charges for services	7,945	-	-	7,945
Interest	2,360	-	-	2,360
Miscellaneous	4,500	-	-	4,500
Total revenues	3,972,247	14,598,882	3,189,362	21,760,491
Expenditures:				
Current:				
Instruction	-	-	385,306	385,306
Support services:				
Students	1,045,104	1,221,971	1,864,204	4,131,279
Instruction	520,470	3,608,197	1,055	4,129,722
General administration	242,084	7,845,953	320,758	8,408,795
Central services	768,702	70,741	64,555	903,998
Operation of plant	79,622	-	138,645	218,267
Student transportation	-	-	52,465	52,465
Operation services:				
Food	-	-	11,824	11,824
Community	2,629	1,852,020	338,631	2,193,280
Capital outlay	-	-	11,919	11,919
Total expenditures	2,658,611	14,598,882	3,189,362	20,446,855
Net change in fund balances	1,313,636	-	-	1,313,636
Fund balance, beginning of year	5,380,349	-	-	5,380,349
Fund balance, end of year	\$ 6,693,985	\$ -	\$ -	\$ 6,693,985

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

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

Net change in fund balances total governmental funds (page nine)		\$ 1,313,636
<p>In the statement of activities, capital outlay is reported as an expenditure in the amount of \$11,919; however, the cost of the capital assets is allocated over their estimated useful lives and reported as depreciation expense in the amount of \$61,143; therefore the net adjustment is \$49,224.</p>		
		(49,224)
<p>Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employees' contributions is reported as pension expense.</p>		
Pension contributions	\$1,293,968	
Cost of benefits earned net of employee contributions (pension expense)	<u>(2,103,428)</u>	
		<u>(809,460)</u>
Net change in net position - government-wide financial statements (page six)		<u><u>\$ 454,952</u></u>

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental:						
Federal	\$ 76,985	\$ 76,985	\$ 139,015	\$ -	\$ 139,015	\$ 62,030
State	2,482,735	2,494,735	3,733,006	85,421	3,818,427	1,238,271
Charges for services	10,000	10,000	7,606	339	7,945	(2,394)
Interest	1,000	1,000	2,360	-	2,360	1,360
Miscellaneous	-	-	4,500	-	4,500	4,500
Total revenues	2,570,720	2,582,720	3,886,487	85,760	3,972,247	1,303,767
Expenditures:						
Current:						
Support services:						
Students	1,078,421	2,376,461	1,046,421	(1,317)	1,045,104	1,330,040
Instruction	505,041	543,485	520,470	-	520,470	23,015
General administration	159,375	1,426,316	237,350	4,734	242,084	1,188,966
Central services	557,512	2,049,546	768,446	256	768,702	1,281,100
Operations of plant	770,371	1,632,239	79,769	(147)	79,622	1,552,470
Operation services:						
Community	-	1,100	1,409	1,220	2,629	(309)
Total expenditures	3,070,720	8,029,147	2,653,865	4,746	2,658,611	5,375,282
Net change	(500,000)	(5,446,427)	1,232,622	\$ 81,014	\$ 1,313,636	6,679,049
Cash balance, beginning of year	1,714,315	1,714,315	1,714,315			-
Cash repaid from other funds	-	-	3,670,144			3,670,144
Cash advanced to other funds	-	-	(4,429,000)			(4,429,000)
Cash balance, end of year	<u>\$ 1,214,315</u>	<u>\$ (3,732,112)</u>	<u>\$ 2,188,081</u>			<u>\$ 5,920,193</u>
Explanation of Differences:						
Change in receivables				\$ 38,303		
Change in due to/due from				47,457		
Change in accounts payable				(4,746)		
				<u>\$ 81,014</u>		

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
STATE DIRECTED ACTIVITIES FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental:						
Federal	\$ 1,275,532	\$ 2,498,619	\$ 1,669,648	\$ 161,204	\$ 1,830,852	\$ (828,971)
State	6,018,992	14,197,968	12,279,255	488,775	12,768,030	(1,918,713)
Total revenues	7,294,524	16,696,587	13,948,903	649,979	14,598,882	(2,747,684)
Expenditures:						
Current:						
Support services:						
Students	625,235	1,344,487	1,221,971	-	1,221,971	122,516
Instruction	81,276	3,625,815	3,608,197	-	3,608,197	17,618
General administration	4,392,756	8,624,559	7,845,421	532	7,845,953	779,138
Central services	135,470	70,321	70,741	-	70,741	(420)
Operation services:						
Community	2,059,787	3,031,405	1,909,880	(57,860)	1,852,020	1,121,525
Total expenditures	7,294,524	16,696,587	14,656,210	(57,328)	14,598,882	2,040,377
Net change	-	-	(707,307)	\$ 707,307	\$ -	(707,307)
Cash balance, beginning of year	-	-	-			-
Cash advanced from the general fund	-	-	707,307			707,307
Cash balance, end of year	\$ -	\$ -	\$ -			\$ -
Explanation of Differences:						
Change in receivables				\$ 649,979		
Change in accounts payable				57,328		
				\$ 707,307		

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

NOTES TO THE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Region IX Education Cooperative (Cooperative) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

A. Reporting Entity

Regional Educational Cooperatives (RECs) are established by Regional Cooperative Education Act, 22-2B-1 to 22-2B-6, NMSA 1978.

In 1984, the New Mexico State Board of Education (SBE) established ten Regional Center Cooperatives (RCCs) under SBE Regulation No. 84-6. The purpose of the RCCs is to provide services for local education agencies and eligible state supported schools under Public Law 94-142, the Individuals with Disabilities Education Act (IDEA-B). SBE Regulation No. 84.6 permits districts to submit consolidated applications to the SBE for certain entitlement and discretionary funds under IDEA-B. Since 1984, RCCs have also established cooperative programs of education services with funds other than IDEA-B entitlement or discretionary funds, including Drug Free School and Communities Act of 1986, Title II-Critical Skills Improvement, Medicaid in the Schools, and the Carl D. Perkins Vocational and Applied Technology Education Act of 1990, as well as other direct federal and state/local funding sources. The Cooperative's basic financial statements include all activities and accounts of the Cooperative's *financial reporting entity*.

The financial reporting entity consists of the primary government, and any other organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Based on the application of these criteria, there are no component units of the Cooperative.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Cooperative as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on a significant extent on fees and charges for support. The statement of net position and the statement of activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*. The Cooperative has no business-type activities.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function category (instruction, support services, operation services, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function of governmental-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). The Cooperative does not allocate indirect costs. Depreciation expense is specifically identified by function and is included in the direct expense of each function.

Separate fund based financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the government) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-Wide and Fund Financial Statements (continued)

The Cooperative's fiduciary funds (which have been refined and narrowed in scope) are presented in the fund financial statements by type. Since, by definition, these assets are being held for the benefit of a third party (other governmental entities and individuals) and cannot be used to address or obligations of the government, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the Cooperative as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Cooperative gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund level financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The focus of the governmental funds' measurement (in the fund statements), is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period. For this purpose, the Cooperative considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Generally, intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as, expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

Revenues are recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. Resources received in advance should be reported as deferred revenues (liabilities) until the period of the exchange. Charges for services, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,
C. and Financial Statement Presentation (continued)

Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of intergovernmental revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the Cooperative; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The Cooperative reports the following major governmental funds:

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

The *State Directed Activities fund* accounts for the state revenues and expenditures to assist the Cooperative in providing free appropriate public education to all handicapped children. The creation of this fund was authorized by the New Mexico Public Education Department.

The Region maintains six individual governmental funds that are considered nonmajor funds; all of which are classified as special revenue funds. A description of each fund is as follows:

The *Head Start fund* accounts for the federal revenues and expenditures to provide comprehensive preschool education for educationally deprived students in low-income areas. The creation of this fund was authorized by the federal government under P.L. 105285.

The *Title XIX Medicaid (3 to 21) fund* accounts for the federal revenues and expenditures to provide services to developmentally disabled children between three years old and young adults twenty-one years old. The creation of this fund was authorized by Title XIX of the Social Security Act.

The *Title XIX Medicaid (Birth to Two) fund* accounts for the federal revenues and expenditures to provide services to developmentally disabled children between birth and two years old. The creation of this fund was authorized by Title XIX of the Social Security Act.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,

C. and Financial Statement Presentation (continued)

The *Workforce Investment Act fund* accounts for the federal revenues and expenditures for training to increase the attainment of basic skills, work readiness or occupational skills, including secondary diplomas or other credentials. The creation of this fund was authorized by Workforce Investment Act of 1998, Title I.

The *Birth to Two Year fund* accounts for the state grant revenues and expenditures for the operation and maintenance of delivering services to developmentally disabled children between birth and two years old. The creation of this fund was authorized by the grant provisions.

The *DOH Healthier Schools fund* accounts for state revenues and expenditures for School Based Health Clinics in the Ruidoso and Hondo Valley school districts. Authority for the creation of the fund is the New Mexico Public Education Department's *Manual of Procedures for School Districts*.

D. Budgets

Budgets for all funds are prepared by management and approved by the coordinating council. The proposed budget is then submitted by May 31st to the planning unit of the New Mexico Public Education Department (PED). PED certifies the budget by July 1st. The expenditure section of the budget, once adopted, is legally binding. These budgets are prepared on the non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such appropriated balance is legally restricted and is, therefore presented as a reserved portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local board approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the PED. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

E. Pensions

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Investments in the Cooperative's cash and certificates of deposit are stated at cost, which approximates fair value. All other investments are carried at fair market value using quoted market prices. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

2. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund balance. Long-term advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund balance 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 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.

5. Capital Assets

Property, plant, and equipment purchased or acquired is carried at historical cost or estimated cost. Contributed capital assets are recorded at estimated fair market value at the time received. Purchased computer software is recorded at historical cost. The Cooperative defines capital assets as assets with an initial, individual cost or donated value of more than \$5,000 and an estimated useful life in excess of one year.

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

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities, and Net Assets or Equity (continued)

5. Capital Assets (continued)

	<u>Assets</u>	<u>Years</u>
Buildings		50
Building improvements		50
Vehicles		12
Computers and electronics		5-10
Equipment		5-10

6. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent consumption of resources of net assets that is applicable to future reporting periods that are reported in a separate section after assets in the statement of financial position.

Deferred inflows of resources represent acquisition of net assets by the Cooperative that is applicable to a future reporting period. The deferred inflows are reported in a separate section after liabilities in the statement of financial position.

7. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as follows:

Investment in capital assets – This category reflects the portion of net position that are associated with capital assets less outstanding capital asset related debt.

Restricted net position – This category reflects the portion of net position that has third party limitations on their use.

Unrestricted net position – This category reflects net position of the Cooperative, not restricted for any project or other purpose.

8. Fund Equity Reservation and Designations

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities, and Net Assets or Equity (continued)

8. Fund Equity Reservation and Designations (continued)

Restricted fund balance – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provision or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the coordinating council – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the coordinating council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This classification reflects the amounts constrained by the Cooperative’s “intent” to be used for specific purposes, but are neither restricted nor committed. The coordinating council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Cooperative’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

G. Other Matters

1. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the Cooperative. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by the state Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities which are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the state or the United States, or are backed by the full faith and credit of those governments.

Cash Deposited With Financial Institutions

The Cooperative maintains cash in one financial institution in Ruidoso, New Mexico. The Cooperative's deposits are carried at cost.

As of June 30, 2017, the amount of cash reported on the financial statements differs from the amount on deposit with the financial institution because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

	<u>Per Institution</u>	<u>Reconciling Items</u>	<u>Per Financial Statements</u>
First Savings Bank	<u>\$ 6,303,622</u>	<u>\$ (3,575,549)</u>	<u>\$ 2,728,073</u>

The amounts reported as cash for the primary government within the financial statement is displayed as:

Statement of Net Position:	
Cash	\$ 2,728,082
Bank overdraft	<u>(9)</u>
	<u>\$ 2,728,073</u>

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash Deposited With Financial Institutions (continued)

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the Cooperative. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the Cooperative carrying value of the deposits (demand and certificates of deposit). Such collateral, as permitted by the state statutes is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

	<u>First Savings Bank</u>
Total deposits in bank	\$ 6,303,622
Less FDIC coverage	<u>(250,000)</u>
Uninsured public funds	6,053,622
Less pledged collateral held by pledging bank's trust, but not in the cooperative's name	<u>4,813,344</u>
Uninsured and uncollateralized	<u><u>\$ 1,240,278</u></u>
Total pledged collateral	\$ 4,813,344
Less 50% pledged collateral requirement per state statute	<u>(3,026,811)</u>
Pledged collateral (under) over the requirement	<u><u>\$ 1,786,533</u></u>

A detailed listing of the pledged collateral is contained in the supplemental financial information section of this report. According to the Federal Deposit Insurance Corporation, public unit deposits, time deposits, savings deposits and interest bearing money market accounts at a public unit in an institution in the same state will be insured up to \$250,000.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$6,053,622 of the Cooperative's bank balance of \$6,303,622 was exposed to custodial credit risk as follows:

	<u>First Savings Bank</u>
Uninsured and collateral held by pledging bank's trust dept. or agent, not in the Cooperative's name.	<u><u>\$ 6,053,622</u></u>

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

3. RECEIVABLES, NET

Receivables, net of allowance for doubtful accounts, at June 30, 2017, consisted of the following:

Intergovernmental receivables:	
Operating grants	\$ 4,594,546

No allowance for doubtful accounts has been recorded as the Cooperative anticipates all receivables will be collected.

4. CAPITAL ASSETS

During the fiscal year, the Cooperative performed an intensive review of their capital assets and discovered errors in the amounts reported at June 30, 2016. The effect of the changes are as follows:

	Balance 06/30/16	Corrections	Restated Balance 06/30/16
Governmental Capital Assets:			
Land	\$ 20,494	\$ -	\$ 20,494
Buildings	217,195	122,630	339,825
Improvements	1,291,455	(438,705)	852,750
 Accumulated depreciation:			
Buildings	(117,819)	(188,840)	(306,659)
Equipment	(1,210,485)	467,292	(743,193)
Net governmental capital assets	\$ 200,840	\$ (37,623)	\$ 163,217

Capital assets for the fiscal year ended June 30, 2017:

	Restated Balance 06/30/16	Increases	Decreases	Balance 06/30/17
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 20,494	\$ -	\$ -	\$ 20,494
Other capital assets, being depreciated:				
Buildings	339,825	-	(122,626)	217,199
Equipment	852,750	11,919	(13,892)	850,777
Total other capital assets, being depreciated	1,192,575	11,919	(136,518)	1,067,976
Less accumulated depreciation for:				
Buildings	(306,659)	(3,604)	122,626	(187,637)
Equipment	(743,193)	(57,539)	13,892	(786,840)
Total accumulated depreciation	(1,049,852)	(61,143)	136,518	(974,477)
Other capital assets, net	142,723	(49,224)	-	93,499
Total capital assets, net	\$ 163,217	\$ (49,224)	\$ -	\$ 113,993

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

4. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions (programs) as follows:

Instruction	\$	2,946
Support services:		
Student		579
Instruction		48,213
Central services		1,118
Operation of plant		1,816
Operation services:		
Food		966
Community		5,505
		\$ 61,143
		\$ 61,143

5. INTERFUND BALANCES

Interfund Balances

Receivable Fund	Payable Fund	Amount
General Fund	State Directed Activities Fund	\$ 4,345,676
General Fund	Workforce Investment Act Fund	130,871
		\$ 4,476,547
Head Start Fund	Workforce Investment Act Fund	\$ 33,708

6. RESTATEMENT OF NET POSITION

During the fiscal year ended June 30, 2017, the Cooperative determined that changes to the beginning of year net position. A description and the effect of the changes are as follows:

	Government - Wide
	Governmental Activities
Government-Wide Financial Statements:	
The Cooperative has discovered errors in the capital assets previously reported	\$ (37,623)

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD

General Information about the Pension Plan

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

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

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

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

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.

Summary of Plan Provisions for Retirement Eligibility - For members employed before July 1, 2010, a member is eligible to retire when one of the following events occur: 1) the member's age and earned service credit add up to the sum of 75 or more; 2) the member is a least sixty-five years of age and has five or more years of earned service credit or; 3) the member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes reemployed after July 1, 2010 is as follows: 1) the member's age and earned service credit add up to the sum of 80 or more; 2) the member is a least sixty-seven years of age and has five or more years of earned service credit or; 3) the member has service credit totaling 30 years or more.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)

General Information about the Pension Plan (continued)

Summary of Plan Provisions for Retirement Eligibility (continued) – Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013, but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements: 1) the member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55; 2) 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; 3) the member's age is 67, and has earned 5 or more years of service credit.

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

Benefit Options – The Plan has three benefit options available:

Option A – Straight Life Benefit – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.

Option B - Joint 100% Survivor Benefit – The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

Option C – Joint 50% Survivor Benefit – The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

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

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)

General Information about the Pension Plan (continued)

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

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

As of July 1, 2013, for current and future retirees the COLA 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%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

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

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

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

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

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)

General Information about the Pension Plan (continued)

Contributions (continued) – The contribution requirements are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2017 and 2016, the Cooperative paid employee and employer contributions of \$293,627 and \$386,349, which equal the amount of the required contributions for each fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the Cooperative reported a liability of \$7,120,151 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The Cooperative's proportion of the net pension liability was based on a projection of the Cooperative's long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2016, the Cooperative's proportion was 0.09894%, which was an increase of 0.014850% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Cooperative recognized pension expense of \$827,422. At June 30, 2017, the Cooperative reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 67,722
Changes in proportion and differences between contributions and proportionate share of contributions	-	118,287
Employer contributions subsequent to the measurement date	1,293,968	-
Total	<u>\$ 1,293,968</u>	<u>\$ 186,009</u>

\$1,293,968 reported as deferred outflows of resources related to pensions resulting from the Cooperative's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 288,453
2019	325,979
2020	395,466
2021	103,644
2022	-
Thereafter	-

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)

General Information about the Pension Plan (continued)

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

Inflation	3.0%
Salary increases	Composed of 3.0% inflation, plus a 0.755 productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service.
Investment rate of return	7.75% compounded annually, net of expenses. This is made up of a 3.00% inflation rate and a 4.75 real rate of return. The long-term expected rate of return on pension investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.
Average of Expected Remaining Service Lives	3.77 years
Mortality	<p>Healthy males: Based on RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB.</p> <p>Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012.</p> <p>Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.</p> <p>Disables females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.</p> <p>Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for pre-retirement mortality.</p>
Retirement Age	Experience-based table rates based on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.
Cost-of-living increases	2% per year, compounded annually.
Payroll growth	3.5% per year (with no allowance for membership growth).
Contribution accumulation	5% increase per year for all years prior to the valuation date. (Contributions are credited with 4.0% interest, compounded annually, applicable to the account balance in the past, as well as the future.)
Disability incidence	Approved rates applied to eligible members with at least 10 years of service.

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017

7. RETIREMENT PLAN - EDUCATIONAL RETIREMENT BOARD (continued)

General Information about the Pension Plan (continued)

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

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

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

Sensitivity of the Cooperative's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Cooperative's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Cooperative's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
Cooperative's proportionate share of the net pension liability	\$ 9,430,475	\$ 7,120,151	\$ 5,203,235

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued NMERB's financial reports. The reports can be found on NMERB's website at https://www.nmerb.org/Annual_reports.html.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

8. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

Plan Description

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

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

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

Funding Policy

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

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

8. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (continued)

Funding Policy (continued)

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4, 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statutes required each participating employer to contribute **2.5%** of each participating employee's annual salary; and each participating employee was required to contribute **1.25%** of their salary.

For employees that were not members of an enhanced retirement plan during the fiscal year ended **June 30, 2017**, the statutes required each participating employer to contribute **2.0%** of each participating employee's annual salary; each participating employee was required to contribute **1.0%** of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Cooperative's contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$52,996, \$53,947 and \$46,526, respectively, which equal the required contributions for each year.

9. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Cooperative to purchase insurance for the risks of losses to which it is exposed through the General Services Administration risk management insurance. The risk management insurance includes coverage for general liability, property, casualty, employee health and accident.

10. CONTINGENT LIABILITIES

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

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Special Revenue Funds						
	Head Start Fund	Title XIX Medicaid (3 to 21) Fund	Title XIX Medicaid (Birth to Two) Fund	Workforce Investment Act Fund	Birth to Two Year Fund	DOH Healthier Schools Fund	Total Other Governmental Funds
<u>ASSETS</u>							
Cash	\$ -	\$ 396,759	\$ 42,879	\$ -	\$ 91,095	\$ 9,268	\$ 540,001
Receivables, net	44	27,287	-	166,993	10,194	-	204,518
Due from other funds	33,708	-	-	-	-	-	33,708
Total assets	<u>\$ 33,752</u>	<u>\$ 424,046</u>	<u>\$ 42,879</u>	<u>\$ 166,993</u>	<u>\$ 101,289</u>	<u>\$ 9,268</u>	<u>\$ 778,227</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Bank overdraft	\$ 9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9
Accounts payable	33,743	1,022	-	2,504	-	-	37,269
Unearned revenues	-	423,024	42,879	-	101,289	9,268	576,460
Due to other funds	-	-	-	164,489	-	-	164,489
Total liabilities	33,752	424,046	42,879	166,993	101,289	9,268	778,227
Fund Balances:							
Unassigned	-	-	-	-	-	-	-
Total liabilities and fund balances	<u>\$ 33,752</u>	<u>\$ 424,046</u>	<u>\$ 42,879</u>	<u>\$ 166,993</u>	<u>\$ 101,289</u>	<u>\$ 9,268</u>	<u>\$ 778,227</u>

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Funds						Total Other Governmental Funds
	Head Start Fund	Title XIX Medicaid (3 to 21) Fund	Title XIX Medicaid (Birth to Two) Fund	Workforce Investment Act Fund	Birth to Two Year Fund	DOH Healthier Schools Fund	
Revenues:							
Federal	\$ 2,044,411	\$ 230,469	\$ 321,057	\$ 408,246	\$ -	\$ -	\$ 3,004,183
State	-	-	-	-	84,447	100,732	185,179
Total revenues	2,044,411	230,469	321,057	408,246	84,447	100,732	3,189,362
Expenditures:							
Current:							
Instruction	385,306	-	-	-	-	-	385,306
Support services:							
Students	1,272,851	169,593	286,721	-	34,307	100,732	1,864,204
Instruction	1,055	-	-	-	-	-	1,055
General administration	196,448	28,216	24,616	21,505	49,973	-	320,758
Central services	87	32,660	9,720	22,088	-	-	64,555
Operation of plant	110,781	-	-	27,697	167	-	138,645
Student transportation	52,465	-	-	-	-	-	52,465
Operation services:							
Food	11,824	-	-	-	-	-	11,824
Community	1,675	-	-	336,956	-	-	338,631
Capital outlay	11,919	-	-	-	-	-	11,919
Total expenditures	2,044,411	230,469	321,057	408,246	84,447	100,732	3,189,362
Net change in fund balances	-	-	-	-	-	-	-
Fund balance, beginning of year	-	-	-	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF REGION IX EDUCATION COOPERATIVE'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
LAST TEN FISCAL YEARS *

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Cooperative's proportionate of the net pension liability (asset)	.08754%	.08409%	.09894%
Cooperative's proportionate share of the net pension liability (asset)	\$ 4,994,790	\$ 5,446,733	\$ 7,120,151
Cooperative's covered-employee payroll	\$ 2,393,158	\$ 2,827,566	\$ 2,779,577
Cooperative's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	208.71%	192.63%	256.16%
Plan fiduciary net position as a percentage of the total pension liability	66.54%	63.97%	61.58%

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

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF REGION IX EDUCATION COOPERATIVE'S CONTRIBUTIONS
EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
LAST TEN FISCAL YEARS *

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 317,193	\$ 391,932	\$ 386,349
Contributions in relation to the contractually required contribution	<u>317,193</u>	<u>391,932</u>	<u>386,349</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Cooperative's covered-employee payroll	<u>\$ 2,393,158</u>	<u>\$ 2,827,566</u>	<u>\$ 2,779,577</u>
Contributions as a percentage of covered-employee payroll	13.25%	13.86%	13.90%

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

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

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

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

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

OTHER SCHEDULES REQUIRED BY SECTION 2.2.2 NMAC

**STATE OF NEW MEXICO
 REGION IX EDUCATION COOPERATIVE
 SCHEDULE OF CASH ACCOUNTS
 JUNE 30, 2017**

<u>Financial Institution/Account Description</u>	<u>Type of Account</u>	<u>Financial Institution Balance</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
First Savings Bank 2713 Sudderth Drive Ruidoso, New Mexico 88345				
General Fund	Checking	\$ 6,189,765	\$ (3,461,683)	\$ 2,728,082
Lincoln County Head Start Fund	Checking	113,857	(113,866)	(9)
Total checking accounts		<u>\$ 6,303,622</u>	<u>\$ (3,575,549)</u>	<u>\$ 2,728,073</u>

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2017**

First Savings Bank
2713 Sudderth Drive
Ruidoso, New Mexico 88345

Security	CUSIP	Maturity	Market Value
FNMA 10 YR	31418ADU9	03/01/22	\$ 231,382
FHLMC 10 YR	31294MN72	04/01/22	76,395
FHLMC 10 YR	3128MDNT6	03/01/23	154,877
FNMA 10 YR	31418AVM7	07/01/23	267,728
FNMA 10 YR	31418AVM7	07/01/23	138,822
FHLMC 15 YR	3128MDEC3	05/01/27	235,041
FHR 4136 NG	3137AWKN4	11/15/27	121,332
FNMA 15 YR	31417D5C3	12/01/27	303,479
FNMA 15 YR	3138EKJA4	01/01/28	81,533
FNR 2012-145 DC	3136AA2L8	01/25/28	69,233
FHLMC 15 YR	3138ERHG8	12/01/29	1,079,784
FHLMC 15 YR	3128MECV1	02/01/30	288,162
FHLMC 15 YR	3132KFNN8	08/01/31	654,030
FHLMC 15 YR	3138ER2Q2	01/01/32	241,774
GNR 2011-4 MD	38377TBL4	11/20/38	53,787
GNR 2011-4 MD	38377TBL4	11/20/38	13,447
GNR 2011-4 MD	38377TBL4	11/20/38	53,787
FHR 4579 BA	3137BPP29	01/15/43	748,751
			<u>\$ 4,813,344</u>

The holder of the security pledged by First Savings Bank is the First National Bank Pierre, 125 W. Sioux Avenue, Pierre, SD 57501.

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF CASH RECONCILIATIONS
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

Fund	Restated Cash 06/30/16	Revenues	Expenditures	Net Transfers In/Out	Interfund Advance/ Repayment	Cash 06/30/17
General	\$ 1,714,315	\$ 3,886,487	\$ (2,653,865)	\$ -	\$ (758,856)	\$ 2,188,081
State Directed Activities	-	13,948,903	(14,656,210)	-	707,307	-
Head Start	(104,026)	2,129,125	(2,025,108)	-	-	(9)
Title XIX Medicaid (3 to 21)	116,941	509,265	(229,447)	-	-	396,759
Title XIX Medicaid (Birth to 2)	29,934	334,002	(321,057)	-	-	42,879
Workforce Investment Act	-	345,007	(407,368)	-	62,361	-
Birth to Two Year	81,559	93,983	(84,447)	-	-	91,095
DOH Healthier Schools	-	110,000	(100,732)	-	-	9,268
	<u>\$ 1,838,723</u>	<u>\$ 21,356,772</u>	<u>\$ (20,478,234)</u>	<u>\$ -</u>	<u>\$ 10,812</u>	<u>\$ 2,728,073</u>

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
COMBINING SCHEDULE OF CHANGES IN ASSETS
AND LIABILITIES FOR THE AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Balance</u> <u>06/30/16</u>	<u>Increases/</u> <u>Receipts</u>	<u>Decreases/</u> <u>Disbursements</u>	<u>Balance</u> <u>06/30/17</u>
E-Rate Fund				
Assets:				
Cash	<u>\$ 1,763</u>	<u>\$ 13,278</u>	<u>\$ (15,041)</u>	<u>\$ -</u>
Liabilities:				
Deposits held for others	<u>\$ 1,763</u>	<u>\$ 13,278</u>	<u>\$ (15,041)</u>	<u>\$ -</u>

SUPPLEMENTAL FEDERAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Program or Grant Number	Award Amount	Expenditures
U.S. Department of Agriculture/Forest Service				
Job Training Development for Tribal Youth	10.xxx	16-PA-11030800-006	\$ 10,072	\$ 10,072
U.S. Department of Labor				
Workforce Investment Act	17.259	CYP16/17-Region IX	545,000	408,426
U.S. Department of Education/Passed through NM Public Education Department				
Coordinated School Health & Wellness	84.xxx	PEDA5101GY15	285,969	238,114
Career & Technical Education	84.048	17-924-00102	153,825	137,823
Gaining Early Awareness & Readiness for Undergraduate Programs	84.334	17-95011600002	730,000	661,734
Race to the Top - Early Learning Challenge	84.412	S412A130025	43,935	9,948
U.S. Department of Education/Passed through NM Public Education Department/ Passed through University of New Mexico				
Race to the Top - Early Learning Challenge	84.412	S412A130025	27,194	27,194
U.S. Department of Education/Passed through Children, Youth and Families Department				
Race to the Top - Early Learning Challenge	84.412	S412A130025	5,185,039	168,489
Race to the Top - Early Learning Challenge	84.412	S412A130025	205,000	146,179
Race to the Top - Early Learning Challenge	84.412	S412A130025	767,800	120,224
Head Start	93.600	06CD0021-05	15,201	15,201
Total U.S. Department of Education				1,943,404
U.S. Department of Health and Human Services				
Head Start	93.600	06HP0011/01	1,355,625	499,320
Head Start	93.600	06HP0011/02	949,662	834,440
Head Start	93.600	06CH7149/03	910,199	463,003
Head Start	93.600	06CH7149/04	919,139	247,648
U.S. Department of Health and Human Services/ Passed through Children, Youth and Families Department				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	D89MC23143	268,884	201,232
U.S. Department of Health and Human Services/ Passed through NM Human Services Department				
Medicaid	93.778	1750418281	321,057	321,057
Medicaid	93.778	1922195544	230,469	230,469
Total U.S. Department of Health and Human Services				2,797,169
Total Expenditures of Federal Awards				\$ 4,740,573

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Region IX Education Cooperative (Cooperative) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of the Cooperative, it is not intended to and does not present the financial position, changes in net financial position, or cash flows of the Cooperative. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements of the federal program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Cooperative has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

3. SUBRECIPIENTS OF GRANT AWARDS

Of the federal expenditures presented in the Schedule, the Cooperative provided federal awards to sub-recipients as follows:

<u>Grantor Agency</u>	<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grant Amount</u>
U.S. Department of Health and Human Services	Head Start	93.600	<u>\$ 770,914</u>

4. RECONCILIATION OF FINANCIAL STATEMENTS TO FEDERAL AWARDS

Federal expenditures on the schedule of expenditures of federal awards amount to \$4,740,573. The amount of expenditures within the funds is reflected within the financial statements as follows:

<u>Special Revenue Funds</u>	
State Directed Activities Fund	\$ 1,736,210
Head Start Fund	2,044,411
Title XIX Medicaid (3 to 21) Fund	230,469
Title XIX Medicaid (Birth to Two) Fund	321,057
Workforce Investment Act Fund	<u>408,426</u>
	<u>\$ 4,740,573</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORTS

Ed Fierro, CPA • Rose Fierro, CPA527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.com

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

Timothy Keller, State Auditor
and
Coordinating Council
Region IX Education Cooperative
Ruidoso, 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, the budgetary comparisons of the general fund and major special revenue fund, of Region IX Education Cooperative (Cooperative), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and the combining and individual funds of the Cooperative, presented as supplemental information, and have issued our report thereon dated September 27, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free 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 test 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 questioned costs as items 2012-002, 2013-001, 2014-004, 2017-001, and 2017-002.

The Cooperative's Responses to Findings

The Cooperative's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Cooperative's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Fierro & Fierro, P.A.
Las Cruces, New Mexico

September 27, 2017

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Report on Compliance for Each Major Federal Program; Report
on Internal Control Over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by The Uniform Guidance

Independent Auditors' Report

Timothy Keller, State Auditor
and
Coordinating Council
Region IX Education Cooperative
Ruidoso, New Mexico

Report on Compliance for Each Major Federal Program

We have audited Region IX Education Cooperative's (Cooperative) compliance, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2017. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Cooperative's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Cooperative's compliance.

Opinion on Each Major Federal Program

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Fierro & Fierro, P.A.
Las Cruces, New Mexico

September 27, 2017

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? _____ Yes X No
- Significant deficiency (ies) identified? _____ Yes X None reported
- Noncompliance material to financial statements noted _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? _____ Yes X No
- Significant deficiency (ies) identified? _____ Yes X None reported

Type of auditors' report issued on
Compliance with major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? _____ Yes X No

Program tested as major programs include:

Program	CFDA No.
Gaining Early Awareness & Readiness for Undergraduate Programs	84.334
Medicaid	93.778

- The threshold for distinguishing Types A and B programs was \$750,000.
- Auditee qualified as low-risk auditee? X Yes _____ No

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II – FINDINGS – FINANCIAL STATEMENTS

Item 2012-002 – Other – Cash Receipts

Statement of Condition – During the course of the audit, we performed tests of cash receipts. Our sample size was sixty deposits which contained eighty-seven cash receipts received and recorded by the Cooperative, and contained the following discrepancies:

- From the sixty deposits tested, we noted twenty-one instances where a timely accounting entry was not entered into the accounting system reflecting the receipt of funds. The delay in entering the data into the accounting varied from a few days to several weeks.

We performed another audit procedure testing the numerical issuance of receipts for an entire month. For the month selected for testing, the Cooperative issued fifty receipts and we noted five instances where the numerical receipts were issued out of sequence.

The Cooperative has improved and modified their cash receipts procedures; however, the Cooperative continues to delay the recording of revenues received within the accounting records. Furthermore, the Cooperative has not improved the internal control procedures of issuing receipts in a sequential numerical sequence.

Criteria – Section 6.20.2.14A of the New Mexico Administrative Code states, “*School districts shall establish and maintain a cash management program to safeguard cash and provide prompt and accurate reporting that adheres to cash management requirements of the Office of Management and Budget (OMB) Circular A-102, and applicable state and federal laws and regulations.*”

Effect – Not issuing a receipt for each cash transaction, at the time of the deposit, could allow unintentional or intentional errors to occur, and not be detected and fully reconciled, in a proper manner, or on a timely basis.

Cause – The Cooperative’s finance department failed to record into the accounting system monies received within a timely manner.

Recommendation – We recommend the Cooperative’s finance department review the accounting procedures concerning all money received and deposited. Furthermore, we recommend the Cooperative implement the necessary changes to their accounting procedures to ensure all money received is recorded in a timely manner.

Views of Responsible Officials and Planned Corrective Actions – The Cooperative trained new personnel in the procedures concerning money received and deposits. The Payroll Coordinator/Business Office Assistant took control in November 2016. The Payroll Coordinator/Business Office Assistant checks the bank for any ACHs in the morning and before leaving, tries to identify where it belongs and posts the deposit in the accounting system. For those that are not readily identifiable, a transaction is made into a holding account and identified by the end of the week, the temporary transaction is then voided and the monies deposited into the proper account. The business manager has been overseeing the compliance of this process and strives to continue to improve upon.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2013-001 – Other Noncompliance – Per Diem and Mileage Act

Statement of Condition – During the course of the audit, we performed tests of travel and per diem expenditures for the purpose of determining compliance with State statutes and administrative rules along with REC established administrative procedures. Our sample size was sixty transactions, which were selected throughout the fiscal year, and contained the following discrepancies:

- There was one instance where an employee was incorrectly reimbursed for actual meals. The employee was underpaid by \$0.43.
- There was one instance where an employee was incorrectly reimbursed for partial day per diem. The employee was overpaid by \$8.00.

The Cooperative has improved and modified their travel and per diem procedures; however, additional modification to said procedures should be implemented.

Criteria – The New Mexico Department of Finance and Administration (DFA) has issued regulations in the form of Title 2, Chapter 42, Part 2, *Travel and Per Diem Regulations Governing the Per Diem and Mileage Act* of the New Mexico Administrative Code. The rule was issued in accordance with Section 10-8-1 to 10-8-8 NMSA 1978.

Section 2.42.2.8C(3) of the Travel and Per Diem regulations states, “*On the last day of travel when overnight lodging is no longer required, partial day reimbursement shall be made. To calculate the number of hours in the partial day, begin with the time the traveler initially departed. Divide the number of hours traveled by 24. The hours remaining constitute the partial day which shall be reimbursed as follows:*

- a. *For less than 2 hours, none;*
- b. *For 2 hours, but less than 6 hours, \$12.00;*
- c. *For 6 hours or more, but less than 12 hours, \$20.00;*
- d. *For 12 hours or more, \$30.00.*

Effect – Non-compliance with the state of New Mexico Travel and Per Diem Act subjects officials and employees to penalties as required by state statutes. Further, noncompliance with the REC administrative procedures could allow unauthorized payments to occur.

Cause – Although the REC staff worked diligently on implementing new travel and mileage forms and procedures, the staff made calculation errors when computing partial day reimbursements.

Recommendation – We recommend the REC staff revisit the Per Diem and Mileage Act and the administrative code in particular the discussion on the partial day reimbursement to ensure compliance with the Act.

Views of Responsible Officials and Planned Corrective Actions – The executive director, business manager, and department heads will immediately begin verification of travel forms for accurate information to ensure proper payment. The Per Diem and Mileage Act will be revisited by accounts payable staff and attention to detail will be stressed.

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2014-004 – Other Noncompliance – Legal Compliance with Adopted Budget

Statement of Condition – During our testing of the Cooperative’s statutory budgetary requirements, we noted the following:

- The final budget within the general fund anticipated a year-end deficit cash balance of \$3,732,112, as budgeted revenues of \$2,582,735, and beginning cash of \$1,714,315 were not sufficient to pay for the budgeted expenditures of \$8,029,147.
- The original budget within the head start fund anticipated a year-end deficit cash balance of \$104,026, as budgeted revenues of \$1,047,195, and beginning cash deficit of \$104,026 were not sufficient to pay for the budgeted expenditures of \$1,047,195.
- The final budget within the head start fund anticipated a year-end deficit cash balance of \$104,026, as budgeted revenues of \$2,370,696 and beginning cash deficit of \$104,026 were not sufficient to pay for the budgeted expenditures of \$2,370,696.

The Cooperative has improved and modified their annual budgetary procedures; however, additional modifications are needed. As a result of how the Cooperative is reimbursed for services rendered, it is necessary for the general fund to subsidize other Cooperative funds. The Cooperative does not budget transfers between funds to reimburse the general fund during the fiscal year.

Criteria – Sections 6-6-6 through 6-6-11 NMSA 1978 prohibit local governments from making expenditures without budgetary authority. Additionally, the local governments are not allowed to budget a deficit cash balance within any fund as reflected in the original and final budget within the General Fund. Anticipated ending cash cannot be less than zero.

Effect – Noncompliance with New Mexico state statutes subjects officials and employees to penalties and fines required by state statutes. State Statutes also make public officials liable for expenditures beyond budgetary authority.

Cause – We were unable to determine the reason for noncompliance.

Recommendation – We recommend the accounting staff verifies proper budget authority has been established prior to transfers made between funds. Additionally, we recommend the accounting staff ensures anticipated end of year cash balances both on the original and final budgets are equal to or greater than zero.

Views of Responsible Officials and Planned Corrective Actions – A discussion will take place between the business manager and others within the REC as to the pros and cons of booking transfer ins/outs, to determine if this will eliminate or assist in bullets one (1) and two (2). The budgeting of cash will be re-examined, which is how budgeted expenditures increased to eight million dollars.

Attention and communication as to when Head Start drawdowns are done; to ensure timely and coverage of Head Start expenditures, has been and will continue to be re-addressed with accounts payable.

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2017-001 – Other – Credit Card Transactions

Statement of Condition – During our testing of the documentation regarding the purchase of goods with a credit card, we discovered the Cooperative failed to properly maintain documentation to support the transactions. Further, we discovered the Cooperative was purchasing food and drinks for employees and others (facilitators, presenters and employees of funding agencies). Our audit sample was twelve credit card payments, which contained three hundred thirty-six transactions that totaled \$82,104.55. We discovered the following deviations:

- There was twelve instances where the Cooperative's credit card was used to purchase drinks and food (meals) for employees and others. The total number of drinks and food items that were purchased was ninety-nine. The total dollar amount was \$706.88.
- There were five instances where no vendor invoice or receipt was attached to the monthly credit card statement. The total dollar amount of the missing invoices or receipts amounted to \$5,540.96.
- There was one instance where the person signing the lost receipt affidavit was not the person who lost the receipt.

Criteria – Section 6-6-3(A) NMSA 1978 requires every local public body shall “*keep all the books, records and accounts in their respective offices in the form prescribed by the local government division*” of the New Mexico Department of Finance and Administration. This would require the Cooperative to maintain accounting records such as cancelled invoices or receipts which provides substantiation for the expenditure of public funds in order to be in compliance with New Mexico state statutes.

Further, the Cooperative follows the state of New Mexico's Mileage and Per Diem Act. Cooperative employees are required to complete the necessary forms to be reimbursed for travel expenses, while traveling out of town for work. No expenses (drinks or food) should be purchased on the Cooperative's agency credit card for employees or other individuals.

Effect – Not maintaining vendor invoices or receipts to support the purchase could call into question the validity of the purchase. By allowing employees to charge meals on the Cooperative's credit cards, there's no controls to keep track of spending. Further, employees who charge meals on the Cooperative's credit card and receive reimbursement of travel expenses (per diem or actual), are receiving additional, unwarranted, compensation.

Cause – The Cooperative staff assumed the credit card statement would provide sufficient supporting documentation to support the purchase. Further, the Cooperative staff was unaware that food and drink couldn't be purchased on the credit card.

Recommendation – We recommend the Cooperative retain all original invoices and receipts paid with a credit card. The receipts must include a detailed breakdown of the items purchased and be attached to the applicable purchase order. Further, the Cooperative should not pay for food and drinks for their employees, facilitators, presenters and employees of funding agencies.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2017-001 – Other – Credit Card Transactions (continued)

Views of Responsible Officials and Planned Corrective Actions – NMSA 1978 Section 6-6-d(A) will be reviewed immediately and compliance stressed. Accounts payable will be immediately instructed to ensure appropriate invoices, receipts and/or affidavits are attached that support payment.

The Mileage and Per Diem Act will be immediately reviewed with staff where this violation stems from. The Cooperative will not pay for food and drink for their employees, facilitators, presenters and employees of funding agencies.

Item 2017-002 – Other Noncompliance – Procurement Code

Statement of Condition – During our testing of the Cooperative's procurement process, we selected eighteen items for testing. We discovered the following deviations of the New Mexico Procurement Code:

- Two instances where the Cooperative failed to follow the procurement code when hiring contractors, for professional services, with fees greater than \$60,000. The REC failed to estimate the total amount of each contract. During the fiscal year, both contractors were paid in excess of \$60,000.
- One instance where the Cooperative failed to request a contractor to submit their proposed fees for professional services. The Cooperative used the contractor's previous years bid information for the current year contract. The contract was in excess of \$60,000.
- One instance where the Cooperative failed to keep any of the bid documentation, for professional services, on file. The contractor was paid in excess of \$71,000.
- One instance where the Cooperative entered into a contract with an individual, for professional services, at the explicit request of the New Mexico Public Education Department. The Cooperative failed to bid the contract and incorrectly determined it met the sole source requirements. The contractor was paid in excess of \$132,000.
- One instance where the Cooperative failed to bid legal services even though it has been greater than four years since the Cooperative issued request for proposal for legal services.
- One instance where the Cooperative entered into a contract with a private company, for professional services, at the explicit request of the New Mexico Public Education Department. The Cooperative failed to bid the contract and incorrectly determined it met the sole source requirements. The company was paid in excess of \$2,200,000.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2017-002 – Other Noncompliance – Procurement Code (continued)

Criteria – The purpose of the New Mexico Procurement Code, Chapter 13 NMSA 1978, is to provide for the fair and equitable treatment of all persons involved in public procurement, to maximize the purchasing value of public funds and to provide safeguards for maintaining a procurement system of quality and integrity. The New Mexico Administrative Code (NMAC) provides further guidance to assist the state and local governments meet the requirements of the procurement code embodied within state statutes.

Furthermore, New Mexico State Statutes Section 13-1-112A(1) states, “*Competitive sealed proposals, including competitive qualifications-based proposals, shall be solicited through a request for proposals that shall be issued and shall include: the specifications for the services or items of tangible personal property to be procured.*”

Finally, New Mexico State Statutes Section 13-1-89 states, “*‘Specification’ means a description of the physical or functional characteristics or of the nature of items of tangible personal property, services or construction. ‘Specification’ may include a description of any requirement for inspecting or testing, or for preparing items of tangible personal property, services or construction for delivery.*”

Effect – The Cooperative failed to maintain written documentation as required by the NMAC regarding the purchase of professional services from a sole source, in particular, the applicable sole source exemption. Additionally, by not following the New Mexico Procurement Code, the Cooperative procured professional services without competitive bids thus not providing potential contractors, in-state and out-of-state, an opportunity, if they meet all requirements, to potentially bid for professional services.

Section 13-1-196 NMSA 1978 states, “*Any person, firm or corporation that knowingly violates any provision of the Procurement Code [Sections 13-1-28 through 13-1-199 NMSA 1978] is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement in violation of any provision of the Procurement Code.*”

Additionally, Section 13-1-199 NMSA 1978 states, “*Any business or person that willfully violates the Procurement Code is guilty of: (A) a misdemeanor if the transaction involves fifty thousand dollars (\$50,000) or less; or (B) a fourth degree felony if the transaction involves more than fifty thousand dollars (\$50,000).*”

Cause – The Cooperative failed to maintain written documentation as required by the NMAC regarding the purchase of professional services from a sole source, in particular, the applicable sole source exemption. Further, due to the highly specialized professional services being requested, the Cooperative’s staff relied on explicit guidelines, from their funding sources, in respect on who to contract with. Finally, there was more than one Cooperative employee, who was contracting services with outside vendors and it was unclear if the Chief Procurement Officer approved all sole source exemptions.

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2017-002 – Other Noncompliance – Procurement Code (continued)

Recommendation – We recommend some of the Cooperative staff receive additional training in respect to the New Mexico Procurement Code, including their Chief Procurement Officer. Further, we recommend that one Cooperative employee, preferably the IGA Specialist, or a department, be in charge of all the procurement of services. Finally, even though a majority of the services requested by the funding sources, are very specific and have a small niche of individuals or companies that can provide the requested services, we recommend the Cooperative follow all the applicable portions of the New Mexico Procurement Code, regardless of their funding sources explicit guidelines and requirements.

Views of Responsible Officials and Planned Corrective Actions – Personnel who are responsible and who assist with procurement will attend CPO Procurement Classes by the end of the fiscal year 2018. NMSA 1978 Chapter 13 and the New Mexico Administrative Code will be immediately reviewed and discussed. Procedural mapping meeting has already been scheduled to determine and assist in who does what and where is the most appropriate location for documentation/information be housed.

SECTION III – FEDERAL AWARDS AND QUESTIONED COSTS – GAINING EARLY AWARENESS & READINESS FOR UNDERGRADUATE PROGRAMS – CFDA NO. 84.334 AND MEDICAID – CFDA NO. 93.778

None.

SECTION IV – PRIOR YEAR'S AUDIT FINDINGS

Item 2012-002 – Cash Receipts – In the prior year's audit, it was noted that all monies received were not deposited timely and the receipts were not created and posted into the accounting software on a timely basis. During the current year, the Cooperative deposited all monies within twenty-four hours; however, the Cooperative did not record the deposits into the accounting software on a timely basis. The finding has not been resolved and is updated and repeated.

Item 2013-001 – Per Diem and Mileage Act – In the prior year's audit, it was noted that the Cooperative was not in compliance with the New Mexico Per Diem and Mileage Act. During the current year, the Cooperative continued to overhaul their policies and procedures in respect to the Per Diem and Mileage Act. However, there are still a couple of issues concerning the Cooperative's compliance with Per Diem and Mileage Act. The finding has not been resolved and is updated and repeated.

Item 2014-004 – Legal Compliance with Adopted Budget – In the prior year's audit, it was noted that the Cooperative exceeded their respective approved budgets within two funds. During the current year, the Cooperative failed to budget zero or positive cash balances in two funds. The finding has not been resolved and is updated and repeated.

STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION IV – PRIOR YEAR’S AUDIT FINDINGS (continued)

Item 2016-001 – Board Minutes – In the prior year’s audit, it was noted that the Cooperative’s board minutes were vague and failed to clearly identify if the Cooperative properly entered into and out of closed executive session. During the current year, the Cooperative improved their board minutes and entered into and out of closed executive session correctly. The finding has been resolved.

**STATE OF NEW MEXICO
REGION IX EDUCATION COOPERATIVE
EXIT CONFERENCE AND
PREPARATION OF FINANCIAL STATEMENTS
JUNE 30, 2017**

EXIT CONFERENCE

The audit report for the fiscal year ended June 30, 2017, was discussed during the exit conference held on October 2, 2017. Present for the Cooperative was Brenda Vigil, vice chairman; Bryan Dooley, executive director; and Carmen Spann, business manager. Present for the auditing firm was Dominic Fierro.

FINANCIAL STATEMENT PREPARATION

The business manager and the accounting staff prepared the financial statements of Region IX Education Cooperative for the fiscal year ended June 30, 2017. The auditing firm assisted in the preparation of the footnotes to the statements, along with preparing the document that contains all the financial statements, notes to the financial statements and other supplemental financial information.