1RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
AN EDUCATIONAL COOPERATIVE
DBA COOPERATIVE EDUCATIONAL SERVICES

FINANCIAL REPORT

June 30, 2009 and 2008

RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH AN EDUCATIONAL COOPERATIVE DBA COOPERATIVE EDUCATIONAL SERVICES

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RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH AN EDUCATIONAL COOPERATIVE DBA COOPERATIVE EDUCATIONAL SERVICE

OFFICIAL ROSTER

Executive Committee

Member	Representative	Position
Chama Valley	Manuel Valdez	President
Roy	Rick Hazen	President Elect
Dexter	Patricia Parsons	Secretary, Region VI
Wagon Mound	Albert Martinez	Treasurer
Gallup-McKinley	Ray Arsenault	Region I
Espanola	David Cockerham	Region II
Santa Rosa	Dan Flores	Region III
Moriarty-Edgewood	Karen Couch	Region IV
Clovis	Joel Shirley	Region V
Tularosa	Brenda Vigil	Region VII
Lordsburg	James Barentine	Region VIII
NM Coalition for Charter Schools	Lisa Grover	Ex-officio
NM Association of Community Colleges	Ty Trujillo	Ex-officio
NM Coalition of School Administrators	Tom Sullivan	Ex-officio
NM School Board Association	Joe Guillen	Ex-officio
NM Public Education Dept.	Gilbert Perea	Ex-officio

KATHLEEN R. LANE, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors – Cooperative Educational Services
And
Mr. Hector H. Balderas
New Mexico State Auditor

I have audited the accompanying financial statements of the business-type activities and budgetary comparisons of Cooperative Educational Services as of and for the fiscal years ended June 30, 2009 and 2008, which collectively comprise the Cooperative Educational Services' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Cooperative Educational Services' management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Cooperative Educational Services as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows, thereof and the budgetary comparison for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 13, 2009, on my consideration of Cooperative Educational Services' internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis, on pages three through nine, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Kathleen R. Lane, P.C.
August 13, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2009

This discussion and analysis of Cooperative Educational Services' (CES') financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2009. CES is the administering agency of the ***Restated and Amended Joint Powers Agreement to Establish an Educational Cooperative***, which functions under the jurisdiction of the New Mexico Department of Finance and Administration. CES provides a wide variety of goods and services to its members through contracted vendors and CES' own staff.

Please read this document in conjunction with CES' basic financial statements.

USING THIS ANNUAL REPORT

This Annual Financial Report consists of multiple financial statements. The **Statement of Net Assets**, the **Statement of Revenues, Expenses and Changes in Fund Net Assets**, and the **Statement of Cash Flows** present information about the operation of CES as a whole while providing specific details about the financial condition of CES.

One of the most important and frequently asked questions about CES' financial condition is: "Is CES better off or worse off as a result of this year's operations?" The **Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets** and **Statement of Cash Flows** report information in a way that answers, "Yes, CES is better off June 30, 2009 compared to June 30, 2008".

The **Statement of Net Assets** includes all assets and liabilities of CES using the accrual basis of accounting, which is similar to the accounting method used by most private-sector businesses.

Likewise, the **Statement of Revenues, Expenses and Changes in Fund Net Assets** reports all revenue and expenses using the accrual basis of accounting which accounts for all revenue and expenses regardless of when cash was actually received or expended. Any increase or decrease in net assets is an indicator of whether CES' financial position has improved or deteriorated. The **Statement of Revenues, Expenses and Changes in Fund Net Assets** shows how well CES conducted its operations for the current fiscal year. Profit increases and loss decreases CES' net assets. These financial statements report

CES' net assets and the change in them as a result of the current fiscal year's operations.

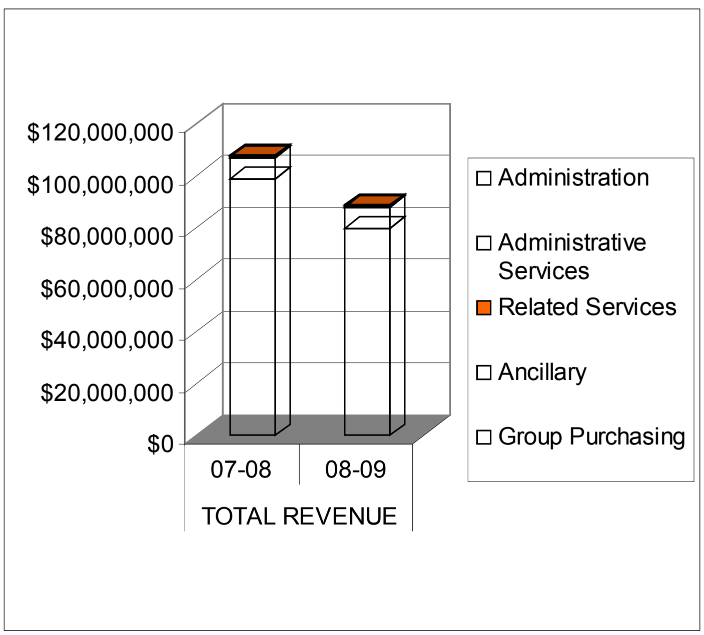
Management's Discussion and Analysis - Continued

The **Statement of Cash Flows** is also an important document in determining the financial viability of CES. Cash flow is the life-blood of CES, or any entity, and this statement provides insight with regard to the inflows and outflows. This statement could signal an entity's effective cash management or forthcoming problems. A healthy entity should be "providing" cash from its operating activities.

FINANCIAL HIGHLIGHTS

- CES' Total Revenues decreased this fiscal year by $19,321,616, when compared to last fiscal year, and totaled $88,680,213, including non-operating revenue and net of Member Credit contra revenue. It represents a 17.9% decrease over prior year's revenue and a 14.0% decrease over budgeted revenue of $103,074,284.

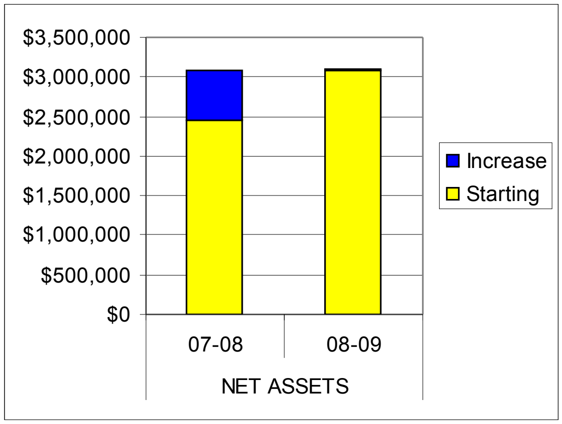
TOTAL REVENUES COMPARISON 2007-2008 and 2008-2009



- CES' Fund Net Assets increased by $20,954 as a result of this year's operations. This represents a .6% increase in Fund Net Assets. Total Fund Net Assets on June 30, 2009, are $3,099,360.

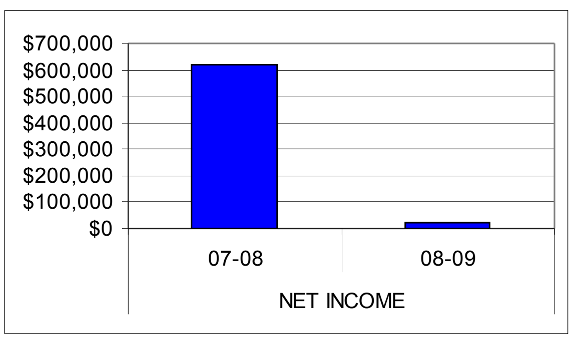
Management's Discussion and Analysis - Continued

FUND NET ASSETS COMPARISON 2007-2008 and 2008-2009



- CES' Change in Net Assets or profit for the fiscal year ending June 30, 2009, is $20,954. This is $599,012 less than last fiscal year's and represents a 96.6% decrease over last year's Change in Net Assets or profit.

NET INCOME COMPARISON 2007-2008 and 2008-2009

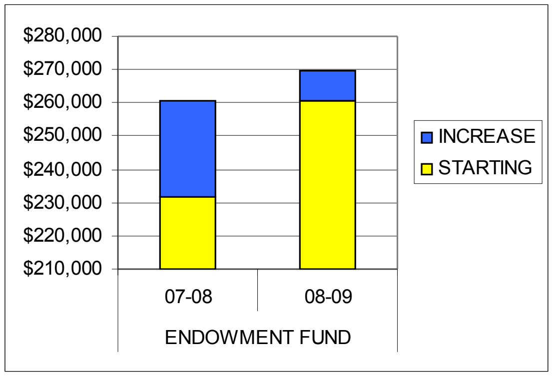


- In fiscal year 2000 - 2001 CES designated an internal Endowment Fund within its unrestricted Net Assets to insure the long-term financial stability of CES. Cash for this Fund is generated by certain designated activities of CES. The Endowment Fund increased by $8,893 to bring the total to $269,559 as of June 30,

2009. This amount is included in the Cash amount shown on the **Statement of Net Assets.**

Management's Discussion and Analysis - Continued

ENDOWMENT FUND COMPARISON 2007-2008 and 2008-2009



- According to CES' Board Policy, any item costing $5,000 or more and having a useful life of more than one year is added to Fixed Assets and depreciated over its useful life. Items costing less than $5,000 are expensed. CES purchased new office equipment that added to its Fixed Assets. The equipment purchased totaled $21,073 and is being utilized in CES' conference room for video conferencing. CES continued implementing its new financial software in the amount of $64,969. CES did not remove any Furniture and Equipment from its Fixed Assets. Although CES purchased more then $21,540 of Ancillary testing materials and supplies, there were no Ancillary Fixed Assets purchased. There were no Ancillary Fixed Asset deletions. Taking these Ancillary Fixed Asset numbers at face value may give one the impression that CES is spending less on Ancillary items; however, that is not the case. In fact, CES has maintained its spending on Ancillary items, but the cost of these individual items is less than $5,000 and is not added to Fixed Assets. The purchase of Ancillary items is shown as an expense in accordance with CES' Fixed Asset Policy.

  CES did no major building improvement projects this fiscal year that had to be capitalized.

- Working Capital is the amount by which Current Assets exceed Current Liabilities. Stated differently, Working

Capital is the amount of cash that would remain after all current assets were liquidated and all current liabilities were immediately paid.

Management's Discussion and Analysis - Continued

This provides an assessment of CES' ability to pay its obligations. As of June 30, 2009, CES' Working Capital is $2,451,022; a $46,618 increase over the June 30, 2008, Working Capital of $2,404,404. This is a 1.9% increase in Working Capital and indicates a very slight increase in the financial position for CES.

- CES has no debt other than its current liabilities and long-term portion of compensated absences, which are more than offset by Cash and Accounts Receivable. Current assets exceed current liabilities by $2,451,022.
- The Current Ratio compares current assets to current liabilities and is also an indicator of CES' ability to pay its obligations. A Current Ratio greater than 1 to 1 means that the entity can pay all current obligations from its current assets and have a residual of assets. CES' Current Ratio, as of June 30, 2009, is 1.47:1.00, assets over liabilities. This is a 23.5% increase over last year's Current Ratio of 1.19:1.00. The Current Ratio indicates an improved healthy financial position.
- CES' Total Revenues for the fiscal year ended June 30, 2009, are $88,680,213. No additional Member Credits were issued this fiscal year per the Executive Committee directive which states that CES must have Net Assets (profit) of at least $100,000 in order for Member Credits to be issued. CES experienced a decrease in revenue as a result of providing fewer construction services in the cooperative procurement area. The cooperative procurement area that showed the most significant revenue decrease was CES' Procurement program, with a decrease of $19,214,553. This accounted for 99.2% of CES' decrease in revenue. CES' interest income decreased $127,608 to a total for the year of $38,422, which is 76.9% less than that for fiscal year 2007-2008. The decrease is due to the falling interest rates caused by the economic conditions existing throughout the fiscal year.
- Factors affecting CES' profit in fiscal year 2008-2009 are discussed in this paragraph. The two factors that adversely affected CES' profitability for this fiscal year are the decrease in interest income and the decrease

in Procurement revenue. The decrease in interest income affected CES' profit, dollar for dollar meaning that CES' profitability was decreased by the $127,608 decrease in revenue. CES' Procurement area experienced a $19,214,553 decrease in revenue, which means that CES' net profit was reduced by the 1% administrative fee CES receives from

- Procurement amounting to a $192,146 decrease.

- Additional staff was hired for the 2008-2009 fiscal year as a result of the business increases CES experienced over the past three fiscal years. The new staff added to expenses, thus reducing profitability. The overall state of the economy cannot be ignored as a contributing factor to the decrease in CES' revenue resulting in a decrease in profitability. In spite of the reduced revenue and increased expenses, CES did have a net profit for fiscal year 2008-2009 of $20,954.

- This has been CES' least successful year financially as compared to the last ten fiscal years.

- Other areas in which CES offers services to its members include filing of Medicaid in the schools' reimbursements, participation in the supplemental benefits program and on-line purchasing by its members where they can purchase directly from selected CES vendors. These programs allow CES' members to deal directly with selected vendors apart from the customary procurement process. In these instances, CES does not process the transactions through its financial system. Rather, members pay the vendors directly and CES is rebated their administrative fee from the selected vendors involved in these programs. The resultant Enabled Revenue, as CES refers to it, for these programs for the fiscal year ended June 30, 2009, was approximately $15.1 million. This is an increase of $2.0 million (15.0%) over last year's Enabled Revenue of $13.1 million. The Enabled Revenue amount is not reflected anywhere in CES' financial reports; however, the administrative fees CES received are included in CES' financial statements presented here.

ECONOMIC FACTORS

- CES is the administering agency for the Restated and Amended Joint Powers Agreement to Establish an Educational Cooperative and receives no state or federal governmental funding. CES' only sources of revenue result from one time new member fees, interest on its deposits, an administrative fee amount included in the hourly ancillary rate charged, an administrative amount included in Cadre billing, profit from In-service events and the assessment of a 1% administrative fee to its members that is imbedded in the amount quoted by CES' vendors for procured services, construction and items of tangible personal property.

Management's Discussion and Analysis - Continued

- CES is a purely entrepreneurial agency with the special purpose of providing cooperative procurement, ancillary staff, administrative support and related services to its members. Its budget is for planning purposes and does not carry the force of law. From a financial perspective, CES acts like a buyer and reseller of goods and services for its members. CES utilizes full accrual, enterprise accounting for its operations.

- CES' management has no knowledge of any factors, actual or contingent, that will have any effect on the financial position or results of operations of CES for the fiscal year ended June 30, 2009.

INFRASTRUCTURE

- CES has no infrastructure.

This Annual Financial Report is designed to give readers a general overview of CES' finances and show CES' accountability for its activities. If there are any questions about this report or additional information is needed, contact CES' office at 4216 Balloon Park Road NE, Albuquerque, New Mexico 87109.

RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH AN EDUCATIONAL COOPERATIVE DBA COOPERATIVE EDUCATIONAL SERVICES

STATEMENT OF NET ASSETS – ENTERPRISE FUNDS
At June 30, 2009 and 2008

Assets:	2009	2008
Current Assets:		
Cash (Note 5)	$ 2,494,030	$ 2,270,714
Accounts receivable, trade	6,654,359	12,515,497
Prepaid expenses	3,643	40,211
Total current assets	9,152,032	14,826,422
Net Property and Equipment (Note 2)	712,840	707,543
Total assets	$ 9,864,872	$ 15,533,965
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable, trade	$ 6,405,460	$ 11,939,807
Accrued payroll and other benefits	159,527	186,738
Deferred revenue	52,330	166,426
Member credit liabilities (Note 6)	21,116	80,000
Compensated absences (Note 8)	62,577	49,047
Total current liabilities	6,701,010	12,422,018
Long-term Liabilities:		
Compensated absences (Note 8)	64,502	33,541
Net Assets:		
Invested in capital assets	712,840	707,543
Unrestricted	2,386,520	2,370,863
Total net assets	3,099,360	3,078,406
Total liabilities and net assets	$ 9,864,872	$ 15,533,965

The notes to financial statements are an integral part of these statements

RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH AN EDUCATIONAL COOPERATIVE DBA COOPERATIVE EDUCATIONAL SERVICES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – ENTERPRISE FUNDS For the Year Ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Administrative services	$ 585,376	$ 595,021
Group purchasing	79,582,752	98,693,525
Ancillary services	8,380,265	8,438,427
Related services	77,938	113,260
Administration	15,460	6,116
Less: member credit (Note 6)	-	(47,700)
Total operating revenues	88,641,791	107,798,649
Operating expenses:		
Cost of goods sold		
Administrative services	483,845	499,450
Group purchasing	79,318,960	98,149,207
Ancillary services	7,880,420	7,879,920
Related services	116,805	131,325
Total cost of goods sold	87,800,030	106,659,902
Gross profit	841,761	1,138,747
Administration expenses:		
Salaries and wages	414,767	288,500
Travel and member expense	27,702	24,061
Payroll taxes	30,788	23,818
Retirement	36,223	24,357
Insurance	50,102	67,014
Advertising	11,992	5,961
Meeting costs	4,169	13,055
Postage and freight	4,490	4,607
Telephone	8,616	7,249
Copier expense	3,718	3,455
Printing	833	1,368
Facilities and repairs	35,221	48,169
Depreciation	80,745	59,188
General materials and supplies	79,148	98,654
Contract services	48,461	33,663
Small equipment	8,498	2,771
Miscellaneous	-	3,095
Legal/accounting services	13,756	12,976
Total expenses	859,229	721,961
Operating profit/(loss)	(17,468)	416,786
Nonoperating revenues:		
Interest income	38,422	166,030
Extraordinary income (Note 9)	-	37,150
Total nonoperating revenues	38,422	203,180
Change in net assets	20,954	619,966
Net assets, beginning of year	3,078,406	2,458,440
Net assets, end of year	$ 3,099,360	$ 3,078,406

The notes to financial statements are an integral part of these statements

RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH AN EDUCATIONAL COOPERATIVE DBA COOPERATIVE EDUCATIONAL SERVICES

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
For the Year Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from members	$ 94,329,949	$ 105,618,235
Less:		
Cash payment to or for suppliers	85,440,973	96,648,214
Cash payment to or for employees	8,618,040	8,654,744
	94,059,013	105,302,958
Net cash provided by operating activities	270,936	315,277
Cash flows from capital and related financing activities:		
Interest income	38,422	166,030
Purchase of improvements and equipment	(86,042)	(113,741)
Extraordinary income	-	37,150
Net cash (used) provided by capital and related financing activities	(47,620)	89,439
Net increase in cash and cash equivalents	223,316	404,716
Cash and cash equivalent, beginning of year	2,270,714	1,865,998
Cash and cash equivalent, ending of year	$ 2,494,030	$ 2,270,714

Reconciliation of operating income to cash used/provided by operating activities

	2009	2008
Operating income	$ (17,468)	$ 416,786
Depreciation expense	80,745	59,188
Software write-off	-	4,905
Decrease (increase) in:		
Accounts receivable	5,861,138	(2,140,504)
Prepaid expenses	36,568	(36,217)
Increase (decrease) in:		
Deferred revenue	(114,096)	16,164
Accounts payable	(5,534,347)	2,013,660
Accrued expenses	(27,211)	(27,093)
Member credit liabilities	(58,884)	
Compensated absences	44,491	8,388

The notes to financial statements are an integral part of these statements

Net cash provided by operating activities	$ 270,936	$ 315,277

The notes to financial statements are an integral part of these statements

Note 1: Organization and summary of significant accounting policies:

Organization

Cooperative Educational Services (CES) was formed in December 1986, by member school districts by entering into a Joint Powers Agreement to Establish an Educational Cooperative, as approved by the New Mexico Department of Finance and Administration (DFA). In August 1999, DFA approved an amendment permitting any public educational institution to become a party to the Agreement. As of June 30, 2009, there were 196 members, which included public schools, universities, community colleges, vocational schools, Bureau of Indian Affairs schools, public state schools, and charter schools. CES provides a wide range of educational services including state-wide supplemental insurance programs, cooperative purchasing, ancillary services (occupational therapists, physical therapists, speech and language pathologists, educational diagnosticians, recreational therapists, rehabilitation counselor, mobility and orientation trainer, and psychologists), and general consulting. The Board of Directors consists of the executive officers of the member institutions.

CES' financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible to establish GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that does not conflict with or contradict GASB pronouncements. CES applies all applicable FASB pronouncements including those which were issued after November 30, 1989, in accounting and reporting. The more significant accounting policies established by GAAP and used by CES are discussed below.

Note 1: Organization and summary of significant accounting policies: (continued)

Financial Reporting Entity

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable and other organizations 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. This definition of the reporting entity is based primarily on the notion of financial accountability as the cornerstone of all reporting in governments.

A primary government is any state or general-purpose local government consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The CES is a local government unit and is the primary government for the financial presentation.

CES does not have any component units during the year ended June 30, 2009.

Basis of Presentation

CES operations are accounted for as an enterprise fund. Enterprise funds are financed and operated in a manner similar to private business. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing

Note 1: Organization and summary of significant accounting policies: (continued)

Basis of Presentation (continued)

policy designed to recover similar costs. They are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

Implementation of GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

CES implemented GASB Statement No. 34 (GASB 34) in the year 2001. The purpose of the new financial reporting model is to provide more understandable and useful financial reports to a wider range of users than the previous model. GASB 34 requires governments to present certain basic financial statements as well as a Management's discussion and analysis (MD&A), certain other required supplementary information (RSI), the enterprise fund financial statements, and notes to the financial statements.

The enterprise fund financial statements include the statement of net assets, the statement of revenues, expenses, and changes in fund net assets, and the statement of cash flows were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB statement No. 33. CES has no non-exchange transactions in the current year.

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1: Organization and summary of significant accounting policies: (continued)

Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets - net of related debt, are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by external restrictions by other governments, creditors, or grantors.

Accounts Receivable - Trade

Management believes that all accounts receivable are collectible. Therefore, there is no reserve for un-collectible accounts.

Property and Equipment

CES has established its capitalization policy at $5,000. Items with a cost of less than $5,000 are expensed in the year of acquisition. Repairs and maintenance expenses are charged to operations when incurred and major improvements and replacements are capitalized. If construction is financed, interest during construction is capitalized. CES records assets (such as, furniture and equipments including software, building and improvements, land, and ancillary equipment) purchased at cost or, if contributed, at fair market value at date of donation. CES is capitalizing and depreciating computer software developed for internal use in compliance with AICPA Statement of Position 98-1. Straight-line depreciation is provided over the estimated lives of the assets.

Note 1: Organization and summary of significant accounting policies: (continued)

Property and Equipment (continued)

For depreciation purposes, the CES has identified the following classes of assets and estimated useful lives.

Asset Description	Estimated Useful Life
Furniture, Equipment, and Software	3-8 Year
Building and Improvements	10-40 Year
Ancillary Equipment	3-8 Year

Deferred Revenue

CES receives money from members for services and products prior to the member being invoiced. Funds are held until the member receives the full performance on the contract.

Income Taxes

CES is exempt from filing tax returns based on the New Mexico Attorney General's determination that CES is a governmental entity.

Cash and Cash Equivalents

CES considers all short-term securities purchased with maturity of three months or less and not held in trust to be cash equivalents.

Operating and Non-operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Interest income is reported as non-operating revenues.

Note 1: Organization and summary of significant accounting policies: (continued)

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.

Budget

CES prepares a budget for internal use but is not required to provide a legally adopted budget with a government agency in New Mexico.

Encumbrances

CES does not use encumbrance accounting.

Revenues

Revenues directly related to the operation are recorded as operating revenues.

Compensated Absences Payable

The Compensated Absences is reported in Government Wide financial statement as expense, current and long-term liabilities. In accordance with the provisions of Statement No. 6 of the Government Accounting Standards

Board, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Note 2: Property and Equipment

	June 30, 2008	Additions	Deletions	June 30, 2009
Land	$ 152,000	$ -	$ -	$ 152,000
Depreciable assets				
Buildings and improvements	681,384			681,384
Furniture and equipment	327,949	86,042		413,991
Ancillary equipment	9,398	-	-	9,398
Total depreciable assets	1,018,731	86,042	-	1,104,773
Less: Accumulated depreciation				
Buildings and improvements	231,936	25,699		257,635
Furniture and equipment	221,854	55,046		276,900
Ancillary equipment	9,398	-	-	9,398
Total accumulated depreciation	463,188	80,745	-	543,933
Net property and equipment	$ 707,543	$ 5,297	$ -	$ 712,840

Depreciation expense was $80,745 and $59,188 for the year ending June 30, 2009 and 2008, respectively.

Note 3: Pension Plan

All employees are eligible to participate in an IRS Section 403(b) and/or 457(b) pension plan, sponsored by CES and administered by outside investment companies. CES contributes up to 1.474 percent of employee’s contribution of 7.9 percent, the maximum amount matched by CES, of annual salary for non-ancillary full-time employees.

CES’ contributions for the year ended June 30, 2009 and 2008 were $86,390 and $49,181, respectively.

Note 4: Cafeteria Plan

CES provides an IRS Section 125 cafeteria plan wherein certain employee deductions are before taxes. CES has no cost other than bookkeeping for administering the plan.

RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
AN EDUCATIONAL COOPERATIVE
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Note 5: Cash and Cash Equivalents

In accordance with Section 6-10-17, NMSA 1978 Compilation, bank deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate to equal one half of the amount of uninsured public money in each account during the fiscal year CES does not have uninsured balance.

Securities which are obligations of the state of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted at par value; all other securities are accepted at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Administration.

Custodial credit risk is the risk that in the event of a bank failure, CES' deposits may not be returned to it. CES' deposit policy is to collateralize one-half of the uninsured public money in each account. As of June 30, 2009, $0 of CES' bank balance of $5,278,268 was exposed to custodial credit risk. Custodial credit risk is defined as the risk that the government's deposits may not be returned to it in the event of a bank failure.

CES' bank balance was collateralized in compliance with state of New Mexico requirements as follows:

Name of depository	Account name	Type of account	Bank balance as of 6/30/09	Reconciled balance as of 6/30/09
Bank of America	Operating	Checking	$ 5,278,268	$ 2,493,830
Less: FDIC insurance			250,000	
Uninsured public funds				5,028,268
Pledged collateral held by the pledging bank's trust department in agency's name			6,411,794	

Over insured and collateralized	$ 1,383,526
50% collateral requirement (Section 6-10-17 NMSA 1978)	2,639,134
Total pledged collateral	6,411,794
Pledged collateral (over) the requirement	(3,772,660)

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NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 5: Cash and Cash Equivalents (continued)

Pledged securities - Held in the name of Cooperative Educational Services

Held by	CUSIP #	Par Value	Market Value	Maturity Date	Rate
FMAC Gold PC	3128M6070	1,220,725	1,136,468	05/01/38	5.50%
Federal National Mort Backed Security	31371KVA6	411,277	80,906	10/01/17	5.00%
Federal National Mort Backed Security	31391R3B6	414,773	94,581	12/01/17	5.00%
Federal National Mort Backed Security	314005CA5	840,581	350,572	05/01/18	4.50%
Federal National Mort Backed Security	31410KFF6	160,755	144,866	05/01/38	6.00%
Federal National Mort Backed Security	31410KVW1	1,624,116	1,449,781	08/01/37	5.50%
Federal National Mort Backed Security	31416RBM4	209,512	215,608	11/01/18	4.50%
GNMA II Single Family Loan Pool 15-30 YR	36202EJH3	8,661	6,085	06/20/36	5.50%
GNMA II Single Family Loan Pool 15-30 YR	36202EJX8	1,000	716	07/20/36	5.50%
GNMA II Single Family Loan Pool 15-30 YR	36202ES91	2,663,200	2,361,747	05/20/38	5.50%
GNMA II Single Family Loan Pool 15-30 YR	36202EXL7	619,457	570,464	12/20/38	5.50%
Total collateral			6,411,794		
Over collateralized			3,772,660		

Reconciled cash in bank	$ 2,493,830
Petty cash	200
Total cash	$ 2,494,030

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 6: Member Credit Liabilities

At June 30, 2009, no member credits were given out which could be used against the members' purchases in the years 2008-2009. Any unused coupons at the end of the year 2008-2009 will be carried forward to 2009-2010 year.

	06/30/09	06/30/08
Member Credit liabilities	$ 21,116	$ 80,000

Note 7: Risk Management

CES is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries; illnesses and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters.

Note 8: Change in Long-Term Debt

Long-term debt consists only of compensated absences payable:

Balance at July 1, 2008	$ 82,588
Leave accrued	88,154
Leave used	(43,663)
Balance at June 30, 2009	127,079
Less: Due within one year	(62,577)
Long-term debt	$ 64,502

Note 9: Operating Lease

CES has a multi-year equipment lease with Pitney Bowes. During the year $1,488 was paid on the lease. Operating lease due over next five years:

June 30, 2010	744
	$ 744

Note 10: Subsequent Events

A claim of employee misconduct has been reported to CES' Executive Committee. The allegations are being investigated. However, it is not possible, at this time, to predict the outcome or the potential monetary loss in the event of an adverse result.

SUPPLEMENTAL INFORMATION

STATEMENT OF REVENUE AND EXPENSE
BUDGET VERSUS ACTUAL
For the Year Ended June 30, 2009

	Budget Amount		Actual	Variance Favorable (Unfavorable)
	Original	Final	Amount	
Revenue				
Administrative Services	$ 528,934	$ 603,340	$ 585,376	$ (17,964)
Group Purchasing	92,272,771	92,500,294	79,582,752	(12,917,542)
Ancillary Services	9,648,963	9,653,650	8,380,265	(1,273,385)
Related Services	127,000	127,000	77,938	(49,062)
Administration	190,000	190,000	15,460	(174,540)
Interest Income			38,422	38,422
Total Revenue	102,767,668	103,074,284	88,680,213	(14,394,071)
Expenses				
Administrative Services	528,933	603,334	483,845	119,489
Group Purchasing	92,272,768	92,500,291	79,318,960	13,181,331
Ancillary Services	9,648,962	9,653,649	7,880,420	1773,229
Related Services	126,999	126,999	116,805	10,194
Administrative Expense	172,177	172,177	859,229	(687,052)
Total Expenses	102,749,839	103,056,450	88,659,259	14,397,191
Excess of Revenue Over (Under) Expenditures	17,829	17,834	20,954	3,120
Net Change in Fund Balance	17,829	17,834	20,954	3,120
Fund Balance - Beginning of Year	3,078,406	3,078,406	3,078,406	
Fund Balance - End of Year	$ 3,096,235	$ 3,096,240	$ 3,099,360	

KATHLEEN R. LANE, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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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*

Board of Directors
Cooperative Educational Services
And
Mr. Hector H. Balderas
New Mexico State Auditor

I have audited the financial statements of the business-type activities and the budgetary comparisons of Cooperative Educational Services (CES) as of and for the years ended June 30, 2009 and 2008, and have issued my report thereon dated August 13, 2009. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered CES' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cooperative Educational Service's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Cooperative Educational Service's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CES' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatements of CES’ financial statements that is more than inconsequential will not be prevented or detected by CES’ internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by CES’ internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CES' financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the executive committee, management, others within the organization, New Mexico State Auditor's Office, New Mexico Legislation and its committees and the New Mexico Public Education Department and is not intended to be and should not be used by anyone other than these specified parties.

Kathleen R. Lane, P.C.

August 13, 2009

RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH AN EDUCATIONAL COOPERATIVE DBA COOPERATIVE EDUCATIONAL SERVICES

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2009

Section 1 - Summary of Audit Results

Financial Statements

Type of Auditor's report Issued	Unqualified	
Internal control over financial reporting:		
Significant deficiencies identified?	__Yes	_X_No
Significant deficiencies in internal control that are not considered to be material weaknesses?	__Yes	_X_No

Federal Awards

Cooperative Educational Services does not receive any federal money.

Prior Year Findings

None

Current Years Findings

None

RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH AN EDUCATIONAL COOPERATIVE DBA COOPERATIVE EDUCATIONAL SERVICES

EXIT CONFERENCE
June 30, 2009

Financial Statement Preparation

Kathleen R. Lane, P.C. prepared the accompanying financial statements based on the information provided by the agency, however, the financial statements are the responsibility of management.

Exit Conference

An exit conference was held on September 3, 2009, and attended by the following:

Finance Committee

Manuel Valdez, President
Pat Parsons, Secretary
Albert Martinez, Treasurer
Jim Barentine, Executive Committee Member

CES Personnel

Ruben Mirabal, Interim Executive Director
Robin D. Strauser, Director of Finance
Llew Perry, Assistant Executive Director
Jean Luft, Director of Ancillary Services
Lori O'Rourke, Business Office Specialist
Jonathan Maple, Director of Technology

Kathleen R. Lane, P.C. Personnel

Kathleen R. Lane, Audit Partner