

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

**FINANCIAL REPORTS**

**June 30, 2010 and 2009**

**Prepared by**

**Kathleen R. Lane, P.C.  
Certified Public Accountant  
7520 Montgomery NE, Building E-17  
Albuquerque, New Mexico 87109**

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

**FINANCIAL REPORT**

**June 30, 2010 and 2009**

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

**TABLE OF CONTENTS**

	<u>Page (s)</u>
Official Roster .....	i
Independent Auditor's Report .....	1-2
Management's Discussion and Analysis (unaudited) .....	3-8
Basic Financial Statements	
Statement of Net Assets- Enterprise Funds .....	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Enterprise Funds .....	10
Statement of Cash Flows - Enterprise Funds .....	11
Notes to Financial Statements .....	12-22
Supplemental Information	
Statement of Revenue and Expense - Budget versus Actual .	23
Report on Internal Control Over Financial Reporting on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> .....	24-25
Schedule of Findings and Recommendations .....	26
Exit Conference .....	27

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

**OFFICIAL ROSTER**

Executive Committee

<u>Member</u>	<u>Representative</u>	<u>Position</u>
Logan	Rick Hazen	President
Lordsburg	James Barentine	President Elect
Dexter	Patricia Parsons	Secretary, Region VI
Wagon Mound	Albert Martinez	Treasurer
Gallup-McKinley	Ray Arsenault	Region I
Pojoaque	Adan Delgado	Region II
Wagon Mound	Albert Martinez	Region III
Moriarty-Edgewood	Karen Couch	Region IV
Dora	Steve Barron	Region V
Dexter	Patricia Parsons	Region VI
Tularosa	Brenda Vigil	Region VII
Reserve	Loren Cushman	Region VIII
NM Coalition for Charter Schools	Art Hayden	Ex-officio
NM Association of Community Colleges	Vacant	Ex-officio
NM Coalition of School Administrators	Tom Sullivan	Ex-officio
NM School Board Association	Joe Guillen	Ex-officio
NM Public Education Dept.	Antonio Ortiz	Ex-officio

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

Kathleen R. Lane, CPA  
7520 Montgomery NE, Building E-17  
Albuquerque, New Mexico 87109  
Phone: (505) 888-3792 • Fax: (505) 878-9030  
E-mail: abqlane@aol.com • Member AICPA

### **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, 2010 and 2009, 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, 2010 and 2009, 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 26, 2010, 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 eight, 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 26, 2010

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For Fiscal Year Ended June 30, 2010**

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, 2010. 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, 2010 compared to June 30, 2009."

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.

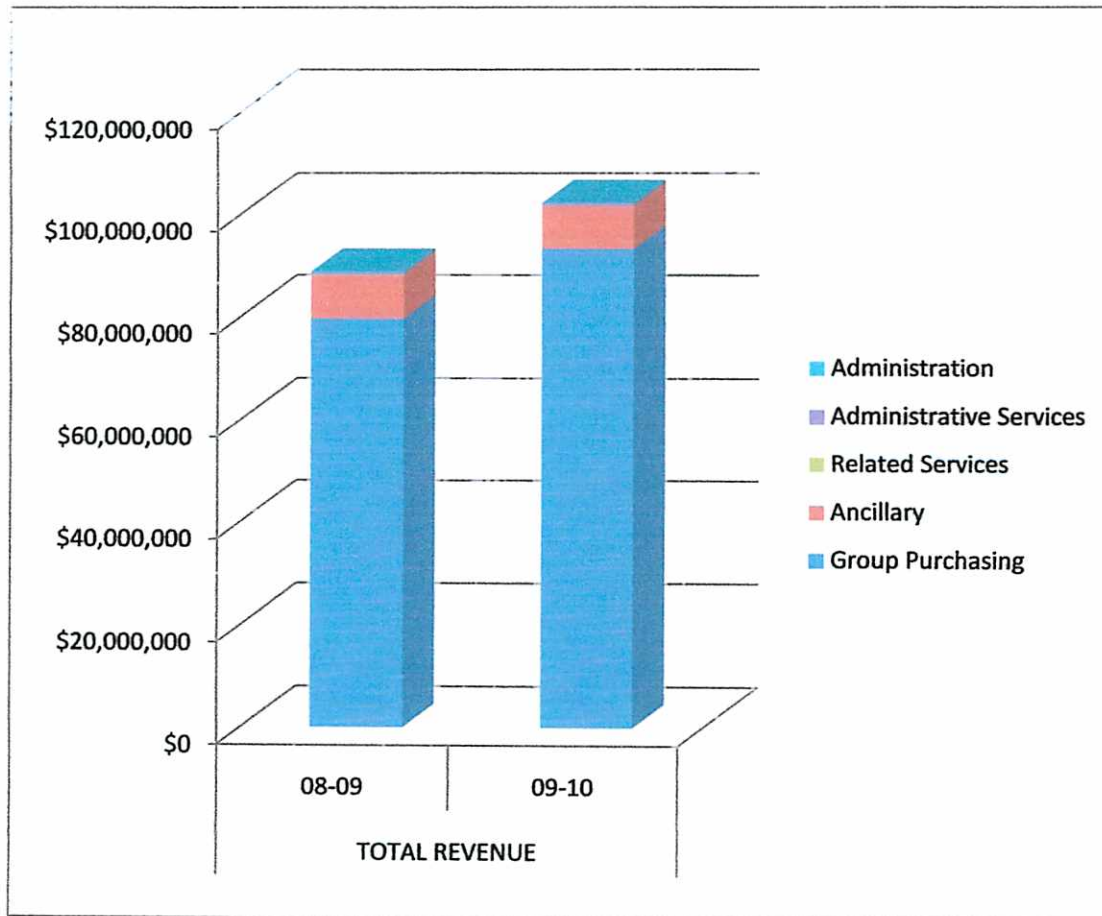
The **Statement of Cash Flows** is also an important document in determining the financial viability of CES. Cash flow is the life-blood of CES, or any entity, and this statement provides insight with regard to the inflows and outflows. This statement could signal an entity's effective cash management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

**Management's Discussion and Analysis - Continued**

**FINANCIAL HIGHLIGHTS**

- CES' Total Revenues increased this fiscal year by \$13,507,072, when compared to last fiscal year, and totaled \$102,148,863, including non-operating revenue and net of Member Credit contra revenue. It represents a 15.2% increase over prior year's revenue and a 2.0% decrease over budgeted revenue of \$104,224,830.

**TOTAL REVENUES COMPARISON 2008-2009 and 2009-2010**

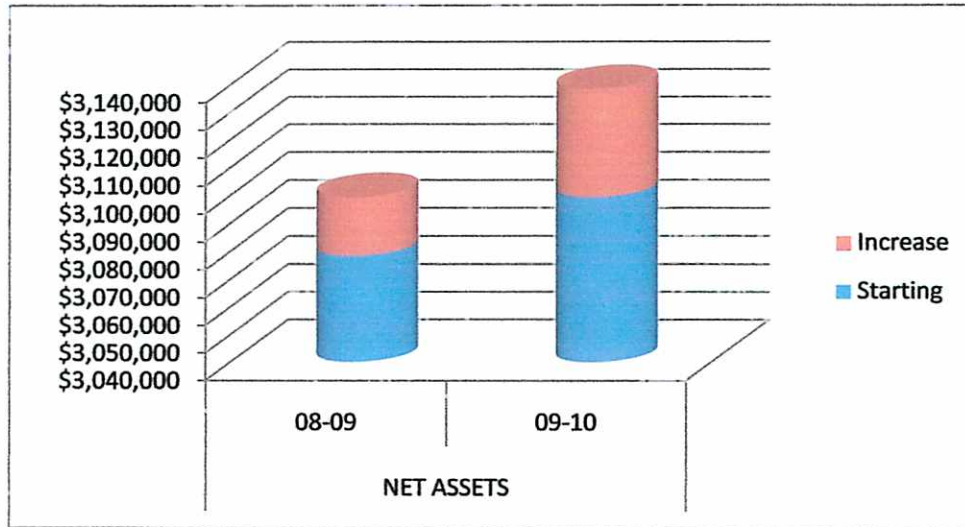


- CES' Fund Net Assets increased by \$39,035 as a result of this year's operations. This represents a 1.3% increase in Fund Net Assets. Total Fund Net Assets on June 30, 2010, are \$3,138,395.



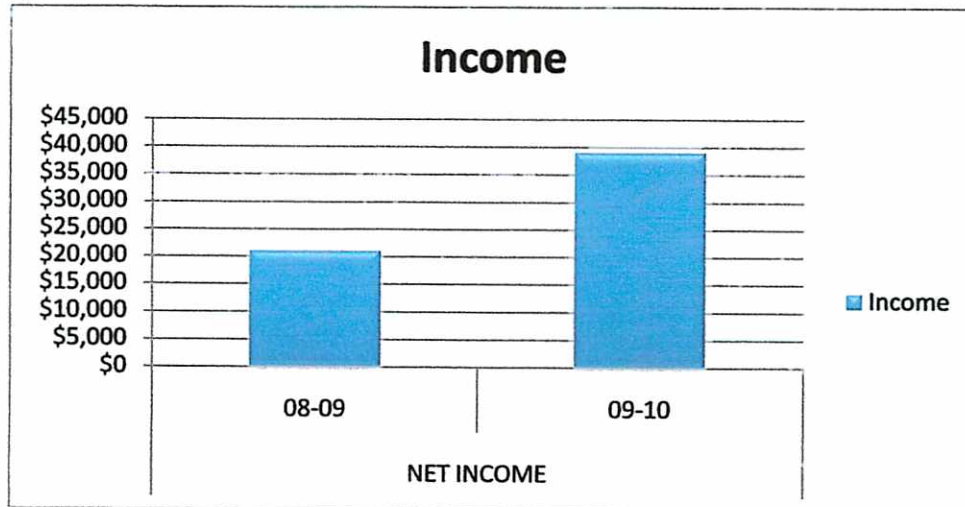
Management's Discussion and Analysis - Continued

FUND NET ASSETS COMPARISON 2008-2009 and 2009-2010



- CES' Change in Net Assets or profit for the fiscal year ending June 30, 2010, is \$39,035. This is \$18,081 more than last fiscal year's and represents an 86.3% increase over last year's Change in Net Assets or profit.

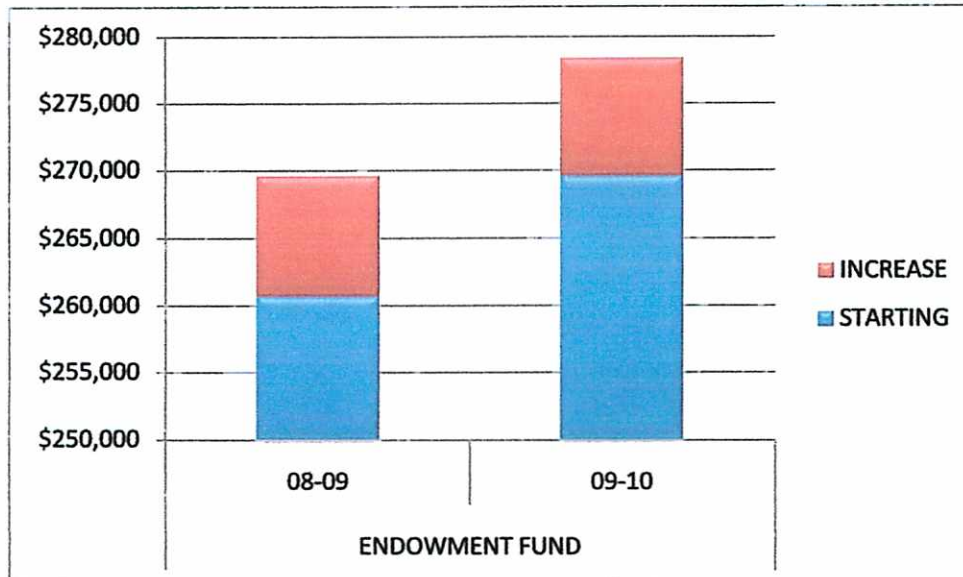
NET INCOME COMPARISON 2008-2009 and 2009-2010



- 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 \$8,823 to bring the total to \$278,382 as of June 30, 2010. This amount is included in the Cash amount shown on the **Statement of Net Assets**.

## Management's Discussion and Analysis - Continued

### ENDOWMENT FUND COMPARISON 2008-2009 and 2009-2010



- 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 furnishings that added to its Fixed Assets. The furnishings purchased totaled \$16,625 and is being utilized in CES' Ancillary Staff area. CES did not remove any Furniture and Equipment from its Fixed Assets. Although CES purchased more than \$21,682 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. This provides an assessment of CES' ability to pay its obligations. As of June 30, 2010, CES' Working Capital is \$2,525,755; a \$74,733 increase over the June 30, 2009, Working Capital of \$2,451,022. This is a 3% increase in Working Capital and indicates a modest increase in the financial position for CES.
- CES has no debt other than its current liabilities, which are more than offset by Cash and Accounts Receivable. Current assets exceed current liabilities by \$2,525,755.

## Management's Discussion and Analysis - Continued

- 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, 2010, is 1.23:1.00, assets over liabilities. This is a 10.2% decrease over last year's Current Ratio of 1.37:1.00. The Current Ratio indicates a healthy financial position.
- CES' Total Revenues for the fiscal year ended June 30, 2010, are \$102,148,863. 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. There was a residual of unused Member Credits on June 30, 2010 in the amount of \$16,707. Because no Member Credits were issued this fiscal year, the \$16,707 was taken back into revenue and is included in the \$102,148,863 total. CES' Operating Revenues were \$102,133,086 for fiscal year ended June 30, 2010. CES experienced an increase in revenue as a result of providing a greater amount of construction services in the Group Purchasing's Procurement area. The cooperative procurement area that showed the most significant revenue increase was CES' Group Purchasing's Procurement program, with an increase of \$14,652,662. This accounted for 100% of CES' increase in revenue. CES' interest income decreased \$22,645 to a total for the year of \$15,777, which is 58.9% less than that for fiscal year 2008-2009. 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 2009-2010 are discussed in this paragraph. One factor that adversely affected CES' profitability for this fiscal year was the decrease in interest income. The decrease in interest income affected CES' profit, dollar for dollar meaning that CES' profitability was decreased by the \$22,645 decrease in revenue. Another factor, CES' Group Purchasing area experienced a \$13,708,040 increase in revenue, which means that CES' profit was increased by the 1% administrative fee CES receives from Procurement amounting to a \$137,080 increase. The Procurement area of Group Purchasing had a \$14,652,662 increase in revenue. However, other areas in Group Purchasing, Utility Management, Food and E-Commerce experienced decreases reducing CES' total increase in Group Purchasing to the \$132,708,040 amount. The overall state of the economy cannot be ignored as a contributing factor to CES' revenue and resulting profit. In spite of the unfavorable economic factors, CES did have a net profit for fiscal year 2009-2010 of \$39,035.
- This has been CES' second least profit producing year as compared to the last eleven fiscal years. CES has been profitable over the last eleven 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

## **Management's Discussion and Analysis - Continued**

refers to it, for these programs for the fiscal year ended June 30, 2010, was approximately \$18.0 million. This is an increase of \$2.9 million (19.0%) over last year's Enabled Revenue of \$15.1 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. 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, 2010.

### **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, 2010 and 2009**

Assets:	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash (Note 5)	\$ 2,108,727	2,494,030
Accounts receivable, trade	11,278,213	6,654,359
Prepaid expenses	<u>4,878</u>	<u>3,643</u>
Total current assets	13,391,818	9,152,032
Net Property and Equipment (Note 2)	<u>642,408</u>	<u>712,840</u>
Total assets	\$ <u>14,034,226</u>	\$ <u>9,864,872</u>
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable, trade	\$ 10,570,564	\$ 6,405,460
Accrued payroll and other benefits	163,119	159,527
Deferred revenue	89,292	52,330
Member credit liabilities (Note 6)	-	21,116
Compensated absences (Note 8)	<u>43,088</u>	<u>62,577</u>
Total current liabilities	10,866,063	6,701,010
Long-term Liabilities:		
Compensated absences (Note 8)	<u>29,768</u>	<u>64,502</u>
Total long-term liabilities	29,768	64,502
Total liabilities	10,895,831	6,765,512
Net Assets:		
Invested in capital assets	642,408	712,840
Unrestricted	<u>2,495,987</u>	<u>2,386,520</u>
Total net assets	3,138,395	3,099,360
Total liabilities and net assets	\$ <u>14,034,226</u>	\$ <u>9,864,872</u>

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, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Administrative services	\$ 545,466	\$ 585,376
Group purchasing	93,290,792	79,582,752
Ancillary services	8,240,092	8,380,265
Related services	35,675	77,938
Administration	4,354	15,460
Adjustment for member credit (Note 6)	16,707	-
Total operating revenues	<u>102,133,086</u>	<u>88,641,791</u>
Operating expenses:		
Cost of goods sold		
Administrative services	474,600	483,845
Group purchasing	92,997,178	79,318,960
Ancillary services	7,743,034	7,880,420
Related services	66,704	116,805
Total cost of goods sold	<u>101,281,516</u>	<u>87,800,030</u>
Gross profit	<u>851,570</u>	<u>841,761</u>
Administration expenses:		
Salaries and wages	375,091	414,767
Travel and member expense	20,640	27,702
Payroll taxes	24,056	30,788
Retirement	43,560	36,223
Insurance	51,575	50,102
Advertising	11,297	11,992
Board and meeting costs	45,256	4,169
Postage and freight	2,136	4,490
Telephone	12,642	8,616
Copier expense	2,732	3,718
Printing	1,265	833
Facilities and repairs	60,873	35,221
Depreciation	87,057	80,745
General materials and supplies	46,646	79,148
Contract services	23,630	48,461
Small equipment	-	8,498
Legal/accounting services	19,856	13,756
Total expenses	<u>828,312</u>	<u>859,229</u>
Operating profit/(loss)	<u>23,258</u>	<u>(17,468)</u>
Non-operating revenues:		
Interest income	15,777	38,422
Total non-operating revenues	<u>15,777</u>	<u>38,422</u>
Change in net assets	39,035	20,954
Net assets, beginning of year	<u>3,099,360</u>	<u>3,078,406</u>
Net assets, end of year	\$ <u>3,138,395</u>	\$ <u>3,099,360</u>

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, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from members	\$ 97,525,078	\$ 94,329,949
Less:		
Cash payment to or for suppliers	89,852,167	85,440,973
Cash payment to or for employees	<u>8,057,365</u>	<u>8,618,040</u>
	<u>97,909,532</u>	<u>94,059,013</u>
Net cash provided (used) by operating activities	<u>(384,454)</u>	<u>270,936</u>
Cash flows from capital and related financing activities:		
Interest income	15,777	38,422
Purchase of improvements and equipment	<u>(16,626)</u>	<u>(86,042)</u>
Net cash (used) provided by capital and related financing activities	<u>(849)</u>	<u>(47,620)</u>
Net increase (decrease) in cash and cash equivalents	(385,303)	223,316
Cash and cash equivalent, beginning of year	<u>2,494,030</u>	<u>2,270,714</u>
Cash and cash equivalent, ending of year	\$ <u><u>2,108,727</u></u>	\$ <u><u>2,494,030</u></u>

Reconciliation of operating income to cash provided(used) by operating activities:		
Operating income (loss)	\$ 23,258	\$ (17,468)
Depreciation expense	87,058	80,745
Decrease (increase) in:		
Accounts receivable	(4,623,854)	5,861,138
Prepaid expenses	(1,235)	36,568
Increase (decrease) in:		
Deferred revenue	36,962	(114,096)
Accounts payable	4,165,104	(5,534,347)
Accrued expenses	3,592	(27,211)
Member credit liabilities	(21,116)	(58,884)
Compensated absences	<u>(54,223)</u>	<u>44,491</u>
Net cash provided (used) by operating activities	\$ <u><u>(384,454)</u></u>	\$ <u><u>270,936</u></u>

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**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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, 2010, there were 198 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 now allows cities, counties and other Local Public Bodies to purchase off its contracts. These entities are referred to as Participating Entities by CES. Unlike members, Participating entities are not a party to the Joint Powers Agreement and have no governing or financial interests in CES. As of June 30, 2010, there were 65 participating Entities registered with CES.

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



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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

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.

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, 2010.

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

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

Basis of Presentation (continued)

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 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,

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

Implementation of GASB 34 (continued)

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.

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.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

Property and Equipment (continued)

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.

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
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.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

Operating and Non-operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

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

Compensated Absences Payable

Compensated Absences is reported in Government Wide financial statements as an 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, 2009	Additions	Deletions	June 30, 2010
Land	\$ 152,000	\$ _____	\$ _____	\$ 152,000
Depreciable assets				
Buildings and improvements	681,384			681,384
Furniture and equipment	413,991	16,626		430,617
Ancillary equipment	9,398			9,398
Total depreciable assets	<u>1,104,773</u>	<u>16,626</u>	<u>          </u>	<u>1,121,399</u>
Less: Accumulated depreciation				
Buildings and improvements	257,635	24,926		282,561
Furniture and equipment	276,900	62,132		339,032
Ancillary equipment	9,398			9,398
Total accumulated depreciation	<u>543,933</u>	<u>87,058</u>	<u>          </u>	<u>630,991</u>
Net property and equipment	\$ <u>712,840</u>	\$ <u>(70,432)</u>	<u>          </u>	\$ <u>642,408</u>

Depreciation expense was \$87,058 and \$80,745 for the year ending June 30, 2010 and 2009, 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 1.56962 percent of employee's contribution of 7.9 percent, the maximum amount matched by CES, of annual salary for non-ancillary full-time employees.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

Note 3: Pension Plan (continued)

CES' contributions for the year ended June 30, 2010 and 2009 were \$112,621 and \$86,390, 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.

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, 2010, \$0 of CES' bank balance of \$4,964,589 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.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

Note 5: Cash and Cash Equivalents (continued)

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

<u>Name of depository</u>	<u>Account name</u>	<u>Type of account</u>	<u>Bank balance as of 6/30/09</u>	<u>Reconciled balance as of 6/30/09</u>
Bank of America	Operating	Checking	\$ 4,964,589	\$ 2,108,527
Less: FDIC insurance			(250,000)	
Uninsured public funds			<u>4,714,589</u>	
Pledged collateral held by the pledging bank's trust department in agency's name			<u>5,727,916</u>	
Over insured and collateralized			<u>\$ 1,013,327</u>	
50% collateral requirement (Section 6-10-17 NMSA 1978)			2,357,295	
Total pledged collateral			<u>5,727,916</u>	
Pledged collateral (over) the requirement			<u>(3,370,621)</u>	

Pledged securities - Held in the name of Cooperative Educational Services

<u>Held by</u>	<u>CUSIP #</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Rate</u>
FMAC Gold PC	3128L1XM7	4,257,258	2,618,269	12/01/37	6.0%
FMAC Gold PC	3128M7Y14	1,000	1,018	07/01/35	5.5%
Federal National Mort Backed Security	31391VV75	1,000	159	12/01/17	5.5%
Federal National Mort Adjustable Rate	31391YXXO	1,000	318	03/01/29	3.895%
Federal National Mort Backed Security	31402CXF4	633,392	222,843	02/01/19	4.5%
Federal National Mort Backed Security	31403DT66	196,665	102,928	10/01/36	5.5%
Federal National Mort Backed Security	31404ARB2	1,059,117	401,552	06/01/33	5.0%
Federal National Mort Backed Security	31410F299	1,327,610	615,705	03/01/37	6.0%
Federal National Mort Backed Security	31410KPR9	105,939	94,887	07/01/38	6.0%
Federal National Mort Backed Security	3146BL71	692,595	416,586	09/01/37	6.0%



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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

Note 5: Cash and Cash Equivalents (continued)

Pledged securities - Held in the name of Cooperative Educational Services  
(continued)

<u>Held by</u>	<u>CUSIP #</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Rate</u>
Federal National Mort Backed Security	31416CFG6	1,604,837	1,107,979	11/01/38	6.0%
Federal National Mort Backed Security	31418M5R4	164,140	<u>145,672</u>	06/01/39	5.5%
Total collateral			<u>5,727,916</u>		
Over collateralized			\$ 3,370,621		
Reconciled cash in bank				\$ 2,108,527	
Petty cash				<u>200</u>	
Total cash				<u>\$ 2,108,727</u>	

Note 6: Member Credit Liabilities

At June 30, 2010, no member credits were given out which could be used against the members' purchases in the years 2010-2011. Any unused coupons at the end of the year 2009-2010 were written off by June 30, 2010.

Member Credit liabilities	\$ <u><u>0</u></u>	\$ <u><u>21,116</u></u>
---------------------------	--------------------	-------------------------

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.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

Note 8: Change in Long-Term Debt

Long-term debt consists only of compensated absences payable:

Balance at July 1, 2009	\$ 127,079
Leave accrued	40,026
Leave used	( 94,249)
Balance at June 30, 2010	<u>72,856</u>
Less: Due within one year	( 43,088)
Long-term debt	<u>\$ 29,768</u>

Note 9: Operating Lease

CES has a multi-year equipment lease with Pitney Bowes. During the year \$1,292 was paid on the lease. Operating lease due over next five years:

June 30, 2011	\$ 1,644
June 30, 2012	1,644
June 30, 2013	1,644
June 30, 2014	<u>1,096</u>
	<u>\$ 6,028</u>

Note 10: Contingencies

A claim has been filed with Equal Employment Opportunities Commission (EEOC) by a former employee of CES. The matter is still under investigation by EEOC. It is not possible to predict the likelihood of an unfavorable outcome or potential scope of monetary loss in the event of an adverse result.

Note 11: Evaluation of Subsequent Events

The Organization has evaluated subsequent events through August 26, 2010, the date the financial statements were available to be issued.

**SUPPLEMENTAL INFORMATION**

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

**STATEMENT OF REVENUE AND EXPENSE  
BUDGET VERSUS ACTUAL  
For the Year Ended June 30, 2010**

	<u>Budget Amount</u>		<u>Actual Amount</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<b>Revenue</b>				
Administrative Services	\$ 647,500	\$ 692,533	\$ 545,466	\$ (147,067)
Group Purchasing	93,805,000	94,476,308	93,290,792	(1,185,516)
Ancillary Services	9,633,330	9,633,330	8,240,092	(1,393,238)
Related Services	127,000	127,000	35,675	(91,325)
Administration	12,000	20,000	21,061	1,061
Interest Income			15,777	15,777
Total Revenue	<u>104,224,830</u>	<u>104,949,171</u>	<u>102,148,863</u>	<u>(2,800,308)</u>
<b>Expenses</b>				
Administrative Services	647,500	692,533	474,600	217,933
Group Purchasing	93,807,880	94,479,188	93,007,178	1,472,010
Ancillary Services	9,633,330	9,633,330	7,743,034	1,890,296
Related Services	127,000	127,000	66,704	60,296
Administrative Expense	9,120	17,120	818,312	(801,192)
Total Expenses	<u>104,224,830</u>	<u>104,949,171</u>	<u>102,109,828</u>	<u>2,839,343</u>
<b>Excess of Revenue Over (Under) Expenditures</b>				
	<u>0</u>	<u>0</u>	<u>39,035</u>	<u>39,035</u>
<b>Net Change in Fund Balance</b>				
	0	0	39,035	39,035
<b>Fund Balance - Beginning of Year</b>				
	<u>3,096,235</u>	<u>3,096,240</u>	<u>3,099,360</u>	<u>3,099,360</u>
<b>Fund Balance - End of Year</b>				
	<u>\$ 3,096,235</u>	<u>\$ 3,096,240</u>	<u>\$ 3,138,395</u>	<u>\$ 3,138,395</u>

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

Kathleen R. Lane, CPA  
7520 Montgomery NE, Suite E-17  
Albuquerque, New Mexico 87109  
Phone: (505) 888-3792 • Fax: (505) 878-903  
E-mail: abqlane@aol.com • Member AICPA

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, 2010 and 2009, and have issued my report thereon dated August 26, 2010. 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 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatements of CES' financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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 26, 2010

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
June 30, 2010**

Section 1 - Summary of Audit Results

Financial Statements

Type of Auditor's report Issued

Unqualified

Internal control over financial reporting:

Significant deficiencies identified?

Yes

No

Significant deficiencies in internal  
control that are not considered  
to be material weaknesses?

Yes

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, 2010**

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 August 30, 2010, and attended by the following:

Finance Committee

Rick Hazen, President  
Patricia Parsons, Secretary  
Jim Barentine, Executive Committee Member

CES Personnel

David Chavez, Executive Director  
Robin D. Strauser, Director of Finance  
Llew Perry, Assistant Executive Director  
Jean Luft, Director of Ancillary Services  
Jonathan Maple, Director of Technology  
Ruben Mirabal, Director of NMREAP  
Ed Goettl, Director of Human Resources  
Lori O'Rourke, Business Office Specialist

Kathleen R. Lane, P.C. Personnel

Kathleen R. Lane, Audit Partner