

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

FINANCIAL STATEMENTS

June 30, 2011 and 2010

(With Independent Auditor's Report Thereon)

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, 2011 and 2010

**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
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OFFICIAL ROSTER

Executive Committee

<u>Member</u>	<u>Representative</u>	<u>Position</u>
Roy	Rick Hazen	President
Lordsburg	James Barentine	President Elect
Dexter	Patricia Parsons	Secretary, Region VI
Mora	Thomas Garcia	Treasurer
Gallup-McKinley	Ray Arsenault	Region I
Jemez Mountain	Adan Delgado	Region II
Mora	Thomas Garcia	Region III
Moriarty-Edgewood	Karen Couch	Region IV
Dora	Steve Barron	Region V
Dexter	Patricia Parsons	Region VI
Tularosa	Brenda Vigil	Region VII
Animas	Betsy Ward	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
CES	David Chavez	Executive Director

KATHLEEN R. LANE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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Albuquerque, New Mexico 87109

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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, 2011 and 2010, 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, 2011 and 2010, 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 25, 2011, 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 25, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2011

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, 2011. 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, 2011 compared to June 30, 2010."

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.

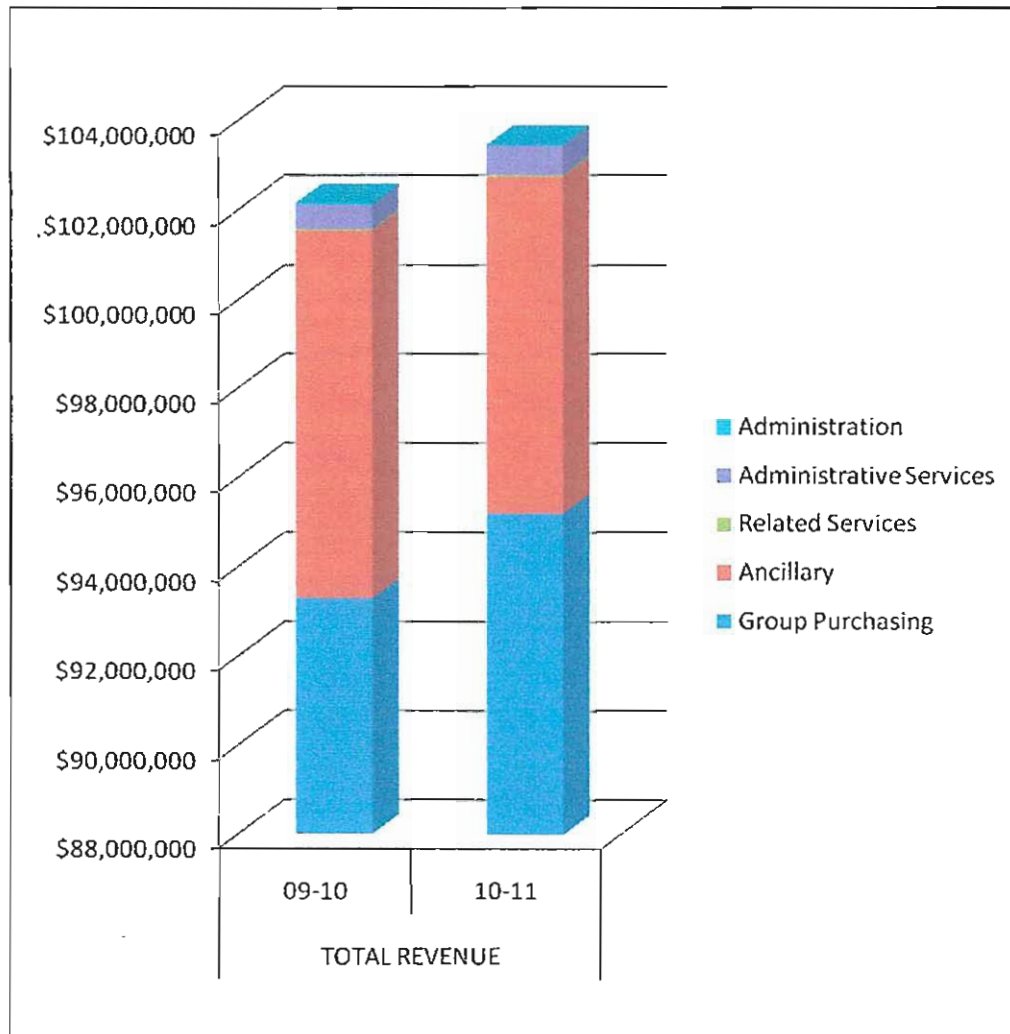
Likewise, the **Statement of Revenues, Expenses and Changes in Fund Net Assets** reports all revenue and expenses using the accrual basis of accounting which accounts for all revenue and expenses regardless of when cash was actually received or expended. Any increase or decrease in net assets is an indicator 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.

FINANCIAL HIGHLIGHTS

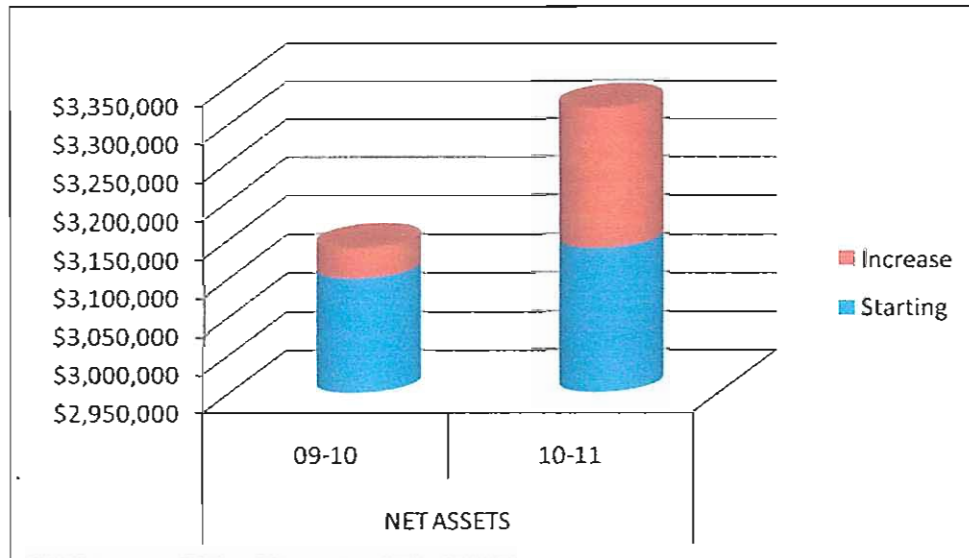
- CES' Total Revenues increased this fiscal year by \$1,313,333, when compared to last fiscal year, and totaled \$103,462,196, including non-operating revenue and net of Member Credit contra revenue. It represents a 1.3% increase over prior year's revenue and a 2.5% increase over budgeted revenue of \$100,891,885.

TOTAL REVENUES COMPARISON 2009-2010 and 2010-2011



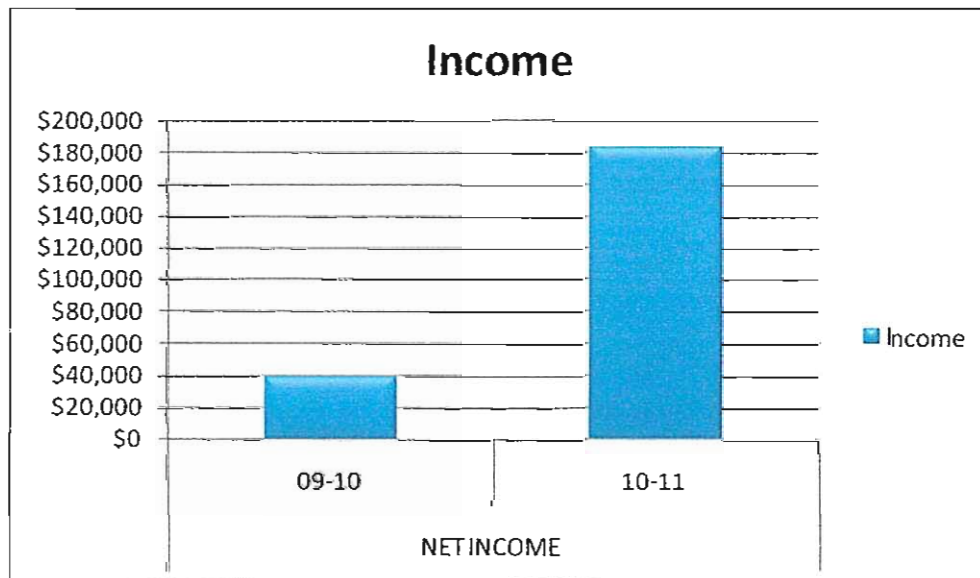
- CES' Fund Net Assets increased by \$182,511 as a result of this year's operations. This represents a 5.8% increase in Fund Net Assets. Total Fund Net Assets on June 30, 2011, are \$3,320,906.

FUND NET ASSETS COMPARISON 2009-2010 and 2010-2011



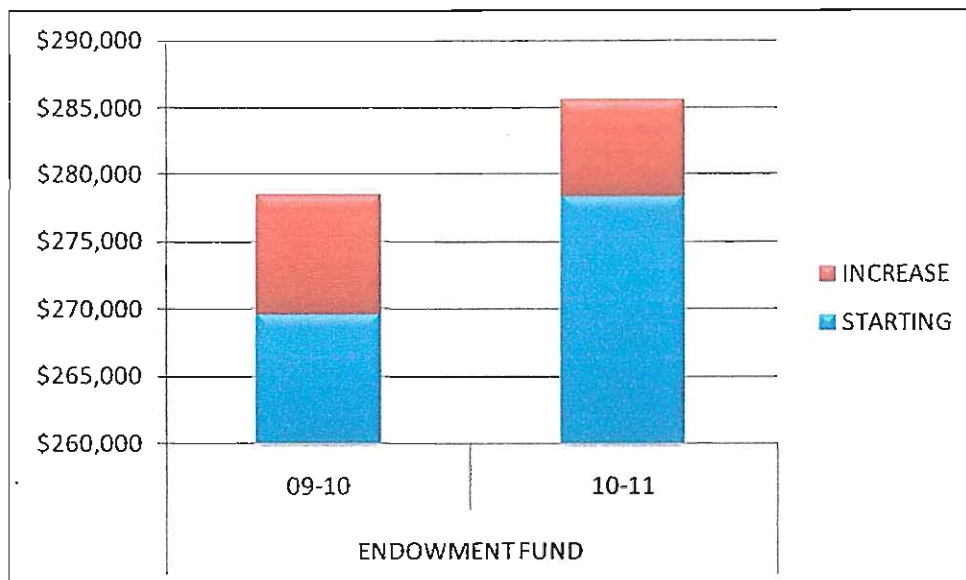
- CES' Change in Net Assets or profit for the fiscal year ending June 30, 2011, is \$182,511. This is \$143,476 more than last fiscal year's and represents a 367% increase over last year's Change in Net Assets or profit.

NET INCOME COMPARISON 2009-2010 and 2010-2011



- 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 \$7,161 to bring the total to \$285,543 as of June 30, 2011. This amount is included in the Cash amount shown on the **Statement of Net Assets**.

ENDOWMENT FUND COMPARISON 2009-2010 and 2010-2011



➤ 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 a new computer server that added to its Fixed Assets. The server purchased totaled \$30,319. CES did not remove any Furniture and Equipment from its Fixed Assets. Although CES purchased \$37,891 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, 2011, CES' Working Capital is \$2,727,292; a \$201,537 increase over the June 30, 2010, Working Capital of \$2,525,755. This is an 8.0% increase in Working Capital and indicates a strong 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

Management's Discussion and Analysis - Continued

Accounts Receivable. Current assets exceed current liabilities by \$2,727,292.

- 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, 2011, is 1.29:1.00, assets over liabilities. This is a 4.9% increase over last year's Current Ratio of 1.23:1.00. The Current Ratio indicates a healthy financial position.
- CES' Total Revenues for the fiscal year ended June 30, 2011, are \$103,462,196. No Member Credits were issued this fiscal year per the Executive Committee directive. CES' Operating Revenues were \$103,446,815 for fiscal year ended June 30, 2011. CES experienced an increase in revenue as a result of providing a greater amount of construction services in the Group Purchasing Procurement area. The cooperative procurement area that showed the most significant revenue increase was CES' Group Purchasing Procurement program, with an increase of \$1,909,398. This accounted for 100% of CES' increase in revenue. Unfortunately, CES' Ancillary Program experienced a decrease in revenue in the amount of \$708,561 which offset the increased revenue in Group Purchasing. CES' interest income decreased \$396 to a total for the year of \$15,381, which is 2.5% less than that for fiscal year 2009-2010. 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 2010-2011 are discussed in this paragraph. CES' Group Purchasing area experienced a \$1,909,398 increase in revenue, which means that CES' profit was increased by the 1% administrative fee CES receives from Procurement amounting to a \$19,094 increase. The Procurement area of Group Purchasing had a 2.0% increase in revenue and CES' Food Program had a 10.9% increase in revenue. CES experienced an increase in Administrative Services revenue adding \$120,204 to gross revenue. CES is a member of a 24 state purchasing agency known as the Association of Educational Purchasing Agencies (AEPA). In fiscal year 2010-2011 the administrative fee given back to CES by the vendors contracted through AEPA increased to 2% from 1%. The 2% administrative fee is uniform throughout AEPA and is born by the vendors. This change in fee structure added approximately \$89,000 to CES' net revenue. Other expense and cash management factors also contributed to CES' net profit. Despite the unfavorable economic conditions, CES did have a net profit for fiscal year 2010-2011 of \$182,511.
- 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

Management's Discussion and Analysis - Continued

these programs for the fiscal year ended June 30, 2011, was approximately \$19.9 million. This is an increase of \$1.9 million (10.6%) over last year's Enabled Revenue of \$18.0 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, 2011.

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
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**STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
At June 30, 2011 and 2010**

Assets:	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash (Note 5)	\$ 396,203	\$ 2,108,727
Accounts receivable, trade	11,781,609	11,278,213
Prepaid expenses	-	4,878
Total current assets	<u>12,177,812</u>	<u>13,391,818</u>
Net Property and Equipment (Note 2)	<u>596,654</u>	<u>642,408</u>
Total assets	\$ <u>12,774,466</u>	\$ <u>14,034,226</u>
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable, trade	\$ 9,203,716	\$ 10,570,564
Accrued payroll and other benefits	156,718	163,119
Deferred revenue	53,357	89,292
Compensated absences (Note 8)	36,729	43,088
Total current liabilities	<u>9,450,520</u>	<u>10,866,063</u>
Long-term Liabilities:		
Compensated absences (Note 8)	<u>3,040</u>	<u>29,768</u>
Total long-term liabilities	<u>3,040</u>	<u>29,768</u>
Total liabilities	<u>9,453,560</u>	<u>10,895,831</u>
Net Assets:		
Invested in capital assets	596,654	642,408
Unrestricted	<u>2,724,252</u>	<u>2,495,987</u>
Total net assets	<u>3,320,906</u>	<u>3,138,395</u>
Total liabilities and net assets	\$ <u>12,774,466</u>	\$ <u>14,034,226</u>

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

**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
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**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
For the Year Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Administrative services	\$ 665,670	\$ 545,466
Group purchasing	95,200,190	93,290,792
Ancillary services	7,531,531	8,240,092
Related services	42,453	35,675
Administration	6,971	4,354
Adjustment for member credit (Note 6)	-	16,707
Total operating revenues	<u>103,446,815</u>	<u>102,133,086</u>
Operating expenses:		
Cost of goods sold		
Administrative services	593,443	474,600
Group purchasing	94,707,756	92,997,178
Ancillary services	7,056,557	7,743,034
Related services	82,215	66,704
Total cost of goods sold	<u>102,439,971</u>	<u>101,281,516</u>
Gross profit	<u>1,006,844</u>	<u>851,570</u>
Administration expenses:		
Salaries and wages	411,784	375,091
Travel and member expense	1,352	20,640
Payroll taxes	34,358	24,056
Retirement	36,206	43,560
Insurance	73,209	51,575
Advertising	5,372	11,297
Board and meeting costs	21,549	45,256
Postage and freight	2,058	2,136
Telephone	14,154	12,642
Copier expense	2,429	2,732
Printing	-	1,265
Facilities and repairs	27,268	60,873
Depreciation	76,073	87,057
General materials and supplies	69,079	46,646
Contract services	28,824	23,630
Small equipment	11,340	-
Legal/accounting services	24,659	19,856
Total expenses	<u>839,714</u>	<u>828,312</u>
Operating profit/(loss)	<u>167,130</u>	<u>23,258</u>
Non-operating revenues:		
Interest income	<u>15,381</u>	<u>15,777</u>
Total non-operating revenues	<u>15,381</u>	<u>15,777</u>
Change in net assets	182,511	39,035
Net assets, beginning of year	<u>3,138,395</u>	<u>3,099,360</u>
Net assets, end of year	\$ <u>3,320,906</u>	\$ <u>3,138,395</u>

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

**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
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**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
For the Year Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from members	\$ 102,907,484	\$ 97,525,078
Less:		
Cash payment to or for suppliers	97,506,155	89,852,167
Cash payment to or for employees	<u>7,098,915</u>	<u>8,057,365</u>
	<u>104,605,070</u>	<u>97,909,532</u>
Net cash provided (used) by operating activities	<u>(1,697,586)</u>	<u>(384,454)</u>
Cash flows from capital and related financing activities:		
Interest income	15,381	15,777
Purchase of improvements and equipment	<u>(30,319)</u>	<u>(16,626)</u>
Net cash (used) provided by capital and related financing activities	<u>(14,938)</u>	<u>(849)</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,712,524)</u>	<u>(385,303)</u>
Cash and cash equivalent, beginning of year	<u>2,108,727</u>	<u>2,494,030</u>
Cash and cash equivalent, ending of year	\$ <u><u>396,203</u></u>	\$ <u><u>2,108,727</u></u>

Reconciliation of operating income to cash provided (used) by operating activities:

Operating income (loss)	\$ 167,130	\$ 23,258
Depreciation expense	76,073	87,058
Decrease (increase) in:		
Accounts receivable	(590,503)	(4,623,854)
Prepaid expenses	4,878	(1,235)
Increase (decrease) in:		
Deferred revenue	51,172	36,962
Accounts payable	(1,366,848)	4,165,104
Accrued expenses	(6,401)	3,592
Member credit liabilities		(21,116)
Compensated absences	<u>(33,087)</u>	<u>(54,223)</u>
Net cash provided (used) by operating activities	\$ <u><u>(1,697,586)</u></u>	\$ <u><u>(384,454)</u></u>

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

**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 1: Organization and summary of significant accounting policies:

Organization/Joint Power Agreement

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, 2011, 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, 2011, there were 100 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

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

Organization (continued)

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.

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, 2011.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

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 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.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

Implementation of GASB 34 (continued)

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.

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 uncollectible accounts.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

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.

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.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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 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.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

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

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.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 2: Property and Equipment

	June 30, <u>2010</u>	Additions	Deletions	June 30, <u>2011</u>
Land	\$ <u>152,000</u>	\$ _____	\$ _____	\$ <u>152,000</u>
Depreciable assets				
Buildings and improvements	681,384			681,384
Furniture and equipment	430,617	30,319		460,936
Ancillary equipment	<u>9,398</u>			<u>9,398</u>
Total depreciable assets	<u>1,121,399</u>	<u>30,319</u>	_____	<u>1,151,718</u>
Less: Accumulated depreciation				
Buildings and improvements	282,561	25,264		307,825
Furniture and equipment	339,032	50,809		389,841
Ancillary equipment	<u>9,398</u>	-	_____	<u>9,398</u>
Total accumulated depreciation	<u>630,991</u>	<u>76,073</u>	_____	<u>707,064</u>
Net property and equipment	\$ <u>642,408</u>	\$ <u>(45,754)</u>	\$ _____	\$ <u>596,654</u>

Depreciation expense was \$76,073 and \$87,058 for the year ending June 30, 2011 and 2010, 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.

CES' contributions for the year ended June 30, 2011 and 2010 were \$96,484 and \$112,621, 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.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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, 2011, \$0 of CES' bank balance of \$5,867,090 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.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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 6/30/11</u>	<u>Reconciled balance as of 6/30/11</u>
Bank of America	Operating	Checking	\$ 5,867,090	\$ 396,003
Less: FDIC insurance			<u>250,000</u>	
Uninsured public funds			5,617,090	
Pledged collateral held by the pledging bank's trust department in agency's name			<u>6,248,233</u>	
Over insured and collateralized			\$ <u>(631,143)</u>	
50% collateral requirement (Section 6-10-17 NMSA 1978)			2,808,545	
Total pledged collateral			<u>(6,248,233)</u>	
Pledged collateral (over) the requirement			<u>(3,439,688)</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>
Federal National Mort Backed Security	31391J628	4,351,812	648,717	11/01/17	5%
Federal National Mort Backed Security	31402QYY1	7,204	2,386	02/01/35	5.5%
Federal National Mort Backed Security	31403OGZ6	242,702	96,004	05/01/36	5.5%
Federal National Mort Backed Security	31404AQ98	1,000	182	06/01/28	5.5%
Federal National Mort Backed Security	31404LV80	16,744	3,089	06/01/33	5.5%
Federal National Mort Backed Security	31405FHQ8	777,129	185,892	06/01/33	5.5%
Federal National Mort Backed Security	31405FHW5	5,220	1,304	10/01/33	5.5%
Federal National Mort Adjustable Rate MBS	31405MA64	1,000	324	07/01/34	2.09%
Federal National Mort Backed Security	31418P3U7	815,293	377,389	03/01/37	5.5%

**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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	31410GZCO	589,276	284,682	03/01/37	5.5%
Federal National Mort Backed Security	31415VYB5	5,530,769	3,303,858	10/01/35	5.5%
Federal National Mort Backed Security	31418MZ47	1,842,783	<u>1,344,505</u>	08/01/37	5.5%
Total collateral			<u>6,248,332</u>		
Over collateralized			\$ <u>3,439,688</u>		
Reconciled cash in bank				\$ 396,003	
Petty cash				<u>200</u>	
Total cash				\$ <u>396,203</u>	

Note 6: Member Credit Liabilities

At June 30, 2011, no member credits were given out which could be used against the members' purchases in the years 2011-2012.

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.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 8: Change in Long-Term Debt

Long-term debt consists only of compensated absences payable:

Balance at July 1, 2010	\$ 72,856
Leave accrued	36,942
Leave used	<u>(70,029)</u>
Balance at June 30, 2011	39,769
Less: Due within one year	<u>(36,729)</u>
Long-term debt	\$ <u>3,040</u>

Note 9: Operating Lease

CES has a multi-year equipment lease with Pitney Bowes. During the year \$1,644 was paid on the lease. Operating lease due over next five years:

June 30, 2012	\$ 1,644
June 30, 2013	1,644
June 30, 2014	<u>1,096</u>
	\$ <u>4,384</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 25, 2011, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
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**STATEMENT OF REVENUE AND EXPENSE
BUDGET VERSUS ACTUAL
For the Year Ended June 30, 2011**

	<u>Budget Amount</u>		<u>Actual Amount</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
Revenue				
Administrative services	\$ 555,000	\$ 667,614	\$ 665,670	\$ (1,944)
Group purchasing	90,365,169	108,102,186	95,200,190	(12,901,996)
Ancillary services	9,916,906	9,916,906	7,531,531	(2,385,375)
Related services	50,479	50,479	42,453	(8,026)
Administration	4,000	4,000	6,971	2,971
Interest income	20,000	20,000	15,381	(4,619)
Total Revenue	<u>100,911,554</u>	<u>118,761,185</u>	<u>103,462,196</u>	<u>(15,298,989)</u>
Expenses				
Administrative services	555,000	667,614	593,443	74,171
Group purchasing	90,365,169	108,102,186	94,707,756	13,394,430
Ancillary services	9,916,906	9,916,906	7,056,557	2,860,349
Related services	50,479	50,479	82,215	(31,736)
Administrative expense	24,000	24,000	839,714	(815,714)
Total Expense	<u>100,911,554</u>	<u>118,761,185</u>	<u>103,279,685</u>	<u>15,481,500</u>
Excess of Revenue Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>182,511</u>	<u>182,511</u>
Net Change in Fund Balance	<u>0</u>	<u>0</u>	182,511	<u><u>182,511</u></u>
Fund Balance - Beginning of Year	<u>3,138,395</u>	<u>3,138,395</u>	<u>3,138,395</u>	
Fund Balance - End of Year	\$ <u><u>3,138,395</u></u>	\$ <u><u>3,138,395</u></u>	\$ <u><u>3,320,906</u></u>	

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, 2011 and 2010, and have issued my report thereon dated August 25, 2011. 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 25, 2011

**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
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**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2011**

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
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**EXIT CONFERENCE
June 30, 2011**

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 29, 2011, and attended by the following:

Finance Committee

Jim Barentine -President-Elect

CES Personnel

David Chavez, Executive Director
Robin D. Strauser, Deputy Executive Director
Jean Luft, Director of Ancillary Services
Ruben Mirabal, Director of NMREAP
Jonathan Maple - Director of Technology

Kathleen R. Lane, P.C. Personnel

Kathleen R. Lane, Audit Partner