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Certified Public Accountants + Business Consultants

COOPERATIVE EDUCATIONAL SERVICES

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

For the Year Ended June 30, 2013
With Comparative Totals for 2012

2500 9th St. NW, Albuquerque, NM 87102 · 505.883.8788 · www.HL-cpas.com

COOPERATIVE EDUCATIONAL SERVICES
Independent Auditors' Report And Financial Statements
For The Year Ended June 30, 2013
With Comparative Totals For 2012

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COOPERATIVE EDUCATIONAL SERVICES
OFFICIAL ROSTER
As of June 30, 2013

Executive Committee

Committee Member	Title	Representing
Patricia Parsons	President	Dexter
Mike Chambers	President Elect	Magdalena
Vernon Jaramillo	Carino de los Niños Past President	Cariño
Paul Aguilar	Deputy Secretary of Finance & Operations	NMPED
Gloria Rendon	Executive Director	NMCSA
Mike Vigil	Executive Director	NMCCS
Joe Guillen	Ex-Officio Member	NMSBA
Dr. Michael	NMSU NM Higher Education Department	Morehead
Dr. John Maden	NMSU-Roswell NM Association of Community Colleges	Madden
Stan Rounds	Past President	Las Cruces
Ray Arsenault	Region I	Gallup-McKinley
Adan Delgado	Region II	Pojoaque
James Gallegos	Region III	Cimarron
Steve Barron	Region V, Secretary	Dora
TJ Parks	Region VI	Hobbs
Brenda Vigil	Region VII, Treasurer	Tularosa
Efren Yturralde	Region VIII	Gadsden

Administrative Officials

Name	Title
David Chavez	Executive Director
Robin D. Strauser	Deputy Executive Director

INDEPENDENT AUDITORS' REPORT

Board of Directors and Management of
Cooperative Educational Services
and Mr. Hector H. Balderas, New Mexico State Auditor
Albuquerque, NM

Report on Financial Statements
We have audited the accompanying financial statements of the business-type activities of the Cooperative Educational Services (CES) as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise CES's basic financial statements as listed in the table of contents. We also have audited the schedule of revenues and expenses and changes in net position—budget (GAAP budget basis) and actual presented as supplemental information for the year ended June 30, 2013, as listed in the table of contents

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of CES as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison schedule referred to above presents fairly, in all material respects, the budget comparison of CES for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from CES's June 30, 2012 financial statements. Those statements were audited by other auditors on September 10, 2012 whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for prior year comparative data, is based solely on the report of the other auditors. Those auditors expressed an unqualified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on CES's financial statements and the budgetary comparison. The schedule of cash and deposits and pledged collateral by bank and account listed as "other supplemental information" in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

<u>Other Reporting Required by Governmental Auditing Standards</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of CES's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CES's internal control over financial reporting and compliance

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
Albuquerque, NM
September 30, 2013

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, 2013. 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 Position,** the **Statement of Revenues, Expenses and Changes in Fund Net Position**, 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 Position**, **Statement of Revenues, Expenses and Changes in Fund Net Position** and **Statement of Cash Flows** report information in a way that answers, <u>"Yes, CES is better off June 30, 2013 compared to June 30, 2012</u>."

The **Statement of Net Position** 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.

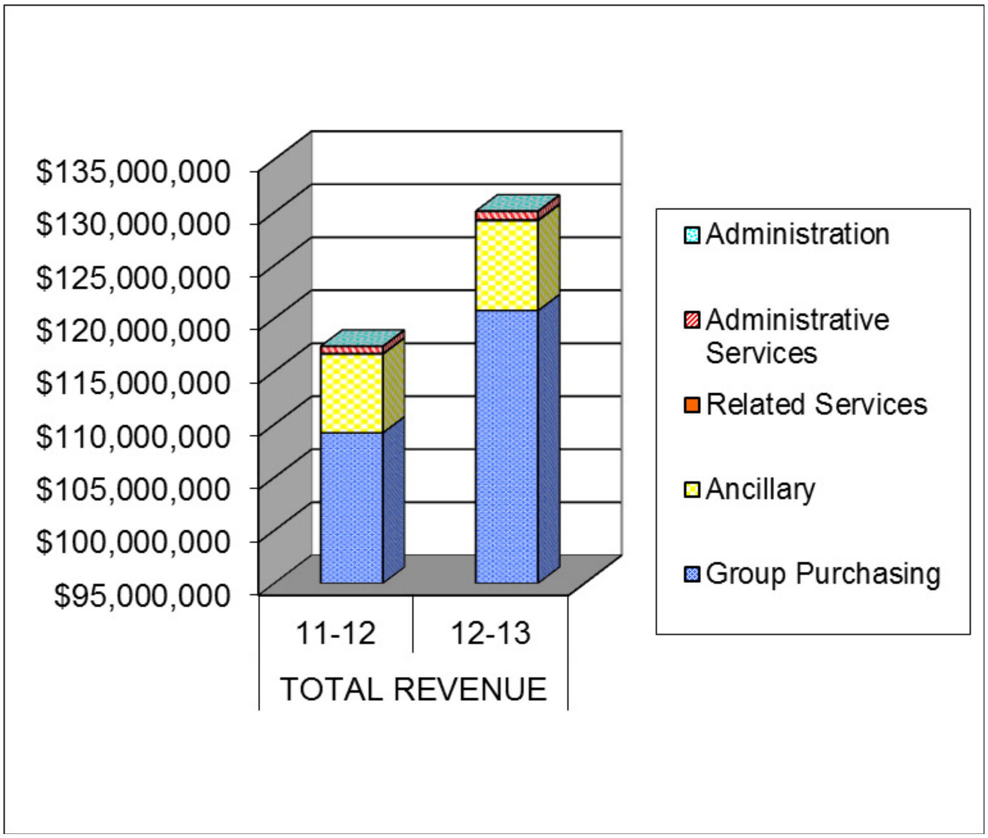
Likewise, the **Statement of Revenues, Expenses and Changes in Fund Net Position** reports all revenue and expenses using the accrual basis of accounting which accounts for all revenue and expenses regardless of when cash was actually received or expended. Any increase or decrease in net position is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

FINANCIAL HIGHLIGHTS

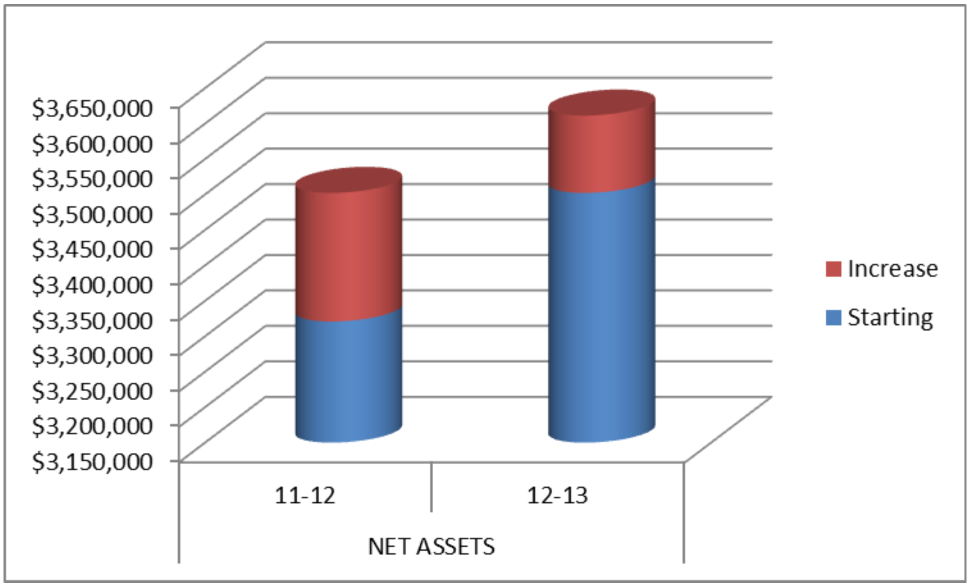
- CES' Total Revenues increased this fiscal year by $12,786,670, when compared to last fiscal year, and totaled $130,042,084 including non-operating revenue and net of Member Credit contra revenue. It represents a 10.9% increase over prior year's revenue and an 11.4% increase over original budgeted revenue of $111,739,545.

TOTAL REVENUES COMPARISON 2011-2012 and 2012-2013



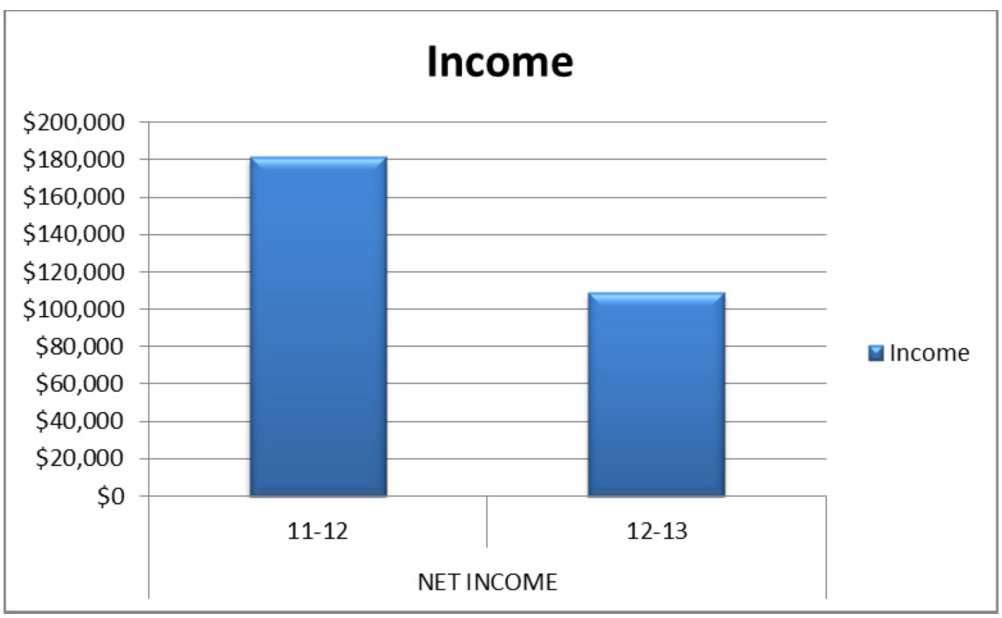
- CES' Fund Net Position increased by $109,087 as a result of this year's operations. This represents a 3.1% increase in Fund Net Position. Total Fund Net Position on June 30, 2013, is $3,611,351.

FUND NET POSITION COMPARISON 2011-2012 and 2012-2013



- CES' Change in Net Position or profit for the fiscal year ending June 30, 2013, is $109,087. This is $72,271 less than last fiscal year's and represents a 33.7% decrease over last year's Change in Net Position or profit.

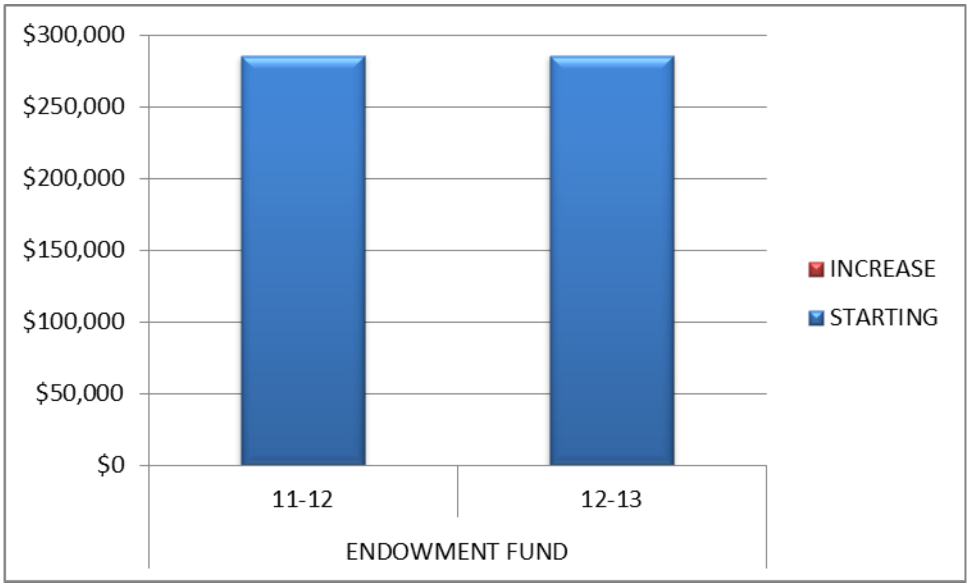
NET INCOME COMPARISON 2011-2012 and 2012-2013



- In fiscal year 2000–2001 CES designated an internal Endowment Fund within its unrestricted Net Position to insure the long-term financial stability of CES. Cash for this Fund is generated by certain designated activities of CES. The Endowment Fund did not increase and has a total to $285,543 as of June 30, 2013. This amount is included in the

Cash amount shown on the **Statement of Net Position.** The reason the Endowment Fund did not increase is because the designated activities generating this revenue have gone away.

ENDOWMENT FUND COMPARISON 2011-2012 and 2012-2013



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 $18,106.04. CES did remove $128,308 of old non-useable Furniture and Equipment from its Fixed Assets inventory. 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. The amount spent on ancillary materials was $45,960.

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, 2013, CES' Working Capital is $3,077,698; a $132,809 increase over the June 30, 2012, Working Capital of $2,944,889. This is a 4.5% increase in Working Capital and indicates a strong 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 $3,077,698.

- 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, 2013, is 1.27:1.00, assets over liabilities. This is a 6.7% increase over last year's Current Ratio of 1.19:1.00. The Current Ratio indicates a healthy financial position.

- CES' Total Revenues for the fiscal year ended June 30, 2013, are $12,786,670 higher than last year. $80,000 in Member Credits were issued this fiscal year per the Executive Committee directive. Member Credits are given back to members of CES' JPA based upon their usage of CES' contracts. The determination of whether to issue Member Credits and the amount of credits to issue is at the discretion of the Executive Committee. CES' Operating Revenues were $130,042,084 for fiscal year ended June 30, 2013. 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 $11,526,839. This accounted for 90% of CES' increase in revenue. CES' Ancillary Program experienced an increase in revenue in the amount of $1,063,631 which accounted for an 8.3% increase in revenue. CES' interest income decreased $1,338 to a total for the year of $13,058, which is 9.3% less than that for fiscal year 2011-2012. The decrease is due to the very low interest rates being given by banks and by the economic conditions existing throughout the fiscal year.

- Factors affecting CES' profit in fiscal year 2012-2013 are discussed in this paragraph. CES' Group Purchasing area experienced an $11,526,839 increase in revenue, which means that CES' profit was increased by the 1% administrative fee CES receives from Procurement amounting to an $114,127 increase. The Procurement area of Group Purchasing had a 10.6% increase in revenue and CES' Food Program which is part of group purchasing had a 13.3% increase in revenue. CES experienced an increase in Administrative Services revenue adding $129,265 to gross revenue. CES is a member of a 26 state purchasing agency known as the Association of Educational Purchasing Agencies (AEPA). In fiscal year 2012-2013 the administrative fee given back to CES by the procurement partners contracted through AEPA is 2%. The 2% administrative fee is uniform throughout AEPA and is born by the procurement partners. Other expense and cash management factors also contributed to CES' net profit. In fiscal year 2102-2013 CES opened a Southern New Mexico satellite office to help market CES in the southern regions. With the additional expense of a new southern office, an unbudgeted, one time EEOC expenditure and increased expenses such as health insurance, CES did have a net profit for fiscal year 2012-2013 of $109,087.

- 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 procurement partners. These programs allow CES' members to deal directly with selected procurement partners apart from the customary procurement process. In these instances, CES does not process the transactions through its financial system. Rather, members pay the procurement partners directly and CES is rebated their administrative fee from the selected procurement partners involved in these programs. The resultant Enabled Revenue, as CES refers to it, for these programs for the fiscal year ended June 30, 2013, was approximately $22.1 million. This is a decrease of $.8 million (3.5%) over last year's Enabled Revenue of 22.9 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 Professional Services 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' procurement partners 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, 2013.

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.

COOPERATIVE EDUCATIONAL SERVICES
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
As of June 30, 2013 With Comparative Totals For 2012

ASSETS		2013	2012
Current Assets			
Cash and cash equivalents	$	**2,577,681**	2,859,417
Accounts receivable, trade		**11,793,398**	15,316,090
Accounts receivable, other		**-**	1,100
Prepaid expenses		**-**	-
Total Current Assets		**14,371,079**	18,176,607
Capital Assets, net of accumulated depreciation		**533,653**	557,375
Total Assets	$	**14,904,732**	18,733,982

LIABILITIES AND NET ASSETS			
LIABILITIES			
Current Liabilities			
Accounts payable, trade	$	**10,712,833**	14,699,339
Accrued payroll and other benefits		**413,112**	344,810
Unearned revenue		**49,171**	51,254
Member credit liability		**80,000**	100,000
Compensated absences - current portion		**38,265**	36,315
Total Liabilities		**11,293,381**	15,231,718
NET POSITION			
Unrestricted			
Net investment in capital assets		**533,653**	557,375
Unrestricted		**3,077,698**	2,944,889
Total Net Position		**3,611,351**	3,502,264
Total Liabilities and Net Position	$	**14,904,732**	18,733,982

SEE INDEPENDENT AUDITORS' REPORT
The accompanying notes are an integral part of these financial statements.

COOPERATIVE EDUCATIONAL SERVICES
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2013 With Comparative Totals For 2012

		2013	2012
OPERATING REVENUES			
Administrative services	$	**802,704**	673,439
Group purchasing		**120,734,928**	109,208,089
Ancillary services		**8,478,037**	7,414,406
Related services		**76,180**	50,680
Administration		**14,273**	8,800
Adjustment for member credit		**(64,038)**	(100,000)
Total operating revenues		**130,042,084**	117,255,414
OPERATING EXPENSES			
Cost of goods/sales			
Administrative services		**711,893**	625,138
Group purchasing		**119,957,846**	108,486,556
Ancillary services		**8,014,744**	6,947,126
Related services		**101,183**	75,815
Total cost of goods/sales		**128,785,666**	116,134,635
Gross Profit		**1,256,418**	1,120,780
Administration Expenses			
Salaries and wages		**540,886**	453,529
Payroll taxes		**41,712**	35,800
Retirement		**44,800**	44,481
		627,398	533,810
Travel and member expense		**26,011**	2,833
Insurance		**105,958**	78,841
Advertising		**10,446**	7,303
Board and meeting costs		**131,829**	10,147
Postage and freight		**2,027**	1,294
Telephone		**14,243**	12,831
Copier expense		**2,660**	2,083
Printing		**1,726**	637
Facilities and repairs		**69,079**	65,048
Depreciation/ amortization		**41,828**	46,502
General materials and supplies		**57,808**	39,347
Contract services		**42,279**	68,986
Small equipment		**5,798**	41,452
Legal/accounting services		**21,299**	42,704
Total expenses		**1,160,389**	953,818
Operating Income (loss)		**96,029**	166,962
NON-OPERATING REVENUES (EXPENSES)			
Interest income		**13,058**	14,396
Total non-operating revenues (expenses)		**13,058**	14,396
Change in net position		**109,087**	181,358
Net position, beginning of year		**3,502,264**	3,320,906
Net position, end of year	$	**3,611,351**	3,502,264

SEE INDEPENDENT AUDITORS' REPORT

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

COOPERATIVE EDUCATIONAL SERVICES
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2013 With Comparative Totals For 2012

		2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from members	$	**133,543,784**	113,818,831
Less:			
Cash paid to or suppliers		**(125,245,582)**	(103,437,754)
Cash paid to or for employees		**(8,571,890)**	(7,925,036)
Net cash provided (used) by operating activities		**(273,688)**	2,456,041
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest income		**13,058**	14,396
Purchase of property and equipment		**(21,106)**	(7,223)
Net cash provided by (used for) capital and related financing activities		**(8,048)**	7,173
Net increase (decrease) in cash and cash equivalents		**(281,736)**	2,463,213
Cash and cash equivalents, beginning of year		**2,859,417**	396,204
Cash and cash equivalents at end of year	$	**2,577,681**	2,859,417

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES

		2013	2012
Operating income/(loss)	$	**96,029**	166,962
Adjustments to reconcile increases in net assets to cash provided by operating activities:			
Adjustment for loss on disposition of property and equipment		**3,001**	-
Depreciation/amortization expense		**41,828**	46,502
Decrease (increase) in:			
Accounts receivable		**3,523,782**	(3,535,581)
Prepaid expenses		**10**	-
Accounts payable, trade		**(3,986,508)**	5,495,623
Accrued payroll and other benefits		**68,932**	188,092
Deferred revenue		**(2,082)**	(2,103)
Member credit liability		**(20,000)**	100,000
Compensated absences		**1,320**	(3,454)
Net cash provided (used) by operating activities	$	**(273,688)**	2,456,041

SEE INDEPENDENT AUDITORS' REPORT
The accompanying notes are an integral part of these financial statements.

NOTE 1—NATURE OF OPERATIONS

Purpose

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, 2013, there were 208 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, 2013, there were 143 participating entities registered with CES.

Membership

CES is an organization comprised of New Mexico school districts plus other public education institutions, including charter schools, two and four-year post-secondary institutions, BIA schools and state schools. CES is a membership organization that is open to governmental units, which means the State of New Mexico, Counties, Municipalities of New Mexico, Indian Nations, Tribes, and or Pueblos located within the boundaries of Los Alamos, Rio Arriba of Santa Fe Counties in New Mexico may join. Members may be added or deleted pursuant to Article VIII of CES's bylaws and State Statute Section 73-25-17. The Board of Directors consists of Executive Officers of Member Institutions.

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. 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, 2013.

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

A— Measurement focus, basis of accounting, and financial statement presentation

CES's activities are reported as business-type activities. As a result, the financial statements are comprised solely of proprietary fund financial statements. Proprietary statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities deferred inflows of resources (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues, and gains) and decreases (expenses and losses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of CES are group purchasing, ancillary services, administrative services and other related services generated from its services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CES operations are accounted for as a proprietary fund (enterprise fund). Proprietary funds are financed and operated in a manner similar to private business. Proprietary 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.

When both restricted and unrestricted resources are available for use, it is CES's policy to use applicable restricted resources first, then unrestricted resources as they are needed.

B—Net Position

Net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflow of resources. Net investment 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 position is reported as restricted when there are legal limitations imposed on their use by external restrictions by other governments, creditors, or grantors.

C–Accounts Receivable—Trade

All receivables are deemed fully collectible and an allowance for doubtful accounts has not been established. All amounts are deemed collectible within one year of June 30, 2013.

D—Capital Assets

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 capitalizes and amortizes computer software developed for internal use. Straight-line depreciation is provided over the estimated lives of the assets.

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

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

E—Unearned Revenues

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, which is within one year.

F—Income Taxes

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

G—Cash and Cash Equivalents

For purposes of the statement of cash flows, CES considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

H—Use of Estimates

Financial statement preparation 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 financial statement date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I—Budgets

Please see the Statement of Revenues, Expenditures, and Changes in Net Position-Budget (GAAP Budgetary Basis) and Actual in the supplementary information section of the audit report.

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

CES's budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), using an estimate of anticipated revenues and expenses. The budget is presented on the accrual basis of accounting, and capitalized fixed capital assets over $5,000 are not included in the budget.

The Executive Director prepares an overall budget by program for CES which is adopted by the Executive Committee. This budget includes expected receipts and expenditures of the Operating Fund. CES is required to prepare budgets for each program. The budgets, used by CES to monitor each project, are also used for comparisons in the accompanying financial statements. CES approves its budget by total revenue and expenses by program.

Formal budgetary integration is employed as a management control device during the year.

J—Encumbrances
CES does not use encumbrance accounting.

K—Revenues
Revenues directly related to the operations are recorded as operating revenues.

L—Compensated Absences
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 3—RISK MANAGEMENT

CES is insured through purchase of commercial insurance policies for general liability and purchases Worker's Compensation Insurance from the New Mexico Self Insurer's Fund. Worker's Compensation claims are handled by the New Mexico Self Insurer's Fund.

NOTE 4—PERA AND STATE RETIREE HEALTH CARE PLAN

CES does not participate in New Mexico Public Employees Retirement Association (PERA) and does not contribute to the New Mexico Retiree Health Care Plan (RHCP).

NOTE 5—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, 2013 and 2012 were $90,186 and $97,129 respectively.

NOTE 6—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 7—PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment are summarized as follows:

Business Type Activities		**Balance 2012**	**Additions**	**Deletions**	**Balance 2013**
Capital assets not being depreciated:					
Land	$	152,000	-	-	152,000
Capital assets being depreciated:					-
Buildings and improvements		681,385	-	-	681,385
Furniture and equipment		468,159	21,106	(128,308)	360,957
Ancillary equipment		9,398	-	-	9,398
Total capital assets being depreciated		1,158,942	21,106	(128,308)	1,051,740
Less accumulated depreciation for:					
Buildings and improvements		(332,551)	(24,456)	-	(357,007)
Furniture and equipment		(411,617)	(17,372)	125,307	(303,682)
Ancillary equipment		(9,398)	-	-	(9,398)
Total accumulated depreciation		(753,566)	(41,828)	125,307	(670,087)
Net property and equipment	$	557,376	(20,722)	(3,001)	533,653

For the years ended June 30, 2013 and 2012, depreciation expense was $41,828 and $46,502, respectively.

As of the year ended June 30, 2013, CES had no idle equipment.

NOTE 8—CASH AND CASH EQUIVALENTS

Please see the schedule of pledged collateral by bank in the other supplementary information section of the audit report. Below are required disclosures regarding credit and interest risk.

Specific details of the collateralization of CES's deposits are included on the schedule of pledged collateral by bank. 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 year ended 2013 CES uninsured balances were as follows:

Uninsured and uncollateralized		135,209
Uninsured collateral held by the pledging banks, but not in the name of CES	$	6,151,532

Securities which are obligations of the state of New Mexico, its agencies, institutions, counties, or municipality 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. CES' cash balances consist of demand deposits.

CES's cash balances were as of June 30, 2013 was as follows:

Name of Depository	Account Name	Type of Account	Bank Balance	Reconciled Balance
Bank of America	Operating	Checking	$ 6,401,532	2,577,481
Less: FDIC insurance			(250,000)	
			6,151,532	
Pledged collateral held by the pledging banks trust department in agency's name			6,016,323	
Over insured and collateralized (at 50%)			(2,940,557)	
Petty Cash				200
				2,577,681
Cash and cash equivalents per financial statements				2,577,681
Difference				$ -
Uninsured and uncollateralized			135,209	

NOTE 9—CUSTODIAL CREDIT RISK—DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, CES's deposits may not be returned to it. State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit be collateralized by the depository thrift or banking institution. At present, state statutes require that a minimum of fifty percent of uninsured balances on deposit with anyone institution must be collateralized, with higher requirements up to 100% for financially troubled institutions.

NOTE 10—MEMBER CREDIT LIABILITIES

As of June 30, 2013, $80,000 in member credits were given out which could be used against the members' purchases in the years 2012-2013.

NOTE 11—ACCRUED LIABILITIES

Accrued payroll at June 30 is as follows.

Type	2013	2012
Accrued payroll and other benefits	$ **413,742**	344,810
Total	$ **413,742**	344,810

NOTE 12—CHANGES IN LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2013 is as follows:

	Balance 2012	Additions	Deletions	Balance 2013	Due Within One Year
Compensated absences	$ 36,315	36,945	(34,995)	38,265	38,265

Prior year compensated absences have been liquidated by the operating fund. No short-term debt was incurred during fiscal year 2013 or 2012.

NOTE 13—LEASE COMMITMENTS

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:

Year Ended		Lease Payments
2014	$	1,644
2015		1,644
2016		1,644
2017		1,644
2018		1,644
Total	$	8,220

NOTE 14—COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. CES recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. CES's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

CES has evaluated subsequent events through September 30, 2013, which is the date the financial statements were available to be issued.

COOPERATIVE EDUCATIONAL SERVICES
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
BUDGET (GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2013

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Revenues				
Administrative services	$ 682,100	728,975	**802,704**	73,729
Group purchasing	102,970,445	117,245,904	**120,734,928**	3,489,024
Ancillary services	8,016,000	8,478,036	**8,478,037**	1
Related services	50,000	76,180	**76,180**	-
Administration	21,000	28,000	**14,274**	(13,726)
Interest income	13,000	13,000	**13,058**	58
Member credit	-	-	**(64,038)**	(64,038)
Total Revenue	111,752,545	126,570,095	**130,055,143**	3,485,048
Expenses				
Administrative services	682,100	620,898	**711,893**	(90,995)
Group purchasing	102,970,445	116,244,778	**119,957,846**	(3,713,068)
Ancillary services	8,016,000	8,466,055	**8,014,744**	451,311
Related services	50,000	76,181	**101,183**	(25,002)
Administration expense	21,000	1,162,183	**1,160,390**	1,793
Total Expenses	$ 111,739,545	126,570,095	**129,946,056**	(3,375,961)
Excess of Revenue Over (Under) Expenditures	13,000	-	**109,087**	109,087
Net Change in Fund Balance			**109,087**	
Fund Balance, Beginning			**3,502,264**	
Fund Balance, End			**$ 3,611,351**	

COOPERATIVE EDUCATIONAL SERVICES
SCHEDULE OF PLEDGED COLLATERAL BY BANK
For the Year Ended June 30, 2013

Held By	CUSIP#	Par Value	Market Value	Maturity Date	Rate
Federal National Mort Backed Security	3128ngr31	$ 1,000	238	8/1/2035	2.37%
Federal National Mort Backed Security	31371j5b6	1,524,426	19,583	6/1/2031	7.00%
Federal National Mort Backed Security	31384wln8	1,000	9	5/1/2031	6.50%
Federal National Mort Backed Security	31385hqd7	55,665	201	5/1/2031	5.50%
Federal National Mort Backed Security	31389vz75	22,076,959	262,800	3/1/2017	6.00%
Federal National Mort Backed Security	3138e6ve3	3,131,626	2,930,197	2/1/2042	4.00%
Federal National Mort Backed Security	3138egjz8	1,000	537,432	10/1/2038	5.50%
Federal National Mort Adjustable Security	31391yxx0	1,000	218	3/1/2029	3.40%
Federal National Mort Backed Security	31391yxz5	1,000	221	3/1/2029	3.33%
Federal National Mort Backed Security	31404lv64	1,000	76	6/1/2033	5.50%
Federal National Mort Backed Security	31405fh62	1,000	250	4/1/2032	7.00%
Federal National Mort Backed Security	31404lv80	1,000	75	1/1/2033	5.50%
Federal National Mort Backed Security	31405fh39	1,000	75	1/1/2033	5.50%
Federal National Mort Backed Security	31416bl63	3,208,948	793,648	2/1/2038	5.50%
Federal National Mort Backed Security	31416wz39	657,435	350,346	10/1/2040	4.00%
Federal National Mort Backed Security	31417ar50	241,499	179,644	12/1/2041	3.50%
Federal National Mort Backed Security	31419ax69	324,771	250,159	12/1/2040	4.50%
Federal National Mort Backed Security	3620c4v80	869,685	690,671	10/15/2040	4.00%
Federal National Mort Backed Security	31419gb94	1,000	481	10/1/2040	4.00%
Total collateral			**$ 6,016,323**		

	Cash per Bank Statement	6,401,532
	less: FDIC insurance	250,000
		6,151,532
Pledged collateral held by pledging bank's trust department in agency's name		6,016,323
Over (under) insured and collateralized		(135,209)
50% collateral requirement (Section 6-10-17 NMSA 1978)		3,075,766
Total pledged collateral		6,016,323
Pledged collateral (over) requirement		$ (2,940,557)

HINKLE + LANDERS Certified Public Accountants + Business Consultants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS ON BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors and Management of
Cooperative Educational Services and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Cooperative Educational Services (CES) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise CES's basic financial statements, and the related budgetary comparison of CES, presented as supplemental information, and have issued our report thereon dated September 30, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CES's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 13-01.

CES's Responses to Findings

CES's responses to the finding identified in our audit are described in the accompanying *schedule of findings and responses*. CES's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

This report is intended solely for the information and use of the governing board, management, of CES, others within the agency, the New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and applicable grantors and is not intended to be and should not be used by anyone other than these specified parties.

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
Albuquerque, NM
September 30, 2013

COOPERATIVE EDUCATIONAL SERVICES
Schedule of Findings and Responses
For the Year Ended June 30, 2013

#	Finding Description	Status of Current/ Prior Year	Significant Deficiency	Material Weakness	Other Matters
Prior Year Findings					
	None				
Current Year Finding					
13-01	Travel and Per Diem Policy	Current	No	No	Yes

CURRENT YEAR FINDING

13-01–Travel and per Diem Policy—Other Matter (State Audit Rule Finding)

Statement of Condition
CES does not officially follow the state policies in terms of travel per diem. CES follows a policy of reimbursing expenses on a straight dollar for dollar basis. This policy has not been officially documented.

Criteria
Sound internal controls hold that such policies and procedures should be documented and official.

Effect
There is potential for questioning of expenses/policy in general. Potential for abuse of policy is possible.

Cause
A general reimbursement of expenses on a dollar for dollar basis was deemed acceptable.

Recommendation
Management and the Board should put a working written policy in place.

Management Response
CES will request documentation from its Executive Committee that allows for travel reimbursement to be on a dollar for dollar basis. This approval will be requested on an annual basis and be part of CES' budget approval process with the Executive Committee.

COOPERATIVE EDUCATIONAL SERVICES
Exit Conference
For the Year Ended June 30, 2013

An exit conference was held in a closed session on September 30, 2013, at CES's offices in Albuquerque, New Mexico. In attendance were the following:

Representing CES:

Robin D. Strauser	Deputy Executive Director
Joe Valencia	Finance Manager
Jonathan Maple	Director of Technology
Brenda Vigil	Treasurer
Steve Barron	Secretary

Representing Hinkle + Landers, PC:

Farley Vener	Managing Shareholder

FINANCIAL STATEMENTS

The financial statements of CES as of June 30, 2013, were substantially prepared by Hinkle + Landers, PC; however, the financial statements are the responsibility of management.