

**COOPERATIVE EDUCATIONAL
SERVICES**

FINANCIAL STATEMENTS

June 30, 2014 and 2013

(With Independent Auditor's Report Thereon)

Prepared by

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7520 Montgomery NE, Building E-17
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COOPERATIVE EDUCATIONAL SERVICES

FINANCIAL REPORT

June 30, 2014 and 2013

COOPERATIVE EDUCATIONAL SERVICES

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COOPERATIVE EDUCATIONAL SERVICES

**As of June 30, 2014
OFFICIAL ROSTER**

<u>Committee Member</u>	<u>Executive Committee</u> <u>Title</u>	<u>Representing</u>
Mike Chambers	President	Magdalena
T.J. Parks	President Elect	Hobbs
Vernon Jaramillo		Cariño de los Niños
	Past President	NMPED
Paul Aguilar	Ex-Officio Member	NMCEL
Dr. Gloria Rendon	Ex-Officio Member	Corrales
Dr. Elsy Susana Diaz		International
	Charter Schools	NMSBA
Joe Guillen	Ex-Officio Member	NMSU
Dr. Michael Morehead	NM Higher Education	ENMU-Roswell
Dr. John Madden	Community Colleges	Las Cruces
Stan Rounds	Past President	Aztec
Kirk Carpenter	Region I	Pojoaque
Adan Delgado	Region II	Wagon Mound
Albert Martinez	Region III	Bernalillo
Allan Tapia	Region IV	Dora
Steve Barron	Region V, Secretary	Lovington
Darin Manes	Region VI	Tularosa
Brenda Vigil	Region VII, Treasurer	Gadsden
Efren Yturalde	Region VIII	

Administrative Officials

<u>Name</u>	<u>Title</u>
David Chavez	Executive Director
Robin D. Strauser	Deputy Executive Director

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I 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, 2014, and the related notes to the financial statements which collectively comprise CES' basic financial statements as listed in the table of contents. I 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, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 the 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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 statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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 CES as of June 30, 2014, 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 my 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, 2014, in conformity with the 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' June 30, 2013, financial statements. Those statements were audited by other auditors on September 30, 2013, whose report has been furnished to me, and my 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 of 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 4-9 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited

procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on CES's financial statements and the budgetary comparison. The schedule of pledged collateral by bank listed as "other supplementary information" in the table of contents is presented for purposes of additional analysis and is not a required part of the basis 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 the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In my opinion, the schedule of pledged collateral by bank is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 3, 2014, on my consideration of CES' internal control over financial reporting and on my 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 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* in considering CES' internal control over financial reporting and compliance.



Kathleen R. Lane, P.C.
Albuquerque, NM
September 3, 2014

**COOPERATIVE EDUCATIONAL SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For Fiscal Year Ended June 30, 2014**

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, 2014. 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, 2014 compared to June 30, 2013."

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.

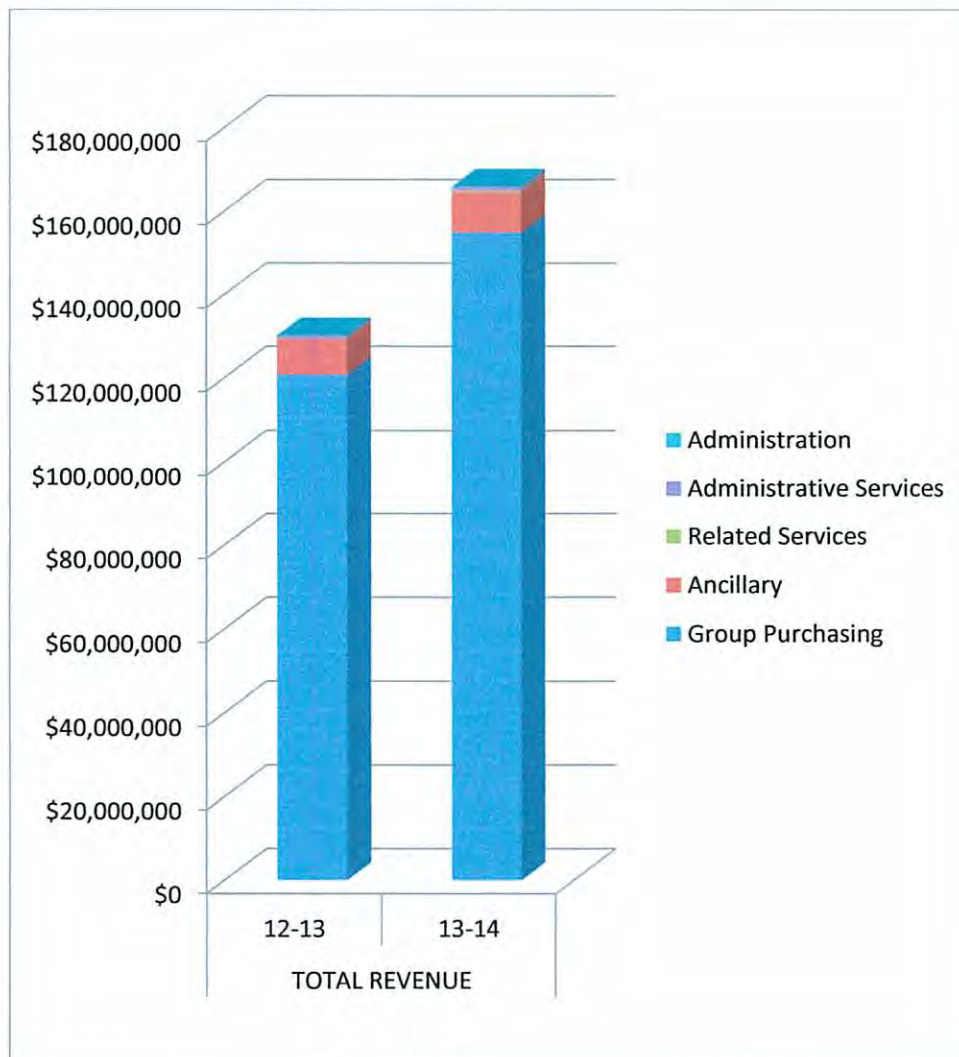
Likewise, the **Statement of Revenues, Expenses and Changes in Fund Net Assets** reports all revenue and expenses using the accrual basis of accounting which accounts for all revenue and expenses regardless of when cash was actually received or expended. Any increase or decrease in net assets is an indicator 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 \$35,713,125, when compared to last fiscal year, and totaled \$165,768,267 including non-operating revenue and net of Member Credit contra revenue. It represents a 27.5% increase over prior year's revenue and a 30.8% increase over original budgeted revenue of \$116,118,200.

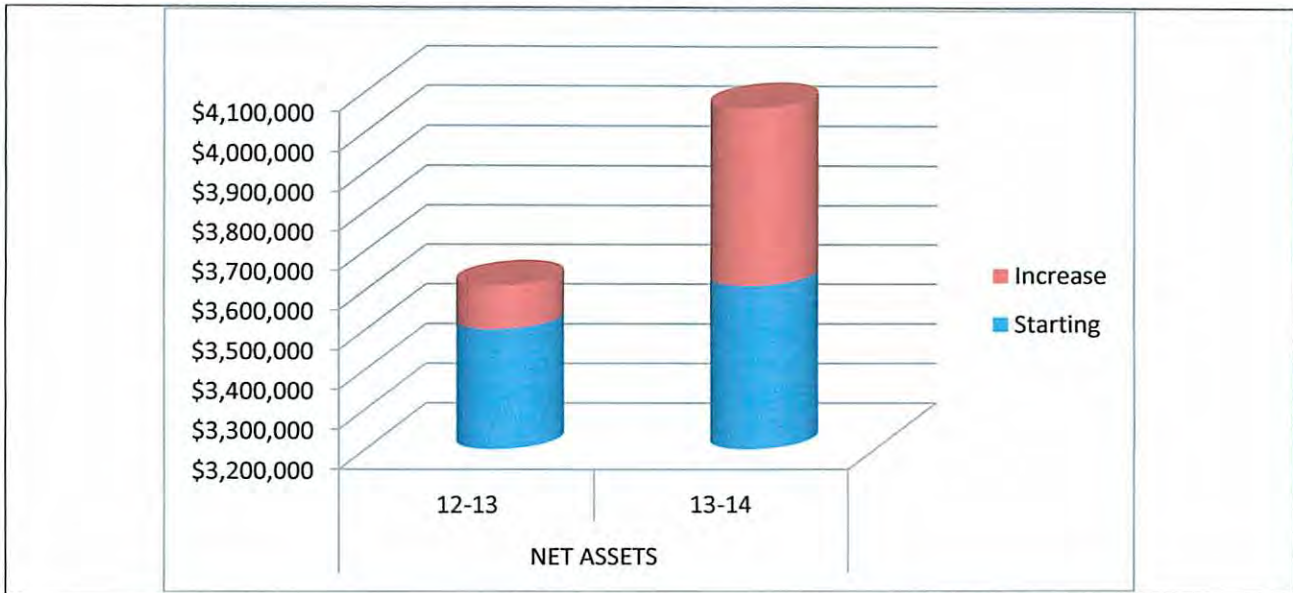
TOTAL REVENUES COMPARISON 2012-2013 and 2013-2014



- CES' Fund Net Assets increased by \$449,117 as a result of this year's operations. This represents a 12.4% increase in Fund Net Assets. Total Fund Net Assets on June 30, 2014, are \$4,060,468.

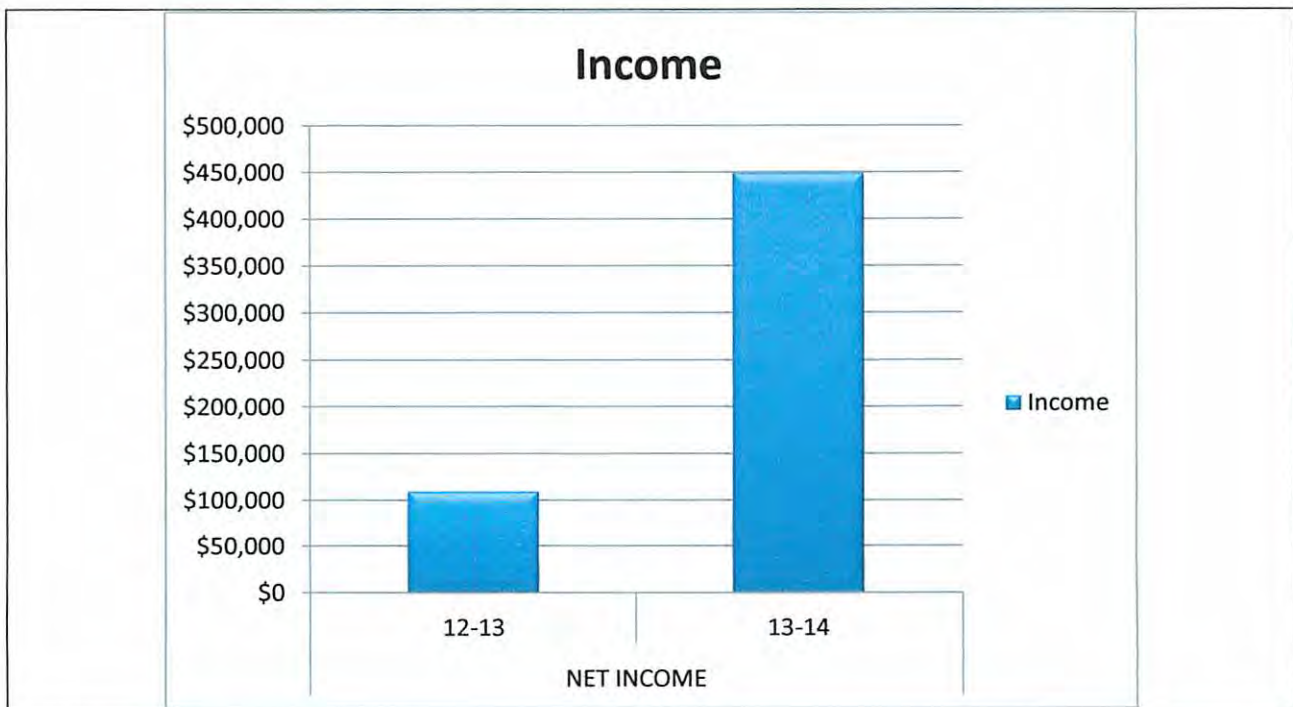
Management's Discussion and Analysis - Continued

FUND NET ASSETS COMPARISON 2012-2013 and 2013-2014



- CES' Change in Net Assets or Increase of Revenues over Expenses for the fiscal year ending June 30, 2014, is \$449,117. This is \$340,030 more than last fiscal year's and represents a 312% increase over last year's Change in Net Assets or Increase of Revenues over Expenses. The reason for CES' increased profitability from last year is that CES had more entities using its contracts and existing members used CES more. CES once again this year issued \$100,000 in Member Credits.

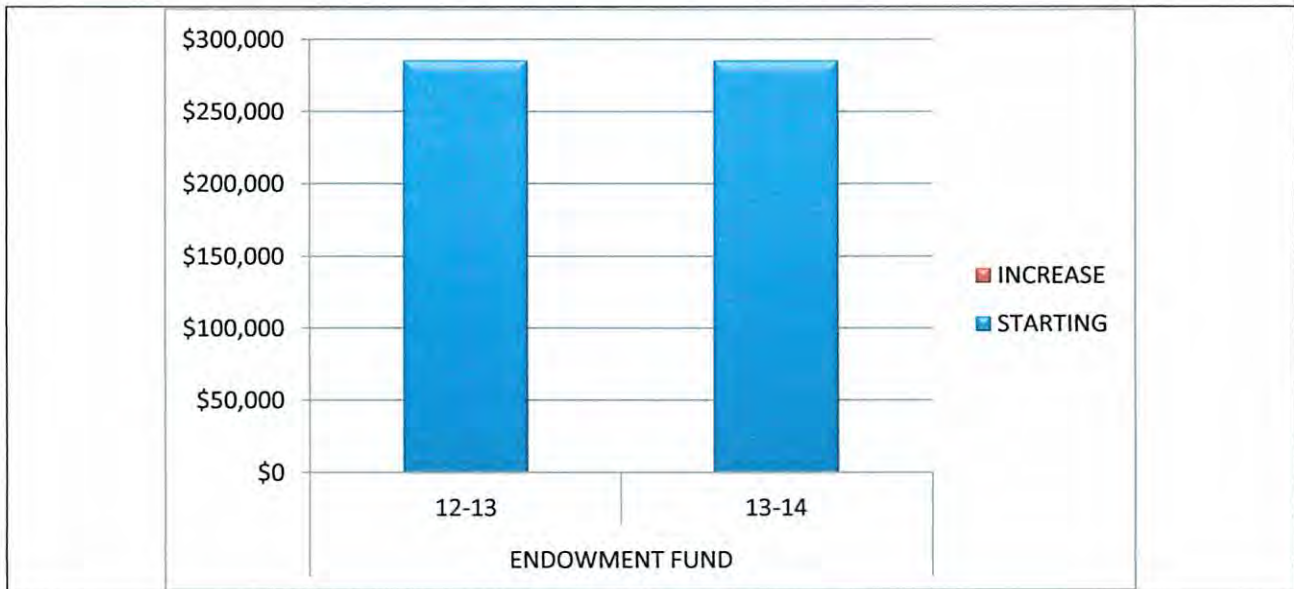
NET INCOME COMPARISON 2012-2013 and 2013-2014



Management's Discussion and Analysis - Continued

- 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 did not increase and has a total of \$285,543 as of June 30, 2014. This amount is included in the Cash amount shown on the **Statement of Net Assets**. The reason the Endowment Fund did not increase is because the designated activities generating revenue have gone away.

ENDOWMENT FUND COMPARISON 2012-2013 and 2013-2014



- According to CES' Board Policy, any item costing \$5,000 or more and having a useful life of more than one year is added to Fixed Assets and depreciated over its useful life. Items costing less than \$5,000 are expensed. CES purchased new office furniture that added to its Fixed Assets. The furniture, equipment and software purchased totaled \$125,605. CES removed \$30,037 in furniture and equipment from its Fixed Assets. Although CES purchased \$123,640 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 major building improvement projects this fiscal year that had to be capitalized. These improvements totaled \$155,679.

- 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

Management's Discussion and Analysis - Continued

of CES' ability to pay its obligations. As of June 30, 2014, CES' Working Capital is \$3,292,920; a \$215,222 increase over the June 30, 2013, Working Capital of \$3,077,698. This is a 7.0% 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 Accounts Receivable. CES has no long term portion of Compensated Absences. Current assets exceed current liabilities by \$3,292,920.
- 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, 2014, is 1.14:1, assets over liabilities. This is a 4.2% decrease over last year's Current Ratio of 1.19:1. The Current Ratio indicates a healthy financial position.
- CES' Total Revenues for the fiscal year ended June 30, 2014, are \$165,768,267. \$100,000 in Member Credits was issued this fiscal year per the Executive Committee directive. CES' Operating Revenues were \$165,756,270 for fiscal year ended June 30, 2014. CES experienced an increase in revenue as a result of providing a greater usage of contracts in the Group Purchasing Procurement area and an increase in Ancillary Services. The cooperative procurement area that showed the most significant revenue increase was CES' Group Purchasing Procurement program, with an increase of \$34,184,233. This accounted for almost 100% of CES' increase in revenue. Ancillary revenue increased by \$1,176,371. CES' interest income decreased \$1,061 to a total for the year of \$11,997, which is 8.1% less than that for fiscal year 2012-2013. The decrease is due to the prevailing low interest rates.
- Factors affecting CES' profit in fiscal year 2013-2014 are discussed in this paragraph. CES' Group Purchasing area experienced a \$34,184,233 increase in revenue, which means that CES' profit was increased by the 1% administrative fee CES receives from Procurement amounting to a \$341,842 increase. The Procurement area of Group Purchasing had a 26.1% increase in revenue. CES experienced an increase in Medicaid Billing Services of \$201,624, Related Services increased by \$228,752, Administrative Services increased by \$166,607. Another factor affecting CES' profitability was the issuance of Member Credits in the amount of \$100,000. 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 2013-2014 of \$449,117.
- 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 its 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, 2014, was approximately \$29 million. This is an increase of \$6.1 million (26.6%) 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 Service billing, profit from In-service events and the assessment of a 1% administrative fee to its Members and Participating Entities 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, 2014.

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
For the Year Ended June 30, 2014
with Comparative Totals for 2013**

	Assets	<u>2014</u>	<u>2013</u>
Current Assets:			
Cash (Note 2)		\$ 6,658,053	\$ 2,577,681
Accounts receivable, trade		20,370,835	11,793,398
Receivable - other		3,100	-
Prepaid expense		<u>35,060</u>	<u>-</u>
Total current assets		<u>27,067,048</u>	<u>14,371,079</u>
Capital assets, net of accumulated depreciation (Note 3)		<u>767,548</u>	<u>533,653</u>
Total assets		\$ <u>27,834,596</u>	\$ <u>14,904,732</u>
Liabilities and Net Position			
Current Liabilities:			
Accounts payable, trade		\$ 23,012,546	\$ 10,712,833
Accrued payroll and benefits (Note 9)		497,213	413,112
Unearned revenue		112,403	49,171
Member credit liability (Note 8)		100,000	80,000
Compensated absences (Note 10)		<u>51,966</u>	<u>38,265</u>
Total current liabilities		<u>23,774,128</u>	<u>11,293,381</u>
Total liabilities		<u>23,774,128</u>	<u>11,293,381</u>
Net Position:			
Net investment in capital assets		767,548	533,653
Unrestricted		<u>3,292,920</u>	<u>3,077,698</u>
Total net position		<u>4,060,468</u>	<u>3,611,351</u>
Total liabilities and net position		\$ <u>27,834,596</u>	\$ <u>14,904,732</u>

SEE INDEPENDENT AUDITOR'S REPORT

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

COOPERATIVE EDUCATIONAL SERVICES

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS**

**For the Year Ended June 30, 2014
with Comparative Totals for 2013**

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Administrative services	\$ 969,331	\$ 802,704
Group purchasing	154,919,161	120,734,928
Ancillary services	9,654,408	8,478,037
Related services	304,932	76,180
Administration	-	14,273
Adjustment for member credit (Note 6)	(91,562)	(64,038)
Total operating revenues	<u>165,756,270</u>	<u>130,042,084</u>
Operating expenses:		
Cost of goods sold		
Administrative services	855,864	711,893
Group purchasing	153,857,105	119,957,846
Ancillary services	9,155,977	8,014,744
Related services	315,853	101,183
Total cost of goods sold	<u>164,184,799</u>	<u>128,785,666</u>
Gross profit	<u>1,571,471</u>	<u>1,256,418</u>
Administration expenses:		
Salaries and wages	532,207	540,886
Employee benefits	103,744	92,571
Payroll taxes	40,915	41,712
Retirement expense	46,581	44,800
Travel and member expense	23,354	26,011
Vehicle expense	9,189	-
Insurance-property and liability	20,343	13,387
Advertising and marketing	14,599	10,446
Board and meeting costs	7,996	131,829
Postage and freight	841	2,027
Telephone	9,824	14,243
Copier expense	2,973	2,660
Printing	894	1,726
Facilities and repairs	63,296	69,079
Depreciation	47,389	41,828
General materials and supplies	80,745	57,808
Contract services	50,056	42,279
Small equipment	58,436	5,798
Legal/accounting services	20,969	21,299
Total expenses	<u>1,134,351</u>	<u>1,160,389</u>
Operating income/(loss)	<u>437,120</u>	<u>96,029</u>
Non-operating revenues:		
Interest income	<u>11,997</u>	<u>13,058</u>
Total non-operating revenues	<u>11,997</u>	<u>13,058</u>
Change in net position	449,117	109,087
Net position, beginning of year	<u>3,611,351</u>	<u>3,502,264</u>
Net position, end of year	\$ <u>4,060,468</u>	\$ <u>3,611,351</u>

SEE INDEPENDENT AUDITOR'S REPORT

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

COOPERATIVE EDUCATIONAL SERVICES

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2014
with Comparative Totals for 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from members	\$ 157,242,065	\$ 133,543,784
Less:		
Cash payment to or for suppliers	(143,255,073)	(125,245,582)
Cash payment to or for employees	<u>(9,637,333)</u>	<u>(8,571,890)</u>
Net cash provided (used) by operating activities	<u>4,349,659</u>	<u>(273,688)</u>
Cash flows from capital and related financing activities:		
Interest income	11,997	13,058
Purchase of improvements and equipment	<u>(281,284)</u>	<u>(21,106)</u>
Net cash (used) provided by capital and related financing activities	<u>(269,287)</u>	<u>(8,048)</u>
Net increase (decrease) in cash and cash equivalents	4,080,372	(281,736)
Cash and cash equivalent, beginning of year	<u>2,577,681</u>	<u>2,859,417</u>
Cash and cash equivalent, ending of year	\$ <u>6,658,053</u>	\$ <u>2,577,681</u>

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

Operating income (loss)	\$ 437,120	\$ 96,029
Adjustment for loss on disposition of property and equipment		3,001
Depreciation expense	47,389	41,828
Decrease (increase) in:		
Accounts receivable	(8,577,437)	3,523,782
Accounts receivable - other	(3,100)	
Prepaid expenses	(35,060)	10
Increase (decrease) in:		
Deferred revenue	63,232	(2,082)
Accounts payable	12,299,713	(3,986,508)
Accrued payroll and expenses	84,101	68,932
Member credit liabilities	20,000	(20,000)
Compensated absences	<u>13,701</u>	<u>1,320</u>
Net cash provided (used) by operating activities	\$ <u>4,349,659</u>	\$ <u>(273,688)</u>

SEE INDEPENDENT AUDITOR'S REPORT

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

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 1: Organization and summary of significant accounting policies

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, 2014, there were 221 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, 2014, there were 171 participating entities registered with CES.

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

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 or Santa Fe Counties in New Mexico may join. Members may be added or deleted pursuant to Article VIII of CES' 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.

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.

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

Financial Reporting Entity (continued)

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, 2014.

Basis of Presentation

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.

Measurement focus, basis of accounting, and financial statement presentation

CES' 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.

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

Measurement focus, basis of accounting, and financial statement presentation (continued)

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or 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.

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

Measurement focus, basis of accounting, and financial statement presentation (continued)

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' policy to use applicable restricted resources first, then the unrestricted resources as they are needed.

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.

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

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, 2014.

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 equipment 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

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

Unearned Revenue

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

Income Taxes

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

Cash and Cash Equivalents

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

Use of Estimates

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

Budget

Please see the Statement of Revenues, Expenditures, and Changes in Net Position Budget (GAAP Budgetary Basis) and Actual, page 27, in the supplementary information section of the audit report.

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

Budget (continued)

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' 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.

There was one budget adjustment request by June 30, 2014.

Encumbrances

CES does not use encumbrance accounting.

Revenues

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

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

Compensated Absences Payable

Compensated Absences is reported in Government Wide financial statements as an expense; current and long-term liabilities. In accordance with the provisions of Statement No. 6 of the Government Accounting Standards Board, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Note 2: 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. CES' cash balances consist of demand deposits

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, 2014, \$0 of CES' bank balance of \$9,054,008 was exposed to custodial credit risk. Custodial credit risk is defined as the risk that the government's

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 2: Cash and Cash Equivalents-continued

deposits may not be returned to it in the event of a bank failure.

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

<u>Name of depository</u>	<u>Account name</u>	<u>Type of account</u>	<u>Bank balance as of 6/30/14</u>	<u>Reconciled balance as of 6/30/14</u>
Bank of America	Operating	Checking	\$ 9,054,008	\$ <u>6,657,853</u>
Less: FDIC insurance			(250,000)	
Uninsured public funds			8,804,008	
Pledged collateral held by the pledging bank's trust department in agency's name			9,985,283	
Over insured and collateralized			\$ <u>1,181,275</u>	
50% collateral requirement (Section 6-10-17 NMSA 1978)			4,402,004	
Total pledged collateral			9,985,283	
Pledged collateral (over) the requirement			<u>(5,583,279)</u>	
Total deposits:				
Category 1-Insured with securities			\$ 9,054,008	
Less outstanding checks			(2,396,155)	
Reconciled bank balance			6,657,853	
Cash on hand			<u>200</u>	
Total cash and cash equivalents			\$ <u>6,658,053</u>	

See Schedule of Pledged Collateral by Bank on page 28.

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 3: Property, Equipment and Depreciation

Property and equipment are summarized as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2014</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ <u>152,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>152,000</u>
Capital assets being depreciated:				
Buildings and improvements	681,385	155,679	-	837,064
Furniture and equipment	360,957	125,605	(30,037)	456,525
Ancillary equipment	<u>9,398</u>	<u>-</u>	<u>-</u>	<u>9,398</u>
Total capital assets being depreciated	<u>1,051,740</u>	<u>281,284</u>	<u>(30,037)</u>	<u>1,302,987</u>
Less accumulated depreciation for:				
Buildings and improvements	(357,007)	(26,266)		(383,273)
Furniture and equipment	(303,682)	(21,123)	30,037	(294,768)
Ancillary equipment	<u>(9,398)</u>	<u>-</u>	<u>-</u>	<u>(9,398)</u>
Total accumulated depreciation	<u>(670,087)</u>	<u>(47,389)</u>	<u>30,037</u>	<u>(687,439)</u>
Net property and equipment	\$ <u>533,653</u>	\$ <u>(233,895)</u>	\$ <u>-</u>	\$ <u>767,548</u>

For the years ended June 30, 2014 and 2013, depreciation expense was \$47,389 and \$41,828, respectively.

As of the year ended June 30, 2014, CES had no idle equipment.

Note 4: 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 years ended June 30, 2014 and 2013, were \$98,525 and \$90,186, respectively.

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 5: 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 6: 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 7: 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 8: Member Credit Liabilities

At June 30, 2014, \$100,000 in member credits were given out which could be used against the members' purchases in the years 2014-2015.

Note 9: Accrued Liabilities

Accrued payroll at June 30, 2014, is as follows:

<u>Type</u>	<u>2014</u>	<u>2013</u>
Accrued payroll and other benefits	\$ <u>497,213</u>	\$ <u>413,112</u>
Total	\$ <u>497,213</u>	\$ <u>413,112</u>

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 10: Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2014, is as follows:

	Balance	Additions	Deletions	Balance	Due
	<u>2013</u>			<u>2014</u>	<u>Within</u>
					<u>One Year</u>
Compensated absences	\$ <u>38,265</u>	\$ <u>51,966</u>	\$ <u>(38,265)</u>	\$ <u>51,966</u>	\$ <u>51,966</u>

Prior year compensated absences have been liquidated by the operating fund. No short-term debt was incurred during the fiscal year 2014 or 2013.

Note 11: 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, 2014	\$ 1,644
June 30, 2015	<u>1,096</u>
	\$ <u>2,740</u>

CES entered into a three year vehicle lease with Tillery Chevrolet. During the year \$5,845 was paid on the lease. Operating lease due over next five years:

June 30, 2014	\$ 8,768
June 30, 2015	8,768
June 30, 2016	<u>2,923</u>
	\$ <u>19,459</u>

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 12: 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' 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 3, 2014, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

COOPERATIVE EDUCATIONAL SERVICES

**STATEMENT OF REVENUE, EXPENSE AND NET POSITION -
BUDGET (GAAP BUDGET BASIS) VERSUS ACTUAL
For the Year Ended June 30, 2014**

	<u>Budget Amount</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Favorable (Unfavorable)</u>
Revenues				
Administrative services	\$ 810,200	\$ 1,208,800	\$ 969,331	\$ (239,469)
Group purchasing	106,530,000	154,361,557	154,919,161	557,604
Ancillary services	8,535,000	9,654,407	9,654,408	1
Related services	226,000	299,350	304,932	5,582
Administration	3,000	3,000	-	(3,000)
Interest income	14,000	14,000	11,997	(2,003)
Member credit	-	-	(91,562)	(91,562)
Total Revenue	116,118,200	165,541,114	165,768,267	227,153
Expenses				
Administrative services	810,200	1,208,800	855,864	352,936
Group purchasing	106,530,000	154,361,557	153,857,105	504,452
Ancillary services	8,535,000	9,654,407	9,155,977	498,430
Related services	226,000	299,350	315,853	(16,503)
Administration expense	17,000	17,000	1,134,351	(1,117,351)
Total Expense	116,118,200	165,541,114	165,319,150	221,964
Excess of Revenue Over (Under) Expenses	-	-	449,117	449,117
Change in Net Position				
Net Position, Beginning of year			3,611,351	
Net Position, End of year			\$ 4,060,468	

COOPERATIVE EDUCATIONAL SERVICES

**SCHEDULE OF PLEDGED COLLATERAL BY BANK
For the Year Ended June 30, 2014**

Pledged securities - Held by pledging bank's trust department in the name of Cooperative Educational Services - See note on page 22.

<u>CUSIP</u>	<u>Held by</u>	<u>Rate</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>
3128M8UY8	Gold PC (Participating Certificates)	5.000	06/01/2041	\$ 467,914	\$ 354,694
3128NGR31	Federal Home Loan Mort Adjustable Rate	2.370	08/01/2035	1,000	177
3132GRHL8	Gold PC (Participating Certificates)	4.000	02/01/2042	532,313	410,754
3132GUBR4	Gold PC (Participating Certificates)	3.500	06/01/2042	556,519	451,247
31371J5B6	Federal National Mortgage Backed Security	7.000	06/01/2031	1,524,426	16,253
31384WLN8	Federal National Mortgage Backed Security	6.500	05/01/2031	1,000	7
31385HQD7	Federal National Mortgage Backed Security	8.500	05/01/2031	55,665	145
31389VZ75	Federal National Mortgage Backed Security	6.000	03/01/2017	220,770	148,949
3138E6VE3	Federal National Mortgage Backed Security	4.00	02/01/2042	69,828	59,417
3138EGJZ8	Federal National Mortgage Backed Security	5.500	10/01/2038	950,034	328,227
3138EHXR8	Federal National Mortgage Backed Security	4.000	02/01/2042	867,160	643,197
3138ELCB7	Federal National Mortgage Backed Security	3.500	06/01/2043	469,025	441,198
3138MFR41	Federal National Mortgage Backed Security	3.500	11/01/2042	42,875	39,913
3138WA6L6	Federal National Mortgage Backed Security	4.000	02/01/2044	34,516	36,381
3138WTQN9	Federal National Mortgage Backed Security	3.500	06/01/2043	549,857	529,550
3138XGS95	Federal National Mortgage Backed Security	4.000	02/01/2044	490,197	512,166
31405FHQ8	Federal National Mortgage Backed Security	5.500	06/01/2033	3,558,333	263,809
31416XBU3	Federal National Mortgage Backed Security	4.000	11/01/2040	57,046	24,790
31417B6D4	Federal National Mortgage Backed Security	3.500	06/01/2042	238,411	212,665
31417BZU4	Federal National Mortgage Backed Security	3.500	05/01/2042	2,514,177	1,830,022
31417EY70	Federal National Mortgage Backed Security	3.000	02/01/2043	3,392,177	3,100,494
31417GXA9	Federal National Mortgage Backed Security	3.500	06/01/2043	221,166	218,231
31419HJX1	Federal National Mortgage Backed Security	4.000	10/01/2040	881,080	361,983
31419JP28	Federal National Mortgage Backed Security	4.000	11/01/2040	2,446	<u>1,014</u>
	Total pledged collateral				\$ <u>9,985,283</u>
	Bank of America - Operating Checking				\$ 9,054,008
	Less: FDIC insurance				(250,000)
	Uninsured public funds				\$ <u>8,804,008</u>

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

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**Independent Auditor's 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 and Management of
Cooperative Educational Services
And
Mr. Hector H. Balderas,
New Mexico State Auditor

I 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, 2014, and the related notes to the financial statements, which collectively comprise CES' basic financial statements, and the related budgetary comparison of CES, presented as supplemental information, and have issued my report thereon dated September 3, 2014.

Internal Control over Financial Reporting

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

My 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 my audit I did not identify any deficiencies in internal control that I 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' 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 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 2014-001.

CES' Responses to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and 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.


Kathleen R. Lane, P.C.
Albuquerque, NM
September 3, 2014

COOPERATIVE EDUCATIONAL SERVICES

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2014

CURRENT YEAR FINDINGS

2014-001 - Late audit contract - Other Matters (State Audit Rule Finding)

Statement of Condition

The audit contract and recommendation was not submitted to the Office of State Auditor by the deadline for fiscal year ending June 30, 2104.

Criteria

Per section 2.2.2.8.(G)(6)(c) NMAC Audit Rule, the audit contract and recommendation must be submitted to the Office of the State Auditor by the deadline for fiscal year ended June 30, 2014.

Effect

The agency is not in compliance with the State Audit Rule.

Cause

Deciding which IPA CES would use delayed the application process.

Recommendation

The agency should make every effort to submit the audit contract and recommendations to the Office of the State Auditor by the deadline.

Management Response

In the future CES will present its application for IPA in a timely manner.

COOPERATIVE EDUCATIONAL SERVICES

EXIT CONFERENCE

June 30, 2014

Financial Statement Preparation

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

Exit Conference

An exit conference was held on September 8, 2014, and attended by the following:

Finance Committee

Mike Chambers, President
T. J. Parks, President elect
Brenda Vigil, Treasurer

CES Personnel

David Chavez, Executive Director
Robin D. Strauser, Deputy Executive Director
Joe Valencia, Finance Manager

Kathleen R. Lane, P.C. - Personnel

Kathleen R. Lane, Audit Partner