

**COOPERATIVE EDUCATIONAL  
SERVICES**

**FINANCIAL STATEMENTS**

**June 30, 2017 and 2016**

**(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, 2017 and 2016**

COOPERATIVE EDUCATIONAL SERVICES

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COOPERATIVE EDUCATIONAL SERVICES

As of June 30, 2017

OFFICIAL ROSTER

<u>Committee Member</u>	<u>Executive Committee</u>	<u>Representing</u>
	<u>Title</u>	
T.J. Parks	President	Hobbs
Vernon Jaramillo	Past President	Cariño de los Niños
Dr. John Madden	Community Colleges	NMSU-Roswell
Kirk Carpenter	Region I-Pres. Elect	Aztec
Kim Mizell	Region I	Bloomfield
Valeri Trujillo	Region II	Questa
Richard Perea	Region III	Santa Rosa
Mark Space	Region IV	Grants-Cibola
Steve Barron	Region V, Secretary	Dora
Dwain Haynes	Region VI	Eunice
Penny Garcia	Region VI	ENMU
Brenda Vigil	Region VII, Treasurer	Tularosa
Greg Ewing	Region VIII	Las Cruces
Matt Pahl	Ex-Officior Member	NMCCS
Paul Aguilar	Ex-Officio Member	NMPED
Stan Rounds	Ex-Officio Member	NMCEL
Joe Guillen	Ex-Officio Member	NMSBA
	NM Higher Education	

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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Albuquerque, New Mexico 87109

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E-mail: abqlane@aol.com • Member AICPA

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors and Management of  
Cooperative Educational Services  
and  
Mr. Tim Keller,  
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 years ended June 30, 2017 and 2016, 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 years ended June 30, 2017 and 2016, as listed in the table of contents.

**Management's Responsibility**

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 responsibility 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, and accordingly, no such opinion is expressed. 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.

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, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance 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, 2017, in conformity with the accounting principles generally accepted in the United States of America.

### **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 4-10 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. 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.

#### **Supplemental 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 22, 2017, 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 22, 2017



**COOPERATIVE EDUCATIONAL SERVICES  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For Fiscal Year Ended June 30, 2017**

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, 2017. 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, 2017 compared to June 30, 2016."

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** show how well CES conducted its operations for the current fiscal year. Profit increases and loss decreases CES' net assets. These financial statements report CES' net assets and the change in them as a result of the current fiscal year's operations.

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

Management's Discussion and Analysis - Continued

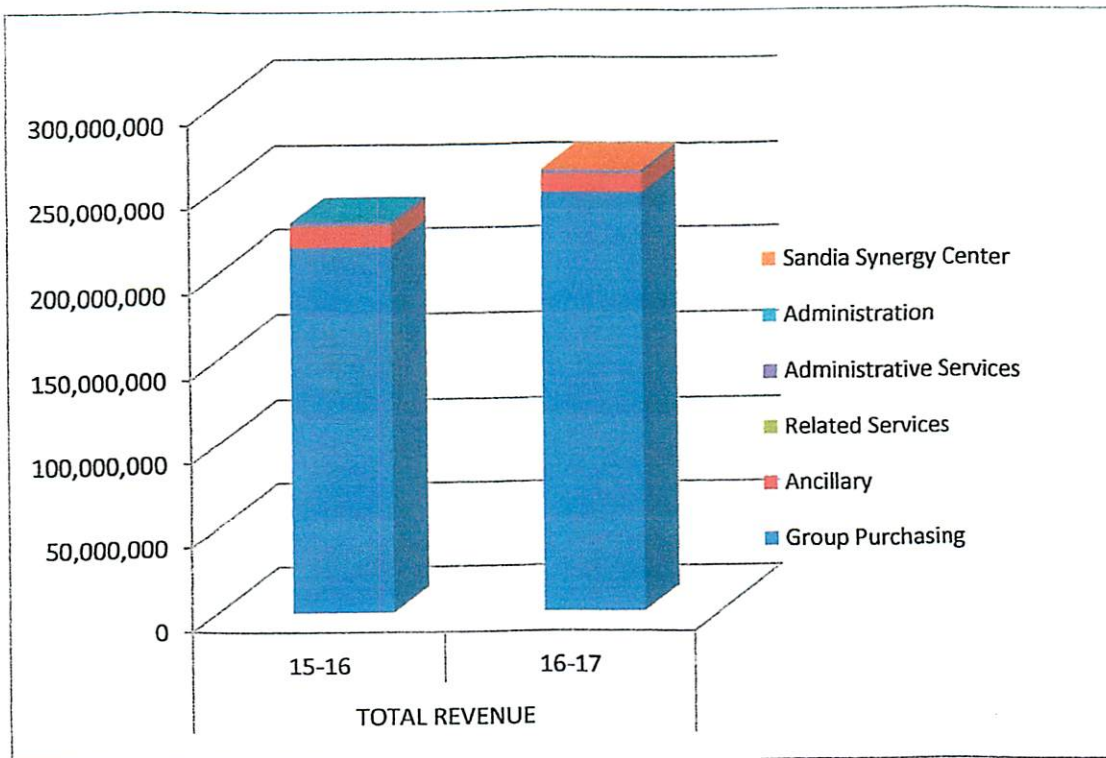
OPERATIONAL HIGHLIGHTS

On March 27, 2017 CES purchased a second building located at 1451 Innovation Parkway, Albuquerque and is known as Sandia Synergy Center (SSC). The building is a 28,000 square foot, fully leased office building. It was purchased to accommodate future expansion needs for CES. There is a tenant whose lease expires on January 31, 2018. The intent is for CES to occupy that space once the tenant's lease expires and CES can move in. Leasing of office space is a new venture for CES. As such, CES created a separate entity within its financial software system to account for the revenue and expenses related to SSC. Throughout Management's Discussion and Analysis and this audit report, SSC and CES will be addressed separately and then in combination.

FINANCIAL HIGHLIGHTS

➤ CES' Total Revenues, excluding SSC, increased this fiscal year by \$30,416,411, when compared to last fiscal year, and totaled \$260,988,895 including non-operating revenue and net of Member Credit contra revenue. It represents a 13.2% increase over prior year's revenue and a 33.4% increase over original budgeted revenue of \$195,826,000. SSC had revenue of \$151,591. Adding these revenues together, CES's combined revenue for the 2016-2017 fiscal year totaled \$261,140,486. This is a total revenue increase of \$30,568,002 and is a 13.3% increase over last year's revenue.

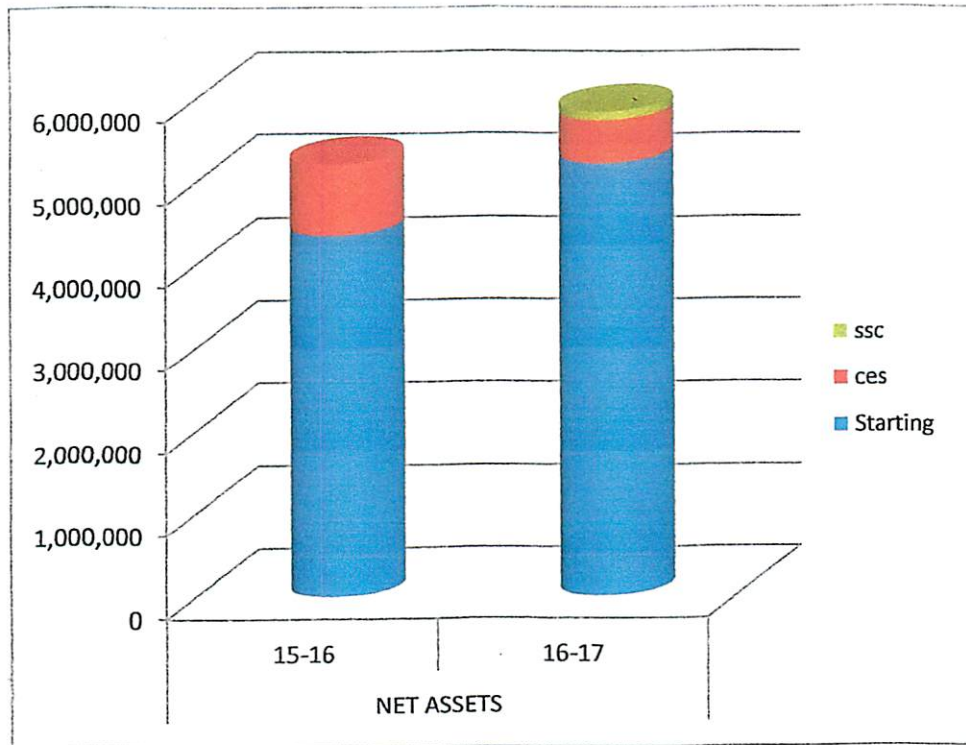
TOTAL REVENUES COMPARISON 2015-2016 and 2016-2017



Management's Discussion and Analysis - Continued

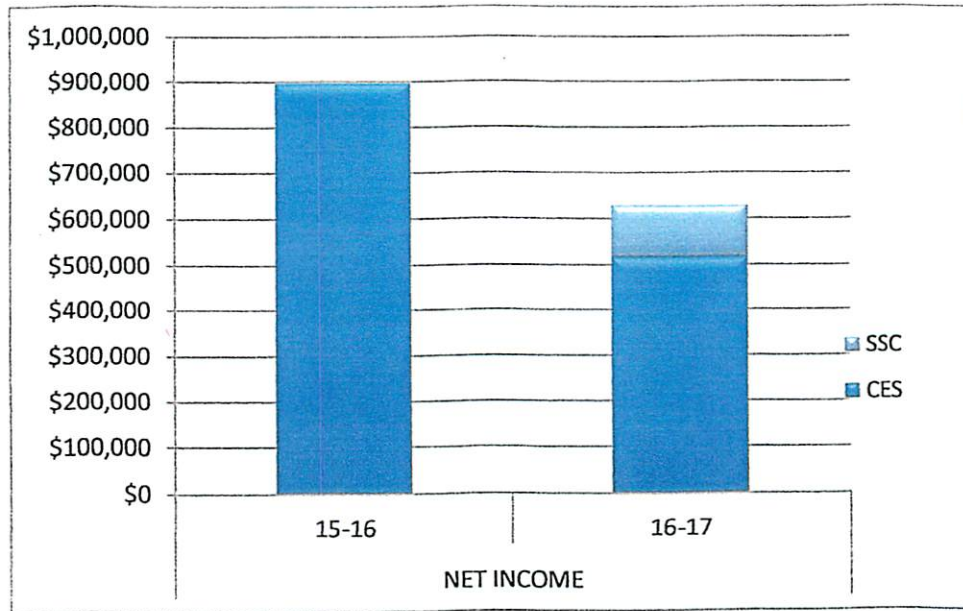
- CES' Combined Net Assets increased by \$628,893 as a result of this year's operations. SSC's Fund Net Assets on June 30, 2017 are \$111,634 and CES' are \$517,259 for the combined total of \$628,893. This represents a 12% increase in Fund Net Assets. Total Fund Net Assets on June 30, 2017, are \$5,860,593.

➤ FUND NET ASSETS COMPARISON 2015-2016 and 2016-2017



- CES' combined Change in Net Assets or Increase of Revenues over Expenses for the fiscal year ending June 30, 2017, is \$628,893. This is \$238,139 less than last fiscal year's and represents a 27.5% decrease over last year's Change in Net Assets or Increase of Revenues over Expenses. CES issued \$200,000 in Member Credits this year. This is the same credit amount that was given last year by CES. There are several factors that contributed to this reduction in Net Assets and Net Income from this year to last year even though revenue was up this year. These factors are discussed page 8 of this document.

NET INCOME COMPARISON 2015-2016 and 2016-2017



- 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 commissioned the creation of a custom software program for its procurement solicitations and contract management that allows for the online entry of vendor registrations and solicitation responses. CES has spent \$148,782 to date on this custom program but has not taken any depreciation expense because the software was not fully functional as of June 30, 2017. Although CES purchased \$106,440 for Ancillary testing materials and supplies, there were no Ancillary Fixed Assets purchased. There were no Ancillary Fixed Asset deletions. The purchase of Ancillary items is shown as an expense, in accordance with CES' Fixed Asset Policy, because each item costs less than \$5,000.
  
- 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, 2017, CES' combined Working Capital is \$1,732,344; (CES is \$1,603,985 and SSC is \$128,359) a \$2,682,459 decrease over the June 30, 2016, Working Capital of \$4,414,803. This is a 61.0% decrease in Working Capital and indicating a bit weaker financial position for CES. Keep in mind that CES purchased the SSC building for \$3,250,000 cash. This had the effect of reducing cash, a current asset but increasing a long-term asset, thus affecting Working Capital.

## Management's Discussion and Analysis - Continued

- 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 a long term portion of Compensated Absences in the amount of \$10,033. Current assets exceed current liabilities by \$1,732,344.
- 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' combined Current Ratio, as of June 30, 2017, is 1.04:1, assets over liabilities. This is a 7.1% decrease over last year's Current Ratio of 1.12:1. The Current Ratio indicates a sound financial position.
- CES' Total Combined Revenues for the fiscal year ended June 30, 2017, are \$261,140,484. \$200,000 in Member Credits was issued this fiscal year per the Executive Committee directive. CES' Operating Revenues were \$260,988,895 and SSC's operating revenues were \$151,589 for fiscal year ended June 30, 2017. CES experienced an increase in revenue because of members' greater usage of contracts in the Group Purchasing Procurement area. The cooperative procurement area that showed the most significant revenue increase was CES' Group Purchasing Procurement program, with an increase of \$31,200,379. This accounted for 102.8% of CES' increase in revenue. Ancillary revenue decreased by \$1,267,643 which offset some of the gains made in the Group Purchasing area.
- The SSC part of CES' business will continue to generate revenue and contribute to Net Income because of the leases that are in effect. Some leases do not expire until 2022. CES will continue to renew leases as practical, depending on the needs for space by CES to continue and expand programs. SSC generated \$151,589 in revenue from March 27, 2017 through June 30, 2017. The Net Income generated from this revenue was \$111,632.
- Factors affecting CES' profit in fiscal year 2016-2017 are discussed in this paragraph. CES' Group Purchasing area experienced a \$31,200,379, (14.4%), increase in revenue, which means that CES' profit was increased by the 1% administrative fee CES receives from Procurement amounting to an approximate \$310,000 increase. CES experienced an increase in Administrative Services by \$353,622, (16.5%), a decrease in Ancillary Services of \$1,267,643, (-10.6%), and SSC added \$151,589 in revenue. Because CES is not in the business to make large profits, the Executive Committee decided to pledge a large portion of CES' profit to fund certain initiatives. These initiatives and their amounts are: School Improvement Technical Expertise (SITE) \$600,000, Future Educators of America, \$25,000, Member Credits, \$200,000, Technical Assistance Program, \$30,000 and Curriculum companion, \$101,000. These expenditures total \$956,000 that CES gave back to public education in New Mexico for the fiscal year ending June 30, 2017. With funding these initiatives, CES still had a combined net profit for fiscal year 2016-2017 of \$628,893. Had CES not undertaken any initiatives to give back to public education, CES' Net Income would have been \$1,584,893.

## Management's Discussion and Analysis - Continued

CES created a 401(a) retirement fund for its office staff. This fund is 100% funded by CES. Contributions are made based upon an employee's contract amount. If an employee's contract amount is \$50,000 or less they will get a 3% quarterly contribution into the 401(a). If an employee's contract amount is greater than \$50,000, they will get a 1% quarterly contribution into the 401(a). An employee must have five years of continuous employment with CES before they become 100% vested in these contributions. Once an employee has achieved five years of continuous employment with CES, the contributions are transferred into the employees 403(b) plan and all future contribution will be made into the 403(b) plan. The purpose of these contributions is to promote longevity of employment with CES.

- 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 these programs for the fiscal year ended June 30, 2017, was approximately \$42,210,362. This is a decrease of \$4,679,133(10%) over last year's Enabled Revenue of \$46,889,494. 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 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, 2017.

## Management's Discussion and Analysis - Continued

### **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 - COMBINED**  
**For the Year Ended June 30, 2017**  
**with Comparative Totals for 2016**

	<b>Assets</b>	<u>2017</u>	<u>2016</u>
<b>Current Assets:</b>			
Cash (Note 2)	\$	6,340,457	\$ 6,821,444
Accounts receivable, trade		35,550,270	30,303,823
Receivable - other		1,394	1,394
Prepaid expense		26,500	
Total current assets		<u>41,918,621</u>	<u>37,126,661</u>
Capital assets, net of accumulated depreciation (Note 3)		<u>4,138,282</u>	<u>820,244</u>
Total assets	\$	<u>46,056,903</u>	\$ <u>37,946,905</u>
<b>Liabilities and Net Position</b>			
<b>Current Liabilities:</b>			
Accounts payable, trade	\$	39,218,459	\$ 31,671,522
Accrued payroll and benefits (Note 9)		563,314	664,114
Unearned revenue		89,466	91,390
Tenant deposits		15,042	-
Member credit liability (Note 8)		200,000	200,000
Compensated absences (Note 10)		99,996	84,832
Total current liabilities		<u>40,186,277</u>	<u>32,711,858</u>
<b>Long-Term Liabilities:</b>			
Compensated absences (Note 10)		<u>10,033</u>	<u>3,347</u>
Total long-term liabilities		<u>10,033</u>	<u>3,347</u>
Total liabilities		<u>40,196,310</u>	<u>32,715,205</u>
<b>Net Position:</b>			
Net investment in capital assets		4,138,282	820,244
Unrestricted		<u>1,722,311</u>	<u>4,411,456</u>
Total net position		<u>5,860,593</u>	<u>5,231,700</u>
Total liabilities and net position	\$	<u>46,056,903</u>	\$ <u>37,946,905</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 - COMBINED  
For the Year Ended June 30, 2017  
with Comparative Totals for 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Administrative services	\$ 2,499,894	\$ 2,146,263
Group purchasing	247,589,821	216,389,442
Ancillary services	10,641,452	11,909,095
Related services	380,346	295,318
Administration	-	6,985
Adjustment for member credit (Note 6)	(122,618)	(181,552)
Rent	150,896	
Reimbursed expenses	<u>693</u>	
Total operating revenues	<u>261,140,484</u>	<u>230,565,551</u>
Operating expenses:		
Cost of goods sold		
Administrative services	2,229,311	1,921,881
Group purchasing	245,870,102	214,815,727
Ancillary services	10,098,225	11,196,275
Related services	<u>1,040,238</u>	<u>529,917</u>
Total cost of goods sold	<u>259,237,876</u>	<u>228,463,800</u>
Gross profit	<u>1,902,608</u>	<u>2,101,751</u>
Administration expenses:		
Salaries and wages	609,419	591,518
Employee benefits	120,690	119,160
Payroll taxes	46,452	46,590
Retirement expense	76,650	49,570
Travel and member expense	28,571	27,410
Vehicle expense	5,110	11,413
Insurance-property and liability	8,414	8,215
Advertising and marketing	10,607	15,472
Board and meeting costs	27,694	29,110
Postage and freight	805	1,742
Telephone	13,720	8,094
Copier expense	10,856	7,963
Printing	4,781	732
Facilities and repairs	56,246	41,881
Association fees	3,873	
Depreciation	101,693	83,688
General materials and supplies	55,571	70,803
Contract services	44,730	62,963
Technology - software	7,876	1,743
Professional dev. program	279	37,910
Legal/accounting services	<u>39,680</u>	<u>25,675</u>
Total expenses	<u>1,273,717</u>	<u>1,241,652</u>
Operating income/(loss)	<u>628,891</u>	<u>860,099</u>
Non-operating revenues:		
Interest income	<u>2</u>	<u>6,933</u>
Total non-operating revenues	<u>2</u>	<u>6,933</u>
Change in net position	628,893	867,032
Net position, beginning of year	<u>5,231,700</u>	<u>4,364,668</u>
Net position, end of year	\$ <u>5,860,593</u>	\$ <u>5,231,700</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 - COMBINED  
For the Year Ended June 30, 2017  
with Comparative Totals for 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Cash received from members	\$ 255,855,881	\$ 225,969,274
Rent received from tenants	173,892	
Less:		
Cash payment to or for suppliers	(240,376,691)	(216,688,493)
Cash payment to or for employees	<u>(12,714,341)</u>	<u>(13,406,643)</u>
Net cash provided (used) by operating activities	<u>2,938,741</u>	<u>(4,125,862)</u>
<b>Cash flows from capital and related financing activities:</b>		
Interest income	2	6,933
Purchase building	(3,250,805)	
Purchase of improvements and equipment	<u>(168,925)</u>	<u>(140,398)</u>
Net cash (used) provided by capital and related financing activities	<u>(3,419,728)</u>	<u>(133,465)</u>
Net increase (decrease) in cash and cash equivalents	(480,987)	(4,259,327)
Cash and cash equivalent, beginning of year	<u>6,821,444</u>	<u>11,080,771</u>
Cash and cash equivalent, ending of year	\$ <u>6,340,457</u>	\$ <u>6,821,444</u>

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

Operating income (loss)	\$ 628,891	\$ 860,099
Depreciation expense	101,692	83,688
Decrease (increase) in:		
Accounts receivable	(5,246,447)	(4,492,084)
Accounts receivable - other	-	1,231
Prepaid expenses	(26,500)	-
Increase (decrease) in:		
Deferred revenue	(1,924)	(104,193)
Tenant deposit	15,042	
Accounts payable	7,546,937	(597,329)
Accrued payroll and expenses	(100,800)	104,248
Compensated absences	<u>21,850</u>	<u>18,478</u>
Net cash provided (used) by operating activities	\$ <u>2,938,741</u>	\$ <u>(4,125,862)</u>

SEE INDEPENDENT AUDITOR'S REPORT

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

**COOPERATIVE EDUCATIONAL SERVICES**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS - PROCUREMENT**  
**For the Year Ended June 30, 2017**  
**with Comparative Totals for 2016**

	<b>Assets</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Current Assets:</b>			
Cash (Note 2)	\$	6,172,649	\$ 6,821,444
Accounts receivable, trade		35,549,063	30,303,823
Receivable - other		1,394	1,394
Prepaid expense		26,500	
Total current assets		<u>41,749,606</u>	<u>37,126,661</u>
Capital assets, net of accumulated depreciation (Note 3)		<u>904,202</u>	<u>820,244</u>
Investment in SSC (Note 13)		<u>3,250,805</u>	<u>-</u>
Total assets	\$	<u>45,904,613</u>	\$ <u>37,946,905</u>
<b>Liabilities and Net Position</b>			
<b>Current Liabilities:</b>			
Accounts payable, trade	\$	39,201,313	\$ 31,671,522
Accrued payroll and benefits (Note 9)		563,314	664,114
Unearned revenue		80,998	91,390
Member credit liability (Note 8)		200,000	200,000
Compensated absences (Note 10)		99,996	84,832
Total current liabilities		<u>40,145,621</u>	<u>32,711,858</u>
<b>Long-Term Liabilities:</b>			
Compensated absences (Note 10)		<u>10,033</u>	<u>3,347</u>
Total long-term liabilities		<u>10,033</u>	<u>3,347</u>
Total liabilities		<u>40,155,654</u>	<u>32,715,205</u>
<b>Net Position:</b>			
Net investment in capital assets		904,202	820,244
Unrestricted		4,844,757	4,411,456
Total net position		<u>5,748,959</u>	<u>5,231,700</u>
Total liabilities and net position	\$	<u>45,904,613</u>	\$ <u>37,946,905</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 - PROCUREMENT  
For the Year Ended June 30, 2017  
with Comparative Totals for 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Administrative services	\$ 2,499,894	\$ 2,146,263
Group purchasing	247,589,821	216,389,442
Ancillary services	10,641,452	11,909,095
Related services	380,346	295,318
Administration	-	6,985
Adjustment for member credit (Note 6)	(122,618)	(181,552)
Total operating revenues	<u>260,988,895</u>	<u>230,565,551</u>
Operating expenses:		
Cost of goods sold		
Administrative services	2,229,311	1,921,881
Group purchasing	245,870,102	214,815,727
Ancillary services	10,098,225	11,196,275
Related services	1,040,238	529,917
Total cost of goods sold	<u>259,237,876</u>	<u>228,463,800</u>
Gross profit	<u>1,751,019</u>	<u>2,101,751</u>
Administration expenses:		
Salaries and wages	609,419	591,518
Employee benefits	120,690	119,160
Payroll taxes	46,452	46,590
Retirement expense	76,650	49,570
Travel and member expense	28,571	27,410
Vehicle expense	5,110	11,413
Insurance-property and liability	8,414	8,215
Advertising and marketing	10,607	15,472
Board and meeting costs	27,694	29,110
Postage and freight	805	1,742
Telephone	12,939	8,094
Copier expense	10,856	7,963
Printing	4,781	732
Facilities and repairs	37,998	41,881
Depreciation	84,968	83,688
General materials and supplies	55,241	70,803
Contract services	44,730	62,963
Technology - software	7,876	1,743
Professional dev. program	279	37,910
Legal/accounting services	39,680	25,675
Total expenses	<u>1,233,760</u>	<u>1,241,652</u>
Operating income/(loss)	<u>517,259</u>	<u>860,099</u>
Non-operating revenues:		
Interest income	-	6,933
Total non-operating revenues	<u>-</u>	<u>6,933</u>
Change in net position	517,259	867,032
Net position, beginning of year	<u>5,231,700</u>	<u>4,364,668</u>
Net position, end of year	\$ <u>5,748,959</u>	\$ <u>5,231,700</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 - PROCUREMENT**  
**For the Year Ended June 30, 2017**  
**with Comparative Totals for 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Cash received from members	\$ 255,855,881	\$ 225,969,274
Less:		
Cash payment to or for suppliers	(240,370,605)	(216,688,493)
Cash payment to or for employees	<u>(12,714,341)</u>	<u>(13,406,643)</u>
Net cash provided (used) by operating activities	<u>2,770,935</u>	<u>(4,125,862)</u>
<b>Cash flows from capital and related financing activities:</b>		
Interest income	-	6,933
Purchase of improvements and equipment	<u>(168,925)</u>	<u>(140,398)</u>
Net cash (used) provided by capital and related financing activities	<u>(168,925)</u>	<u>(133,465)</u>
<b>Cash flows from investing activities:</b>		
Investment in SSC	<u>(3,250,805)</u>	<u>-</u>
Net cash (used) provided by investing	<u>(3,250,805)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(648,795)	(4,259,327)
Cash and cash equivalent, beginning of year	<u>6,821,444</u>	<u>11,080,771</u>
Cash and cash equivalent, ending of year	\$ <u>6,172,649</u>	\$ <u>6,821,444</u>

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

Operating income (loss)	\$ 517,259	\$ 860,099
Depreciation expense	84,967	83,688
Decrease (increase) in:		
Accounts receivable	(5,245,240)	(4,492,084)
Accounts receivable - other	-	1,231
Prepaid expenses	(26,500)	-
Increase (decrease) in:		
Deferred revenue	(10,392)	(104,193)
Accounts payable	7,529,791	(597,329)
Accrued payroll and expenses	(100,800)	104,248
Compensated absences	<u>21,850</u>	<u>18,478</u>
Net cash provided (used) by operating activities	\$ <u>2,770,935</u>	\$ <u>(4,125,862)</u>

SEE INDEPENDENT AUDITOR'S REPORT

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

COOPERATIVE EDUCATIONAL SERVICES

STATEMENT OF NET POSITION - PROPRIETARY FUNDS -  
REAL ESTATE VENTURE (First Year)  
For the Year Ended June 30, 2017

Assets	<u>2017</u>
Current Assets:	
Cash (Note 2)	\$ 167,808
Accounts receivable	<u>1,207</u>
Total current assets	<u>169,015</u>
Capital assets, net of accumulated depreciation (Note 3)	<u>3,234,080</u>
Total assets	\$ <u>3,403,095</u>
<b>Liabilities and Net Position</b>	
Current Liabilities:	
Accounts payable	\$ 8,225
Property tax payable	8,921
Deferred rent	8,468
Tenant deposits	<u>15,042</u>
Total current liabilities	<u>40,656</u>
Total liabilities	<u>40,656</u>
Net Position:	
Net investment in capital assets	3,234,080
Unrestricted	<u>128,359</u>
Total net position	<u>3,362,439</u>
Total liabilities and net position	\$ <u>3,403,095</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 -  
REAL ESTATE VENTURE - (First Year)  
For the Year Ended June 30, 2017

Operating revenues:		2017
Rent income	\$	<u>150,896</u>
Reimbursement		<u>693</u>
Total operating revenues		<u>151,589</u>
Operating expenses:		
Association fees		3,873
Depreciation		16,725
General operating		330
Maintenance		12,324
Security monitor		97
Telephone/internet		781
Utilities		<u>5,827</u>
Total operating expenses		<u>39,957</u>
Operating income/(loss)		<u>111,632</u>
Non-operating revenues:		
Interest income		<u>2</u>
Total non-operating revenues		<u>2</u>
Contributed capital (Note 13)		<u>3,250,805</u>
Change in net position		3,362,439
Net position, beginning of year		<u>-0-</u>
Net position, end of year	\$	<u>3,362,439</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 -  
REAL ESTATE VENTURE**

**For the Year Ended June 30, 2017**

	<u>2017</u>
<b>Cash flows from operating activities:</b>	
Rent received from tenants	\$ 173,892
Less:	
Cash payment to or for suppliers	<u>(6,086)</u>
Net cash provided (used) by operating activities	<u>167,806</u>
<b>Cash flows from capital and related financing activities:</b>	
Interest income	2
Purchase of building	(3,250,805)
Investment from CES	<u>3,250,805</u>
Net cash (used) provided by capital and related financing activities	<u>2</u>
Net increase (decrease) in cash and cash equivalents	167,808
Cash and cash equivalent, beginning of year	<u>-0-</u>
Cash and cash equivalent, ending of year	\$ <u>167,808</u>
 <b>Reconciliation of operating income to cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 111,632
Adjustment:	
Depreciation expense	16,725
Decrease (increase) in:	
Accounts receivable	(1,207)
Increase (decrease) in:	
Deferred rent	8,468
Accounts payable	8,225
Property tax	8,921
Tenant deposit	<u>15,042</u>
Net cash provided (used) by operating activities	\$ <u>167,806</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, 2017**

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, 2017, there were 239 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, 2017, there were 220 participating entities registered with CES.

**COOPERATIVE EDUCATIONAL SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

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, 2017

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, 2017.

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, 2017

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 present 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. A new proprietary fund began in March, 2017 when the agency purchased a building which is 100% leased. Operating revenues from this activity is rental income and operating expenses are comprised of building operating expense and upkeep. 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, 2017

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, 2017

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, 2017.

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, 2017**

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 35-36, in the supplementary information section of the audit report.

**COOPERATIVE EDUCATIONAL SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

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 two budget adjustment request by June 30, 2017.

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, 2017

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, 2017, \$0 of CES' bank balance of \$11,517,062 was exposed to custodial credit risk. Custodial

**COOPERATIVE EDUCATIONAL SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

Note 2: Cash and Cash Equivalents-continued

credit risk is defined as the risk that the government's deposits may not be returned to it in the event of a bank failure.

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

<u>Name of depository</u>	<u>Account name</u>	<u>Type of account</u>	Bank balance as of 6/30/17	Reconciled balance as of 6/30/17
Wells Fargo	Operating-CES	Checking	\$ 11,348,162	\$ 6,717,449
Wells Fargo	Operating-SSG	Checking	153,856	152,764
Wells Fargo	Tenant Deposits	Checking	15,044	15,044
			<u>11,517,062</u>	<u>\$ 6,340,257</u>
Less: FDIC insurance			(418,900)	
Uninsured public funds			11,098,162	
Pledged collateral held by the pledging bank's trust department in agency's name			<u>11,641,319</u>	
Over insured and collateralized			<u>\$ 543,157</u>	
50% collateral requirements (Section 6-10-17 NMSA 1978)			5,842,981	
Total pledged collateral			<u>11,641,319</u>	
Pledged collateral (over) the requirement			<u>(5,798,338)</u>	
Total deposits:				
Category 1-Insured with securities			\$ 11,517,062	
Less outstanding checks			(5,176,805)	
Reconciled bank balance			6,340,257	
Cash on hand			<u>200</u>	
Total cash and cash equivalents			<u>\$ 6,340,457</u>	

See Schedule of Pledged Collateral by Bank on page 37.

**COOPERATIVE EDUCATIONAL SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

Note 3: Property, Equipment and Depreciation

Property and equipment are summarized as follows:

	Balance 2016	Additions	Deletions	Balance 2017
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 152,000	\$ 641,700	\$ _____	\$ 793,700
Capital assets being depreciated:				
Buildings and improvements	967,330	2,609,105		3,576,435
Furniture and equipment	522,626	130,561		653,187
Ancillary equipment	9,398			9,398
Vehicles	_____	38,365	_____	38,365
Total capital assets being depreciated	<u>1,499,354</u>	<u>2,778,031</u>	_____	<u>4,277,385</u>
Less accumulated depreciation for:				
Buildings and improvements	(448,847)		55,390	(504,237)
Furniture and equipment	(372,865)		40,314	(413,179)
Ancillary equipment	(9,398)			(9,398)
Vehicles	_____		5,989	(5,989)
Total accumulated depreciation	<u>(831,110)</u>		<u>101,693</u>	<u>(932,803)</u>
Net property and equipment	\$ <u>820,244</u>	\$ <u>3,419,731</u>	\$ <u>101,693</u>	\$ <u>4,138,282</u>

For the years ended June 30, 2017 and 2016, depreciation expense was \$101,693 and \$83,688, respectively.

As of the year ended June 30, 2017, CES had no idle equipment.

Note 4: Retirement 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 1.56962 percent of employee's contribution up to 7.9 percent, the maximum amount matched by CES, of annual salary for non-ancillary full-time employees.

**COOPERATIVE EDUCATIONAL SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

Note 4: Retirement Plan (continued)

CES created a 401(a) retirement fund for its office staff. This fund is 100% funded by CES. Contributions are made based upon an employee's contract amount. If an employee's contract amount is \$50,000 or less they will get a 3% quarterly contribution into the 401(a). If an employee's contract amount is greater than \$50,000, they will get a 1% quarterly contribution into the 401(a). An employee must have five years of continuous employment with CES before they become 100% vested in these contributions. Once an employee has achieved five years of continuous employment with CES, the contributions are transferred into the employees 403(b) plan and all future contribution will be made into the 403(b) plan.

CES' contributions for the years ended June 30, 2017 and 2016 were \$172,248 and \$127,157, respectively.

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.

**COOPERATIVE EDUCATIONAL SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

Note 8: Member Credit Liabilities

At June 30, 2017, \$200,000 in member credits were given out which could be used against the members' purchases in the years 2017-2018.

Note 9: Accrued Liabilities

Accrued payroll at June 30, 2017, is as follows:

<u>Type</u>	<u>2017</u>	<u>2016</u>
Accrued payroll and other benefits	\$ <u>548,506</u>	\$ <u>664,114</u>
Total	\$ <u>548,506</u>	\$ <u>664,114</u>

Note 10: Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2017, is as follows:

	<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2017</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Compensated absences	\$ <u>88,179</u>	\$ <u>110,029</u>	\$ <u>88,179</u>	\$ <u>110,029</u>	\$ <u>99,996</u>

Prior year compensated absences have been liquidated by the operating fund. No short-term debt was incurred during the fiscal year 2017 or 2016.

Note 11: Operating Lease

CES has a multi-year equipment lease with Pitney Bowes. During the year \$1,536 was paid on the lease. Operating lease due over next five years:

June 30, 2018	\$ <u>640</u>
	\$ <u>640</u>

CES entered into a three year vehicle lease with Tillery Chevrolet. During the year \$3,653 was paid on the lease. CES purchased the vehicle December 27, 2016 for \$14,303.

COOPERATIVE EDUCATIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 12: Joint Powers Agreement

Joint Powers Agreement to establish Educational Cooperative was made July 1, 1984, and approved by the Department of Finance and Administration. The JPA has been restated, amended and approved several times by the members.

**Participants:** Members consist of public educational institutions in New Mexico. Participating entities (nonmembers) consist of cities, counties and other public entities.

**Party responsible for operations:** Cooperative Educational Services

**Description:** An educational cooperative for the purpose of pooling efforts and resources (group purchasing) in order to bring additional, necessary educational services to their respective institutions at an affordable cost.

**Effective:** July 1, 1984 until rescinded or terminated by a majority vote of participating members.

**Total estimated amount of project and portion**

**applicable to the agency:** Total revenue \$158,076,730

**Amount the agency contributed in the current year:**

None

**Audit responsibility:** N/A

**Name of governing agency where revenues and**

**expenditures are reported:** Office of State Auditor

Note 13: Contributed capital

CES contributed \$ \$3,250,805 to purchase an office building, called Sandia Synergy Center, which is a new enterprise fund, and consists of an office building which is fully leased with the intent to have CES move in at a later date. At this point, there is no plan to have Sandia Synergy Center pay back the contributed capital from CES.

The inter-fund investment in SSC/contributed capital has been eliminated in the combined statement of net position.

**COOPERATIVE EDUCATIONAL SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

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' 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 22, 2017, 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 - PROCUREMENT  
For the Year Ended June 30, 2017**

	Budget Amount		Actual	Variance
	Original	Final	Amount	Favorable (Unfavorable)
<b>Revenues</b>				
Administrative services	\$ 1,690,000	\$ 2,411,012	\$ 2,499,894	\$ 88,882
Group purchasing	182,700,000	249,503,033	247,589,821	(1,913,212)
Ancillary services	11,025,000	11,025,000	10,641,452	(383,548)
Related services	405,000	405,000	380,346	(24,654)
Administration	6,000	6,000	-	(6,000)
Interest income			-	-
Member credit			(122,618)	(122,618)
Total Revenue	<u>195,826,000</u>	<u>263,350,045</u>	<u>260,988,895</u>	<u>(2,361,150)</u>
<b>Expenses</b>				
Administrative services	1,510,616	2,233,105	2,229,311	3,794
Group purchasing	181,826,289	248,629,322	245,870,102	2,759,220
Ancillary services	10,408,605	10,408,605	10,098,225	310,380
Related services	1,128,942	1,175,349	1,040,238	135,111
Administration expense	<u>1,428,022</u>	<u>1,443,080</u>	<u>1,233,760</u>	<u>209,320</u>
Total Expense	<u>196,302,474</u>	<u>263,889,461</u>	<u>260,471,636</u>	<u>3,417,825</u>
Excess of Revenue Over (Under) Expenses	<u>(476,474)</u>	<u>(539,416)</u>	517,259	<u>1,056,675</u>
<b>Change in Net Position</b>				
Net Position, Beginning of year			<u>5,231,700</u>	
Net Position, End of year			\$ <u>5,748,959</u>	
 Budgetary notation - Cash appropriated from prior year for current year expenditures \$ <u>6,821,444</u>				

**COOPERATIVE EDUCATIONAL SERVICES**

**STATEMENT OF REVENUE, EXPENSE AND NET POSITION -  
BUDGET (GAAP BUDGET BASIS) VERSUS ACTUAL - REAL ESTATE RENTAL  
For the Year Ended June 30, 2017**

	<u>Budget Amount</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Favorable (Unfavorable)</u>
<b>Revenues</b>				
Rent income	\$ 150,896	\$ 150,896	\$ 150,896	\$ -
Reimbursed expenses	693	693	693	-
Interest income			2	2
Total Revenue	<u>151,589</u>	<u>151,589</u>	<u>151,591</u>	<u>2</u>
<b>Expenses</b>				
Association fees	3,873	3,873	3,873	-
Depreciation	16,725	16,725	16,725	-
General operating	330	330	330	-
Maintenance	12,719	12,719	12,324	395
Security	97	97	97	-
Telephone/internet	781	781	781	-
Utilities	5,827	5,827	5,827	-
Total Expense	<u>40,352</u>	<u>40,352</u>	<u>39,957</u>	<u>395</u>
Excess of Revenue Over (Under) Expenses	<u>111,237</u>	<u>111,237</u>	111,634	<u>397</u>
Contributed capital			3,250,805	
<b>Change in Net Position</b>				
Net Position, Beginning of year			<u>-</u>	
Net Position, End of year			\$ <u>3,362,439</u>	

**COOPERATIVE EDUCATIONAL SERVICES**

**SCHEDULE OF PLEDGED COLLATERAL BY BANK  
For the Year Ended June 30, 2017**

Pledged securities - Held by pledging bank's trust department in the name of Cooperative Educational Services - See note on page 29.

<u>CUSIP</u>	<u>Held by</u>	<u>Rate</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>
3032GKV94	FMAC FGPC	3.50	11/01/2041	\$	\$ 859,477
3138WBFL4	FNMA FNMS	3.50	3/01/2034		10,606,171
3138WQR79	FNMA FNMS	3.50	7/01/2042		<u>175,671</u>
Total pledged collateral					\$ <u>11,641,319</u>
Wells Fargo Bank - Operating CES					11,348,162
Less: FDIC insurance					<u>(250,000)</u>
Uninsured public funds					\$ <u>11,098,162</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. Tim Keller,  
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 years ended June 30, 2017 and 2016, 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 22, 2017.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### 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 22, 2017

COOPERATIVE EDUCATIONAL SERVICES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2017

Section 1 - Summary of Audit Results

Financial Statements

Type of Auditor's report Issued

Unmodified

Deficiency in internal control:

Material weakness identified?

   Yes

  X No

Significant deficiencies identified?

   Yes

  X No

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

   Yes

  X No

Federal Awards

Cooperative Educational Services does not receive any federal money

Prior Year Finding - resolved and not repeated

2016-001 - Late audit contract - Other Matters (State Audit Rule Finding)

2016-002 -Under collateralized public monies - Other Noncompliance

Current Year Findings

None

**COOPERATIVE EDUCATIONAL SERVICES**

**EXIT CONFERENCE**

**June 30, 2017**

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 22, 2017, and attended by the following:

Finance Committee

Brenda Vigil, Treasurer  
Kirk Carpenter, President-elect

CES Personnel

David Chavez, Executive Director  
Robin D. Strauser, Deputy Executive Director  
Anne Tafoya, Director of Ancillary

Kathleen R. Lane, P.C. - Personnel

Kathleen R. Lane, Audit Partner