

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

COOPERATIVE EDUCATIONAL SERVICES

Financial Statements, Supplementary Information
and
Independent Auditor's Report

June 30, 2018

COOPERATIVE EDUCATIONAL SERVICES

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COOPERATIVE EDUCATIONAL SERVICES

List of Principal Officials

June 30, 2018

Executive Committee	Title	Representing
Kirk Carpenter	President	Aztec Municipal Schools
Dwain Haynes	President Elect	Eunice Municipal Schools
T.J. Parks	Past President	Hobbs Municipal Schools
Kim Mizell	Region I	Bloomfield Schools
Fred Trujillo	Region II	Pecos Independent Schools
Richard Perea	Secretary	Santa Rosa Consolidated Schools
Joel Shirley	Region IV	Estancia Municipal Schools
Aaron McKinney	Region V	Tucumcari Public Schools
LeAnne Gandy	Region VI	Lovington Municipal Schools
Brenda Vigil	Treasurer	Tularosa Municipal Schools
Greg Ewing	Region VIII	Las Cruces Public Schools
Matt Pahl	New Mexico Coalition of Charter Schools	Executive Director
Vacant	New Mexico Association of Community Colleges (NMACC)	
Stan Rounds	New Mexico Coalition of Community Colleges (NMCEL)	Executive Director
Joe Guillen	New Mexico School Boards Association (NMSBA)	Executive Director
Marian K. Rael	New Mexico Public Education Department (NMPED)	Acting Deputy Secretary
Penny Garcia	Commission of Higher Ed	Eastern NM University
Administrative Officials		
David Chavez		Executive Director
Robin D. Strauser		Deputy Executive Director

Independent Auditor's Report

Mr. Wayne Johnson, New Mexico State Auditor, and
The Board of Directors and Management
Cooperative Educational Services
Albuquerque, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Cooperative Educational Services (CES), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise CES's basic financial statements 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Mr. Wayne Johnson, New Mexico State Auditor, and
The Board of Directors and Management
Cooperative Educational Services
Albuquerque, New Mexico

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Cooperative Educational Services, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with 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 through 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on CES' financial statements and individual fund financial statements. The schedules required by Section 2.2.2 NMAC, as listed in the Supplementary Information – Supporting Schedules section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Mr. Wayne Johnson, New Mexico State Auditor, and
The Board of Directors and Management
Cooperative Educational Services
Albuquerque, New Mexico

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2018 on our consideration of CES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CES' internal control over financial reporting and compliance.

Porch & Associates LLC

Albuquerque, New Mexico
September 12, 2018

**COOPERATIVE EDUCATIONAL SERVICES
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018**

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, 2018. 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.

This document is to be read 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 also 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, 2018 compared to June 30, 2017.”

The **Statement of Net Assets** includes all assets and liabilities of CES using the accrual basis of accounting, which is 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 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. CES’ Net Assets are Increased by profit or decreased by losses. These financial statements report CES’ net assets and the change in them as a result of this fiscal year’s operations.

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

**COOPERATIVE EDUCATIONAL SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018**

Operational Highlights

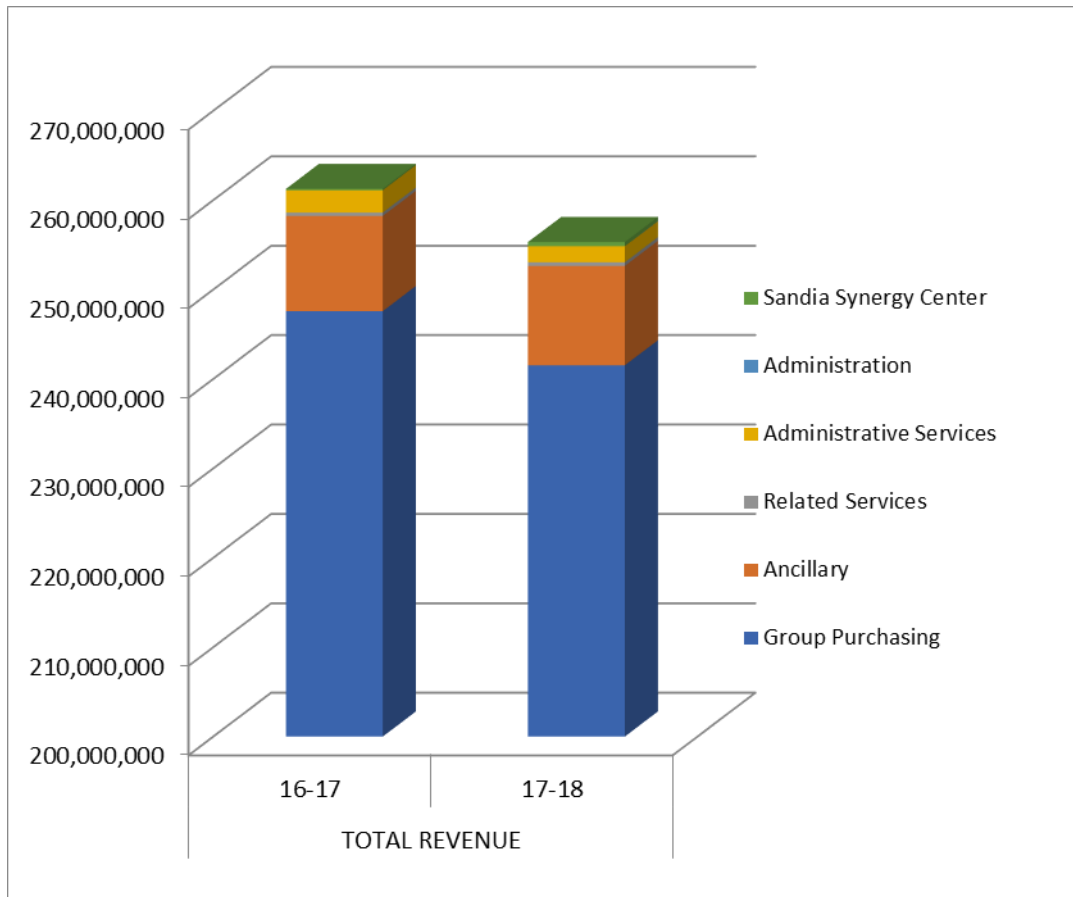
CES continues to own and occupy its building at 4216 Balloon Park Road NE, Albuquerque, NM. On March 27, 2017 CES purchased a building located at 1451 Innovation Parkway SE, Albuquerque, New Mexico. The building is known as Sandia Synergy Center (SSC). The building is a 28,000 square foot, office building. It was purchased to accommodate future expansion needs for CES. The intent was for CES to occupy a large portion of this building, but CES decided to continue leasing out the office space for FY 2017-2018. CES created a separate entity within its financial software system to account for the revenue and expenses related to SSC. This is the first full fiscal year for CES accounting for the leasing of this office building. Throughout Management's Discussion and Analysis and this audit report, SSC and CES will be addressed separately and then in combination.

**COOPERATIVE EDUCATIONAL SERVICES
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018**

FINANCIAL HIGHLIGHTS

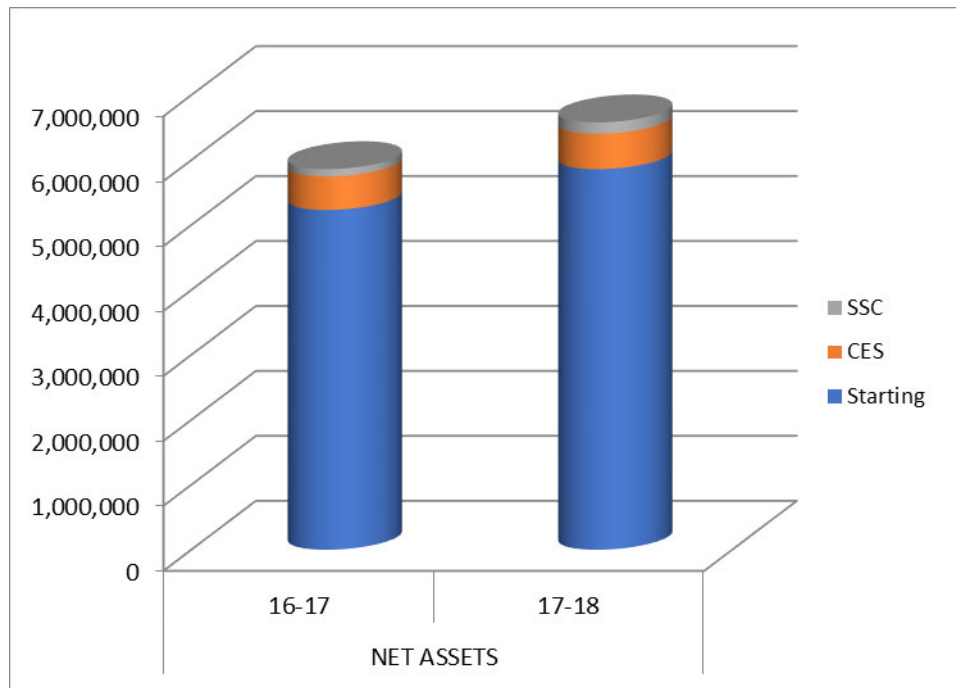
- CES’ Total Revenues, excluding SSC, decreased this fiscal year by \$6,218,161, when compared to last fiscal year, and totaled \$254,893,352 including non-operating revenue. This represents a 2.4% decrease over prior year’s revenue but is a 21.6% increase over original budgeted revenue of \$209,625,000. SSC had revenue of \$460,092. Adding these revenues together, CES’s combined revenue for the 2017-2018 fiscal year totaled \$255,353,444. This is a total revenue decrease of \$5,909,659 and is a 2.3% decrease over last year’s revenue.

TOTAL REVENUES COMPARISON 2016-2017 and 2017-2018



**COOPERATIVE EDUCATIONAL SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018**

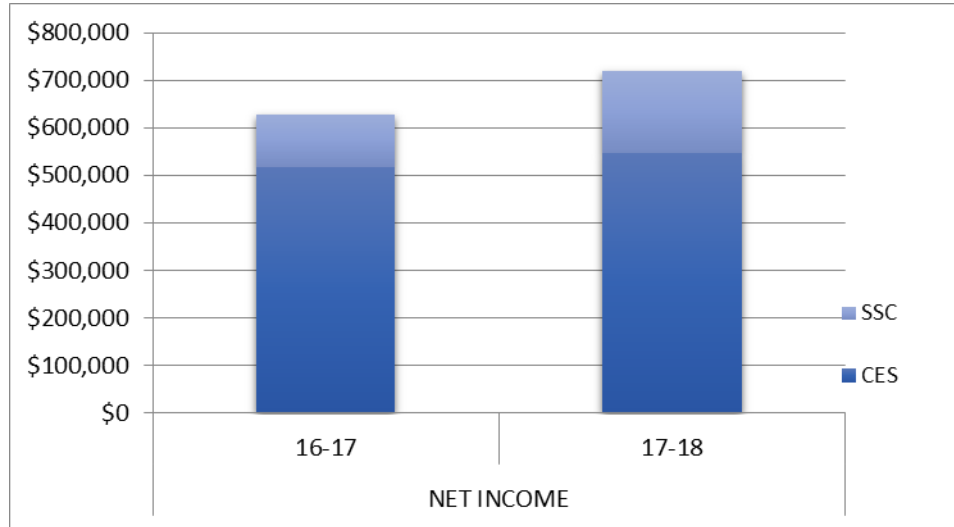
- CES' Fund Net Assets increased by \$547,038 as a result of this year's operations. SSC's Fund Net Assets increased by \$170,808. These make a combined total increase in Fund Net Assets of \$717,846. This represents a 12.2% increase in Fund Net Assets. Total combined Fund Net Assets on June 30, 2018 are \$6,578,439.
- **FUND NET ASSETS COMPARISON 2016-2017 and 2017-2018**



**COOPERATIVE EDUCATIONAL SERVICES
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018**

- CES’ combined Change in Net Assets or Increase of Revenues over Expenses for the fiscal year ending June 30, 2018, is \$717,846. This is \$88,955 more than the last fiscal year and represents a 14.1% increase over last year’s Change in Net Assets or Increase of Revenues over Expenses.

NET INCOME COMPARISON 2016-2017 and 2017-2018



- 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. Last fiscal year 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 just started taking the depreciation expense this fiscal year because the software was not functional until this year. Although CES purchased \$58,876 for Ancillary testing materials and supplies, because the cost of each item was below \$5,000, there were no Ancillary Fixed Assets purchased
- 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, 2018, CES’ combined Working Capital is \$2,344,543; (CES is \$1,975,638 and SSC is \$368,905) a \$622,232 increase over the June 30, 2017 Working Capital of \$1,722,311. This is a 36.1% increase in Working Capital and indicates a stronger 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 \$2,344,543.

**COOPERATIVE EDUCATIONAL SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018**

- The Current Ratio compares current assets to current liabilities and is another 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, 2018, is 1.07 to 1, assets over liabilities. This is a 2.9% increase over last year's Current Ratio of 1.04 to 1. The Current Ratio indicates a good financial position.
- CES' Total Combined Revenues for the fiscal year ended June 30, 2018, are \$255,353,444. CES' Operating Revenues were \$254,893,352 and SSC's operating revenues were \$460,092 for fiscal year ended June 30, 2018. CES experienced a 2.2% decrease in revenue from the prior year. This is the first time in the last eleven (11) years that CES has seen a decrease in revenue.
- The SSC part of CES' business will continue to generate revenue and contribute to Net Income because of the leases that are in place. The majority of the space leased is under lease agreements with some terms running through 2022. CES will continue to renew leases as practical, depending on the needs for space by CES to continue and expand programs. SSC generated \$460,092 in revenue this fiscal year. The Net Income generated from this revenue was \$170,808.
- Factors affecting CES' profit in fiscal year 2017-2018 are discussed in this paragraph. CES' Group Purchasing area experienced a \$6,059,211 (2.3%) decrease in Procurement revenue. This decrease was due mostly to a purchasing pull back by members due to economic uncertainty. CES experienced a decrease in Administrative Services of \$712,962 (28.5%) because of not being able to hire enough staff to meet needs. Ancillary Services experienced an increase of \$468,770, (4.4%) and SSC added \$460,208 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, and Curriculum Companion, \$18,679. These expenditures total \$813,083 that CES gave back to public education in New Mexico for the fiscal year ending June 30, 2018. With funding these initiatives, CES still had a combined net profit for fiscal year 2017-2018 of \$719,960. Had CES not undertaken any initiatives to give back to public education, CES' Net Income would have been \$1,533,043.

**COOPERATIVE EDUCATIONAL SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018**

CES has 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 annual wage amount is \$50,000 or less they get a 3% quarterly contribution into the 401(a). If an employee's annual wage 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 contributions 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 members can purchase directly from select 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, 2018, was approximately \$44,672,000. This is an increase of \$2,461,638 (5.8%) over last year's Enabled Revenue of \$42,210,362. 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. CES' membership is comprised of educational institutions, municipalities and counties within the state of Anew Mexico. 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.

**COOPERATIVE EDUCATIONAL SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018**

- 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, 2018.

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
June 30, 2018**

ASSETS	Procurement and Ancillary Services	Sandia Synergy Center	Total
Current Assets:			
Cash and cash equivalents	\$ 6,654,623	395,248	7,049,871
Accounts receivable	30,410,567	-	30,410,567
Rent receivable	-	7,954	7,954
Prepaid expenses	26,500	-	26,500
Total current assets	37,091,690	403,202	37,494,892
Noncurrent Assets:			
Capital assets, not depreciated	410,889	641,700	1,052,589
Capital assets, net of accumulated depreciation	658,665	2,525,480	3,184,145
Total noncurrent assets	1,069,554	3,167,180	4,236,734
Total assets	\$ 38,161,244	3,570,382	41,731,626
LIABILITIES AND NET POSITION			
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 34,623,140	15,496	34,638,636
Accrued compensation, related taxes, and benefits	329,627	-	329,627
Accrued expenses	-	723	723
Unearned revenue	39,486	-	39,486
Compensated absences - current	112,657	-	112,657
Unearned rental income	-	5,874	5,874
Tenant deposits	-	15,042	15,042
Total current liabilities	35,104,910	37,135	35,142,045
Noncurrent Liabilities			
Compensated absences	11,142	-	11,142
Total liabilities	35,116,052	37,135	35,153,187
NET POSITION			
Net investment in capital assets	1,069,553	3,167,180	4,236,733
Unrestricted	1,975,639	366,067	2,341,706
Total net position	3,045,192	3,533,247	6,578,439
Total liabilities and net position	\$ 38,161,244	3,570,382	41,731,626

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

COOPERATIVE EDUCATIONAL SERVICES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2018

	Procurement and Ancillary Services	Sandia Synergy Center	Total
Operating Revenues:			
Administrative services	\$ 1,786,932	-	1,786,932
Group purchasing	241,530,610	-	241,530,610
Ancillary services	11,110,223	-	11,110,223
Related services	416,544	-	416,544
Adjustment for member credit	49,043	-	49,043
Rent income	-	450,188	450,188
Reimbursement	-	9,904	9,904
Total operating revenues	254,893,352	460,092	255,353,444
Operating Expenses:			
Administrative services	1,517,554	-	1,517,554
Group purchasing	239,890,590	-	239,890,590
Ancillary services	10,480,063	-	10,480,063
Related services	900,148	-	900,148
Administration expenses	1,450,143	-	1,450,143
Depreciation	107,816	222,400	330,216
Rental operations	-	66,900	66,900
Total operating expenses	254,346,314	289,300	254,635,614
Operating income	547,038	170,792	717,830
Nonoperating revenues (expenses)			
Interest income	-	16	16
Change in net position	547,038	170,808	717,846
Net position, beginning of year	5,748,959	3,362,439	9,111,398
Restatement	(3,250,805)	-	(3,250,805)
Net position, beginning of year, as restated	2,498,154	3,362,439	5,860,593
Net position, end of year	\$ 3,045,192	3,533,247	6,578,439

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

COOPERATIVE EDUCATIONAL SERVICES
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	Procurement and Ancillary Services	Sandia Synergy Center	Total
Cash Flows From Operating Activities			
Cash received from customers	\$ 259,942,687	-	259,942,687
Rent received from tenants	-	450,751	450,751
Cash payments to vendors and employees	(259,187,545)	(223,327)	(259,410,872)
Net cash provided by operating activities	755,142	227,424	982,566
Cash Flows From Capital and Related Financing Activities			
Acquisition of capital assets	(273,168)	-	(273,168)
Cash Flows From Investing Activities			
Interest on cash and cash equivalents	-	16	16
Net change in cash and cash equivalents	481,974	227,440	709,414
Cash and cash equivalents, beginning of year	6,172,649	167,808	6,340,457
Cash and cash equivalents, end of year	\$ 6,654,623	395,248	7,049,871

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 547,038	170,792	717,830
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	107,816	66,900	174,716
Changes in assets and liabilities:			
Accounts receivable	5,138,496	(6,747)	5,131,749
Receivables, other	1,394	-	1,394
Accounts payable	(4,578,173)	7,271	(4,570,902)
Accrued expenses	-	723	723
Accrued compensation, related taxes, and benefits	(233,687)	-	(233,687)
Unearned revenue	(41,512)	(2,594)	(44,106)
Compensated absences	13,770	-	13,770
Property taxes payable	-	(8,921)	(8,921)
Member credit liability	(200,000)	-	(200,000)
Total adjustments	208,104	56,632	264,736
Net cash provided by operating activities	\$ 755,142	227,424	982,566

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

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity. 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, 2018, there were 245 participating entities registered with CES.

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 that 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.

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity

The financial statements of CES have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities.

As required by GAAP, financial statements are presented for the primary government and its component units. A legally separate organization that does not qualify as a primary government is a potential component unit. The normal criterion for deciding whether a potential component unit is, in fact, a component unit is financial accountability. Financial accountability is determined by analyzing fiscal dependency, board appointments, financial benefit or burden relationships, or the ability of the primary government to impose its will on the potential component unit. Based on these criteria, CES has no component units.

CES is considered a special purpose government engaged in a single business-type activity and presents only financial statements required for enterprise funds. 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.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Operating revenues from rental activities include rental income and operating expenses are comprised of building operation expense and upkeep. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

CES reports the following major proprietary fund:

Procurement and Ancillary Services. This fund is CES primary operating fund. It accounts for CES's major programs revenue and expenses which include Administrative Services, Group Purchasing, Ancillary Services, Related Services, and for administration expenses. The fund was authorized by a Joint Power Agreement in December 1986.

CES reports the following nonmajor proprietary fund:

Sandia Synergy Center. This fund was created in March 2017, when CES purchased a building. CES intention was to move into the building, which was 100% rented. The fund accounts for the income and rental expense of the building.

C. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits. Cash and cash equivalents are reported at carrying amount, which reasonably estimates fair value.

CES does not have an investment policy. New Mexico State Statute 6-10-36 allows for the following investments:

1. United States Treasury Securities (Bills, Notes and Bonds) and other securities issued by the United States government or its agencies or instrumentalities that are either direct obligations of the United States of America, the Federal Home Loan Mortgage Corp., the Federal National Mortgage Association, the Federal Farm Credit Bank, or the Student Loan Marketing Association, or are backed by the full faith and credit of the United States government.

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

C. Cash and Cash Equivalents (Continued)

2. Insured and/or collateralized (with U.S. Government Securities and/or New Mexico Bonds) certificates of deposit of banks, savings and loan associations, and credit unions, pursuant to State Board of Finance Collateral Policies.
3. Money market funds whose portfolios consist entirely of United States Government Securities or agencies sponsored by the United States government.
4. Investments in the New Mexico State Treasurer external investment pool (Local Government Investment Pool).

D. Accounts Receivable – Trade

Accounts receivable represents amounts due from members for services provided by CES. 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, 2018.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the year-end are recorded as prepaid items.

F. Capital Assets

Capital assets, which are comprised of equipment, are reported in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Such assets, including infrastructure, have higher limits that must be met before they are capitalized.

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

F. Capital Assets (continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Furniture, equipment, and software	3-8 years
Building and Improvements	10-40 years
Ancillary Equipment	3-8 years

The Audit Act, 12-6-10, NMSA 1978, requires all assets which cost more than \$5,000 and have a life greater than one year to be added to the General Fixed Asset Account Group and a yearly inventory of those assets must be taken.

G. 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.

In addition, CES receives rental payments from tenants in advance of the rent term. These amounts are included in unearned revenue.

H. Accrued Compensated Absences

Full-time employees are entitled to accumulated annual leave at a rate based on years of service. A maximum of 320 hours of such accumulated annual leave may be carried forward into the beginning of the calendar leave year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 120 hours.

I. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on asset use either through the enabling legislation adopted by CES or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

J. Income Taxes

CES is exempt from Federal Income Taxes based on the New Mexico Attorney General's determination that CES is a governmental entity.

K. Cash Flows

For purposes of the Statement of Cash Flows, CES considers all demand deposit, savings, certificate of deposits, and highly liquid investments to be cash equivalents.

L. 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.

M. Budgetary Information

CES prepares a budget for internal use, but is not required to provide a legally adopted budget with a government agency in New Mexico. Government reporting standards do not require proprietary fund budget to actual statements to be reported in these financial statements.

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.

**COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

N. Implementation of New Accounting Standards

During the year ended June 30, 2018, CES adopted the following Government Accounting Standards Board Statements (GASB):

GASB No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The statement will not have a material impact on CES's financial statements.

GASB No. 85 – Omnibus. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The statement will not have a material impact on CES's financial statements.

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2. CASH

Custodial Credit Risk - Deposits. Custodial credit risk is, in the event of the failure of a depository financial institution, CES will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. CES does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in CES name. As of June 30, 2018, CES' bank balance total of \$13,010,769 was exposed to credit risk in the amount of \$12,760,769 as follows:

Uninsured and collateral held by pledging bank's trust department not in CES name	<u>\$12,760,769</u>
---	---------------------

The total balance in any single financial institution may at times exceed the \$250,000 in FDIC coverage available to individual depositors. In accordance with Section 6-10-17, NMSA, 1978 Compilation, CES is required to collateralize an amount equal to one-half of the public money in excess of \$250,000 at each financial institution.

Credit Risk. CES has no formal policy on managing credit risk. State law limits investments to United States Government obligations, commercial paper with A-1 or better ratings, corporate bonds with a BBB+ or better rating, asset backed obligations with an AAA or better rating, or repurchase agreements.

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ending June 30, 2018 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 793,700	258,889	-	1,052,589
Capital assets being depreciated:				
Buildings and improvements	\$ 3,576,435	-	-	3,576,435
Furniture and equipment	653,187	14,279	-	667,466
Ancillary equipment	9,398	-	-	9,398
Vehicles	38,365	-	-	38,365
Total capital assets	4,277,385	14,279	-	4,291,664
Accumulated depreciation for:				
Buildings and improvements	504,237	104,634	-	608,871
Furniture and equipment	413,179	64,093	-	477,272
Ancillary equipment	9,398	-	-	9,398
Vehicles	5,989	5,989	-	11,978
Total accumulated depreciation	932,803	174,716	-	1,107,519
Total capital assets, depreciated, net	\$ 3,344,582	(160,437)	-	3,184,145
Total capital assets, depreciated and non-depreciated, net	\$ 4,138,282	98,452	-	4,236,734

NOTE 4. COMPENSATED ABSENCES

During the year ended June 30, 2018, the following changes occurred:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Compensated absences payable	\$ 110,029	141,434	(127,664)	123,799	112,657

Prior year compensated absences have been liquidated by the procurement and ancillary services fund.

**COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 5. OPERATING LEASE

CES has a multi-year equipment lease with Pitney Bowes. During the year \$1,536 was paid on the lease.

Future payments under leases exceeding one year are due for the year ending June 30:

2019	\$	1,524
2020		1,524
2021		<u>1,524</u>
Total	\$	<u>4,572</u>

NOTE 6. NEW MEXICO STATE PENSION AND HEALTH CARE PLANS

CES does not participate in the New Mexico Public Employees Retirement Association's pension plan. CES also does not contribute to the New Mexico Retiree Health Care Plan.

NOTE 7. 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.

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 year ended June 30, 2018 and 2017 were \$157,964 and \$172,248, respectively.

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8. 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 9. RISK MANAGEMENT

CES is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the government carries commercial insurance. CES is insured through purchase of commercial insurance policies for general liability and purchases of 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 10. JOINT POWERS AGREEMENTS

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.
Responsible Parties:	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.
Period:	July 1, 1984 until rescinded or terminated by a majority vote of participating members.
Current Year Contribution:	NA
CES Contributions:	None
Audit Responsibility:	CES

COOPERATIVE EDUCATIONAL SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 11. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. CES recognized 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 12, 2018, which is the date the financial statements were available to be issued. There were no material subsequent events.

NOTE 12. PRIOR PERIOD RESTATEMENT

The June 30, 2017 audit included the purchase of land and a building by CES in the amount of \$3,250,805. This purchase was accounted for as an investment in Sandia Synergy Center. The transaction should have been accounted for as a transfer out by CES in the amount of \$3,250,805, and a transfer in by the Sandia Synergy Center Fund in the amount of \$3,250,805 instead of recording an investment. The restatement decreased investments and opening net position for CES in the amount of \$3,250,805.

**COOPERATIVE EDUCATIONAL SERVICES
SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2018**

Depository	Account Name	Interest Bearing	Type	Depository Balance	Reconciled Balance
Wells Fargo	Operating - CES	Yes	Checking	\$ 12,612,809	6,654,423
Wells Fargo	Operating - SSC	Yes	Checking	382,901	380,189
Wells Fargo	Tenant Deposits	Yes	Checking	15,059	15,059
Cash and cash equivalents				13,010,769	7,049,671
Petty Cash	Petty Cash			-	200
Total cash and cash equivalents				<u>\$ 13,010,769</u>	<u>\$ 7,049,871</u>

**COOPERATIVE EDUCATIONAL SERVICES
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2018**

	<u>Wells Fargo</u>
Deposits at June 30, 2018	\$ 13,010,769
Less: FDIC coverage	250,000
Uninsured public funds	<u>12,760,769</u>
Pledged collateral held by the pledging bank's trust department or agent but not in the CES's name	14,058,479
Uninsured and uncollateralized	<u>\$ -</u>
50% pledged collateral requirement per statute	\$ 6,380,385
Total pledged collateral	<u>14,058,479</u>
Pledged collateral over the requirement	<u>\$ (7,678,095)</u>

Pledged collateral at June 30, 2018 consists of the following:

Security	CUSIP	Maturity	Market Value
FNMA FNMS 3.5%	3138E2UX1	3/1/2042	\$ 3,393,434
FNMA FNMS 3.0%	3138WYCM5	6/1/2043	2,509,176
FNMA FNMS 2.5%	3140FAP30	8/1/2031	3,051,350
FNMA FNMS 3.0%	31417DAD5	9/1/2042	5,104,519
			<u>\$ 14,058,479</u>

The custodian of the pledged securities is BNY Mellon, New York.

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS
10612 ROYAL BIRKDALE NE
ALBUQUERQUE, NM 87111

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*

Mr. Wayne Johnson, New Mexico State Auditor, and
The Board of Directors and Management
Cooperative Educational Services
Albuquerque, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Cooperative Educational Services (CES) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the CES's basic financial statements, and have issued our report thereon dated September 12, 2018.

Internal Control Over Financial Reporting

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

Mr. Wayne Johnson, New Mexico State Auditor, and
The Board of Directors and Management
Cooperative Educational Services
Albuquerque, New Mexico

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CES' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CES' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Porch & Associates LLC

Albuquerque, New Mexico
September 12, 2018

**COOPERATIVE EDUCATIONAL SERVICES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018**

Findings from Year Ended June 30, 2017:

Current Status:

None

**COOPERATIVE EDUCATIONAL SERVICES
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2018**

None

**COOPERATIVE EDUCATIONAL SERVICES
EXIT CONFERENCE
Year Ended June 30, 2018**

An exit conference was held September 24, 2018, and attended by the following:

Cooperative Educational Services

Richard Perea, Secretary

David Chavez, Executive Director

Robin D. Strauser, Deputy Executive Director

Porch & Associates LLC

Thad Porch, Managing Principal

* * * * *

The financial statements were prepared by Porch & Associates LLC from the books and records of CES. However, the contents of these financial statements remain the responsibility of CES' management.