

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

FINANCIAL REPORT

June 30, 2008 and 2007

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

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**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
AN EDUCATIONAL COOPERATIVE
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OFFICIAL ROSTER

Executive Committee

<u>Member</u>	<u>Representative</u>	<u>Position</u>
Chama Valley	Manuel Valdez	President
Roy	Rick Hazen	President Elect
Elida	Jack Burch	Secretary, Region V
Truth or Consequences	James Nesbitt	Treasurer, Region VII
Las Cruces	Stanley Rounds	Past President
Zuni	Kaye Peery	Region I
Espanola	David Cockerham	Region II
Santa Rosa	Dan Flores	Region III
Grant-Cibola	Kilino Marquez	Region IV
Dexter	Patricia Parsons	Region VI
Lordsburg	James Barentine	Region VIII
NM Coalition for Charter Schools	Lisa Grover	Ex-officio
NM Association of Community Colleges	Ty Trujillo	Ex-officio
NM Coalition of School Administrators	Tom Sullivan	Ex-officio
NM School Board Association	Joe Guillen	Ex-officio
NM Public Education Dept.	Gilbert Perea	Ex-officio

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

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AICPA

INDEPENDENT AUDITOR'S REPORT

Max Luft, Executive Director and the Board of Directors
Cooperative Educational Services
And
Mr. Hector H. Balderas
New Mexico State Auditor

I have audited the accompanying financial statements of the business-type activities and budgetary comparisons of Cooperative Educational Services as of and for the fiscal years ended June 30, 2008 and 2007, which collectively comprise the Cooperative Educational Services' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Cooperative Educational Services' management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above

present fairly, in all material respects, the respective financial position of the business-type activities of Cooperative Educational Services as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows, thereof and the budgetary comparison for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 26, 2008, on my consideration of Cooperative Educational Services' internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis, on pages three through eight, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Kathleen R. Lane, P.C.
August 26, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2008

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, 2008. 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 clearly answers, "Yes, CES is better off June 30, 2008 compared to June 30, 2007".

The **Statement of Net Assets** includes all assets and liabilities of CES using the accrual basis of accounting, which is similar to the accounting method used by most private-sector businesses.

Likewise, the **Statement of Revenues, Expenses and Changes in Fund Net Assets** reports all revenue and expenses using the accrual basis of accounting which accounts for all revenue and expenses regardless of when cash was actually received or expended. Any increase or decrease in net assets is an indicator of whether CES' financial position has improved or deteriorated. The **Statement of Revenues, Expenses and Changes in Fund Net Assets** shows how well CES conducted its operations for the current fiscal year. Profit increases and loss decreases CES' net assets. These financial statements report CES' net assets and the change in them as a result of the current fiscal year's operations.

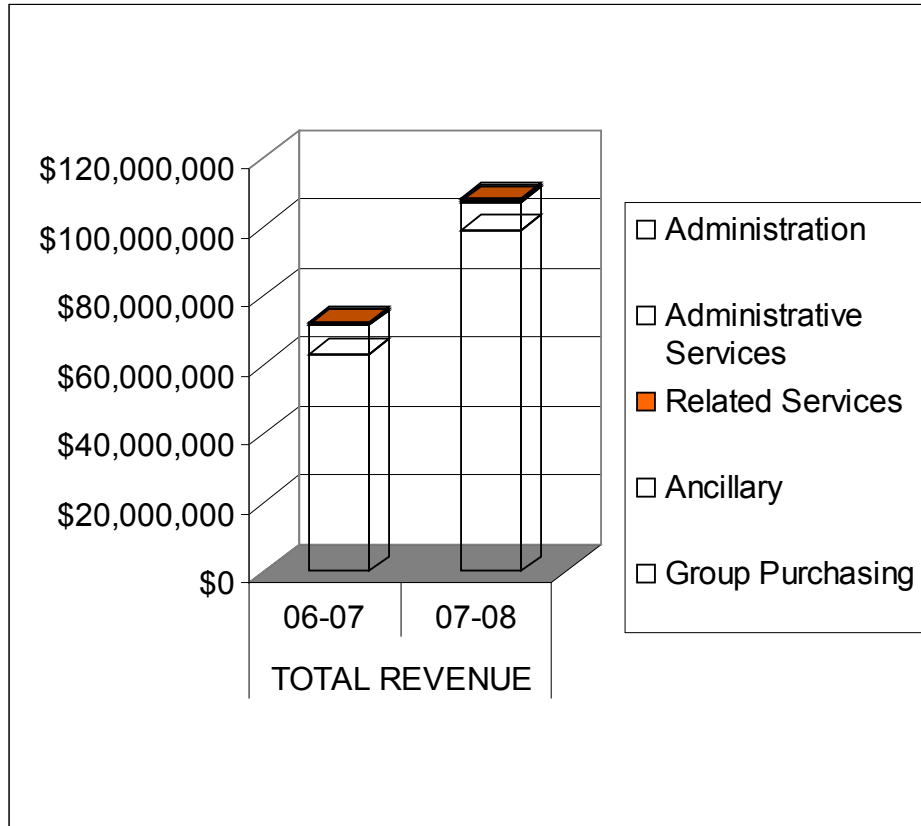
The **Statement of Cash Flows** is also an important document in determining the financial viability of CES. Cash flow is the life-blood of CES, or any entity, and this statement provides insight with regard to the inflows and outflows. This statement could signal an entity's effective cash management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

Management's Discussion and Analysis - Continued

FINANCIAL HIGHLIGHTS

- CES' Total Revenues increased this fiscal year by \$35,948,787, when compared to last fiscal year, and totaled \$108,001,829, including non-operating revenue and net of Member Credit contra revenue. It represents a 49.9% increase over prior year's revenue and a 46.0% increase over budgeted revenue of \$78,000,000.

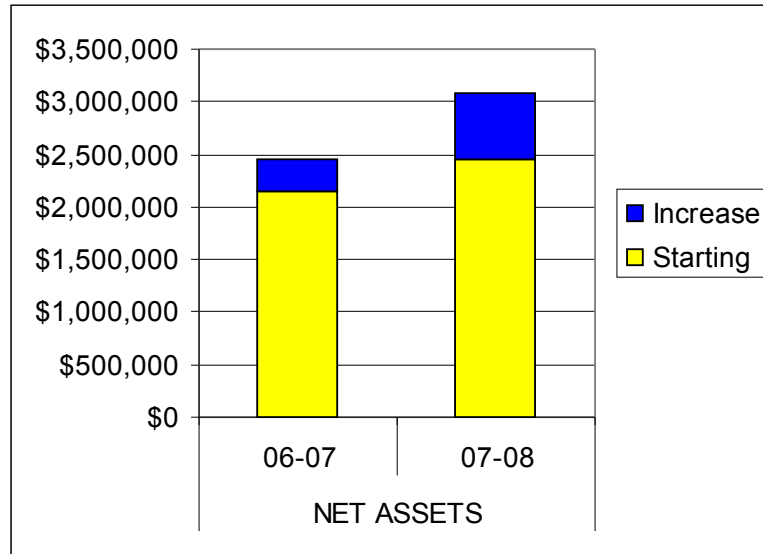
TOTAL REVENUES COMPARISON 2006-2007 and 2007-2008



- CES' Fund Net Assets increased by \$619,966 as a result of this year's operations. This represents a 25.2% increase in Fund Net Assets. Total Fund Net Assets on June 30, 2008, are \$3,078,406.

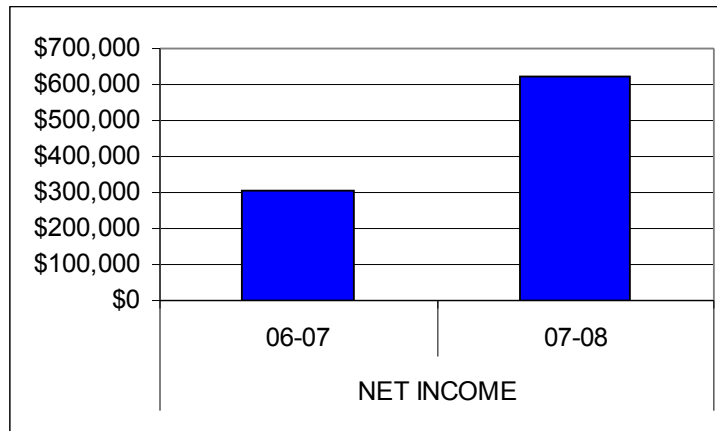
Management's Discussion and Analysis - Continued

FUND NET ASSETS COMPARISON 2006-2007 and 2007-2008



- CES' Change in Net Assets or profit for the fiscal year ending June 30, 2008, is a phenomenal \$619,966. This is \$313,472 more than last fiscal year's and represents an amazing 102.3% increase over last year's Change in Net Assets or profit.

NET INCOME COMPARISON 2006-2007 and 2007-2008

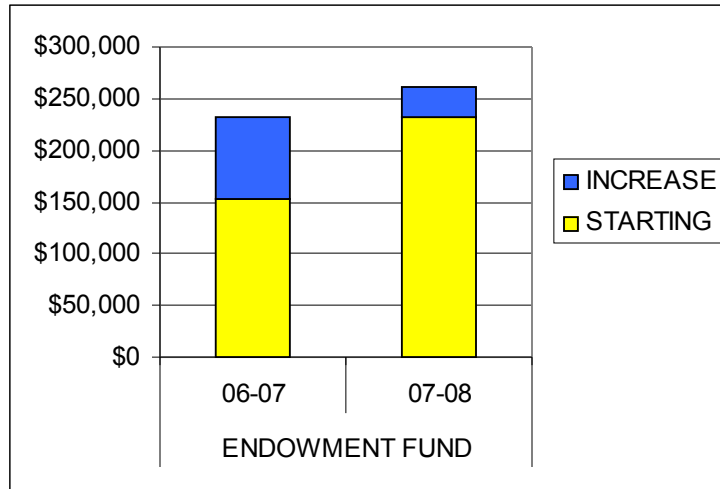


- In fiscal year 2000 - 2001 CES designated an internal Endowment Fund within its unrestricted Net Assets to insure the long term financial stability of CES. Cash for this Fund is generated by certain designated activities of CES. The Endowment Fund increased by \$29,020 to bring the total to \$260,666 as of June 30, 2008. This

amount is included in the Cash amount shown on the **Statement of Net Assets**.

Management's Discussion and Analysis - Continued

ENDOWMENT FUND COMPARISON 2006-2007 and 2007-2008



- 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 did not purchase any new office equipment that added to its Fixed Assets, but did purchase new financial software in the amount of \$36,069. CES removed \$29,430 in Furniture and Equipment from its Fixed Assets. The item removed from Fixed Assets consisted of financial software. The financial software was incompatible with CES' business model and had to be abandoned. The software was not fully depreciated which resulted in a loss on the disposal of an asset in the amount \$4,905. CES did purchase additional office furniture for the newly constructed procurement office which totaled \$13,000, but no piece was greater than the \$5,000 capitalization threshold. Although CES purchased more than \$32,000 of Ancillary testing materials and supplies, there were no Ancillary Fixed Assets purchased. There were no Ancillary Fixed Asset deletions. Taking these Ancillary Fixed Asset numbers at face value may give one the impression that CES is spending less on Ancillary items; however, that is not the case. In fact, CES has maintained its spending on Ancillary items, but the cost of these individual items is less than \$5,000 and is not added to Fixed Assets. The purchase of Ancillary items is shown as an expense in accordance with CES' Fixed Asset Policy.

CES did two major building improvement projects this fiscal year that totaled \$77,672 that had to be capitalized during its 2007-2008 fiscal year. These projects were the resurfacing of CES' parking lot and the construction of a new procurement office to house the three procurement personnel.

Management's Discussion and Analysis - Continued

- 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, 2008, CES' Working Capital is \$2,404,404; a \$571,358 increase over the June 30, 2007, Working Capital of \$1,833,066. This is a 31.1% increase in Working Capital and indicates an improved, robust financial position for CES.
- CES has no debt other than its current liabilities, which are more than offset by Cash and Accounts Receivable. Current assets exceed current liabilities by \$2,404,404.
- The Current Ratio compares current assets to current liabilities and is also an indicator of CES' ability to pay its obligations. A Current Ratio greater than 1 to 1 means that the entity can pay all current obligations from its current assets and have a residual of assets. CES' Current Ratio, as of June 30, 2008, is 1.19:1.00, assets over liabilities. This is a 1.7% increase over last year's Current Ratio of 1.17:1.00. The Current Ratio definitely indicates a healthy financial position.
- CES' Total Revenues for the fiscal year ended June 30, 2008, is by far the highest recorded to date: \$107,798,649, net of the Member Credits. CES experienced an increase in revenue as a result of providing more constructions services in the cooperative procurement area, increase in CES' student nutrition program and an increase in the amount of ancillary personnel services provided to schools. The two cooperative procurement areas that showed the most significant revenue increases were CES' procurement program, with a most impressive increase of \$35,186,066, the student nutrition area with an increase of \$261,343 and ancillary service increase of \$205,076. CES' interest income decreased \$15,678 to a total for the year of \$166,030, which is 8.6% less than that for fiscal year 2006-2007. The decrease is due to the falling interest rates caused by the economic conditions existing.
- Factors affecting CES' profit in fiscal year 2007-2008 are discussed in this paragraph. CES' Executive Committee decided to place part of CES' profit, \$80,000, in reserve in 2008-2009 for Member Credits to be utilized on future purchases through CES. By reserving the \$80,000 in Member Credits, CES' expenses were increased by \$47,700. The reason the expense is less than \$80,000 is that the member credits must be used in the next fiscal year in which they were issued. Any unused member credit amount not used reverts back to CES. Another area affecting expense is that CES' health insurance

rates actually decreased by 10%. The decrease in health insurance rates was a result of legislative action that allowed CES to participate in the New Mexico Public School Insurance Authority's program. CES experienced savings in its medical insurance rates but experienced increase in payroll, due to raises and added personnel, utilities and supplies. Any increase in expenses were more than offset by CES' phenomenal increase in revenue which resulted in an unprecedented net profit for fiscal year 2007-2008 of \$619,966.

Management's Discussion and Analysis - Continued

- This, by far, has been CES' most successful year financially and in its member's use of programs.
- Other areas in which CES offers services to its members includes filing of Medicaid in the schools' reimbursements, participation in the supplemental benefits program, Bulk Purchasing Program and on-line purchasing by its members where they can purchase directly from selected CES vendors. These programs allow CES' members to deal directly with selected vendors apart from the customary procurement process. In these instances, CES does not process the transactions through its financial system. Rather, members pay the vendors directly and CES is rebated their administrative fee from the selected vendors involved in these programs. The resultant Enabled Revenue, as CES refers to it, for these programs for the fiscal year ended June 30, 2008, was approximately \$13.1 million. This is an increase of \$3.7 million (39.4%) over last year's Enabled Revenue of \$9.4 million. The Enabled Revenue amount is not reflected anywhere in CES' financial reports; however, the administrative fees CES received are included in CES' financial statements presented here.

ECONOMIC FACTORS

- CES is the administering agency for the Restated and Amended Joint Powers Agreement to Establish an Educational Cooperative and receives no state or federal governmental funding. CES' only sources of revenue result from one time new member fees, interest on its deposits, an administrative fee amount included in the hourly ancillary rate charged, an administrative amount included in Cadre billing, profit from In service events and the assessment of a 1% administrative fee to its members that is imbedded in the amount quoted by CES' vendors for procured services, construction and items of tangible personal property. CES is a purely entrepreneurial agency with the special purpose of providing cooperative procurement, ancillary staff, administrative support and related services to its members. Its budget is for planning purposes and does not carry the force of law. From a financial perspective, CES acts like a buyer and reseller of goods and services for its members. CES utilizes full accrual, enterprise accounting for its operations.

- CES' management has no knowledge of any factors, actual or contingent, that will have any effect on the financial position or results of operations of CES for the fiscal year ended June 30, 2008.

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.

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**STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
At June 30, 2008 and 2007**

Assets:	<u>2008</u>	<u>2007</u>
Current Assets:		
Cash (Note 5)	\$ 2,270,714	\$
1,865,998		
Accounts receivable, trade	12,515,497	
10,374,993		
Prepaid expenses	<u>40,211</u>	
<u>3,994</u>		
Total current assets	14,826,422	
12,244,985		
Net Property and Equipment (Note 2)	<u>707,543</u>	
<u>657,895</u>		
Total assets	\$ <u>15,533,965</u>	
\$ <u>12,902,880</u>		
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable, trade	\$ 11,939,807	\$
9,926,147		
Accrued payroll and other benefits	186,738	213,831
Deferred revenue	166,426	150,262
Member credit liabilities (Note 6)	80,000	80,000
Compensated absences (Note 8)	<u>49,047</u>	
<u>41,699</u>		
Total current liabilities	<u>12,422,018</u>	
10,411,939		
Long-term Liabilities:		
Compensated absences (Note 8)	<u>33,541</u>	
<u>32,501</u>		
Net Assets:		
Invested in capital assets	707,543	657,895
Unrestricted	<u>2,370,863</u>	
<u>1,800,545</u>		
Total net assets	<u>3,078,406</u>	
<u>2,458,440</u>		

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

**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
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Total liabilities and net assets \$ 15,533,965
\$12,902,880

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

**RESTATED AND AMENDED JOINT POWERS AGREEMENT TO ESTABLISH
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**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
For the Year Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Administrative services	\$ 595,021	\$ 513,958
Group purchasing	98,693,525	63,034,324
Ancillary services	8,438,427	8,220,984
Related services	113,260	104,024
Administration	6,116	13,068
Less: member credit (Note 6)	<u>(47,700)</u>	<u>(15,024)</u>
Total operating revenues	<u>107,798,649</u>	<u>71,871,334</u>
Operating expenses:		
Cost of goods sold		
Administrative services	499,450	454,802
Group purchasing	98,149,207	62,880,694
Ancillary services	7,879,920	7,752,342
Related services	<u>131,325</u>	
<u>122,989</u>		
Total cost of goods sold	<u>106,659,902</u>	<u>71,210,827</u>
Gross profit	<u>1,138,747</u>	<u>660,507</u>
Administration expenses:		
Salaries and wages	288,500	215,409
Travel and member expense	24,061	13,679
Payroll taxes	23,818	13,910
Retirement	24,357	16,080
Insurance	67,014	48,341
Advertising	5,961	11,438
Meeting costs	13,055	10,105
Postage and freight	4,607	4,753
Telephone	7,249	7,600
Copier expense	3,455	2,079
Printing	1,368	-
Facilities and repairs	48,169	42,392
Depreciation	59,188	62,217
General materials and supplies	98,654	42,562
Contract services	33,663	25,496
Small equipment	2,771	3,102
Miscellaneous	3,095	-
Legal/accounting services	<u>12,976</u>	<u>16,560</u>
Total expenses	<u>721,961</u>	<u>535,723</u>
Operating income	<u>416,786</u>	<u>124,784</u>
Nonoperating revenues:		
Interest income	166,030	181,708
Extraordinary income (Note 9)	<u>37,150</u>	
Total nonoperating revenues	<u>203,180</u>	<u>181,708</u>
Change in net assets	619,966	306,492
Net assets, beginning of year	<u>2,458,440</u>	<u>2,151,948</u>
Net assets, end of year	\$ <u>3,078,406</u>	\$ <u>2,458,440</u>

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

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**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
For the Year Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from members	\$ 105,618,235	\$
69,111,549		
Less:		
Cash payment to or for suppliers	96,648,214	60,727,309
Cash payment to or for employees	<u>8,654,744</u>	<u>8,285,928</u>
	<u>105,302,958</u>	<u>69,013,237</u>
Net cash provided by operating activities	<u>315,277</u>	<u>98,312</u>
Cash flows from capital and related financing activities:		
Interest income	166,030	181,708
Purchase of improvements and equipment	(113,741)	
(13,893)		
Extraordinary income	<u>37,150</u>	<u>-</u>
Net cash (used) provided by capital and related financing activities	<u>89,439</u>	
<u>167,815</u>		
Net increase in cash and cash equivalents	404,716	266,127
Cash and cash equivalent, beginning of year	<u>1,865,998</u>	<u>1,599,871</u>
Cash and cash equivalent, ending of year	\$ <u>2,270,714</u>	\$
<u>1,865,998</u>		

Reconciliation of operating income to cash used/provided by operating activities

Operating income	\$ 416,786	\$
124,784		
Depreciation expense	59,188	62,217
Software write-off	4,905	
Decrease (increase) in:		
Accounts receivable	(2,140,504)	
(2,876,087)		
Prepaid expenses	(36,217)	(109)
Increase (decrease) in:		
Deferred revenue	16,164	108,274
Accounts payable	2,013,660	2,633,726
Accrued expenses	(27,093)	36,547

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Member credit liabilities		9,177
Compensated absences	<u>8,388</u>	-
<u>(217)</u>		
Net cash provided by operating activities	\$ <u>315,277</u>	
<u>98,312</u>		

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

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 1: Organization and summary of significant accounting policies:

Organization

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, 2008, there were 196 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' financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible to establish GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that does not conflict with or contradict GASB pronouncements. CES applies all applicable FASB pronouncements including those which were issued after November 30, 1989, in accounting and reporting. The more significant accounting policies

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established by GAAP and used by CES are discussed below.

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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

Financial Reporting Entity

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the cornerstone of all reporting in governments.

A primary government is any state or general-purpose local government consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The CES is a local government unit and is the primary government for the financial presentation.

CES does not have any component units during the year ended June 30, 2008.

Basis of Presentation

CES operations are accounted for as an enterprise fund. Enterprise funds are financed and operated in a manner similar to private business. Enterprise funds are

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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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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

Basis of Presentation (continued)

policy designed to recover similar costs. They are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

Implementation of GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

CES implemented GASB Statement No. 34 (GASB 34) in the year 2001. The purpose of the new financial reporting model is to provide more understandable and useful financial reports to a wider range of users than the previous model. GASB 34 requires governments to present certain basic financial statements as well as a Management's discussion and analysis (MD&A), certain other required supplementary information (RSI), the enterprise fund financial statements, and notes to the financial statements.

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The enterprise fund financial statements include the statement of net assets, the statement of revenues, expenses, and changes in fund net assets, and the statement of cash flows were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB statement No. 33. CES has no non-exchange transactions in the current year.

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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

Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets - net of related debt, are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by external restrictions by other governments, creditors, or grantors.

Accounts Receivable - Trade

Management believes that all accounts receivable are collectible. Therefore, there is no reserve for uncollectible accounts.

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

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maintenance expenses are charged to operations when incurred and major improvements and replacements are capitalized. If construction is financed, interest during construction is capitalized. CES records assets (such as, furniture and equipments including software, building and improvements, land, and ancillary equipment) purchased at cost or, if contributed, at fair market value at date of donation. CES is capitalizing and depreciating computer software developed for internal use in compliance with AICPA Statement of Position 98-1. Straight-line depreciation is provided over the estimated lives of the assets.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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

Property and Equipment (continued)

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Furniture, Equipment, and Software	3-8 Year
Building and Improvements	10-40 Year
Ancillary Equipment	3-8 Year

Deferred Revenue

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

Income Taxes

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

Cash and Cash Equivalents

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

Operating and Non-operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with

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the principal ongoing operation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Interest income is reported as non-operating revenues.

**NOTES TO FINANCIAL STATEMENTS
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Note 1: Organization and summary of significant accounting policies: (continued)

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

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

Encumbrances

CES does not use encumbrance accounting.

Revenues

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

Compensated Absences Payable

The Compensated Absences is reported in Government Wide financial statement as 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

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liability is recorded for non-vesting accumulating
rights to receive sick pay benefits.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 2: Property and Equipment

	June 30, <u>2007</u>	Additions	Deletions	June 30, <u>2008</u>
Land	\$ <u>152,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>152,000</u>
Depreciable assets				
Buildings and improvements	603,712	77,672	-	681,384
Furniture and equipment	321,310	36,069	29,430	327,949
Ancillary equipment	<u>9,398</u>	<u>-</u>	<u>-</u>	<u>9,398</u>
Total depreciable assets	<u>934,420</u>	<u>113,741</u>	<u>29,430</u>	<u>1,018,731</u>
<hr/>				
Less: Accumulated depreciation				
Buildings and improvements	206,533	25,403	-	231,936
Furniture and equipment	212,594	33,785	24,525	221,854
Ancillary equipment	<u>9,398</u>	<u>-</u>	<u>-</u>	<u>9,398</u>
Total accumulated depreciation	<u>428,525</u>	<u>59,188</u>	<u>24,525</u>	<u>463,188</u>
Net property and equipment	\$ <u>657,895</u>	\$ <u>54,553</u>	\$ <u>4,905</u>	\$ <u>707,543</u>

Depreciation expense was \$59,188 and \$62,217 for the year ending June 30, 2008 and 2007, respectively.

Note 3: Pension Plan

All employees are eligible to participate in an IRS Section 403(b) and/or 457(b) pension plan, sponsored by CES and administered by outside investment companies. CES contributes up to 9.40 percent of employee's contribution of 7.68 percent, the maximum amount matched by CES, of annual salary for non-ancillary full-time employees.

CES' contributions for the year ended June 30, 2008 and 2007 were \$69,627 and \$49,181, respectively.

Note 4: Cafeteria Plan

CES provides an IRS Section 125 cafeteria plan wherein certain employee deductions are before taxes. CES has no cost other than bookkeeping for administering the plan.

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 5: Cash and Cash Equivalents

In accordance with Section 6-10-17, NMSA 1978 Compilation, bank deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate to equal one half of the amount of uninsured public money in each account during the fiscal year CES does not have uninsured balance.

Securities which are obligations of the state of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted at par value; all other securities are accepted at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Administration.

Custodial credit risk is the risk that in the event of a bank failure, CES' deposits may not be returned to it. CES' deposit policy is to collateralize one-half of the uninsured public money in each account. As of June 30, 2008, \$0 of CES' bank balance of \$8,212,181 was exposed to custodial credit risk. Custodial credit risk is defined as the risk that the government's deposits may not be returned to it in the event of a bank failure.

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

<u>Name of depository</u>	<u>Account name</u>	<u>Type of account</u>	<u>Bank balance as of 6/30/08</u>	<u>Reconciled balance as of 6/30/08</u>
Bank of America	Operating	Checking	\$ 8,212,181	\$ 2,270,514
Less: FDIC insurance			<u>(100,000)</u>	
Uninsured public funds			8,112,181	
Pledged collateral held by the pledging bank's trust department in agency's name			<u>(9,335,519)</u>	
Over insured and collateralized			\$ <u>1,223,338</u>	

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50% collateral requirement	
(Section 6-10-17 NMSA 1978)	4,056,090
Total pledged collateral	<u>(9,335,519)</u>
Pledged collateral (over) the requirement	<u>(5,279,429)</u>

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 5: Cash and Cash Equivalents (continued)

Pledged securities - Held in the name of Cooperative Educational Services

<u>Held by</u>	<u>CUSIP #</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Rate</u>
FMAC Gold PC	3128M5R85	82,175	75,790	01/01/38	5.50%
Federal National Mort Backed Security	31371K7E5	1,462,386	689,045	07/01/33	5.00%
Federal National Mort Backed Security	31371KWE7	1,260,793	348,465	12/01/17	5.00%
Federal National Mort Backed Security	31385JQJO	50,318	8,106	10/01/17	5.50%
Federal National Mort Backed Security	31390DHE7	2,395,581	351,928	04/01/17	6.00%
Federal National Mort Backed Security	31400EQ52	1,447,167	453,984	04/01/18	5.00%
GNMA II Single Family Loan Pool 15-30 YR	36202ES91	3,637,278	3,621,240	05/20/38	5.50%
GNMA II Single Family Loan Pool 15-30 YR	36202ESA8	2,291,294	2,212,834	04/20/38	5.00%
GNMA II Single Family Loan Pool 15-30 YR	36202ESB6	212,244	210,860	04/20/38	5.50%
GNMA II Single Family Loan Pool 15-30 YR	36202ETA7	1,186,831	1,205,356	05/20/38	6.00%
GNMA II Single Mort Backed Security	36241KSZ2	155,506	<u>157,911</u>	05/15/38	0.00%
Total collateral			<u>9,335,519</u>		
Over collateralized			<u>5,279,429</u>		
Reconciled cash in bank			\$ 2,270,514		
Petty cash			<u>200</u>		
Total cash			\$ <u>2,270,714</u>		

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 6: Member Credit Liabilities

At June 30, 2008, \$80,000 member credit liabilities in the amount of coupons were given out from \$5 to \$10,104, which could be used against the members' purchases in the years 2007-2008. Any unused coupons will be voided at the end of the year 2007-2008. Current year expense is \$47,700, due to the non-redemption of prior year's coupons.

	<u>06/30/08</u>	<u>06/30/07</u>
Member Credit liabilities	\$ <u>80,000</u>	\$ <u>80,000</u>

Note 7: Risk Management

CES is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries; illnesses and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters.

Note 8: Change in Long-Term Debt

Long-term debt consists only of compensated absences payable:

Balance at July 1, 2007	\$ 74,200
Leave accrued	67,404
Leave used	(59,016)
Balance at June 30, 2008	82,588
Less: Due within one year	<u>49,047</u>
Long-term debt	<u>\$ 33,541</u>

Note 9: Extraordinary Income

During 2008, a vendor who had provided substandard work on a project several years ago declared bankruptcy and a settlement was reached on the amount due. The balance of \$37,150 in accounts payable as written off

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as extraordinary income since it was from a prior year
and not a current year operating expense.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 10: Operating Lease

CES has a multi-year equipment lease with Pitney Bowes. During the year \$1,488 was paid on the lease. Operating lease due over next five years:

June 30, 2009	\$1,488
June 30, 2010	<u>744</u>
	<u>\$2,232</u>

SUPPLEMENTAL INFORMATION

**STATEMENT OF REVENUE AND EXPENSE
BUDGET VERSUS ACTUAL
For the Year Ended June 30, 2008**

	Budget Amount		Actual Amount	<u>Variance</u> Favorable (Unfavorable)
	Original	Final		
Revenue			\$	
Administrative Services	\$ 453,000	\$ 586,843	595,021	\$ 8,178
Group Purchasing	63,297,000	98,628,899	98,693,525	64,626
Ancillary Services	9,229,056	9,729,056	8,438,427	(1,290,629)
Related Services	117,239	141,272	113,260	(28,012)
Administration	0	0	6,116 (47,700)	6,116
Less: Member Credit	0	0)	(47,700)
Other Nonoperating Revenue	0	0	37,150	37,150
Interest Income	182,000	185,000	166,030	(18,970)
Total Revenue	<u>73,278,295</u>	<u>109,271,070</u>	<u>108,001,829</u>	<u>(1,269,241)</u>
Expenses				
Administrative Services	453,000	586,843	499,450	87,393
Group Purchasing	63,297,000	98,628,899	98,149,207	479,692
Ancillary Services	9,229,056	9,729,056	7,879,920	1,849,136
Related Services	117,239	141,272	131,325	9,947
Administrative Expense	182,000	185,000	721,961	(536,961)
Total Expenses	<u>73,278,295</u>	<u>109,271,070</u>	<u>107,381,863</u>	<u>1,889,207</u>
Excess of Revenue Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>619,966</u>	<u>619,966</u>
Net Change in Fund Balance	0	0	619,966	619,966
Fund Balance - Beginning of Year	<u>2,458,440</u>	<u>2,458,440</u>	<u>2,458,440</u>	<u>2,458,440</u>
Fund Balance - End of Year	<u>\$ 2,458,440</u>	<u>\$ 2,458,440</u>	<u>\$ 3,078,406</u>	<u>\$ 3,078,406</u>

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

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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards

Max Luft, Executive Director and the Board of Directors
Cooperative Educational Services
And
Mr. Hector H. Balderas
New Mexico State Auditor

I have audited the financial statements of the business-type activities and the budgetary comparisons of Cooperative Educational Services (CES) as of and for the years ended June 30, 2008 and 2007, and have issued my report thereon dated August 26, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered CES' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cooperative Educational Service's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Cooperative Educational Service's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CES' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles

such that there is more than a remote likelihood that a misstatements of CES' financial statements that is more than inconsequential will not be prevented or detected by CES' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by CES' internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CES' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the executive committee, management, others within the organization, New Mexico State Auditor's Office, New Mexico Legislation and its committees and the New Mexico Public Education Department and is not intended to be and should not be used by anyone other than these specified parties.

Kathleen R. Lane, P.C.

August 26, 2008

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**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2008**

Section 1 - Summary of Audit Results

Financial Statements

Type of Auditor's report Issued Unqualified

Internal control over financial reporting:
Significant deficiencies identified? Yes No

Significant deficiencies in internal
control that are not considered
to be material weaknesses? Yes No

Federal Awards

Cooperative Educational Services does not receive any federal money.

Prior Year Findings

None

Current Years Findings

None

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**EXIT CONFERENCE
June 30, 2008**

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 3, 2008, and attended by the following:

Finance Committee

Manuel Valdez, President
Pat Parsons, Secretary
Albert Martinez, Treasurer

CES Personnel

Max Luft, Executive Director
Robin Strauser, Director of Finance
Llew Perry, Assistant Executive Director
Beth Miller, Director of Student Nutrition
Rueben Mirabel, Director of REAP
Jean Luft, Director of Ancillary Services
Lori O'Rourke, Business Office Specialist

Kathleen R. Lane, P.C. Personnel

Kathleen R. Lane, Audit Partner