

**ASSOCIATION OF
CHARTER SCHOOLS EDUCATION SERVICES**

FINANCIAL STATEMENTS

June 30, 2016

(With Independent Auditor's Report Thereon)

Prepared by

**Kathleen R. Lane, P.C.
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ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

FINANCIAL REPORT

June 30, 2016

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

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As of June 30, 2016

OFFICIAL ROSTER

<u>Committee Member</u>	<u>Executive Committee</u> <u>Title</u>	<u>Representing</u>
Michael Rodriguez	President	Cien Aguas Intl School
Doreen Winn	Vice President	Public Academy for Performing Arts
Kelly Callahan	Secretary	NM Coalition of Charter Schools
Erik Bose	Treasurer	Albq. Charter Academy
Greta Roskum	NMCCS Representative	NMCCS
Michael Ogas	Member at Large	School of Dreams
Kirk Hartom	Member at Large	Southwest Learning Center
Jesus Moncada	Member at Large	Christine Duncan Academy

Administrative Officials

<u>Name</u>	<u>Title</u>
Raymond B. Hegwer	Executive Director
Max L. Luft	Deputy Director

KATHLEEN R. LANE, P.C.

Certified Public Accountant

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AICPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management of
Association of Charter Schools
Education Services

and

Tim Keller,
New Mexico State Auditor
Albuquerque, New Mexico

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities and fiduciary fund of the Association of Charter Schools Education Services (ACES) as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise ACES' basic financial statements as listed in the table of contents. I also have audited the schedule of revenues and expenses and changes in net position - budget (GAAP budget basis) versus actual and schedule of changes in assets and liabilities-fiduciary fund presented as supplemental information for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary fund of ACES as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in my opinion, the budget comparison schedule and fiduciary fund schedule referred to above presents fairly, in all material respects, the budget comparison and fiduciary fund of ACES for the year ended June 30, 2016, in conformity with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited

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

Supplemental Information

My audit was conducted for the purpose of forming opinions on ACES' financial statements fiduciary fund and the budgetary comparison. The Schedule of Changes in Assets and Liabilities - Trust Funds, listed as "other supplementary information" in the table of contents is presented for purposes of additional analysis and is not a required part of the basis financial statements.

The additional Schedule of Changes in Assets and Liabilities - Trust Funds, listed as "other supplemental information" is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In my opinion, the schedule of changes in assets and liabilities-trust fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The accompanying Schedule of Vendor Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated June 29, 2017, on my consideration of ACES' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ACES' internal control over financial reporting and compliance.


Kathleen R. Lane, P.C.

Albuquerque, NM
June 29, 2017

**ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For Fiscal Year Ended June 30, 2016**

The *Association of Charter School Education Services (ACES)* discussion and analysis provides an overview of ACES' financial activities for the fiscal year ended June 30, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with ACES' basic financial statements.

USING THIS ANNUAL REPORT

This Annual Financial Report consists of multiple financial statements. The **Statement of Net Position**, the **Statement of Revenues, Expenses and Changes in Net Position**, and the **Statement of Cash Flows** present information about the operation of ACES as a whole while providing specific details about the financial condition of ACES.

THE STATEMENT OF NET POSITION AND THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITIONS

Our analysis of ACES as a whole begins on page 9. One of the most important questions asked about ACES's finances is, "Is ACES as a whole better off or worse off as a result of the year's activities?" The **Statement of Net Position and Statement of Revenues, Expense and Changes in Net Position** report information about ACES as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Yes, ACES is better off as a result of this year's activities.

These two statements report ACES' net assets and changes in them. You can think of ACES' net assets - the difference between assets and liabilities - as one way to measure ACES' financial health, or financial position. Over time, increases or decreases in ACES' net assets are an indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the members chartering body and the Public Education Department support of charter schools.

In the **Statement of Net Position** and the **Statement of Revenues, Expenses, and changes in net position** ACES presents its activities. All of ACES' basic services are reported here. Purchase of products and services by its members finance most of ACES' activities.

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

FINANCIAL HIGHLIGHTS

ACES was started July, 2013 when the Joint Powers Agreement was signed by the Secretary of DFA. The Net Assets increased for the year by \$18,123. The increase in Net Assets from July 1, 2015, until June 30, 2016, was 64%.

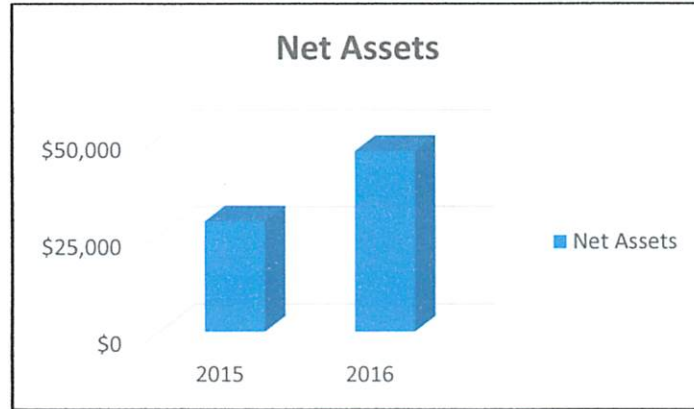


TABLE 1

Net Assets

Business Type Activities

	June 30, 2016	June 30, 2015
Current and other assets	\$ <u>293,587</u>	\$ <u>118,141</u>
Total assets	\$ <u>293,587</u>	\$ <u>118,141</u>
Current liabilities	\$ <u>247,118</u>	\$ <u>89,795</u>
Total liabilities	<u>247,118</u>	<u>89,795</u>
Net Assets:		
Unrestricted	<u>46,469</u>	<u>28,346</u>
Total Net Assets	\$ <u>293,587</u>	\$ <u>118,141</u>

Net assets of ACES' business type activities increased by 64% (\$46,469 compared to \$28,346). Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from \$28,346 at June 30, 2015, to \$46,469 at June 30, 2016.

During the last three years, the Operating Income per year has increased steadily. During fiscal year, 2016, the Net Income increased 75.7% over the previous year.

The following table reveals the data:

	14-15	15-16
Operating Income	\$1,340,121	\$2,919,255
Expenses	\$1,329,807	\$2,901,132
Net Income	\$10,314	\$18,123
Net Assets	\$28,346	\$46,469

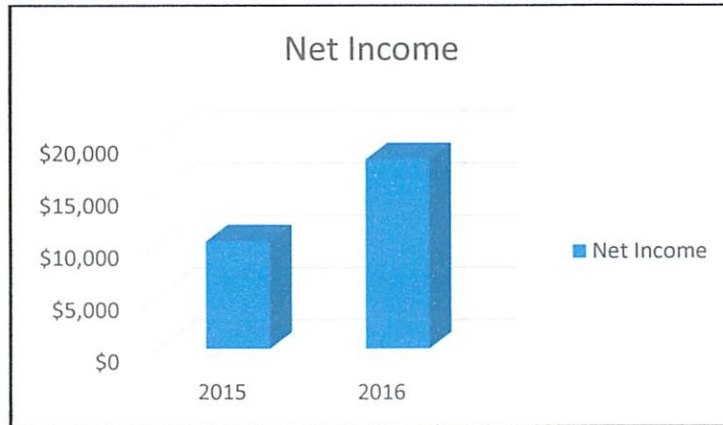


TABLE 2
Changes in Net Assets

	Business Type Activities
	June 30, 2016
Revenues	
Revenues	
Program revenues	
Administrative services	\$ 736,938
Procurement	1,895,756
Cadre	276,390
Related programs	8,851
Administration	<u>1,320</u>
Total Revenues	\$ <u>2,919,255</u>
Program expenses	
Administrative expense	\$ 728,186
Procurement	1,840,151
Cadre	248,907
Related programs	7,908
Administration	<u>75,980</u>
Total Expenses	<u>2,901,132</u>
Net Increase in Net Assets	18,123
Beginning net assets	<u>28,346</u>
Ending net assets	\$ <u>46,469</u>

ACES' Total Revenues increased this fiscal year by \$1,579,134, when compared to last fiscal year, and totaled \$2,919,255 including non-operating revenue. It represents a 118% increase over prior year's revenue and a 28% increase over original budgeted revenue of \$2,275,000.

The Board of Directors has elected to set aside a percentage of current year profit for future activity. The amount set aside as of June 30, 2016 was \$298.

At the beginning of the 2015-2016 fiscal year, the following programs were in place:

- Food services
- Financial services
- Online ancillary
- Instructional technology

During the 2015-2016 fiscal year, ACES added the following new programs:

- Charter Leaders Academy
- Marketing of Vendors to Charters
- Activity Bus Procurement
- Facilities Maintenance Services
- Online Employment Services

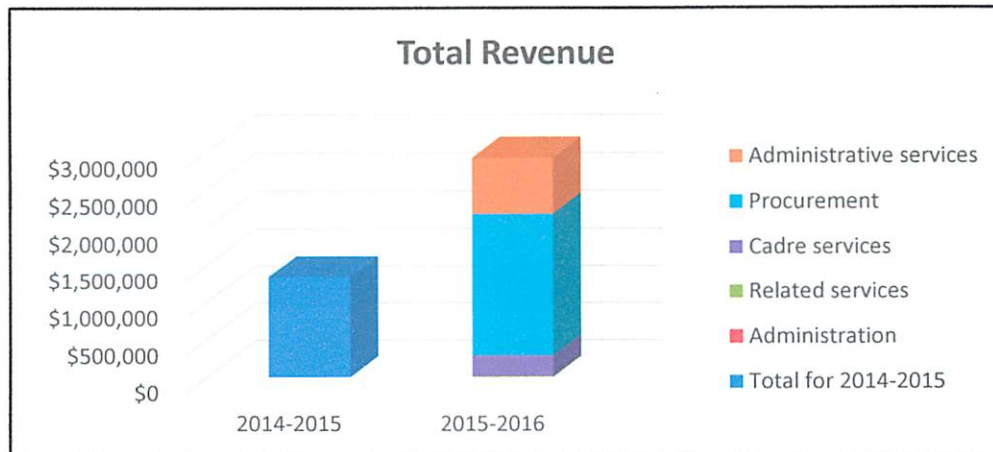
The addition of the new programs brings the total programs offered by ACES to ten, which represents a 100% increase in the number of programs offered by ACES.

Table 3 presents the cost of each of the five largest programs, as well as each program's expenses. The programs account for 99% of the income of ACES. The net cost shows the financial burden that was placed on the members of ACES by each of these functions.

TABLE 3
ACES Activities

Largest Programs	Income	Expense	Expense % of
			Income
Food Service	\$1,035,280	\$1,024,927	99%
Business Office Services	\$735,467	\$728,185	99%
Educational Technology	\$519,689	\$514,768	99%
Maintenance Services	\$337,587	\$290,719	86%
Cadre	\$276,390	\$248,907	90%

TOTAL REVENUES COMPARISON 2014-2015 and 2015-2016



CHANGE IN MEMBERSHIP

At the beginning of the 2015-2016 fiscal year, ACES had 54 members. During the fiscal year, ACES added 20 new members, bringing the total to 74 member schools on June 30, 2016. This represents a 46% increase in membership.

Of the 74 schools that are members during the 2015-2016 fiscal year, 63 schools or 85% of the schools are using one or more of the programs offered by ACES.

ACES BUDGET

At the beginning of the 2015-2016 fiscal year, a projected budget was presented to ACES Executive Board for their review and approval. During the fiscal year, no changes were made to the initial budget.

Based on beginning budget projection and the end-of-the-year financial statements, the actual revenues exceeded the budget projections, and the actual expenses were higher than the projected budget estimates in the projected budget. The initial budget projected \$2,275,000 in total revenue, and actual total income was \$2,919,255 or \$644,255 more than the initial budget. In the initial budget, total expenses also greatly exceed the initial budget. The disparity in the expense figures is due to the fact that the project expenditures did not take into consideration unanticipated increase in business for existing programs and the introduction of additional programs during the year. Since expenses are a direct percentage of income for over 99% of the program income, expenses rise proportionally to income.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The ACES' Executive Board considered many factors when setting the fiscal year 2016-2017 budget. Those factors included increases in membership; increases in utilization of ACES' services and programs by members; increases in the number of programs and services offered by ACES; and, improved accounting systems that will result in more accurate tracking of revenues and expenses and alignment with programs.

CAPITAL ASSETS AND INFRASTRUCTURE

ACES has no capital assets over \$5,000 in cost and no infrastructure.

CONTACTING ACES' FINANCIAL MANAGEMENT

This financial report is designed to provide our members with a general overview of ACES finances and to show ACES' accountability for the money it receives. If you have questions about this report or need additional financial information, the ACES contract person is either Dr. Bruce Hegwer, Executive Director (bruce.h@nmaces.org, 575-740-0020), or Dr. Max Luft, ACES Deputy Director and Chief Financial Officer (max.l@nmaces.org, 505-269-2109). The address is PO Box 3146, Albuquerque, NM 87190.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2016**

	Assets	<u>2016</u>
Current Assets:		
Cash (Note 2)		\$ 46,081
Accounts receivable, trade		246,394
Prepaid expense		<u>1,112</u>
Total current assets		<u>293,587</u>
Total assets		\$ <u>293,587</u>
 Liabilities and Net Position 		
Current Liabilities:		
Accounts payable, trade		\$ 213,233
Accrued payroll and benefits (Note 7)		<u>33,885</u>
Total current liabilities		<u>247,118</u>
Total liabilities		<u>247,118</u>
Net Position:		
Unrestricted		<u>46,469</u>
Total net position		<u>46,469</u>
Total liabilities and net position		\$ <u>293,587</u>

SEE INDEPENDENT AUDITOR'S REPORT

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

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2016**

Operating revenues:	<u>2016</u>
Administrative services	\$ 736,938
Procurement	1,895,756
Cadre services	276,390
Related services	8,851
Administration	<u>1,320</u>
Total operating revenues	<u>2,919,255</u>
Operating expenses:	
Cost of goods sold	
Administrative services	728,186
Procurement	1,840,151
Cadre services	248,907
Related services	<u>7,908</u>
Total cost of goods sold	<u>2,825,152</u>
Gross profit	<u>94,103</u>
Administration expenses:	
Salaries and wages	57,559
Employee benefits	113
Payroll taxes	6,116
Travel	766
Vehicle expense	3,537
Insurance-property and liability	1,274
Advertising and marketing	2,097
Office expense	1,559
Postage and freight	280
Computer and internet	1,936
Legal/accounting services	<u>743</u>
Total expenses	<u>75,980</u>
Operating income/(loss)	<u>18,123</u>
Change in net position	18,123
Net position, beginning of year	<u>28,346</u>
Net position, end of year	\$ <u>46,469</u>

SEE INDEPENDENT AUDITOR'S REPORT

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

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2016**

	<u>2016</u>
Cash flows from operating activities:	
Cash received from members	\$ 2,729,570
Less:	
Cash payment to or for suppliers	(2,483,264)
Cash payment to or for employees	<u>(260,542)</u>
Net cash provided (used) by operating activities	<u>(14,236)</u>
Net increase (decrease) in cash and cash equivalents	(14,236)
Cash and cash equivalent, beginning of year	<u>60,317</u>
Cash and cash equivalent, ending of year	\$ <u><u>46,081</u></u>

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

Operating income (loss)	\$ 18,123
Decrease (increase) in:	
Accounts receivable	(189,685)
Prepaid expenses	3
Increase (decrease) in:	
Accounts payable	133,196
Accrued payroll and expenses	24,127
Member credit liabilities	
Compensated absences	<u> </u>
Net cash provided (used) by operating activities	\$ <u><u>(14,236)</u></u>

SEE INDEPENDENT AUDITOR'S REPORT

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

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

**STATEMENT OF FIDUCIARY ASSETS AND
LIABILITIES - TRUST FUNDS
June 30, 2016**

	<u>Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>47,569</u>
Total Assets	\$ <u>47,569</u>
LIABILITIES	
Due to others (Note 4)	\$ <u>47,569</u>
Total Liabilities	\$ <u>47,569</u>

SEE INDEPENDENT AUDITOR'S REPORT

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

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1: Organization and summary of significant accounting policies

Nature of Operations - Purpose

Organization/Joint Power Agreement

Association of Charter Schools Education Services (ACES) was formed on July 3, 2013, by members of charter schools by entering into a Joint Powers Agreement to Establish an Educational Cooperative, as approved by the New Mexico Department of Finance and Administration (DFA). The Joint Power Agreement establishes a legal entity. As of June 30, 2016, there were 74 charter school members. ACES provides a wide range of educational services including state-wide cooperative purchasing, services such as business management, student management, technology assistance, teacher and administration training and other professional service, and general consulting.

Membership

ACES is an organization comprised of New Mexico charter schools. ACES is a membership organization that is open to New Mexico charter schools. Members may be added or deleted pursuant to the Joint Power Agreement. The Board of Directors consists of Executive Officers of Member Institutions.

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

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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 ACES is a local government unit and is the primary government for the financial presentation.

ACES does not have any component units during the year ended June 30, 2016.

Basis of Presentation

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

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Measurement focus, basis of accounting, and financial statement presentation

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

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows 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 ACES are procurement, CADRE services, administrative services and other related services generated from its services. Operating expenses include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

ACES operations are accounted for as a proprietary fund (enterprise fund). Proprietary funds are financed and operated in a manner similar to private business. Proprietary funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. They are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

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

Fiduciary Funds (Not Included in Government-Wide Statements)

Trust and Agency Fund - This fund is used to account for funds received on behalf of the employees who participate in nonqualified deferred compensation plan. Agency funds are purely custodial (assets equal liabilities) and do not involve measurement of results of operations.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Net Position

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

Accounts Receivable

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, 2016.

Property and Equipment

ACES has established its capitalization policy at \$5,000. Items with a cost of less than \$5,000 are expensed in the year of acquisition. Repairs and maintenance expenses are charged to operations when incurred and major improvements and replacements are capitalized. ACES records assets (such as, furniture and equipment including software, building and improvements, land, and ancillary equipment) purchased at cost or, if contributed, at fair market value at date of donation.

ACES has not capitalized any property and equipment since inception.

Income Taxes

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

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Cash and Cash Equivalents

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

Use of Estimates

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

Budget

Please see the Statement of Revenues, Expenditures, and Changes in Net Position Budget (GAAP Budgetary Basis) and Actual, page 25, in the supplementary information section of the audit report.

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

ACES' 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.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Budget (continued)

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

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

There were no budget adjustment requests by June 30, 2016.

During the June 30, 2106 budget year, the agency exceeded its budget (see page 25). The shortage was covered by the increased revenue over budget. See page 34 for audit finding.

Encumbrances

ACES does not use encumbrance accounting.

Revenues

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

Compensated Absences Payable

ACES did not record any compensated absences at June 30, 2016.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 2: Cash and Cash Equivalents

In accordance with Section 6-10-17, NMSA 1978 Compilation, bank deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate to equal one half of the amount of uninsured public money in each account during the fiscal year ACES 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. ACES' cash balances consist of demand deposits.

Custodial credit risk is the risk that in the event of a bank failure, ACES' deposits may not be returned to it. ACES' deposit policy is to collateralize one-half of the uninsured public money in each account. As of June 30, 2016, \$0 of ACES' bank balance of \$144,838 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.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 2: Cash and Cash Equivalents (continued)

ACES' 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 6/30/16</u>	<u>Reconciled balance as of 6/30/16</u>
Bank of Albuquerque	Operating	Checking	\$ 144,540	\$ 45,783
Bank of Albuquerque	Savings	Savings	298	298
Less: FDIC insurance			(250,000)	\$ <u>46,081</u>
Uninsured public funds			-	
Total deposits:				
Category 1-Insured			\$ 144,838	
Add: deposit in transit			2,817	
Less: outstanding checks			(101,574)	
Reconciled bank balance			<u>46,081</u>	
Total cash and cash equivalents			\$ <u>46,081</u>	

Note 3: Property, Equipment and Depreciation

As of the year ended June 30, 2016, ACES had no property, plant and equipment to capitalize and depreciate.

Note 4: Nonqualified Deferred Compensation Plan

All employees are eligible to participate in a nonqualified deferred compensation plan, sponsored by ACES and administered by trust.

Note 5: ERB and State Retiree Health Care Plan

ACES does not participate in Education Retirement Board (ERB) and does not contribute to the New Mexico Retiree Health Care Plan (RHCP).

Note 6: Risk Management

ACES is insured through purchase of commercial insurance policies for general liability and purchases Worker's Compensation Insurance.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 7: Accrued Liabilities

Accrued payroll at June 30, 2016, is as follows:

<u>Type</u>	<u>2016</u>
Accrued payroll	\$ 24,271
Accrued payroll taxes	<u>9,614</u>
 Total	 \$ <u>33,885</u>

Note 8: Joint Power Agreement

A Joint Powers Agreement to establish New Mexico Charter School Educational Service Association was approved by Department of Finance and Administration on July 3, 2014.

Participants:

Christine Duncan Heritage Academy	Cien Aguas Intl School
J. Paul Taylor Academy	Mosaic Academy Charter
Southwest AMSE	Southwest Inter. Learning Center
Southwest Primary Learning Center	Southwest Secondary Learning Center
Aldo Leopold High School	Anansi Charter School
Cesar Chavez Community School	Deming Cesar Chavez Charter H.S.
Digital Arts and Technology	Public Academy for Performing Arts
South Valley Prep School	Albq. Charter Academy (SIA Tech)
Amy Biehl Charter H.S.	21 st Century Public Academy
San Diego Riverside Charter School	Tierra Encantada Charter School
Albuquerque School of Excellence	Albq. Talent Dev. Academy
Alice King Community Schools	Carinos Charter School
ACE Leadership High	Intl School at Mesa del Sol
La Academia Delores Huerta	La Tierra Montessori School of A & S
Lindrith Area Heritage School	Montessori of Rio Grande
School of Dreams	Academy of Technology and Classics
Uplift Community School	Coral Community Charter School
Cottonwood Valley Charter School	Estancia Valley Classical Academy
Explore Academy	Gilbert L. Sena Charter H.S.
Las Montanas Charter High School	Moreno Valley High School
Taos Integrated School of the Arts	Tierra Adentro
Vista Grande High School	William W and Josephine Charter Comm. School
Taos Academy	Turquoise Trail Charter School
Albuquerque Sign Language Academy	Alma d' arte Charter H.S. for the Arts
Anthony Charter School	ASK Academy
Corrales International School	Cottonwood Classical Preparatory School
Gordon Bernell Charter School	Health Leadership High School
Horizon Academy West	Jefferson Montessori Academy
Los Puentes Charter School	Media Arts Collaborative Charter School
Middle College High School	Mission Achievement and Success Charter Sch.
Monte del Sol Charter School	Mountain Mahogany Community School
New Mexico Connections Academy	New Mexico School for the Arts
North Valley Academy	Nuestros Valores Charter School
Rio Callinas School for Ecology/Arts	Robert F. Kennedy Charter School
Sage Montessori	SAHQ
Sandoval Academy for Bilingual Ed	Six Directions Indigenous School
Taos Academy	The MASTERS Program

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 8: Joint Power Agreement (continued)

Party Responsible for Operations: New Mexico Charter School Educational Service Association

Description: JPA to establish ACES for the purpose of pooling efforts and resources in order to bring additional, necessary educational services and tangible personal property to charter school at affordable costs.

Effective: July 3, 2013 until rescinded or terminated by members

Total estimated amount of projects applicable to the agency: Total Revenue \$2,919,255

Amount the agency contributed in current fiscal year:
None

Audit responsibility: Required annual audit by October 1st

Revenues and expenditures are report to Office of State Auditor

Note 9: Related Party Transactions

Deputy Executive Director and the owner of vendor, LDD Consulting, Inc. are father and son. LDD Consulting, Inc. submitted an RFP to provide educational technology services. LDD Consulting, Inc. was awarded the contract and is available to the members for technology services. During 2016, the amount paid to LDD Consulting, Inc. by ACES was \$442,025. There is a payable due to LDD Consulting, Inc. at June 30, 2016 in the amount of \$83,485.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10: Commitments, Contingencies, and Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. ACES recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. ACES' 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.

ACES has evaluated subsequent events through June 29, 2017, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

**STATEMENT OF REVENUE, EXPENSE AND NET POSITION -
BUDGET (GAAP BUDGET BASIS) VERSUS ACTUAL
For the Year Ended June 30, 2016**

	<u>Budget Amount</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Favorable (Unfavorable)</u>
Revenues				
Administrative services	\$	\$	\$ 736,938	\$ 736,938
Procurement	2,000,000	2,000,000	1,895,756	(104,244)
Cadre services	250,000	250,000	276,390	26,390
Related services	21,000	21,000	8,851	(12,149)
Administration	4,000	4,000	1,320	(2,680)
Total Revenue	<u>2,275,000</u>	<u>2,275,000</u>	<u>2,919,255</u>	<u>644,255</u>
Expenses				
Administrative services	609,395	609,395	728,186	(118,791)
Procurement	1,365,605	1,365,605	1,840,151	(474,546)
Cadre services	281,500	281,500	248,907	32,593
Related services	500	500	7,908	(7,408)
Administration expense	8,000	8,000	75,980	(67,980)
Total Expense	<u>2,265,000</u>	<u>2,265,000</u>	<u>2,901,132</u>	<u>(636,132)</u>
Excess of Revenue Over (Under) Expenses	<u>10,000</u>	<u>10,000</u>	18,123	<u>8,123</u>
Change in Net Position				
Net Position, Beginning of year			<u>28,346</u>	
Net Position, End of year			\$ <u>46,469</u>	

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

SCHEDULE OF CHANGES IN ASSETS AND
LIABILITIES - TRUST FUNDS
June 30, 2016

ASSETS	Balance <u>6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/16</u>
Cash	\$ <u>23,565</u>	\$ <u>34,973</u>	\$ <u>10,969</u>	\$ <u>47,569</u>
Total assets	\$ <u>23,565</u>	\$ <u>34,973</u>	\$ <u>10,969</u>	\$ <u>47,569</u>
LIABILITIES				
Due to others	\$ <u>23,565</u>	\$ <u>10,969</u>	\$ <u>34,973</u>	\$ <u>47,569</u>
Total liabilities	\$ <u>23,565</u>	\$ <u>10,969</u>	\$ <u>34,973</u>	\$ <u>47,569</u>

Agency Number	Agency Name	Agency Type	RFB/RFP# (if applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of Vendor (City, State)	Did the Vendor provide documentation of eligibility for In-state preference?	Did the Vendor provide documentation of eligibility for Veteran preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
14000	Association of Charter School Education Service	Public Entity	14-001	Competitive (RFP or RFB)	Aerarium, LLC dba appAbility	Winner	728,112		Albuquerque, NM	Yes	No	AcraFund Software support and implementation	
14000	Association of Charter School Education Service	Public Entity	15-001	Competitive (RFP or RFB)	LDO Consulting, Inc.	Winner	442,025		Albuquerque, NM	Yes	No	Educational Technology Services	
14000	Association of Charter School Education Service	Public Entity	15-002	Competitive (RFP or RFB)	Canteen of Central New Mexico	Winner	869,605		Albuquerque, NM	Yes	No	Food Service Provider	
14000	Association of Charter School Education Service	Public Entity	15-002	Competitive (RFP or RFB)	Swan Kitchen, LLC	Winner	156,658		Albuquerque, NM	Yes	No	Food Service Provider	
14000	Association of Charter School Education Service	Public Entity		Competitive (RFP or RFB)	Cooperative Educational Services		158,609		Albuquerque, NM	Yes	Yes	Procurement	

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

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Directors and Management of
Association of Charter Schools
Education Services
And
Tim Keller,
New Mexico State Auditor

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and fiduciary fund of Association of Charter Schools Education Services (ACES) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise ACES' basic financial statements, and the related budgetary comparison of ACES and schedule of Changes in Assets and Liabilities - Trust Fund, presented as supplemental information, and have issued my report thereon dated June 29, 2017.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACES' 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-001, 2014-001 and 2015-001.

ACES' Responses to Findings

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

Purpose of This Report

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



Kathleen R. Lane, P.C.

Albuquerque, NM

June 29, 2017

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

Section 1 - Summary of Audit Results

Financial Statements

Type of Auditor's report Issued	Unmodified	
Deficiency in internal control:		
Material weakness identified?	<u> </u> Yes	<u> X</u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X</u> No
Significant deficiencies in internal control that are not considered to be material weaknesses?	<u> </u> Yes	<u> X</u> No

Federal Awards

Association of Charter Schools Education Services does not receive any federal money

Current Year Findings

2016-001 - Agency does not have a certified chief procurement officer (noncompliance)

Prior Year Findings

2015-001 - Overspending of funds and budget (other noncompliance) - Repeated

2014-001 - Late filing of audit (noncompliance) - repeated in 2015 and 2016

2014-002 - No budget prepared(noncompliance) - resolved in 2015

2014-003 - Lack of segregation of duties(significant deficiency) - Resolved

2014-004 - Internal controls (significant deficiency) - Resolved

2014-005- Payroll compliance (Noncompliance) - repeated/modified in 2015 - Resolved

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

CURRENT YEAR FINDINGS

2016-001 - Agency does not have a certified chief procurement officer (noncompliance)

Statement of Condition

The agency did not have a certified chief procurement officer as required by the procurement code.

Criteria

Per the Procurement Code 13-1-95.2 NMSA 1978, agencies are required to select an individual within agency to become a certified chief procurement officer.

Effect

The agency is not in compliance with NM Procurement Code.

Cause

Due to the small size of the agency, the individual selected to become the chief procurement office was unable to become timely certified.

Recommendation

Auditor recommends the individual selected to complete the certification required to become a chief procurement officer do so as soon as possible.

Agency Response

Management concurs. The individual has obtained his certified chief procurement officer status.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

PRIOR YEAR FINDINGS

2014-001 - Late filing of audit (noncompliance)

Statement of Condition

The audit for the year ended June 30, 2016 was submitted to the state auditor's office on September 30, 2016 but was not considered received until the audits for FY2014 and 2015 was received on June 30, 2017.

Criteria

Section 2.2.2.9 NMAC (State Auditor Rule) the deadline for submission of the audit report was September 30, 2016.

Effect

The agency was not in compliance with state statutes.

Cause

The agency began operation July 3, 2013 and has limited resources; therefore they determined not to have an audit performed for June 30, 2014 and 2015.

Recommendation

The agency should ensure that audits are completed and submitted in accordance with state statutes.

Agency Response

Agency concurs. The June 30, 2016 audit report was filed with the office of the state auditor September 30, 2016 but not considered received until it was resubmitted on June 30, 2017 with the FY2014 and FY2015 report.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

PRIOR YEAR FINDINGS

2015-001 - Overspending of Funds and Budget (other noncompliance).

Statement of Condition

It was noted that the budget was overspent on page 23. Budgeted expenditures were \$2,265,000 compared to actual \$2,901,132, which is \$636,132 over-expended. It appears management did not review budget expenditures to determine if expenditures exceeded budget, and a budget adjustment needed to be requested.

Criteria

By statute (NMSA 6-6-6), the approved budget for a public body is binding upon all officials and governing authorities, and no governing authority shall allow or approve claims in excess thereof.

Effect

The budget was not followed, and the Agency is in violation of statute.

Cause

The Agency experienced substantial increase in revenues and expenditures. Budget was not reviewed periodically and adjusted.

Recommendation

The Agency should review the actual income and expenses and track budget versus actual at least semiannually and adjust budget as situations arise.

Agency Response

Agency concurs. The finance and executive committee will track budget versus actual income and expense during the year and prepare a budget adjustment by June 30 fiscal year end, if necessary.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

EXIT CONFERENCE

June 30, 2016

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 27, 2016, and attended by the following:

Finance Committee

Eric Bose, Treasurer
Kirk Harton, Executive Board Member

ACES Personnel

Max Luft, Deputy Director
Doug Whittaker, ACES staff

Kathleen R. Lane, P.C. - Personnel

Kathleen R. Lane, Audit Partner