

**ASSOCIATION OF
CHARTER SCHOOLS EDUCATION SERVICES**

FINANCIAL STATEMENTS

June 30, 2018 and 2017

(With Independent Auditor's Report Thereon)

Prepared by

**Kathleen R. Lane, P.C.
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7520 Montgomery NE, Building E-17
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ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

FINANCIAL REPORT

June 30, 2018 and 2017

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

TABLE OF CONTENTS

	<u>Page(s)</u>
INTRODUCTORY SECTION	
Official Roster	i
FINANCIAL SECTION	
Independent Auditor's Report	1-3
Management's Discussion and Analysis (unaudited)	4-8
Basic Financial Statements	
Statement of Net Position - Proprietary Funds	9
Statement of Revenues, Expenses, and	
Changes in Fund Net Position - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11
Statement of Fiduciary Assets and Liabilities -	
Fiduciary Funds	12
Notes to Financial Statements	13-24
OTHER SUPPLEMENTAL INFORMATION	
Schedule of Changes in Assets and	
Liabilities - Fiduciary Funds	25
COMPLIANCE SECTION	
Report on Internal Control Over Financial	
Reporting and on Compliance and Other Matters	
Based on an Audit of Financial Statements	
Performed in Accordance with <i>Government</i>	
<i>Auditing Standards</i>	26-28
Schedule of Findings and Responses	29-30
Exit Conference	31

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES
As of June 30, 2018

OFFICIAL ROSTER

<u>Committee Member</u>	<u>Executive Committee</u> <u>Title</u>	<u>Representing</u>
Doreen Winn	President	Public Academy for Performing Arts
Tonya Newton	Vice President	Alice King Comm. School
Kelly Callahan	Secretary	NM Coalition of Charter Schools
Sam Obenshain	Treasurer	Cottonwood Classical Preparatory School
Matt Pahl	NMCCS Representative	NM Coalition of Charter Schools
Jesus Moncada	Member at Large	Christine Duncan Heritage Academy
Coreen Carrillo	Member at Large	SAMS
Mark Tolley	Member at Large	Corrales Intl School
Monica Aguilar	Member at Large	Nuestros Valeros Charter HS
Ray Griffin	Member at Large	Turquoise Trail Comm. Charter
Susan McConnell	Member at Large	North Valley Academy Charter School
David Craig	PED Representative	PED

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

KATHLEEN R. LANE, P.C.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management of
Association of Charter Schools
Education Services
and Wayne Johnson,
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 years ended June 30, 2018 and 2017, 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 changes in assets and liabilities- fiduciary fund presented as supplemental information for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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's financial statements fiduciary fund. The Schedule of Changes in Assets and Liabilities - Fiduciary 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 Schedule of Changes in Assets and Liabilities - Fiduciary 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-Fiduciary Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 25, 2018, 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
September 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For Fiscal Year Ended June 30, 2018

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, 2018. 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 beginning on page 8.

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 POISTIONS

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 decrease in Net Assets from July 1, 2017, until June 30, 2018, was 9.1%.

Table 1 Total Assets



	Business-Type Activities		
	<u>30-Jun-16</u>	<u>30-Jun-17</u>	<u>30-Jun-18</u>
Current and other assets	\$ 293,587	\$ 171,928	\$ 325,472
Total Assets	<u>\$ 293,587</u>	<u>\$ 171,928</u>	<u>\$ 325,472</u>
Current Liabilities	\$ 247,118	\$ 114,420	\$ 283,243
Total Liabilities	<u>\$ 247,118</u>	<u>\$ 114,420</u>	<u>\$ 283,243</u>
Net Assets			
Unrestricted	\$ 46,469	\$ 57,508	\$ 42,229
Total Net Assets	<u>\$ 46,469</u>	<u>\$ 57,508</u>	<u>\$ 42,229</u>

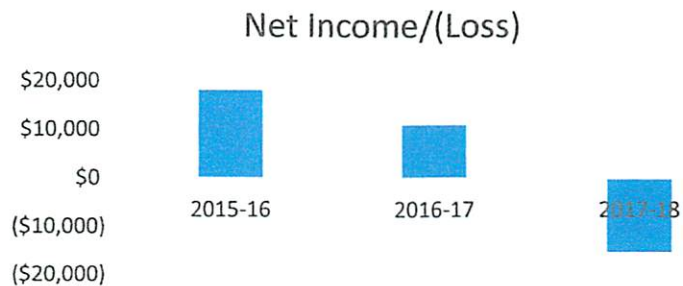
Net assets of ACES' business type activities increased by 48.98% (\$42,229 compared to \$28,346) for the three-year period ending June 30, 2018.

The year ending June 30, 2018, saw a decrease in Net Income. The decrease in Net Income can be attributed to write off of uncollectible accounts receivables at June 30, 2018.

The following tables reveal the data:

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
Operating Income	\$ 2,919,255	\$ 3,447,646	\$ 4,184,502
Expenses	\$ 2,901,132	\$ 3,436,668	\$ 4,199,787
Net Income	\$ 18,123	\$ 10,978	\$ (15,285)
Net Assets	\$ 46,469	\$ 57,508	\$ 42,229

Table 2 Changes in Net Assets



Changes in Net Assets

	Business Type Activities 30-Jun-18
Revenues	
Revenues	
Program Revenues	
Procurement	\$ 3,211,147
Cadre	244,293
Related Programs	729,016
Other Primary Income	46
Total Revenue	<u>\$ 4,184,502</u>
Program Expense	
Procurement	\$ 3,176,979
Cadre	230,527
Related Programs	693,597
Bad debt write-off	17,582
Administration	<u>81,102</u>
Total Expenses	<u>4,199,787</u>
Net operating income	(15,285)
Non-operating-Interest income	<u>6</u>
Net Increase in Net Assets	(15,279)
Beginning Net Assets	<u>57,508</u>
Ending Net Assets	<u>\$ 42,229</u>

ACES' Total Revenues increased this fiscal year by \$736,856, when compared to the last fiscal year, and totaled \$4,184,508 including non-operating revenue. It represents a 21.4% percent increase over the previous year's revenue and a 19% or \$350,002 increase in the original projected budgeted revenue of \$3,834,500.

The Executive Committee has elected to set aside a percentage of the current year profit for future activity. The amount set aside as of June 30, 2018, is \$700.

At the beginning of the 2017-18 fiscal year, the following programs were in place:

- Food Services
- Financial Services, Instructional Technology
- Online Employment Services
- Facilities Maintenance Services
- Transportation Services
- Cadre Professional Services
- Custodial/Handyman Services
- Job Fair
- Charter School Marketplace

During the 2017-18 fiscal year, the following services were added.

- Landscaping services
- Substitute Teachers

The addition of the new programs for 2017-18 brings the total number of programs offered by ACES to eleven.

Table 3 represents the cost of each of the five largest programs, as well as each program's expenses. The programs account for 100% 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	Expenses	Expense % of Income
Food Services	\$ 1,557,924	\$ 1,542,855	99%
Business Offices Services	\$ 1,003,896	\$ 993,857	99%
Instructional Technology	\$ 578,963	\$ 572,783	99%
Maintenance Services	\$ 557,414	\$ 532,438	95.5%
Cadre Services	\$ 244,293	\$ 211,705	86.7%

CHANGE IN MEMBERSHIP

At the beginning of the 2017-18 fiscal year, ACES had 80 member schools. During the fiscal year, ACES added 3 new members, bringing the total to 83. However, during the fiscal year, 2 schools were closed, making a total of 81 member schools at the end of the 2018 fiscal year.

Of the 81 schools that are members during the 2017-18 fiscal year, 48 or 58% of the schools are using one or more of the programs offered by ACES.

CAPITAL ASSETS AND INFRASTRUCTURE

ACES does not have any capital assets in excess of \$5,000 in cost and no infrastructure.

ACES BUDGET

At the beginning of the 2017-18 fiscal year, a projected budget was presented to the ACES Executive Committee for their review and approval. During the fiscal year, four budget adjustments were presented to the Executive Committee and approved.

The initial budget projected \$3,834,500 in total revenue and periodically the budget was adjusted to reflect projected increases in revenue. The Final approved budget was \$4,024,800 and actual total income was \$4,184,508 or \$350,008 more than initial budget. Like the initial budget, projected initial expenses at \$3,798,656 and expenses were increased periodically as revenue increased. The final expenses in the approved budget were \$4,350,122. Although there was more revenue than initial budgeted, there were corresponding increases in expenses as well. Since expenses are a direct percentage of income over 99% of the program income, expenses increased proportionally to income.

ECONOMIC FACTOR AND NEXT YEAR'S BUDGETS AND RATES

The ACES Executive Committee considered many factors when setting the fiscal year 2018-19 budget. Those factors included increases and decreases in membership; increases in utilization of ACES' services and program by members' increases in the number of program and services offered by ACES; and, improved accounting systems that will result in more accurate tracking of revenue and expenses and alignment with programs.

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, please contact either Dr. Bruce Hower, Executive Director (bruce.h@nmaces.org, 575-740-0020). Or Dr. Max Luft, 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 Years Ended June 30, 2018 and 2017

	Assets	<u>2018</u>	<u>2017</u>
Current Assets:			
Cash (Note 2)		\$ 99,995	\$ 67,997
Accounts receivable - trade		224,089	101,932
Accounts receivable-other		-	503
Prepaid expense		<u>1,388</u>	<u>1,496</u>
Total current assets		<u>325,472</u>	<u>171,928</u>
Total assets		\$ <u>325,472</u>	\$ <u>171,928</u>
Liabilities and Net Position			
Current Liabilities:			
Accounts payable, trade		\$ 249,868	\$ 108,055
Accrued payroll and benefits (Note 7)		<u>33,375</u>	<u>6,365</u>
Total current liabilities		<u>283,243</u>	<u>114,420</u>
Total liabilities		<u>283,243</u>	<u>114,420</u>
Net Position:			
Unrestricted		<u>42,229</u>	<u>57,508</u>
Total net position		<u>42,229</u>	<u>57,508</u>
Total liabilities and net position		\$ <u>325,472</u>	\$ <u>171,928</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 Years Ended June 30, 2018 and 2017**

Operating revenues:	<u>2018</u>	<u>2017</u>
Procurement	\$ 3,211,147	\$ 2,626,922
Cadre services	244,293	320,927
Related services	729,016	499,589
Administration	46	208
Total operating revenues	<u>4,184,502</u>	<u>3,447,646</u>
Operating expenses:		
Cost of goods sold		
Procurement	3,176,979	2,600,589
Cadre services	230,527	304,440
Related services	693,597	456,128
Uncollectible A/R write-off	17,582	-
Total cost of goods sold	<u>4,118,685</u>	<u>3,361,157</u>
Gross profit	<u>65,817</u>	<u>86,489</u>
Administration expenses:		
Salaries and wages	44,185	25,616
Employee benefits	14,441	21,055
Payroll taxes	4,712	2,578
Travel	357	177
Vehicle expense	-	605
Insurance-property and liability	1,334	1,310
Office expense	1,387	1,072
Postage and freight	361	239
Computer and internet	5,224	2,443
Legal/accounting services	9,101	20,416
Total expenses	<u>81,102</u>	<u>75,511</u>
Operating income/(loss)	<u>(15,285)</u>	<u>10,978</u>
Non-operating revenues:		
Interest income	<u>6</u>	<u>61</u>
Total non-operating revenues	<u>6</u>	<u>61</u>
Change in net position	(15,279)	11,039
Net position, beginning of year	<u>57,508</u>	<u>46,469</u>
Net position, end of year	\$ <u>42,229</u>	\$ <u>57,508</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 Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from members	\$ 4,047,442	\$ 3,592,108
Less:		
Cash payment to or for suppliers	(3,587,846)	(3,185,248)
Cash payment to or for employees	<u>(427,604)</u>	<u>(385,005)</u>
Net cash provided (used) by operating activities	<u>31,992</u>	<u>21,855</u>
 Cash flows from capital and related financing activities:		
Interest income	<u>6</u>	<u>61</u>
Net cash (used) provided by capital and related financing activities	<u>6</u>	<u>61</u>
 Net increase (decrease) in cash and cash equivalents	 31,998	 21,916
 Cash and cash equivalent, beginning of year	 <u>67,997</u>	 <u>46,081</u>
 Cash and cash equivalent, ending of year	 \$ <u>99,995</u>	 \$ <u>67,997</u>
 Reconciliation of operating income to cash provided (used) by operating activities:		
Operating income (loss)	\$ (15,285)	\$ 10,978
Decrease (increase) in:		
Accounts receivable-trade	(122,157)	143,959
Accounts receivable-other	503	
Prepaid expenses	108	(384)
Increase (decrease) in:		
Accounts payable	141,813	(105,178)
Accrued payroll and expenses	<u>27,010</u>	<u>(27,520)</u>
Net cash provided (used) by operating activities	\$ <u>31,992</u>	\$ <u>21,855</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 - FIDUCIARY FUNDS
June 30, 2018 and 2017

	2018 Agency Funds	2017 Agency Funds
ASSETS		
Cash and cash equivalents	\$ <u>105,395</u>	\$ <u>113,986</u>
Total Assets	\$ <u>105,395</u>	\$ <u>113,986</u>
LIABILITIES		
Due to others (Note 4)	\$ <u>105,395</u>	\$ <u>113,986</u>
Total Liabilities	\$ <u>105,395</u>	\$ <u>113,986</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, 2018

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, 2018, there were 81 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 JPA membership board.

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, 2018

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, 2018.

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, 2018

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 (agency) 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, 2018

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 the 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, 2018

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, 2018.

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 and Department of Finance and Administration's determination that ACES is a governmental entity.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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, 2018

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. However, proprietary budget are not required therefore not included in these financial statements.

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, 2018.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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, 2018, \$0 of ACES' bank balance of \$229,349 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, 2018

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 6/30/18</u>	<u>Reconciled balance as of 6/30/18</u>
Bank of Albuquerque	Operating	Checking	\$ 229,349	\$ 99,295
Bank of Albuquerque	Savings	Savings	700	700
			<u>230,049</u>	\$ <u>99,995</u>
Less: FDIC insurance			(250,000)	
Uninsured public funds			-	
Total deposits:				
Category 1-Insured			\$ 230,049	
Add: deposit in transit			-	
Less: outstanding checks			(130,054)	
Reconciled bank balance			<u>99,995</u>	
Total cash and cash equivalents			\$ <u>99,995</u>	

Note 3: Property, Equipment and Depreciation

As of the year ended June 30, 2018, 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, 2018

Note 7: Accrued Liabilities

Accrued payroll at June 30, 2018, is as follows:

<u>Type</u>	<u>2018</u>	<u>2017</u>
Accrued payroll	\$ 18,988	\$ 1,630
Accrued payroll taxes	<u>14,387</u>	<u>4,735</u>
Total	<u>\$ 33,375</u>	<u>\$ 6,365</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. The following are participants as of June 30, 2018:

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

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 \$4,184,502

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 2018, the amount paid to LDD Consulting, Inc. by ACES was \$514,205. There is a payable due to LDD Consulting, Inc. at June 30, 2018 in the amount of \$18,324.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 September 25, 2018, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

SCHEDULE OF CHANGES IN ASSETS AND
LIABILITIES - FIDUCIARY FUNDS
June 30, 2018 and 2017

ASSETS	<u>Balance 6/30/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/18</u>
Cash	\$ <u>113,986</u>	\$ <u>60,532</u>	\$ <u>69,123</u>	\$ <u>105,395</u>
Total assets	\$ <u>113,986</u>	\$ <u>60,532</u>	\$ <u>69,123</u>	\$ <u>105,395</u>
 LIABILITIES				
Due to others	\$ <u>113,986</u>	\$ <u>60,532</u>	\$ <u>69,123</u>	\$ <u>105,395</u>
Total liabilities	\$ <u>113,986</u>	\$ <u>60,532</u>	\$ <u>69,123</u>	\$ <u>105,395</u>

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

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

Board of Directors and Management of
Association of Charter Schools
Education Services
And Wayne Johnson,
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 years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise ACES' basic financial statements, and the schedule of Changes in Assets and Liabilities - Fiduciary Fund, presented as supplemental information, and have issued my report thereon dated September 25, 2018.

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 one instance 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 2018-001.

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

September 25, 2018

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2018

Section 1 - Summary of Audit Results

Financial Statements

Type of Auditor's report Issued

Unmodified

Deficiency in internal control:

Material weakness identified?

 Yes

 X No

Significant deficiencies identified?

 Yes

 X No

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

 Yes

 X No

Federal Awards

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

Current Year Findings

2018-001 - Collateralization Requirement - Other Matters (State Audit Rule Finding)

Prior Year Findings - All resolved

2017-001 - Late audit contract - Other Matters (State Audit Rule Finding)

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2018

CURRENT YEAR FINDINGS

2018-001 - Collateralization Requirement - Other Matters (State Audit Rule Finding)

Statement of Condition

Deposits held at Bank of Albuquerque were over the \$250,000 FDIC coverage four different days during the fiscal year. The overage was not collateralized at 50%.

Criteria

Section 6-10-17 NMSA states, "Any bank or savings and loan association designated as a depository of public money shall deliver securities of the kind specified in Section 6-10-16 NMSA 1978 to a custodial bank described in Section 6-10-21 NMSA 1978 and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value to one-half the amount of public money to be received in accordance with Subsection B of Section 6-10-16 NMSA 1978."

Effect

ACES is not in compliance with state statutes.

Cause

As ACES continues to grow, so do the bank deposits and bank balance. On four separate days the balance exceeded the FDIC limit of \$250,000.

Recommendation

ACES should insure that the bank provide collateralization for the operating account held in ACES' name. As the organization continues to grow, this can become more of an occurrence in the bank account.

Agency Response

On September 13, 2018, Max Luft, Deputy Director, went to the bank and set up collateralization with Bank of Albuquerque.

ASSOCIATION OF CHARTER SCHOOLS EDUCATION SERVICES

EXIT CONFERENCE

June 30, 2018

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 25, 2018, and attended by the following:

Governing board

Sam Obenshain - Treasurer
Mark Tolley - Exec. Committee member

Finance Committee

Michael Rodriguez
Eric Bose
David Craig

ACES Personnel

Bruce Hegwer, Executive Director
Max Luft, Deputy Director
Doug Whitaker, ACES staff

Kathleen R. Lane, P.C. - Personnel

Kathleen R. Lane, Audit Partner