ALBUQUERQUE PUBLIC SCHOOLS
FOUNDATION (A COMPONENT UNIT
OF ALBUQUERQUE PUBLIC SCHOOLS)
Albuquerque, New Mexico

FINANCIAL STATEMENTS
June 30, 2014

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June 30, 2014

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Independent Auditors' Report

The Board of Directors
Albuquerque Public Schools Foundation
and
Hector H. Balderas
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Albuquerque Public Schools Foundation (the Foundation), a nonprofit organization and component unit of the Albuquerque Public Schools, as of and for the year ended June 30, 2014, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2014, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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 the Foundation's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 13, 2014

ALBUQUERQUE PUBLIC SCHOOLS FOUNDATION
(A component Unit of Albuquerque Public Schools)
STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 2,529,678
Investments	2,109,521
Accrued interest on investments	8,794
Current portion of beneficial interest in remainder trust	456,126
Total current assets	5,104,119
NON-CURRENT ASSETS	
Beneficial interest in remainder trust - net of current portion	1,940,785
TOTAL ASSETS	$ 7,044,904

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 78,433
Total current liabilities	78,433
NET ASSETS	
Unrestricted	1,963,740
Temporarily restricted	3,069,865
Permanently restricted	1,932,866
Total net assets	6,966,471
TOTAL LIABILITIES AND NET ASSETS	$ 7,044,904

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

ALBUQUERQUE PUBLIC SCHOOLS FOUNDATION
(A Component Unit of Albuquerque Public Schools)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND PUBLIC SUPPORT				
Donations and pledges	$ 518,339	$ 2,411,773	$ -	$ 2,930,112
In-kind contributions	450,756	-	-	450,756
Special events	122,422	-	-	122,422
Investment income, net of $15,922 in fees	207,885	-	-	207,885
Change in value of beneficial interest in remainder trust	61,259	-	-	61,259
Other	192,746	-	-	192,746
Total revenues, gains, and public support	1,553,407	2,411,773	-	3,965,180
Net assets released from restrictions:				
Expiration of time and purpose restrictions	2,112,703	(2,112,703)	-	-
EXPENSES				
Program services	2,924,662	-	-	2,924,662
Fundraising	56,645	-	-	56,645
Management and general	591,006	-	-	591,006
Total expenses	3,572,313	-	-	3,572,313
CHANGES IN NET ASSETS	93,797	299,070	-	392,867
NET ASSETS, BEGINNING OF YEAR	1,869,943	2,770,795	1,932,866	6,573,604
NET ASSETS, END OF YEAR	$ 1,963,740	$ 3,069,865	$ 1,932,866	$ 6,966,471

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

ALBUQUERQUE PUBLIC SCHOOLS FOUNDATION
(A Component Unit of Albuquerque Public Schools)
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 392,867
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized gains in beneficial interests in perpetual trusts	(61,259)
Net realized and unrealized gains on investments	(122,713)
Effects of changes in operating assets and liabilities:	
Accounts payable and other liabilities	62,698
Net cash provided by operating activities	271,593
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(103,756)
Proceeds from sale of investments	93,229
Net cash used in investing activities	(10,527)
NET INCREASE IN CASH AND CASH EQUIVALENTS	261,066
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,268,612
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,529,678
NONCASH ACTIVITIES	
Noncash administrative support provided by Albuquerque Public Schools	$ 450,756

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

NOTE 1 – DEFINITION OF REPORTING ENTITY

The Albuquerque Public Schools Foundation (the Foundation), a component unit of the Albuquerque Public Schools (APS), is a nonprofit organization incorporated under laws of the State of New Mexico on April 25, 1995. The Foundation was established to solicit, receive and manage private voluntary support for the benefit and on behalf of APS. The Foundation itself has no component units.

The Foundation is governed by a Board of Directors, which has the responsibility for determining policy and for the execution and evaluation of programs and activities conducted by the Foundation. The Board consists of no less than three members and no more than 25 members. Board members represent government, business, public sector, private individuals and organizations that are interested in supporting programs and services of APS. The term served by Board members is three years. The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (the Code) and is not considered a private foundation within the meaning of Section 509(a) of the Code.

A Memorandum of Agreement between the Foundation and APS was signed and executed on January 5, 2005.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

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.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets.

> **Unrestricted Net Assets** – These assets represent sources whose use is not limited to or restricted by donors. Unrestricted net assets have arisen from exchange transactions, receipt of unrestricted contributions and expirations or satisfaction of existing restrictions.
>
> The Foundation treats restricted contributions whose restrictions are satisfied during the same fiscal year as unrestricted support. All contributions made to the Foundation are considered to be available for unrestricted use unless specifically restricted by the donor.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets – These assets result from (a) contributions and other inflows of assets whose use by the Foundation is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations; (b) other assets enhancements and diminishments subject to the same kinds of stipulations; and (c) imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Foundation pursuant to those stipulations.

Permanently Restricted Net Assets – These assets have donor-imposed restrictions that stipulate that resources be maintained permanently but permit the Foundation to use up or expend part or all of the income or economic benefits derived from the donated assets.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of cash on deposit with financial institutions and money market accounts.

Investments

The Foundation records investments at fair value. See Note 4 for a description of fair value determination.

Permanently Restricted Net Assets

During the year ended December 31, 2008, FASB issued authoritative guidance, which includes the following financial statement disclosure requirements for the Foundation for the year ended June 30, 2014.

Classification of Net Assets – Endowment funds are used to account for investments in which the principal is temporarily or permanently restricted or Board-designated for a specific purpose.

Interpretation of Relevant Law – The Foundation has interpreted the Uniform Prudent Management of Institutions Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanent restricted net assets: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation investment policies.

Income Taxes

The Foundation is a non-profit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as other than a private foundation. As such, their normal activities do not result in any income tax liability. The Foundation pays taxes on unrelated business income.

The Foundation would recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no such interest or penalties recorded for the year ended June 30, 2014.

The Foundation files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Foundation is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of June 30, 2014, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year ended June 30, 2011 and forward.

Revenue Recognition

The Foundation is accounted for as a not-for-profit organization, and its follows revenue recognition rules as defined below:

Donations – The Foundation recognizes revenue on donations when all applicable eligibility requirements are met.

Pledges – Unconditional pledges, if any, are recognized as revenues in the period received and as assets, decreases in liabilities or expenses, depending on the form of the benefits to be received. Conditional pledges are recognized as revenues when the conditions on which they depend are substantially met. An allowance for doubtful pledges is recorded when the pledge is recorded. The allowance is based on past pledge loss experience and other factors that management considers necessary in estimating pledge losses.

Contributions of Services Revenues – Contributions of services are recognized in the financial statements of the Foundation only if the services received: (a) create or enhance non-financial assets of the Foundation, and (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Use of office furniture and equipment is provided at no charge by APS.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Remainder Trusts – A charitable remainder trust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, the Foundation receives a percentage of the assets remaining in the trust. Beneficial interest in remainder trusts represent the present value of estimated future cash receipts from the trust's assets. Contribution revenue is recognized in the period in which the trust is established. In subsequent years, income earned on trust assets, recognized gains and losses, and distributions paid will be recognized. Revaluation of the present value of the estimated future payments and changes in actuarial assumptions will be recognized in the Statement of Activities and Changes in Net Assets.

Advertising Costs

The Foundation expenses advertising costs as incurred. Expenses incurred for the year ended June 30, 2014 were approximately $1,800.

Subsequent Events

Management evaluated subsequent events through November 13, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to November 13, 2014, that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2014.

NOTE 3 – INVESTMENTS

Investment Policy Statement (IPS): In December 2002, the Foundation Board of Directors adopted an IPS to assist in the supervising, monitoring and evaluating of the Foundation's investments. The IPS is to provide financial stability for the Foundation operations and an increasing stream of income for future program growth. In February 2014 the Foundation transferred all investment assets held with Bank of Albuquerque to Merrill Lynch.

The Foundation shall be responsible for:

- Overseeing the Foundation Investment Portfolio.
- Defining the investment objectives and policies of the portfolio.
- Directing the Investment Manager to make changes in investment policy and to oversee and to approve or disapprove Investment Manager recommendations with regard to policy, guidelines, objectives and specific investments.

NOTE 3 – INVESTMENTS (CONTINUED)

- Providing the Investment Manager with all relevant information on its financial conditions and risk tolerances and notifying the Investment Manager promptly of any changes to this information.

The Foundation agrees that investment discretion can be delegated to qualified, professional investment specialists or private portfolio managers (Investment Managers) that would be identified by the Foundation's Finance Committee resulting from an extensive quantitative and qualitative process of diligence.

Guidelines for the Investment Manager are that the investment of the Foundation's investment portfolio shall be limited to individual marketable securities or packaged products (e.g., mutual funds) in the following categories:

- Cash and cash equivalents
- Fixed Income – Domestic bonds
- Fixed Income – Non-U.S. bonds
- Fixed Income – High Yield
- Equities – U.S. and Non-U.S. within an international portfolio

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the Foundation uses various valuation approaches within the ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2014.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of June 30, 2014				
Bonds	$ 991,356	$ -	$ -	$ 991,356
Equities	1,118,165	-	-	1,118,165
Beneficial interest in remainder trust	-	-	2,396,911	2,396,911
Total	$ 2,109,521	$ -	$ 2,396,911	$ 4,506,432

The following information summarizes the difference between cost and the estimated fair value for investments:

	Cost	Estimated Fair Value	Market Value Over (Under) Cost
As of June 30, 2014			
Bonds	$ 1,009,684	$ 991,356	$ (18,328)
Equities	986,314	1,118,165	131,851
Beneficial interest in remainder trust	2,761,809	2,396,911	(364,898)
Total	$ 4,757,807	$ 4,506,432	$ (251,375)

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended June 30, 2014.

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Beginning Balance	$ 2,335,652
Contributions	100,396
Distributions	(271,413)
Dividend income	55,807
Net unrealized gain	349,169
Investment management fees	(38,827)
Change in present value discount	(133,873)
Ending Balance	$ 2,396,911

Unrealized gains and losses applicable to instruments valued using significant unobservable inputs (Level 3) are included in the statement of activities for the year ended June 30, 2014.

NOTE 5 – BENEFICIAL INTERESTS IN REMAINDER TRUSTS

On May 11, 2001, the Foundation was awarded an interest in the William H. and Lilian Dolde Charitable Trust for the purpose of funding fine arts programs in the Albuquerque Public Foundations. The Bank of America administers the Trust. The Trust was originally funded in the amount of $2,000,000. The Trust document calls for the annual distribution of an amount equal to 5% of the Trust's net position. This annual distribution will expire on December 31, 2051. Upon termination of the Trust, the Foundation is entitled to a portion of the remaining assets in order to establish a permanent endowment for the fine arts. The Foundation is irrevocably entitled to 90% of all annual distributions and 90% of the remaining Trust net position upon termination. The Foundation's interest in the Trust's assets is recorded at fair market value with adjustments made annually for increases or decreases in value. The present value of the Trust agreement was initially calculated using a discount rate of 5% with annual distributions to be received of $90,000 (90% of $100,000) for 49.5 years. The present value of the Trust net position at termination was initially estimated using a value of $1,800,000 in remaining net position (90% of $2,000,000) with a discount rate of 5% for 50 years. During the fiscal year ended June 30, 2014, the Trust distributed $98,761 to the Foundation. The present value of the Trust increased by approximately $21,670 and the fair value of the Trust's assets decreased by approximately $13,750 for the fiscal year ended June 30, 2014. This resulted in the recording of a beneficial interest in the Trust in the amount of $1,940,785 for the year ended June 30, 2014. The 2014 changes in present and fair values are reflected in the Foundation's Statement of Activities and Changes in Net Assets.

In April of 2003, the Foundation was awarded an interest in the Guhl Charitable Trust for the purpose of funding programs in the Albuquerque Public Foundations. The Bank of America administers the Trust. The Trust document calls for the distribution of an amount equal to 20% of the Trust's remaining assets to the Foundation upon termination on April 13, 2014. The Foundation's interest in the Trust's assets is recorded at fair market value with adjustments

NOTE 5 – BENEFICIAL INTERESTS IN REMAINDER TRUSTS (CONTINUED)

made annually for increases or decreases in value. The present value of the Trust agreement was calculated using a discount rate of 5%. No present value of the Trust net position at termination was estimated as the termination date was within a year. As of the report date the Trust is still in settlement. The Trust assets (20% of $2,280,631 [market value of trust as of June 30, 2014]), with a discount rate of 5%, resulted in the recording of a beneficial interest in the Guhl Trust in the amount of $456,126 for the fiscal year ended June 30, 2014. The increase in beneficial interest of approximately $53,340 is reflected in the Foundation's Statement of Activities and Changes in Net Assets.

NOTE 6 – RELATED PARTIES

District programs are the primary beneficiaries of funds donated to the Foundation. Certain District employees whose services were contributed to the Foundation also served as Foundation Board members in an ex-officio capacity. Certain voting Board members were affiliated with the District or with other entities served through the Foundation.

During the year ended June 30, 2014, the Foundation received contributions from the District with a market value of $450,756. The contributions included employee services and donated supplies and materials.

The Foundation has no employees of its own. During the year ended June 30, 2014, all Foundation staff members were employees of the District.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2014:

Purpose:		
APS Programs	$	1,515,874
Nursing services - vision care		1,032,136
Fine Arts		231,617
Mini Grants to School Programs		87,054
Middle School Grants		70,613
Marketing expenses and teacher awards		60,567
Other		47,329
Teacher Professional Development		16,047
Grants energy conservation		5,000
Library Projects at Griegos and Los Padillos		3,228
Teacher Awards in B. Facio's name		400
Total	$	3,069,865

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets are released from restrictions by incurring expenses satisfying the restricted purposes. Net assets released from restrictions were comprised of the following:

Purpose:		
APS Programs	$	1,523,655
Fine Arts		199,197
Mini Grants to School Programs		159,700
Other		155,160
Teacher Awards in B. Facio's name		31,991
Nursing services - vision care		28,000
Library Projects at Griegos and Los Padillos		15,000
Total	$	2,112,703

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the Foundation. At June 30, 2014, permanently restricted net assets were made up of the Dolde Trust in the amount of $1,932,866.

NOTE 9 – CONCENTRATION OF CREDIT RISK

The Foundation maintains cash depository accounts with various financial institutions. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Balances in these accounts may at times exceed the federally insured amount. The Foundation did not have deposits in excess of the insured amounts at year end. The Foundation has not experienced, and its management believes it is not exposed to, significant credit risk from excess deposits.

NOTE 10 – CHANGE IN ACCOUNTING STANDARDS

During the year ended June 30, 2014, the Foundation changed its method of financial reporting from the framework found under the Governmental Accounting Standards Board (GASB) to the framework found under the Financial Accounting Standards Board (FASB). As a non-profit organization, the FASB framework will allow the Foundation to report information that is more comparable to other foundations and better reflects the nature of the Foundation’s activities. The change had no effect on the change in net assets, net assets, or total assets for the year ended June 30, 2014.

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Independent Auditors' 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
Albuquerque Public Schools Foundation
Albuquerque, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Albuquerque Public Schools Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses (2014-026, 2014-027).

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies (2014-028).

Compliance and Other Matters

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

The Foundation's Response to Findings

The Foundation's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 13, 2014

SECTION I – FINANCIAL STATEMENT FINDINGS

2014-026 – Internal Control Structure (Material Weakness)

Condition: During our audit, we encountered the following issues:

- During our search for unrecorded liabilities, we identified approximately $78,000 that should have been identified by management as liabilities and recognized as expenses as of June 30, 2014.
- During our search for unrecorded liabilities, we noted that the Foundation does not record any year-end accruals.
- During our search for unrecorded liabilities, we noted two of the twelve disbursements sampled did not have adequate supporting documentation.
- During testing of credit cards, we noted no evidence of review of credit card statements.
- During test of design of controls, we noted there is no process to track or adjust beneficial remainder trust amounts.

Criteria: Per FASB ASC 958-720, expenses should be recognized in the period when the economic benefits are used. In addition, the Foundation shall establish and maintain an internal control structure to provide management with reasonable assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP.

Cause: The Foundation does not have a process in place to record year end accruals, authorize credit card expenses, or track beneficial remainder trust amounts.

Effect: Liabilities and expenses were understated by $77,918.

Auditor's Recommendation: We recommend that the Foundation establish and implement a year end closing process that includes recording expense accruals.

Management's Response: The Foundation will implement procedures to accrue expenses at year end to capture expenses incurred after year end which relate to periods prior to year end. This will include reviewing the supporting documentation for each disbursement to determine if it should be accrued for year end.

The Foundation will review and implement procedures for credit card statement review. The Foundation will have the Executive Director review the statements prior to payment and document review with his initials and date as sign off. The Foundation's Finance Committee will review credit card purchases each month and the board also will review credit card transactions as part of its examinations of the general ledger.

2014-027 – Revenue and Expense Recognition (Material Weakness)

Condition: During audit test work over contribution revenue and award expenses, we identified a year-end reclassification adjustment of approximately $1.9m in revenue and award expenses that erroneously double-recorded both revenues and expenses equally.

SECTION I – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2014-027 – Revenue and Expense Recognition (Material Weakness) (continued)

Criteria: Per FASB ASC 958-605, contributions received shall be recognized as revenues in the period received. Per FASB ASC 958-720, expenses should be recognized in the period when the economic benefits are used. In addition, the Foundation shall establish and maintain an internal control structure to provide management with reasonable assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP.

Cause: The Foundation was tracking revenue and expenses in a due to agency liability account as well as in a contribution revenue and an awards expense account.

Effect: Revenue and expenses were overstated by $1,961,529.

Auditor's Recommendation: We recommend that the Foundation establish and implement a single process for recording contributions and paying awards to programs.

Management's Response: The Foundation has procedures in place to manage the various restricted funds through the use of a statement of financial position account during the year. At year end, an adjustment is prepared to reclassify the fund from the statement of financial position to the appropriate revenue and expense accounts. In the current year reclassification, funds that were internally designated by the Foundation to the restricted funds were picked up in the reclassification back to the revenue and expenses. The Foundation will re-evaluate the process for posting transactions to the various restricted funds and the subsequent reclassification to ensure internally designated funds are not included in the reclassification entry.

2014-028 – Journal Entries (Significant Deficiency)

Condition: During audit test work over journal entries, we noted that 8 of the 8 entries selected did not have supporting documentation, 4 of the 8 entries selected did not have proof of review, and 2 of the 8 entries had a journal entry number that was associated with two separate entries in the general ledger.

Criteria: Per FASB ASC 958-720, expenses should be recognized in the period when the economic benefits are used. In addition, the Foundation shall establish and maintain an internal control structure to provide management with reasonable assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP.

Cause: The Foundation does not have a process in place related to journal entry approval and retention.

Effect: We were unable to determine whether the entries were proper.

SECTION I – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2014-028 – Journal Entries (Significant Deficiency) (continued)

Auditor's Recommendation: We recommend that the Foundation establish and implement a process for authorizing and retaining supporting documentation for journal entries.

Management's Response: The Foundation will institute and maintain a process for journal entry preparation and approval, including attaching supporting documentation for each entry and obtaining signatures for journal entries. The Foundation will also implement a journal entry numbering system to reduce the risk of duplicate journal entry numbers within the general ledger system.

ALBUQUERQUE PUBLIC SCHOOLS FOUNDATION
(A Component Unit of the Albuquerque Public Schools)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014

SECTION I – FINANCIAL STATEMENT FINDINGS

2013-72 – Prior Period Restatement – Agency Transaction Determination (Material Weakness) - Resolved

ALBUQUERQUE PUBLIC SCHOOLS FOUNDATION
(A Component Unit of Albuquerque Public Schools)
EXIT CONFERENCE
June 30, 2014

An exit conference was held with the Foundation on November 7, 2014. In attendance were:

ALBUQUERQUE PUBLIC FOUNDATIONS FOUNDATION

Phil Casaus, Executive Director
J.J. Griego, Board Member, Treasurer
Jeff Lunsford, Board Member
Cathy Cavin, Resource Specialist
Cheryl Burgmaier, CPA, Burgmaier and Associates

CLIFTONLARSONALLEN LLP

Georgie Ortiz, CPA, CGFM, Principal

PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor. However, they are the responsibility of management, as addressed in the Independent Auditor's Report. Management reviewed and approved the financial statements.