



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE
DEVELOPMENT BOARD**

Financial Statements

For The Year Ended June 30, 2013

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
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For The Year Ended June 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Eastern Area Workforce Development Board and
Mr. Hector H. Balderas, State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the general fund budgetary comparison of the Eastern Area Workforce Development Board (EAWDB), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the EAWDB's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the EAWDB, as of June 30, 2013, and the respective changes in financial position and, the general fund budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management and Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the EAWDB's financial statements and the general fund budgetary comparison. The schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the other schedules required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2013 on our consideration of EAWDB'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 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 EAWDB's internal control over financial reporting and compliance.



Hinkle + Landers, PC
Albuquerque, NM
December 2, 2013

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
(GOVERNMENT-WIDE)
STATEMENT OF NET POSITION
As of June 30, 2013**

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 107,357
Grant receivables	348,737
Total current assets	456,094
Non-current assets:	
Capital assets	5,014
Total assets	\$ 461,108
LIABILITIES	
Current liabilities	
Accounts payable	\$ 443,267
Unearned revenue	12,827
Short term loan	3,007
Total current liabilities	459,101
NET POSITION	
Investment in capital assets	5,014
Unrestricted	(3,007)
Total net position	2,007
Total liabilities and net position	\$ 461,108

See independent auditors' report
The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
(GOVERNMENT-WIDE)
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2013**

Functions/Programs	<u>Expenses</u>	<u>Program Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position for Governmental Activities</u>
Governmental activities:			
Workforce Investment Act program:			
Adult	\$ 742,446	742,446	-
Dislocated Worker	340,441	340,441	-
Youth	633,691	633,691	-
Administration	210,169	210,169	-
Other	-	-	-
American Recovery and Reinvestment Act:			
SESP	259,610	259,610	-
One-Stop offices	170,331	153,880	(16,451)
Depreciation	<u>1,280</u>	<u>-</u>	<u>(1,280)</u>
	\$ 2,357,968	2,340,237	(17,731)
General revenues:			
Interest income			<u>-</u>
Change in net position			(17,731)
Net position, beginning of year			126,923
Restatement			(107,185)
Beginning net position, as restated			<u>19,738</u>
Net position, end of year			<u>\$ 2,007</u>

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**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2013**

		General Fund Workforce Investment Act
ASSETS:		
Cash and cash equivalents	\$	107,357
Grant receivables		<u>348,737</u>
Total assets	\$	<u><u>456,094</u></u>
LIABILITIES:		
Accounts payable	\$	443,267
Unearned revenue		<u>12,827</u>
Total liabilities		<u>456,094</u>
FUND BALANCE:		
Unassigned		<u>-</u>
Total fund balance		<u>-</u>
Total liabilities and fund balance	\$	<u><u>456,094</u></u>
 Amounts reported for governmental activities in the statement of net position are different because:		
Total fund balances - Governmental Funds	\$	-
<i>Capital assets used in governmental activities are not financial resources and, therefore, are not reported</i>		5,014
<i>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:</i>		
Short-term loans		<u>(3,007)</u>
Net position of governmental activities	\$	<u><u>2,007</u></u>

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**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
For The Year Ended June 30, 2013**

		General Fund Workforce Investment Act
Revenues:		
Federal grants	\$	2,186,357
Other income		<u>153,879</u>
Total revenues		2,340,236
Expenditures:		
Employment services:		
Formula Program Year funds		
Adult		742,445
Dislocated Worker		340,441
Youth		633,691
Administration		210,169
SESP		259,610
One Stop offices		<u>170,331</u>
Total expenditures		2,356,687
<i>Excess (deficiency) of revenues over expenditures</i>		(16,451)
<i>Other financing sources (uses)</i>		
Proceeds from debt issuance		<u>3,007</u>
Net change in fund balance		(13,444)
Beginning fund balance		<u>13,444</u>
Ending fund balance	\$	<u><u>-</u></u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change fund balance in governmental funds	\$	(13,444)
<i>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditure in governmental funds.</i>		
		(1,280)
<i>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position:</i>		
Proceeds from debt		<u>(3,007)</u>
Change in net position of governmental activities	\$	<u><u>(17,731)</u></u>

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**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (MODIFIED ACCRUAL BASIS)
AND ACTUAL (MODIFIED ACCRUAL BASIS)
For The Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Grants	\$ 3,049,765	3,049,765	2,186,357	(863,408)
Other revenue	-	-	153,879	153,879
Total revenues	<u>3,049,765</u>	<u>3,049,765</u>	<u>2,340,236</u>	<u>(709,529)</u>
Expenditures:				
Current:				
Employment services:				
PY 11 and FY 12				
Adult	280,498	280,498	280,498	-
Dislocated Worker	226,954	226,954	226,954	-
Youth	308,940	308,940	308,940	-
Administration	35,837	35,837	35,837	-
PY 12 and FY 13				
Adult	606,678	606,678	461,947	144,731
Dislocated Worker	413,481	413,481	113,487	299,994
Youth	558,328	558,328	324,751	233,577
Administration	175,388	175,388	174,332	1,056
SESP	283,285	283,285	259,610	23,675
One Stop offices	<u>180,000</u>	<u>180,000</u>	<u>170,331</u>	<u>9,669</u>
Total general governmental	<u>3,069,389</u>	<u>3,069,389</u>	<u>2,356,687</u>	<u>712,702</u>
<i>Excess (deficiency) of revenues over</i>	<u>(19,624)</u>	<u>(19,624)</u>	<u>(16,451)</u>	<u>3,173</u>
<i>Other financing sources (uses)</i>				
Proceeds from debt issuance	<u>-</u>	<u>-</u>	<u>3,007</u>	<u>3,007</u>
Net change in fund balance	<u>(19,624)</u>	<u>(19,624)</u>	<u>(13,444)</u>	<u>6,180</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>13,444</u>	<u>13,444</u>
Fund balance, end of year	<u><u>\$ (19,624)</u></u>	<u><u>(19,624)</u></u>	<u><u>-</u></u>	<u><u>19,624</u></u>

See independent auditors' report
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STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Entity

The purpose of these financial statements is to present the financial position and the changes in financial position of the Eastern Area Workforce Development Board. The Eastern Area Workforce Development Board operates three programs, WIA, SESP, and the American Recovery and Reinvestment Act.

The Eastern Area Workforce Development Board (EAWDB) of the State of New Mexico is established in accordance with 29 U.S.C § 2832 of the federal Workforce Investment Act of 1998 (WIA), 29 U.S.C. § 2801 et seq., and Section 50-14-5, NMSA 1978 Compilation of the New Mexico Workforce Development Act (WDA), Section 50-14-1 et seq., NMSA 1978 Compilation.

The Eastern Area Workforce Development Board of the State of New Mexico was created on April 5, 2000, by the Chief Elected Officials of the Local Governments of the Eastern Plains Council of Governments and the Southeastern New Mexico Economic Development District/Council of Governments.

The day to day operations and fiscal management of the activities of EAWDB were managed by the Economic Employment Information Center of New Mexico (EEICNM) in Albuquerque, New Mexico.

It shall be the purpose of the Eastern Area Board to set policy for and provide operational oversight of the local workforce investment system geographically comprised of the counties of Union, Harding, Quay, Guadalupe, Curry, De Baca, Roosevelt, Chaves, Lincoln, Otero, Eddy, and Lea, of the State of New Mexico.

The objective of the Eastern Area Board is to carry out its duties and responsibilities according to the federal WIA, SESP, the New Mexico DWS, and all federal and New Mexico regulations duly promulgated under those acts.

The basic activities authorized by the State of New Mexico (50-14-5, NMSA, 1978) to be carried out by the local board are as follows:

- 1) Advise the state board on issues relating to regional and local workforce development needs;
- 2) Develop and submit to the state board and governor a local five-year workforce plan that shall be updated and revised annually in accordance with the requirements of the federal Workforce Investment Act of 1998;
- 3) Designate or certify one-stop program operators in accordance with the federal Workforce Investment Act of 1998;
- 4) Terminate, for cause, the eligibility of the one-stop operator;
- 5) Select and provide grants to youth activity providers in accordance with the Workforce Investment Act of 1998;
- 6) Identify eligible training and intensive service providers in accordance with Workforce Investment Act of 1998;
- 7) Develop a budget subject to approval of the chief elected official;
- 8) Develop and negotiate local performance measurements as described in the Workforce Investment Act of 1998 with the chief elected official and the governor;

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NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

- 9) Assist in development of an employment statistics system;
- 10) Ensure linkages with economic development activities;
- 11) Encourage employer participation and assist employers in meeting hiring needs;
- 12) In partnership with the chief elected officials, conduct oversight of local programs of youth activities authorized pursuant to the federal Workforce Investment Act of 1998 and employment and training activities authorized pursuant to that act, and conduct oversight of the one-stop delivery system in the local area;
- 13) Establish as a subgroup, a youth council, appointed by the local board in cooperation with the chief elected official, and
- 14) Prior to submission of the local plan, provide information regarding the following:
 - a) the local plan
 - b) membership
 - c) designation and certification of one-stop operators and
 - d) the award of grants or contracts to eligible providers of youth activities

The local board shall be appointed in accordance with criteria established by the governor. The EAWDB's board is required to be made up of at least fifty-one percent of its members coming from the private sector and shall include representation of education, labor, government, economic development and community-based organizations, and others as appropriate and shall be appointed or ratified by the local chief public official.

In evaluating how to define the EAWDB, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the election of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the EAWDB and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the EAWDB is able to exercise oversight responsibility. Based on the application of these criteria, there are no component units included in the reporting entity.

B. Basic Financial Statements – Government-Wide Statements

The EAWDB's basic financial statements include both government-wide (based on the EAWDB as a whole) and fund financial statements. Both the government-wide and fund financial statements (Within the basic statement) categorize primary activities as either governmental or business type. The EAWDB is a single purpose government entity and has no business-type activities. The government-wide financial statements, the statement of net position and the statement of activities report information on all non-fiduciary activities of an agency.

STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

In the government-wide statement of net position, the governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. The EAWDB's net position are reported in three parts -invested in capital assets, net of related debt; restricted net position; and unrestricted net position.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (employment services) which is otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues, operating and capital grants. Program revenue must be directly associated with the function (public safety). Program revenues include 1) charges to applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements for a particular function or segment.

When applicable, the effect of interfund activity is removed from the statement of net position and the statement of activities in order to avoid a grossing-up effect on the assets, liabilities, revenues and expenditures.

The net cost by function is normally covered by general revenue. Since the EAWDB only has one program, it does not employ indirect cost allocation. The government-wide focus is more on the sustainability of the EAWDB as an entity and the change in the EAWDB's net position resulting from the current year's activities.

C. *Basic Financial Statements -Fund Financial Statements*

The governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the EAWDB's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented with each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The financial transactions of the EAWDB are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

This model sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combines) for the determination of major funds. The non-major funds are combined in a column in

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EASTERN AREA WORKFORCE DEVELOPMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

the fund financial statements and detailed in the combining section. Currently, all EAWDB sub-funds are reported as a single General Fund.

The following fund type is used by the EAWDB:

Governmental Funds

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Revenues are available if collected within the current period or soon enough afterwards to pay liabilities of the current period. The EAWDB considers revenues to be available if collected within sixty days of the end of the fiscal year. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures of fund liabilities.

The EAWDB presents the following type of governmental funds.

- *General Fund* – The General Fund is the general operating fund of the EAWDB. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is comprised of multiple sub-funds associated with separate revenue sources. The General Fund is funded primarily from operating grants from the U.S. EAWDB of Labor passed through the New Mexico EAWDB of Workforce Solutions.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented on an accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenditures are recognized when incurred. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, which was adopted by the EAWDB as of July 1, 2000.

All governmental funds utilize the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual -that is, when they become both measurable and available to finance expenditures of the current

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fiscal period; available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as non-current liabilities. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirement are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

E. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as investment in capital assets (net of related debt), restricted, and unrestricted.

Investment in Capital Assets (net of related debt) – is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. There was no related debt as of fiscal year-end.

Restricted Assets – are liquid assets (generated from revenues and not bond proceeds), with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. These are assets which have a legally enforceable third-party (statutory or granting agency) limitation on their use. Legally enforceable means that a government can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for purposes specified by the legislation. Generally the enforceability of an enabling legislation restriction is determined by professional judgment. If it is determined that the restrictions continue to be legally enforceable, then for the purposes of financial reporting, the restricted net position should not reflect any reduction for resources used for purposes not stipulated by the enabling legislation.

Unrestricted Assets – represent unrestricted liquid assets. These are comprised off all net position that is not otherwise classified as restricted or invested in capital assets.

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NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

The EAWDB allocates expenses to restricted or unrestricted resources based on the budgeted source of funds. It is the EAWDB's practice to apply restricted resources prior to unrestricted funds when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

F. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. The EAWDB has no deferred outflows of resources during fiscal year 2013 on the government wide or fund financials.

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position/fund balance that applied to a future period and so will not be recognized until then. The EAWDB has no deferred outflows of resources during fiscal year 2013 on the government wide or fund financials.

G. Fund Balance – Governmental Funds

GASB Statement No. 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. The new hierarchical fund balance classifications are based primarily upon the extent to which a government is bound to follow constraints on resources in governmental funds. GASB Statement No. 54 was implemented in the current fiscal year. Details of the EAWDB's fund balance classifications and policies follows.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). The EAWDB's fund balance is classified under the following GASB Statement No. 54 components:

- ***Non-spendable:*** Non-spendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The EAWDB does not have any non-spendable fund balance for the year ended June 30, 2013.
- ***Restricted:*** Restricted fund balance represents includes amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation (such as taxpayers, grantors, bondholders, and higher levels of government). The EAWDB does not have any restricted fund balance for the year ended June 30, 2013.
- ***Committed:*** Committed fund balance is constrained to specific purposes by the highest level of decision-making authority (the New Mexico Legislature and Governor). The EAWDB does not have any committed fund balance for the year ended June 30, 2013.

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- *Assigned*: Assigned fund balance is constrained by the Legislature and Executive branch's intent to be used by the government for specific purposes or in some cases by legislation. Intent can be expressed by the governing body or an official or body to which the governing body delegates authority. The EAWDB does not have any assigned fund balance for the year ended June 30, 2013.
- *Unassigned*: Unassigned fund balance is the residual classification for the general fund. The EAWDB does not currently have a minimum fund balance policy. The EAWDB unassigned fund balance for the year ended June 30, 2013 consists of amounts stemming from start-up costs for the Clovis and NMWFC-Chavez County one-stop offices.

Spending policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the EAWDB considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the EAWDB considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

H. Budgets

The EAWDB prepares a budget by funding stream based upon the allocation by the State Workforce Development Board to be approved by the EAWDB's Board. The State Workforce Development Board provides the EAWDB with a breakdown of the funds allocated to that region each year for adult, dislocated worker, state set aside, youth and administration activities. Those allocations are based upon the State Workforce Development Board's approved state plan. The EAWDB cannot exceed expenditures by adult, dislocated worker, youth, state set aside, or administration funding streams. Allocated funds not drawn in the first year may be drawn in the next year.

Budgets are prepared on the modified accrual basis of accounting. The EAWDB and the Department of Finance and Administration exercise legal level budget control at the fund level for general government functions. The budgets of all individual funds may not be legally over expended. Any adjustments to the State Board's allocations made by the EAWDB must be first approved by the State Workforce Development Board but are not required to be approved by the Department of Finance and Administration.

Any federal funds that have been used for any purpose not within the purposes of the Workforce Investment Act shall be reimbursed to the State Workforce Investment Board. Also any funds allocated not used within two years of the original allocation date revert back and are not allowed to be drawn down after that period.

I. Cash and Cash Equivalents

Cash and cash equivalents consist of short-term highly liquid investments, which are readily convertible into cash within ninety (90) days of purchase.

STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

J. Receivables

In accordance with Article IV Section 32 of the New Mexico Constitution [Remission of debts due state or municipalities], the EAWDB does not write-off amounts owed to it by any individual, association, company, or other agency. The EAWDB maintains a list of all amounts owed to it to ensure no amounts are erroneously written off.

K. Federal Grants Receivable (Unearned Revenue)

All federal grants are on a reimbursement basis. Various reimbursement procedures are used for federal awards received by the EAWDB. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal yearend represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, unearned revenue balances represent an overdraw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or unearned revenue balances caused by differences in the timing of cash reimbursements and expenditures will be reversed or returned to the grantor in the remaining grant period.

Determining the amount of expenditures reimbursable by the federal government, in some cases, requires management to estimate allowable costs to be charged to the federal government. As a result of this and other issues, management provides an allowance for potential contractual allowances for federal revenue. Any changes in these estimates are recorded in the period that the estimate is changed.

L. Allowances

The EAWDB expects to receive the full amount of grants receivables for funds requested from the Office of Workforce Development and Training and others and, therefore, had not set up any allowance for any uncollectible receivables.

M. Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the EAWDB as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and are capitalized on the government-wide financial statements. The valuation bases for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Sub-grantees purchasing equipment by sub-grant made by the EAWDB to other agencies is accounted for in capital assets. Purchased capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date of donation. The minimum capitalization threshold is any individual item with a total cost greater than \$5,000.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013**

<u>Type of Asset</u>	<u>Estimated Useful Life</u>
Leasehold improvements	5 years
Vehicles	5 years

However, assets over the past years have been purchased by contractors and sub-recipients as budgeted in their contracts and award agreements. These assets have been recorded on the contractors' and sub-recipients' books and depreciation has been recorded on their books accordingly. The contractors and sub-recipients are under the understanding that should the program end or their agreements with the EAWDB end, those assets will need to be returned to the EAWDB's awarding program.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTE 2 – DEPOSIT AND INVESTMENTS

The EAWDB's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments.

State statutes authorize the investment of the EAWDB funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The EAWDB is also allowed to invest in United States Government obligations. All funds of the EAWDB must follow the above investment policies.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the EAWDB. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

In accordance with Section 6-10-17, NMSA, 1978 Compilation, deposits of public money are required to be collateralized. Pledged collateral is required to have an aggregate value equal to one half of the amount of public money in each account. Securities, which are obligations of the United States, State of New Mexico, its agencies, institutions, counties, municipalities or other subdivisions are accepted as security at market value. No security is required for the

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013**

deposit of public money that is insured by the Federal Deposit Insurance Corporation, or the National Credit Union Administration.

Custodial credit risk is risk that in the event of bank failure, the EAWDB's deposits may not be returned to it. The government does not have a deposit policy for custodial risk. As of June 30, 2013, none of the government's bank balance of \$108,755 was exposed to custodial risk.

Deposits as of June 30, 2013 were held in Wells Fargo Bank in the name of the EAWDB. Deposits (cash or cash equivalents) are carried at cost, which approximates market value. As of June 30, 2013, the carrying amount of the EAWDB's deposits was \$107,357.

The following is a listing of deposits of public money held by the EAWDB, by the depositing financial institutions as of June 30, 2013:

<u>Bank/Account Name</u>	<u>Type</u>	<u>Bank Balance</u>	<u>Outstanding Items</u>	<u>Book Balance</u>
Wells Fargo*	Demand Deposit	\$ 108,755	(1,398)	107,357
FDIC insurance		(250,000)		
Amount uninsured		<u>\$ (141,245)</u>		

* denotes interest bearing

There were no remaining uninsured and collateralized deposits exposed to custodial credit risk. As of June 30, 2013, the amount of the EAWDB's bank balance of that was exposed to custodial credit risk was as follows:

Uninsured and collateral held by the pledging Bank's trust dept., not in the EAWDB's name	\$ <u> -</u>
--	-----------------------

Due to restriction on Workforce Investment Act funds by the granting agency monies deposited into the account of the EAWDB and any program revenue earned by the EAWDB are not allowed to be invested.

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the year ended June 30, 2013:

	<u>2012</u>	<u>Additions</u>	<u>Adjustments</u>	<u>2013</u>
Capital Assets:				
Leasehold improvements	\$ 551,718	-	(551,718)	-
Vehicles	16,739	-	(16,739)	-
Software	6,401	-	-	6,401
Subtotal depreciable assets	<u>574,858</u>	<u>-</u>	<u>(568,457)</u>	<u>6,401</u>
Accumulated Depreciation:				
Leasehold improvements	(447,323)	-	447,323	-
Vehicles	(13,949)	-	13,949	-
Software	(107)	(1,280)	-	(1,387)
Subtotal accumulated depreciation	<u>(461,379)</u>	<u>(1,280)</u>	<u>461,272</u>	<u>(1,387)</u>
Total net capital assets	<u>\$ 113,479</u>	<u>(1,280)</u>	<u>(107,185)</u>	<u>5,014</u>

Current year depreciation expense for the year ended June 30, 2013 was \$1,280. All of the

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013**

EAWDB's equipment have been purchased under government contracts and are restricted as to their use as designated by granting agencies.

There were no deletions in the current year. The \$107,185 represents adjustments to capital assets that occurred in the prior year. See note 11.

NOTE 4 – RECEIVABLES

The EAWDB had grant receivables from the Department of Workforce Solutions in the amount of \$348,737 as of June 30, 2013.

NOTE 5 – UNEARNED REVENUE

During the fiscal year ending June 30, 2013, the EAWDB's unearned revenues totaled \$12,827. This amount consisted entirely of WIA funds returned to the EAWDB to be used in the following period.

NOTE 6 – SHORT-TERM LOANS

The EAWDB's short-term loan payables consisted of two short term loans provided by the EEICNM as follows:

<u>Loan Number</u>	<u>Payment Due</u>	<u>Amount</u>
001-Aug12	11/15/2013	\$ 1,000
002-Aug12	11/15/2013	<u>2,007</u>
		<u>\$ 3,007</u>

No interest expense was applied. The loans were repaid in October of 2013.

NOTE 7 – RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP BASIS

Because the EAWDB kept its budgets on the modified accrual basis of accounting during the year ending June 30, 2013, there was no need to reconcile the budget financial statements to fund financial statements.

NOTE 8 – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN AND POST EMPLOYMENT BENEFITS

During the fiscal year ended June 30, 2013, the EAWDB had no employees eligible for retirement benefits and, therefore, had no retirement benefit expenditures during the year.

NOTE 9 – RISK MANAGEMENT

The EAWDB is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which its fiscal agent EPCOG carried commercial insurance in the name of the EAWDB. Settled claims have not exceeded this commercial coverage in the past year.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2013, the EAWDB did not have any probable risk of loss.

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013**

NOTE 10 – RELATED PARTY TRANSACTIONS

The EAWDB board members include community leaders who are involved in and concerned with providing opportunities for employment in the areas serviced by the EAWDB. The area partners, one-stop providers, and training providers are required to have representation on the EAWDB's Board of directors in accordance with New Mexico State Statutes, 1978, 15-14-4 D. These contracts were consummated at arm's length for each of the activities.

During the year ended June 30, 2013, purchases for goods and services were made by the EAWDB with companies or organizations with which various board members are associated with as follows:

<u>Board Member</u>	<u>Organization</u>	<u>Association to EAWDB</u>	<u>Amount</u>
Gina Corliss	Region IX Education Collaborative	Youth training provider	\$ 600,654
John Hemphill	Eastern NM University	Adult/DW One Stop provider	764,209
		ITA Training	30,835
Becky Rowley and Judith Spillane	Clovis Community College	ITA Training	25,581
Total			<u>\$ 1,397,217</u>

NOTE 11 – RESTATEMENT OF BEGINNING BALANCES

Beginning balances were restated as follows:

<u>Fund</u>	<u>Purpose/Reason</u>	<u>Amount</u>
General Fund - Governmental Activities	Deletions of capital losses	\$ <u>107,185</u>

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The EAWDB 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. The EAWDB's 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. The EAWDB has evaluated subsequent events through December 2, 2013, which is the date the financial statements were available to be issued.

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2013**

Federal Grantor/Program Title	Federal CFDA Number	Pass-through Entity's Identifying Number	Grant Award Expended
U.S. Department of Labor passed through			
New Mexico Department of Workforce Solutions			
SESP Program	17.275	GJ-20032-10-60-A-35	\$ <u>259,610</u>
WIA Program			
WIA Adult Program	17.258	13-002-PY11, FY12, PY 12, FY 13	742,446
WIA Youth Activities	17.259	13-002-PY11, FY12, PY 12, FY 13	633,691
WIA Dislocated Workers	17.278	13-002-PY11, FY12, PY 12, FY 13	340,441
WIA 10% Administration	17.258, 17.259, 17.278	13-002-PY11, FY12, PY 12, FY 13	<u>210,169</u>
Subtotal WIA program			1,926,747
Total expenditures			\$ <u><u>2,186,357</u></u>

Selected Disclosures

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Eastern Area Workforce Development Board, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

2. The Eastern Area Workforce Development Board did not receive any noncash assistance.

3. Payments to subrecipients

<u>Organization</u>	<u>Amount</u>
ENMU - Ruidoso	764,209
Region IX Education Cooperative	<u>600,654</u>
Total payments to subrecipients	\$ <u><u>1,364,863</u></u>

See independent auditors' report
The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
 EASTERN AREA WORKFORCE DEVELOPMENT BOARD
 SCHEDULE OF JOINT POWERS AGREEMENT AND MEMORANDUM OF UNDERSTANDING
 For The Year Ended June 30, 2013**

Agreement	Participants	Responsible Party	Description	Beginning and Ending Dates	Total estimated project amount and amount applicable to EAWDB	Revenue Expenditures Reported	Audit Responsibility	Fiscal agent and responsible reporting entity
Resource Sharing Clovis and Roswell	State of NMDWS Dept. ENMU Region IX Education Cooperative Job Corps	EAWDB	Account for resource sharing of building and office expenses for the WIA one-stop offices	7/1/2012 thru 6/30/2013	\$ 180,000	\$ -	EAWDB	EAWDB

**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**

The Board of Directors
Eastern Area Workforce Development Board
Clovis, New Mexico and
Mr. Hector Balderas, State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the general fund budgetary comparison of the Eastern Area Workforce Development Board (EAWDB), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the EAWDB's basic financial statements and have issued our report thereon dated December 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the EAWDB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EAWDB's internal control. Accordingly, we do not express an opinion on the effectiveness of the EAWDB'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 questioned costs, 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 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 11-14.

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 accompany schedule of findings and questioned costs to be significant deficiencies: 11-09 and 11-20.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the EAWDB'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 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 questioned costs as items 11-20, 13-01, 13-02.

The EAWDB's Response to Findings

The EAWDB's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The EAWDB'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 results 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.



Hinkle + Landers, P.C.
Albuquerque, NM
December 2, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Board of Directors
Eastern Area Workforce Development Board
Clovis, New Mexico and
Mr. Hector Balderas, State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the EAWDB's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the EAWDB's major federal programs for the year ended June 30, 2013. The EAWDB's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the EAWDB's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the EAWDB's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the EAWDB's compliance.

Opinion on Each Major Federal Program

In our opinion, the EAWDB, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-20 and 13-02. Our opinion on each major federal program is not modified with respect to these matters.

The EAWDB's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The EAWDB's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the EAWDB, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the EAWDB's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the EAWDB's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 11-20 and 13-02, that we consider to be significant deficiencies.

The EAWDB's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The EAWDB's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

December 2, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133, continued**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
Albuquerque, NM
December 2, 2013

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

Type of auditors' report issued Unmodified

Internal Control over financial reporting:

Material weaknesses identified?	<u>X</u> yes	__ no
Significant deficiencies identified that are not considered to be material weaknesses?	<u>X</u> yes	__ no
Non-compliance material to financial statements noted?	<u>X</u> yes	__ no

Federal Awards:

Internal Control

Material weaknesses identified?	__ yes	<u>X</u> no
Significant deficiencies identified that are not considered to be material weaknesses?	<u>X</u> yes	__ no

Type of auditors' report issued on major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes __ no

Identification of major program as noted below:

CFDA Numbers Funding Source	Name of Federal Programs	Funding Source
17.258	Adult	U.S. Dept. of Labor
17.259	Youth	Passed through the
17.278	Dislocated Worker	New Mexico Dept. of Workforce Solutions

Dollar threshold use to distinguish between
A and B programs: \$300,000

Auditee qualified as low-risk auditee? __ yes X no

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013**

SECTION II & III- FINANCIAL STATEMENTS AND FEDERAL AWARD FINDINGS

Reference #	Topic	Status of Current and Prior Year Findings	Financial Statement Finding	Federal Awards Finding	State Audit Rule Finding	Significant Deficiency	Material Weakness
Prior year							
05-04	LATE AUDIT REPORT	Resolved	Yes	No	Yes	Yes	No
11-01	ACQUISITION OF REAL PROPERTY	Resolved	Yes	Yes	No	No	Yes
11-04	NEGATIVE CASH BALANCES	Resolved	Yes	No	No	Yes	No
11-06	ADJUSTMENTS MADE TO FUND BALANCE ACCOUNTS	Resolved	Yes	No	No	No	Yes
11-09	CASH CONTROL	Modified	Yes	No	No	Yes	No
11-13	SEGREGATION OF DUTIES - CASH DISBURSEMENTS	Combined	Yes	No	No	Yes	No
11-14	DEFICIENCIES IN INTERNAL CONTROL STRUCTURE DESIGN, OPERATION, AND OVERSIGHT	Modified	Yes	No	No	No	Yes
11-17	ADMINISTRATIVE COSTS	Resolved	No	Yes	No	Yes	No
11-18	MATCHING OF GRANT REVENUE/ EXPENDITURES	Resolved	Yes	No	No	Yes	No
11-19	INTRA- AND INTER-ENTITY LOANS	Resolved	Yes	No	No	Yes	No
11-20	OVERSIGHT OF SERVICE PROVIDER	Modified	Yes	Yes	No	Yes	No
Current year							
13-01	CASH RECEIPTS NOT DEPOSITED TIMELY	Current	No	No	Yes	No	No
13-02	TIMELY SUBMISSION OF MONTHLY STATUS REPORTS	Current	No	Yes	No	Yes	No

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013**

PRIOR YEAR FINDINGS – REPEATED/MODIFIED

11-09 – CASH CONTROL

Type of Finding: Significant Deficiency

Statement of Condition

During our review of bank reconciliations, it was noted that 10 out of the 12 bank reconciliations were not reviewed or approved by the Executive Director.

Criteria

Section 6-6-3 NMSA, 1978 discusses the need for the EAWDB to keep all the books, records and accounts in their respective office in the form prescribed by the local government division and conform to the rules and regulations adopted by the local government division. Good accounting practices require that bank reconciliations be performed monthly to ensure that cash receipts and cash disbursements are recorded in a correct and timely manner and that differences or errors be followed up and corrected in a timely manner.

Cause

The EAWDB did not have policies and procedures in place to ensure monthly bank reconciliations were reviewed and approved in a timely manner.

Effect

Without reviewed and timely reconciled bank statements, the EAWDB has no assurance that all revenues and disbursements have been properly recorded.

Recommendation

The EAWDB's Accounting Policies and Procedures manual should contain explicit instructions for all accounting related matters, including the review and approval of bank reconciliations.

Management Response

EEICNM will contract an outside, independent financial consultant to conduct and report monthly on bank reconciliations. EEICNM staff will ensure that previously established procedures will be followed. Subsequent bank reconciliations have been signed by the preparer and reviewer for PY13.

11-14 – DEFICIENCIES IN INTERNAL CONTROL STRUCTURE DESIGN, OPERATION AND OVERSIGHT

Type of Finding: Material Weakness

Statement of Condition

Internal control structure design, operation, and design are not appropriate given the nature of the entity. In addition, due to the size of the organization, complete segregation of duties is not possible.

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013**

Criteria

The *Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

In additions, appropriate segregation of duties in cash disbursements is required to maintain proper and sufficient internal controls and properly report all expenditures as required by Section 6-6-3, NMSA 1978.

Cause

For the fiscal year 2013 management did not have a documented policy to ensure internal controls were in place and working properly. In addition, due to limited resources, the EAWDB relies on the expertise of one individual to perform many duties. Limited resources in the process noted above appear to result in a lack of segregation of duties.

Effect

Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Recommendation

The EAWDB should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process. In addition, the EAWDB should develop a formal review process for the disbursement transaction cycle.

Management Response

EEICNM recognizes that insufficient staff exists to guarantee complete segregation of duties. EEICNM is addressing this issue through a) continued technical support and monitoring through NM DWS to identify areas of improvement, and b) contract of an outside, independent financial consultant to oversee accounting activities, report directly to the director and board, and provide additional segregation.

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013**

11-20 – OVERSIGHT OF SERVICE PROVIDER

Type of Finding: Significant Deficiency and Other Matter

Federal Program Information:

Funding Agencies: U.S. Dept. of Labor
Titles: Workforce Investment Act – Cluster
CFDA Numbers: 17.258, 17.259, 17.278
Award Period: 2013

Statement of Condition

The EAWDB has entered into a contract with EEICNM to be the administrative entity and fiscal agent for the EAWDB. Per the agreement, the administrative entity/fiscal agent should properly administer WIA grants in compliance with federal requirements. The EAWDB is to provide oversight to ensure the terms of the agreement are met. During our walkthrough and testing of the disbursement process, it was determined that the fiscal agent/administrative entity had not adopted a methodology for capturing actual administrative costs during the beginning of the fiscal year.

Criteria

In the Statement on Auditing Standards 88, “Service Organizations and Reporting on Consistency, one of the items stated in the standard is that a service organization’s services are part of an entity’s information system (i.e. internal controls) if they affect the accounting records, supporting information, and specific accounts in the financial statements involved in the processing and reporting of the entity’s transactions. These controls must be monitored in a timely basis by the entity (EAWDB).

Cause

The EEICNM was newly hired at the beginning of the fiscal year and did not consider adopting a methodology for capturing actual administrative costs.

Effect

Deficiencies in the administration of the WIA program grants could occur and lead to material misstatements of the EAWDB financial statements and to noncompliance with federal grant requirements.

Recommendation

It is recommended that the EAWDB seek methods to improve oversight of the administrative entity/fiscal agent agreement and take timely action to address deficiencies should they arise.

Management Response

EEICNM has addressed the issue of capturing administrative costs and have trained financial staff. EEICNM will continue to seek technical assistance from NM DWS to identify areas of improvement. EEICNM will contract an independent financial consultant to identify, document, and train staff on effective policy and procedure. Prior year costs were reconciled and adjustments were made.

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013**

CURRENT YEAR FINDINGS

13-01—CASH RECEIPTS NOT DEPOSITED TIMELY

Type of Finding: Other Matter

Statement of Condition

We noted that out of 5 cash receipts selected for testing, 1 deposit totaling \$1751 was not deposited timely (24 total cash receipts).

Criteria

NMSA 1978, Sections 6-10-3 requires that deposits be made the next business day after receipt.

Effect

The EAWDB is not in compliance with state law and there is an increased risk for potential revenue losses due to lost/misplaced deposits in regard to the noted deposits.

Cause

Cash receipts were not deposited in a timely manner due to a delay in the process of receipt and recording of funds and delivery to the bank.

Recommendation

We recommend that cash receipts be reviewed on a daily basis to ensure deposits are made timely. Attempts should be made to ensure that deposits are taken to the bank each and not delayed.

Management's Response

EEICNM staff has addressed the issue of timely deposits. Staff has been trained to deposit any cash receipts within 24 hours.

13-02—TIMELY SUBMISSION OF MONTHLY STATUS REPORTS

Type of Finding: Significant Deficiency and Other Matter

Federal Program Information:

Funding Agencies: U.S. Dept. of Labor
Titles: Workforce Investment Act – Cluster
CFDA Numbers: 17.258, 17.259, 17.278
Award Period: 2013

Statement of Condition

We noted during the year three out of the twelve monthly status reports were submitted late to the NM Department of Workforce Solutions. This occurred mostly during the first part of the fiscal year ended.

Criteria

NM Department of Workforce Solutions requires that the reports be submitted by the 20th calendar day after the month end. Reports should be complete and accurate.

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
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For The Year Ended June 30, 2013**

Effect

Monthly status reports were not submitted on time and the Department of Workforce Solutions did not have timely information given to them so that they would be able to prepare their reports to the U.S. Department of Labor in a timely manner.

Cause

Due to late reporting of expenditures from contractors, the finance director was unable to meet deadlines early in the year.

Recommendation

Monthly status report should be prepared on time and reviewed before submission to NM Department of Workforce Solutions.

Management Response:

EEICNM staff has addressed the issue of timely MSFRs. Staff has been trained on completing MSFRs and submitting in a timely fashion. EEICNM will seek additional assistance from NM DWS if necessary.

**STATE OF NEW MEXICO
EASTERN AREA WORKFORCE DEVELOPMENT BOARD
EXIT CONFERENCE
For The Year Ended June 30, 2013**

An exit conference was held in a closed session on December 2, 2013 and the contents of this report were discussed. Present at the exit conference were:

Representing Eastern Area Workforce Development Board:

Tiffany Roth	WIA Coordinator
Charles Lehman	Executive Director
Slade Morgan	EAWDB Acting Board Chair
Odessa Hamilton	NMDWS Grant Auditing Bureau
Dee Swartz	Financial Specialist

Representing Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE	President
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PREPARATION OF FINANCIAL STATEMENTS

The accompanying financial statements of the EAWDB have been prepared by Hinkle + Landers, P.C., the organization's independent public auditors, however, the financial statements are the responsibility of management.