

State of New Mexico

Southwestern Area Workforce Development Board
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S
REPORT THEREON

For The Fiscal Year Ended June 30, 2017

Southwestern Area Workforce Development Board
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June 30, 2017

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Southwestern Area Workforce Development Board
Official Roster
June 30, 2017

Directors

Position

Gary Whitehead	Chairman
Michael Olguin	Vice-Chairperson
Al Candeleria	Board Member
Mary Ann Chavez-Lopez	Board Member
Deborah Dean	Board Member
Alisa Estrada	Board Member
Jacqueline Fryar	Board Member
Alonzo Gonzales	Board Member
Marlene Herrerra	Board Member
Cassie Arias	Board Member
Marcos Martinez	Board Member
Joshua Orosco	Board Member
Fred Owensby	Board Member
Erik Padilla	Board Member
Anton Salome	Board Member
Leona Wagner	Board Member
Debbie Schoonover	Board Member
Kim Skinner	Board Member
Jay Armijo	Executive Director, SCCOG

MIKE STONE, C.P.A.
LINDA STONE MCGEE, C.P.A.
KAY STONE, C.P.A.
KELLEY WYATT, C.P.A.

RYAN MONTOYA, C.P.A.

1311 N. GRANT ST.
P.O. BOX 2828
SILVER CITY, NEW MEXICO 88062
TELEPHONE (575) 388-1777
(575) 538-3795
FAX (575) 388-5040
E-MAIL: admin@stone-mcgee.com

INDEPENDENT AUDITOR'S REPORT

Timothy Keller, State Auditor
And
Board of Directors
Southwestern Area Workforce Development Board
Elephant Butte, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the budgetary comparisons for the general fund of the Southwestern Area Workforce Development Board, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Southwestern Area Workforce Development Board'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 misstatements, whether due to fraud or error.

Auditor's 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 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 each major fund of the Southwestern Area Workforce Development Board as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparisons for the general fund 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 management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 Southwestern Area Workforce Development Board's financial statements that collectively comprise the Board's basic financial statements. The Schedule of Expenditures of Federal Awards as required by the Title 2 U.S. Code of Federal Regulations Part 200 Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards, and the other schedules presented as other supplementary data as listed in the table of contents 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 the other supplementary data 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 auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the other supplementary data are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2017, on our consideration of the Southwestern Area Workforce Development Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement 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 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 Southwestern Area Workforce Development Board's internal control over financial reporting and compliance.

Stone, McGee & Co., CPAs

Silver City, New Mexico
November 25, 2017

Stone, McGee & Co.
Certified Public Accountants

Southwestern Area Workforce Development Board
STATEMENT OF NET POSITION
June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ -
Due from other governments	668,701
Prepaid expenses	<u>4,528</u>
Total current assets	<u>\$ 673,229</u>
Total assets	<u>\$ 673,229</u>
LIABILITIES	
Current liabilities:	
Cash overdraft	\$ 143,619
Accounts payable	<u>517,483</u>
Total current liabilities	<u>\$ 661,102</u>
Total liabilities	<u>\$ 661,102</u>
NET POSITION	
Net investment in capital assets	\$ -
Unrestricted	<u>12,127</u>
Total net position	<u><u>\$ 12,127</u></u>

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

Southwestern Area Workforce Development Board
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
Health and welfare	\$ 3,058,571	\$ 9,100	\$ 3,057,590
Total governmental activities	\$ 3,058,571	\$ 9,100	\$ 3,057,590
General revenues:			
Earnings on investments			
Loss on disposition of assets			
Miscellaneous			
Total general revenues			
Change in net position			
Net position--beginning of year			
Net position--end of year			

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

<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Position Governmental Activities</u>
\$ -	\$ 8,119
<u>\$ -</u>	<u>\$ 8,119</u>
	\$ -
	<u>\$ -</u>
	\$ 8,119
	<u>4,008</u>
	<u><u>\$ 12,127</u></u>

Southwestern Area Workforce Development Board
BALANCE SHEETS
GOVERNMENTAL FUNDS
June 30, 2017

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ -
Due from other governments	668,701	668,701
Prepaid expenses	<u>4,528</u>	<u>4,528</u>
Total assets	<u>\$ 673,229</u>	<u>\$ 673,229</u>
 Liabilities		
Cash overdraft	\$ 143,619	\$ 143,619
Accounts payable	<u>517,483</u>	<u>517,483</u>
Total liabilities	<u>\$ 661,102</u>	<u>\$ 661,102</u>
 Deferred inflows of resources		
Unavailable revenue	<u>\$ 6,821</u>	<u>\$ 6,821</u>
Total deferred inflows of resources	<u>\$ 6,821</u>	<u>\$ 6,821</u>
 Fund balance:		
Non-spendable-prepaid expenses	\$ 4,528	\$ 4,528
Unassigned	<u>778</u>	<u>778</u>
Total fund balances	<u>\$ 5,306</u>	<u>\$ 5,306</u>
Total liabilities and fund balances	<u>\$ 673,229</u>	<u>\$ 673,229</u>

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

Southwestern Area Workforce Development Board
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES**
 June 30, 2017

Total governmental fund balances	\$	5,306
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Intergovernmental grants subject to the 60 day availability period		6,821
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred inflows of resources related to pensions		
Deferred outflows of resources related to pensions		
Long-term liabilities, including bonds payable, compensated absences, lease-purchases payable and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds:		
Net pension liability		
Compensated absences payable		
<i>Net Position of Governmental Activities</i>	\$	12,127

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

Southwestern Area Workforce Development Board
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2017

	General Fund	Total Governmental Funds
Revenues:		
Charges for services	\$ 9,100	\$ 9,100
Federal sources	3,050,769	3,050,769
Miscellaneous	-	-
	\$ 3,059,869	\$ 3,059,869
Total revenues		
Expenditures:		
Current:		
Health and welfare	\$ 3,058,571	\$ 3,058,571
Capital outlay	-	-
	\$ 3,058,571	\$ 3,058,571
Total expenditures		
Revenues over (under) expenditures	\$ 1,298	\$ 1,298
Other financing sources (uses):		
Transfer in	-	-
Transfer out	-	-
	-	-
Net change in fund balance	\$ 1,298	\$ 1,298
Fund balance, July 1, 2016	4,008	4,008
Fund balance, June 30, 2017	\$ 5,306	\$ 5,306

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

Southwestern Area Workforce Development Board
**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
June 30, 2017

Net change in fund balances- total governmental funds \$ 1,298

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

- Capital outlay
- Depreciation expense

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the net change during the year:

Intergovernmental grants subject to the 60 day availability period 6,821

Governmental funds report pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense

- Pension contributions
- Cost of benefits earned net of employee contributions

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. This is the basis in the assets disposed of.

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the net change in compensated absences for the year.

Change in Net Position of Governmental Activities \$ 8,119

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

Southwestern Area Workforce Development Board
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS)
For the Fiscal Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Charges for services	\$ -	\$ -	\$ 9,100	\$ 9,100
Intergovernmental	5,337,443	5,337,443	3,050,769	(2,286,674)
Miscellaneous	-	-	-	-
Total revenues	\$ 5,337,443	\$ 5,337,443	\$ 3,059,869	\$ (2,277,574)
Expenditures:				
Current:				
General government	\$ -	\$ -	\$ -	\$ -
Health and welfare	5,337,443	5,337,443	3,058,571	2,278,872
Capital outlay	-	-	-	-
Total expenditures	\$ 5,337,443	\$ 5,337,443	\$ 3,058,571	\$ 2,278,872
Revenues over (under) expenditures	\$ -	\$ -	\$ 1,298	\$ 1,298
Other financing sources (uses):				
Transfers out	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 1,298	\$ 1,298
Fund balance, July 1, 2016	-	-	4,008	4,008
Fund balance, June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,306</u>	<u>\$ 5,306</u>

The accompanying notes are an integral part of these financial statements

Southwestern Area Workforce Development Board
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1 **Summary of Significant Accounting Policies**

A. DESCRIPTION OF ENTITY

The Southwestern Area Workforce Development Board (SAWDB) was organized pursuant to Section 117 of Public Law 105-220 (Workforce Investment Act of 1998) and New Mexico State Legislative Law, Chapter 260, dated April 7, 1999, to set policy for the portion of the statewide workforce investment system within the local area serviced by the Board. The SAWDB sets policy for Luna, Dona Ana, Sierra, Hidalgo, Grant, Socorro and Catron Counties in the State of New Mexico.

During the year ended June 30, 2016, the SAWDB contracted with South Central Southwestern Area Workforce Development Board, a governmental entity, to provide administrative and fiscal agent services. The SAWDB also contracted with the New Mexico Department of Workforce Solutions to manage and operate the four local area One-Stop Centers. The SAWDB also contracted with various other vendors to provide youth program services.

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:

- a. Advise the state board on issues relating to regional and local workforce development needs;
- b. 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;
- c. Designate or certify one-stop program operators in accordance with the federal Workforce Investment Act of 1998;
- d. Terminate, for cause, the eligibility of the one-stop operator;
- e. Select and provide grants to youth activity providers in accordance with the Workforce Investment Act of 1998;
- f. Identify eligible training and intensive service providers in accordance with Workforce Investment Act of 1998;
- g. Develop a budget subject to approval of the chief elected official;
- h. Develop and negotiate local performance measurements as described in the Workforce Investment Act of 1998 with the chief elected official and the Governor;
- i. Assist in development of an employment statistics system;
- j. Ensure linkages with economic development activities;
- k. Encourage employer participation and assist employers in meeting hiring needs;
- l. 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;

- m. Establish as a subgroup, a youth council, appointed by the local board in cooperation with the chief elected official, and
- n. Prior to submission of the local plan, provide information regarding the following:
 - 1. The local plan
 - 2. membership
 - 3. designation and certification of one-stop operators and
 - 4. 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 SAWDB's board is required to be made up of the last 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.

B. REPORTING ENTITY

These financial statements present the Southwestern Area Workforce Development Board (the primary government). As defined by Generally Accepted Accounting Principles, component units are legally separate entities that are included in the Southwestern Area Workforce Development Board's reporting entity because of the significance of their operating or financial relationships with the Southwestern Area Workforce Development Board. Based on the criterion in Generally Accepted Accounting Principles, the Southwestern Area Workforce Development Board had no component units.

C. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Southwestern Area Workforce Development Board has no business-type activities, nor any fiduciary funds.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into one major category: governmental. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the Southwestern Area Workforce Development Board or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. Other funds management feels are significant.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Southwestern Area Workforce Development Board and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Southwestern Area Workforce Development Board currently has no Special Revenue Funds.

Major-Fund Description

General Fund – See the description above

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined in item “b” below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used.

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflows of resources, liabilities and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The government-wide financial statements utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the

determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with their activities are reported. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from non-exchange transactions are recognized when the earnings process is complete.

Basis of Accounting

The government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred or when the economic asset is used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Derived taxes are recognized when the exchange takes place, and grants are recognized when all eligibility requirements are met.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Substantially all governmental fund revenues are accrued. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as deferred outflows of resources by the provider and deferred inflows of resources by the recipient. Grant revenues not collected within 60 days of year end are recorded as receivables and deferred inflows of resources. Such amounts are recorded net of estimated uncollectible amounts.

In the government-wide Statement of Net Position, the governmental activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Southwestern Area Workforce Development Board’s net position is reported in three parts – net investment in capital assets, restricted net position; and unrestricted net position. The Southwestern Area Workforce Development Board first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Southwestern Area Workforce Development Board’s functions. The functions may be supported by general government revenues (certain intergovernmental revenues, and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function, and are typically charges for services. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (intergovernmental

revenues, interest income, etc.).

The Southwestern Area Workforce Development Board does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Southwestern Area Workforce Development Board as an entity and the change in the Southwestern Area Workforce Development Board's net position resulting from the current year's activities.

E. Budgets

The budget for the General Fund is prepared by management and is approved by the members of the Board, and the New Mexico Department of Finance and Administration.

These budgets are prepared on the GAAP modified accrual basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

Actual expenditures may not exceed the budget on a by fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local Board approval. If a transfer between "funds" or a budget increase is required, approval must also be obtained from the Department of Finance and Administration.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

F. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity of six months from the date acquired by the government. State statutes authorize the government to invest in obligations of the U.S. Treasury, interest-bearing accounts with local financial institutions and the State Treasurer Pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owners of such monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Southwestern Area Workforce Development Board. The pledged securities remain in the name of the financial institution.

G. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term inter-fund loans are reported as "interfund receivables and payables". Inter-fund receivables and payables between funds within governmental activities and between funds within business-type activities are eliminated in the Statement of Net Position. All inter-fund receivables and payables are eliminated in the total primary government column in the Statement of Net Position.

H. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include grants.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

I. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000.00 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5-10 years
Lease-hold improvements	20 years

The accounting treatment over property, plant and equipment depends on whether they are reported in the government-wide financial statements or fund financial statements. In the government-wide financial statements, fixed assets are accounted for as capital assets. In the fund financial statements, fixed assets are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

J. Compensated Absences

The Southwestern Area Workforce Development Board's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements.

The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, deferred outflows of resources, represents consumption of net position that applies to a future period, and so will be recognized as an outflow of resources (expenses/expenditures) then. The Government has no deferred outflows of resources related to pensions as discussed in Note 6 at June 30, 2017.

In addition to liabilities, the statement of financial position and/or balance sheet will

sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. The Government has no deferred inflows of resources at June 30, 2017.

L. Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - all other net position that do not meet the definition of “restricted” or “net investment in capital assets, net of related debt.”

Fund Statements

The Southwestern Area Workforce Development Board has implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to remain intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change its constraints.
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government body delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by adoption of a resolution or a vote of the Board. This is typically done

through the adoption and amendment of the budget. Assigned fund balance is established by the Board of Directors through adoption or amendment of the budget as intended for a specific purpose (such as purchase of fixed assets, construction, debt service or for other purposes). Expenditures incurred are normally paid from the highest constrained fund balance.

M. Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are netted as a part of the reconciliation to the government-wide financial statements. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 Custodial Credit Risk

Custodial credit risk is the risk in the event of a bank failure the government's deposits may not be returned to it. The government does not have a deposit policy for credit risk beyond that disclosed in Note 1. As of June 30, 2017, \$-0- of the governments bank balance of \$129,987 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -0-
Uninsured and collateral held by pledging banks trust department not in Council's name	<u>-0-</u>
Total	<u>\$ -0-</u>

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits by custodial risk category:		
Insured	<u>\$ 129,987</u>	<u>\$ (143,619)</u>

Note 3 Capital Assets

The following is summary of capital asset activity during the fiscal year:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets Being Depreciated:				
Equipment	\$ 21,650	\$ -0-	\$ -0-	\$ 21,650
Total capital assets being depreciated	\$ 21,650	\$ -0-	\$ -0-	\$ 21,650
Less accumulated depreciation For:				
Equipment	\$ (21,650)	\$ -0-	\$ -0-	\$ (21,650)
Capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Depreciation expense was charged to the governmental activities as follows:

General government	<u>\$ -0-</u>
--------------------	---------------

Note 4 Compensated Absences

The Board had no compensated absence liability at June 30, 2017, nor was there any activity during the year ended June 30, 2017.

Note 5 Risk Management

The Southwestern Area Workforce Development Board is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Southwestern Area Workforce Development Board has purchased private insurance to mitigate these risks. No settlements have exceeded coverage in the last three years.

Limits of coverage are as follows:

\$1,000,000	Liability
\$ 27,000	Property
\$1,000,000	Auto

Note 6 Pension Plan – Public Employees Retirement Association

During the fiscal year June 30, 2017, the Southwestern Area Workforce Development Board had no employees eligible for retirement benefits and therefore, had no retirement benefit expenditures during the year.

Note 7 Post-Employment Benefits – State Retiree Health Care Plan

The Southwestern Area Workforce Development Board does not participate in the Retiree Health Care Plan.

Note 8 Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Note 9 Interfund Transactions

The Southwestern Area Workforce Development Board had no interfund transactions during the fiscal year.

Note 10 Deficit Fund Balances

The Southwestern Area Workforce Development Board had no fund balance deficits at June 30, 2017.

Note 11 Restricted Net Position

The Southwestern Area Workforce Development Board had no restricted net position at June 30, 2017.

Note 12 Evaluation of Subsequent Events

The Southwestern Area Workforce Development Board has evaluated subsequent events through November 25, 2017, the date which the financial statements were available to be issued.

Note 13 Contingency

The New Mexico Department of Workforce Solutions (NMDWS) conducted monitoring and issued a report on October 14, 2015. In this report, questioned costs of \$356,926 of the WIA Grant were identified relating to its service provider's non-compliance of the Board's Individual Training Account (ITA) Policy, specifically the "Occupation in Demand" and "Letter of Hire" sections. Per management's discussions with the NMDWS Bureau Chief, the questioned cost may be removed if the required actions are fulfilled as stated in the monitoring report. The Board is currently working with NMDWS towards compliance. At the issuance of the audit report, the outcome of this finding is unknown.

Southwestern Area Workforce Development Board
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2017

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Labor</u>				
Passed through N.M. Department of Workforce Solutions:				
WIA/WIOA Cluster:				
WIA Adult Program	17.258	15/16-004	\$ 597,084	\$ 1,712,850
WIA Dislocated Workers	17.278	15/16-004	178,536	331,558
WIA Youth Activities	17.259	15/16-004	<u>907,278</u>	<u>1,006,361</u>
Total WIA/WIOA Cluster			<u>1,682,898</u>	<u>3,050,769</u>
Total U.S. Department of Labor			<u>\$ 1,682,898</u>	<u>\$ 3,050,769</u>
Total expenditures of federal awards			<u>\$ 1,682,898</u>	<u>\$ 3,050,769</u>

Southwestern Area Workforce Development Board
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Ended June 30, 2017

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Southwestern Area Workforce Development Board, under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Southwestern Area Workforce Development Board, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Southwestern Area Workforce Development Board.

Note 2 Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

Note 3 Indirect Costs

The Southwestern Area Workforce Development Board has elected not to use the de Minimis indirect cost rate as allowed under the Uniform Guidance.

Southwestern Area Workforce Development Board
SCHEDULE OF DEPOSITORY COLLATERAL
 June 30, 2017

	Bank of the Southwest
Checking	\$ 129,987
Total on deposit	\$ 129,987
Less: FDIC insurance	(129,987)
Total uninsured public funds	\$ -
50% collateralization requirement (Section 6-10-17 NMSA)	\$ -
Pledged securities over (under) requirement	\$ -

Southwestern Area Workforce Development Board
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND INVESTMENTS
 June 30, 2017

	Type of Account	Bank Balance	Reconciled Balance
Bank of the Southwest			
Operational	Checking	\$ 129,987	\$ (143,619)
Total Bank of the Southwest		\$ 129,987	\$ (143,619)
Total cash and investments			\$ (143,619)

Southwestern Area Workforce Development Board
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2017

Findings – Financial Statement Audit

Current Status

2016-001 Cash in bank does not agree to the general ledger

Modified and repeated
As Finding 2017-001

Findings and Questioned Costs – Major Federal Award programs

None

MIKE STONE, C.P.A.
LINDA STONE McGEE, C.P.A.
KAY STONE, C.P.A.
KELLEY WYATT, C.P.A.

RYAN MONTOYA, C.P.A.

1311 N. GRANT ST.
P.O. BOX 2828
SILVER CITY, NEW MEXICO 88062
TELEPHONE (575) 388-1777
(575) 538-3795
FAX (575) 388-5040
E-MAIL: admin@stone-mcgee.com

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Timothy Keller, State Auditor
And
Board of Directors
Southwestern Area Workforce Development Board
Elephant Butte, 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, each major fund, and the budgetary comparisons for the general fund of the Southwestern Area Workforce Development Board as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Southwestern Area Workforce Development Board's basic financial statements, and have issued our report thereon dated November 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwestern Area Workforce Development Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Southwestern Area Workforce Development Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southwestern Area Workforce Development Board's financial statements are free of 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*, which are described in the accompanying schedule of findings and questioned costs as item 2017-001.

Southwestern Area Workforce Development Board's Responses to Findings

Southwestern Area Workforce Development Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Board's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Stone, McGee & Co., CPAs

Silver City, New Mexico
November 25, 2017

Stone, McGee & Co.
Certified Public Accountants

MIKE STONE, C.P.A.
LINDA STONE McGEE, C.P.A.
KAY STONE, C.P.A.
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SILVER CITY, NEW MEXICO 88062
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(575) 538-3795
FAX (575) 388-5040
E-MAIL: admin@stone-mcgee.com

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Timothy Keller, State Auditor
And
Board of Directors
Southwestern Area Workforce Development Board
Elephant Butte, New Mexico

Report on Compliance for Each Major Federal Program

We have audited Southwestern Area Workforce Development Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southwestern Area Workforce Development Board's major federal programs for the year ended June 30, 2017. Southwestern Area Workforce Development Board'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Southwestern Area Workforce Development Board'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Southwestern Area Workforce Development Board'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 Southwestern Area Workforce Development Board's compliance.

Opinion on Each Major Federal Program

In our opinion, Southwestern Area Workforce Development Board 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, 2017.

Report on Internal Control over Compliance

Management of Southwestern Area Workforce Development Board 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 Southwestern Area Workforce Development Board'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 the Uniform Guidance, 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 Southwestern Area Workforce Development Board'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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Stone, McGee & Co., CPAs

Silver City, New Mexico
November 25, 2017

Stone, McGee & Co.
Certified Public Accountants

Southwestern Area Workforce Development Board
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2017

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Southwestern Area Workforce Development Board were prepared in accordance with generally accepted accounting principles.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Southwestern Area Workforce Development Board, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance*.
5. The auditors' report on compliance for the major federal awards programs for the Southwestern Area Workforce Development Board expresses an unmodified opinion on all major programs.
6. No audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) were noted during the audit.
7. The programs tested as major programs were: The WIA/WIOA Cluster, consisting of Adult Program, CFDA No. 17.258; Youth Activities, CFDA No. 17.259; and Dislocated Worker Formula Grants, CFDA No. 17.278
8. The threshold for distinguishing types A and B programs was \$750,000.
9. The Southwestern Area Workforce Development Board was not a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

2017-001 (2016-001) Cash Reconciliations (Other Noncompliance)

Condition – The Southwestern Area Workforce Development Board's reconciled cash balances did not agree to the general ledger. The Fiscal Administrator was aware of

the discrepancies, however, she was encountering software problems preventing her from making the correcting entries.

A corrective action plan is in place, and the internal control system was effective in identifying the situation. However, accounting personnel were unable to make the appropriate entries due to software deficiencies.

Criteria – Sound internal control requires that cash in banks be reconciled to cash balances in the general ledger monthly.

Effect – Left unadjusted, cash discrepancies jeopardize financial reporting and budget preparation, result in cash overdrafts, as well as interfering with management decisions.

Cause – The adjustments, in some cases, related to prior year audit adjustments, and although the Fiscal Administrator was aware of the differences, was unable to make the necessary adjusting journal entries.

Recommendation – We recommend that the Southwestern Area Workforce Development Board post the adjusting journal entries developed and approved during the audit process. We further recommend that reconciled cash balances be compared and reconciled to general ledger balances monthly. Finally, we recommend that the Board obtain reliable accounting software which allows for the reconciling process.

Agency Response – The adjustments will be posted as developed during the audit process, and reconciliations of cash in banks to the general ledger will begin immediately. The Board is in the process of obtaining new software, which should alleviate the problem. The Fiscal Administrator will be responsible for these actions, and the scheduled resolution date is February 28, 2018.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS

None

OTHER – FINANCIAL STATEMENT PREPARATION

The financial statements were prepared by Stone, McGee & Co., C.P.A.'s with substantial assistance and approval from Southwestern Area Workforce Development Board personnel, who have accepted responsibility for the financial statements.

EXIT CONFERENCE

The contents of this report were discussed November 17, 2017. Present at this exit conference were:

<u>Name</u>	<u>Title</u>	<u>Affiliation</u>
Michael Olguin	Board Chair	SWAWDB
Nora Barraza	Board Member	SWAWDB
Steve Duran	WIOA Administrator	SWAWDB
Jay Armijo	SCCOG Executive Director	SWAWBD
Katherine Gervasio	SCCOG Fiscal Administrator	SWAWBD
Mike Stone	Shareholder	Stone, McGee & Co., CPAs